Annual Report 2018

SFC ENERGY

SFC ENERGY AG CONSOLIDATED KEY FIGURES

in k€

	01/01 – 12/31/2018	01/01 – 12/31/2017	Change
Sales	61,704	54,292	7,412
Gross profit	21,082	17,726	3,356
Gross margin	34.2 %	32.6 %	–
EBITDA	2,478	862	1,616
EBITDA margin	4.0 %	1.6 %	–
EBITDA underlying	3,705	1,454	2,251
EBITDA margin underlying	6.0 %	2.7 %	
EBIT	1,325	– 885	2,210
EBIT margin	2.1 %	– 1.6 %	–
EBIT underlying	2,553	177	2,376
EBIT margin underlying	4.1 %	0.3 %	–
Consolidated net result	– 1	– 2,072	2,071
Net result per share, undiluted	0.00	– 0.23	0.23
Net result per share, diluted	0.00	– 0.23	0.23

	12/31/2018	12/31/2017	Change
Order backlog	14,187	18,628	– 4,441

	12/31/2018	12/31/2017	Change
Equity	18,204	13,895	4,309
Equity ratio	43.3 %	40.2 %	–
Balance sheet total	42,065	34,534	7,531
Cash (freely available)	7,520	4,408	3,112

	12/31/2018	12/31/2017	Change
Permanent employees	279	258	21

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LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

2018 was a decisive year in the young history of your SFC Energy – and for several reasons:

Having passed the operating break-even point in 2017, we were the first fuel cell manufacturer in the world to establish and continuously improve a sustainably profitable business model.

Our entry into hydrogen technology also opened a new chapter in our company's development. We are very pleased that we succeeded in concluding a license agreement and development partnership with adKor GmbH at the end of November 2018. The cooperation gives us access to a technology based on 30 years of fuel cell experience and opens up new opportunities in the market with hydrogen fuel cells for critical infrastructures, back-up applications in telecommunications and clean mobility. Through the cooperation, both companies benefit from the long-standing expertise of each other. This will enable us to significantly shorten development times, significantly reduce costs, complement the existing product portfolio and expand it to a power spectrum of up to 100 kW in the medium term.

Over the past 18 months, we have experienced a decisive change in the social and political environment on a broad front and, as a result, a true "renaissance" of the fuel cell. Major macro trends are boosting demand for fuel cells. This clean and efficient way of generating electrical energy is once again perceived and taken seriously as a valid alternative to conventional energy generation technologies. In large parts of the world, the drastic reduction of CO_2 emissions is recognised as a major priority by society and politics, and concrete legal and regulatory measures are being taken to this end in more and more economies around the world such as China, Canada and the EU. The acceptance of conventional technologies by society as a whole is declining and the demand for new, clean forms of energy generation is growing massively. This macro-trend is also driven by sociological and demographic developments. In addition to decarbonisation, a trend towards increasingly decentralised energy generation combined with increasing digitalisation can be observed, particularly in highly developed countries. Both require sustainable, clean and reliable energy supply concepts.

The change in the geopolitical environment and the resulting increase in the need for security at national, international and individual level has led to considerable increases in state and civil expenditure in the area of security and defense in recent years. In particular, the demand for systems in the field of image recognition and data transmission is rising. The operation of these systems requires reliable, often off-grid power supply solutions. In this area, too, the fuel cell is a lightweight, reliable and emission-free alternative. SFC established itself as a technology supplier to leading defense organizations and the civilian security market at a very early stage and is now benefiting from this pioneering work. Over the past fifteen years, we have concentrated on making the commercialization of fuel cell system solutions economically viable in selected markets. This has been achieved through technology and quality leadership and a focused hybrid product strategy. We have succeeded in developing a functioning business model in a significantly challenging environment. For these reasons, we believe that we are very well positioned to benefit disproportionately from the acceptance of fuel cells in the medium and long term and to play a leading role in the further dissemination and introduction of this clean and efficient energy generation technology in mass markets worldwide.

Against the backdrop of social, economic and political developments, a clear implementation of our strategy, and the outstanding performance of our employees, we were able to make 2018 a record fiscal year for your SFC Energy AG. I would like to give you an insight into the developments below.

At € 61.70 million, SFC Energy AG generated the highest sales in the company's history in 2018 after € 54.29 million in the previous year. This marks a further dynamic increase of around 14 %. Adjusted EBITDA more than doubled from € 1.45 million in 2017 to € 3.71 million in the reporting period. The continued positive and trend-confirming performance was largely thanks to the robust growth on all our core markets. The strategy embarked upon of expanding the business with fuel cells both nationally and internationally is therefore significantly bearing fruit.

The development of the defense business was particularly pleasing. The further strengthening of our position in our home market and the targeted expansion of our international business led to growth and risk diversification. In the Oil & Gas business, increased demand for fuel cells and data transmission technology was particularly responsible for growth. After the crisis of 2015 and 2016 in this industry, we are again observing a healthy ratio between maintenance investments and new project business. However, success cannot be measured by figures alone. Equally important are forward-looking decisions and strong cooperations, key steps here were the above-mentioned partnership with adKor in the area of hydrogen technology and the first sales partnerships in China and the USA. As is customary, we describe below to you this and all other developments of the business segments in more detail.

Oil & Gas

In the first nine months of 2018, we recorded record order intake. The growth drivers here were fuel cells as well as SCADA systems (Supervisory Control & Data Acquisition) and combinations of SCADA products and EFOY Pro fuel cells. As a pioneer, our subsidiary Simark has achieved a strong competitive advantage in fuel cells. The majority of the business continues to come from the Canadian oil and gas industry. The regional expansion of the business into the USA, which began in 2018, is beginning to bear fruit with cooperations and pilot orders. This initiative will remain a central element of the growth strategy in 2019. While new orders suffered a temporary downturn from the end of October until the end of November 2018 due to a short-term decline in the oil price, orders from existing and new customers picked up again in December and culminated in the best fourth quarter of this segment. Sales in this segment thus climbed 6.4 % in 2018 as a whole from € 24.46 million in 2017 to € 26.03 million, currency-adjusted even by 11 %.

Defense & Security

The Defense & Security business segment more than doubled its sales in the reporting year. Above all new national programs and several follow-up orders contributed to the dynamic development, as did new international orders. The drivers are the changing geopolitical situation as well as the trend toward weight reduction in terms of the equipment of vehicles and soldiers in the field. Reliable and flexible energy supply solutions are also required for the increasing number of technical components. As the first company in the world we have established the fuel cell in these markets as an efficient and durable energy source. Demand is particularly high for the portable SFC fuel cell JENNY for field missions and the compact EMILY 3000 for stationary, mobile and vehicle-based applications, for instance in surveillance and communication technology. Following an order for the SFC energy network at the beginning of the year, a major order for EMILY 2200 fuel cell systems followed in December 2018. SFC Energy was also able to win additional international customers for its systems. At the end of March an Asian defense customer commissioned SFC with the delivery of EMILY 3000 and JENNY 600S fuel

cells. Orders from other international defense organizations for JENNY fuel cells and the SFC Power Manager followed in June and July, respectively.

Industry

The Industry segment also displayed positive growth in the reporting period. Sales rose by 7.3 % from € 15.21 million to € 16.31 million. The activities of the subsidiary PBF, which manufactures and supplies highly dynamic power generation solutions for laser technologies and other high-tech applications in the industrial sector, are bundled in the Industry segment. Not only the growth with existing customers is pleasing, but also the implementation of initial substantial projects with the new modular product platform developed by PBF that is becoming increasingly established in the market. It facilitates rapid, attractively-priced and very efficient highly dynamic power generation solutions for demanding applications. PBF among other things gained three new prototype first series orders for laser tool applications. While some of these sales were generated in 2018, the majority of these orders will be delivered in the current 2019 financial year. Following successful qualification of the prototypes, series sales are expected from follow-up orders from 2020 onward. The foundation has thus been laid for further growth in the Industry segment.

Clean Energy & Mobility

As expected, the Clean Energy & Mobility segment's sales of € 9.35 million in 2018 were down on the prior-year level of € 9.80 million. The cause of this is a major order for surveillance systems from Singapore that was recorded in the first quarter of 2017. Taking account of this one-off effect, robust double-digit growth can be observed in all other core markets.

With our modern fuel cell solution based on the successful EFOY fuel cell, we are able to meet the requirements of our customers in a wide range of applications. No matter whether it is civil security technology, i. e. the rapidly growing use of network-independent image processing to secure people and buildings, the security of major events, border security or the power supply during the construction and maintenance of wind turbines.

In other regions, too, the energy mix is increasingly shifting towards renewable energies. In China, demand is growing massively due to stricter government emission regulations. We therefore concluded a partnership agreement with Beijing Green Century Technologies at an early stage. The company is an established market leader in power and other electronic component solutions for the wind and solar industries as well as for electromobility, the rail sector and telecommunications. Under the agreement, our Chinese partner will sell and service the EFOY Pro fuel cell. The extensive distribution network and the good networking of our partner within the industry will support our international expansion strategy in this area.

Statement of financial position

Following renewed records in terms of sales and profit in the 2018 financial year and further capital measures, increasingly solid overall accounting ratios are emerging. Owing to the high demand from institutional investors, the company successfully placed a capital increase from authorized capital in mid-June 2018. The cash inflow from the capital increase of € 4.22 million primarily serves to finance and secure the regional growth strategy in the civil markets as well as in the Defense segment, while also ensuring the flexibility of the SFC Energy Group. The equity ratio increased to 43.3 % as of the end of the 2018 reporting period (prior year: € 40.2). Available cash and cash equivalents amounted to € 7.52 million as of the end of the 2018 reporting period, up from € 4.41 million in the previous year.

Shares

All in all, the 2018 trading year was characterized by a large number of geopolitical issues and uncertainties. The SFC energy share performed extremely positively in this challenging environment. The altogether strong and stringent business performance coupled with a continuous flow of positive news is clearly reflected in the share price, which rose by 33.4 % in 2018 from € 6.19 at the end of 2017 to € 8.26. All in all we observer a significantly increased interest among both institutional and private investors in the SFC Energy share.

Outlook

We are feeling positive about the current year 2019. We have reached important milestones on our growth path in the 2018 financial year. Of course, we want to continue to pursue this goal in the long term. We are the world's first profitable fuel cell manufacturer, enjoying broad-based growth in all key markets and are now also advancing into the vibrant market of hydrogen technology. The momentum of the past year has continued unabated into the start of the current financial year. We have every confidence that the growing interest of many customers in fuel cell technology will also enable us to achieve profitable and sustainable growth in 2019. Special attention in the expansion of our activities in the current financial year is being placed on the area of hydrogen-driven products as well as regional expansion with a focus on the important markets of the USA and China.

For 2019 as a whole, we therefore expect further significant organic growth and plan consolidated revenue of € 67 million to € 74 million. In addition, another significant increase in profitability with adjusted EBITDA of € 4.5 million to € 7 million and an adjusted EBIT of € 3.5 million to € 6 million is being targeted for 2019. Over the medium term (3 to 4 years), we expect to exceed the € 100 million consolidated sales level, and by then to clearly exceed the 10 % adjusted EBITDA margin level.

In view of the record results in 2018, the marked rise in market and investor interest in SFC Energy AG and in order to make optimum use of the enormous market and growth potential throughout the world, the Management Board, in consultation with the core shareholders and with the approval of the Supervisory Board, have initiated a process to examine and prepare possible strategic options for the Company's future development and growth. The management's objectives are a consistent regional expansion of business activities with a particular focus on the USA and China, as well as the rapid development of the hydrogen fuel cell business. Add-on acquisitions will also be evaluated. Strategic options explicitly include exploring the markets to attract new, medium-term strategically oriented investors and capital measures. The options can range from the integration of long-term strategic investors to a possible capital increase by issuing new shares on the capital markets. For the latter option, SFC Energy has mandated ABN AMRO Bank N. V. and COMMERZBANK Aktiengesellschaft. From today's

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perspective, we are confident that in the foreseeable future we will be able to find and present a long-term, sustainable solution for the company and its shareholders.

We would like to take this opportunity to thank all our employees, suppliers, business partners and customers for their commitment and trust. The success achieved in the 2018 financial year under review is the result of outstanding teamwork. We are both delighted about and proud of this. At the same time, it is our aim to achieve further milestones and successes with this fantastic team.

We would like to thank you, our shareholders, for the trust you have placed in us.

Sincerely,
The Management Board of SFC Energy AG

Dr. Peter Podesser
Chairman of the Board (CEO)

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CLEAN INNOVATIVE ENERGY SOLUTIONS FOR OUR WORLD

CLEAN POWER EVERYWHERE IT IS NEEDED

SFC Energy's integrated energy solutions

Environmentally friendly, reliable, quiet, weather-independent and always available: these are the key requirements of industrial customers, government agencies and consumers when seeking a power source for their systems. This poses particular challenges for producers of innovative energy sources. An increasing number of devices must function off-grid and operate around the clock without failure, while each area of application has its own very specific requirements. SFC Energy AG has therefore divided its business into four core markets so as to be able to meet their different requirements in the best way possible. This has been a great success: over 40,000 SFC Energy fuel cells are already in use worldwide in a wide variety of applications and this number is rising every day.

THE 4 CORE MARKET SEGMENTS

CLEAN ENERGY & MOBILITY

- Off-grid and back-up power solutions for security & surveillance, wind & solar environmental technology and traffic management/telecom
- Auxiliary Power Units (APUs) for recreational vehicles/SPVs, boats and electrical vehicles

DEFENSE & SECURITY

- Portable power for defense & security
- Onboard power for military vehicles
- Stationary and covert power
- Border security

OIL & GAS

- Off-grid energy systems (EFOY fuel cell based)
- SCADA systems
- Power products

for Oil & Gas, Mining & Minerals and Water & Wastewater

INDUSTRY

Power supplies, coils, linear drives for

- Analytical equipment
- Laser manufacturing equipment
- Semiconductor equipment

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CLEAN ENERGY & MOBILITY

Clean off-grid power for mobile and stationary applications

THE MARKET

Clean energy bringing mobility and self-sufficiency. A reliable off-grid power supply that enables security and comfort functions to be used anywhere and anytime: this is what industrial and government agency users require for their off-grid applications and consumers require for their mobility. The need for reliable power on the move has risen dramatically over recent years and this trend shows no signs of abating. A steadily increasing number of devices are operated away from the grid, including sensors, cameras and measuring devices in the open air, on construction sites and in public spaces or environmental applications, communications and security systems in mobile offices, government agency or disaster relief vehicles, coffee machines, electric bicycles and consumer electronics on board motorhomes and yachts. They all require power, preferably with exactly the same level of convenience as provided by the power outlet at home.

SFC Energy offers a broad portfolio of fuel cell-based energy solutions configured specifically for these applications which are mobile, on board vehicles, for backup power or stationary and weatherproof.

APPLICATION SOLUTIONS FROM SFC ENERGY

Onboard power supply with EFOY Pro fuel cells

More and more data collection, security, office and service tasks require mobile solutions: the police and government agencies, security service providers and architectural, construction and service offices operate a large number of devices on board their vehicles and vehicle fleets. These devices must function reliably around the clock. Nobody on board wants to work alongside a noisy, smelly generator for hours on end, which is why noise and emission reduction take top priority. SFC Energy's EFOY Pro fuel cells are installed in the vehicle and provide fully automatic, virtually silent and emission-free power without any user intervention and without having to start the vehicle's engine, while continuously monitoring the charge level of the consumer battery at the same time.

Telecommunications and backup power using hydrogen fuel cells

SFC Energy's entry into hydrogen technology is enabling the company to open up new markets in the fields of telecommunications and backup power supply solutions. Hydrogen fuel cells are already well established in these areas and government agencies use them in critical infrastructure. The market for backup power supply solutions is also exhibiting strong growth. SFC Energy also plans to expand its activities in these two markets into further countries over the next few years.

Reliable power far away from the grid with EFOY Pro fuel cells – stationary and mobile

SFC Energy is experiencing strong growth in this market, too. Increasing numbers of EFOY Pro fuel cells are being sold worldwide to supply power to all kinds of off-grid systems – sometimes under the most extreme weather and environmental conditions in locations far from civilization. For example, EFOY Pro fuel cells can be found in measuring stations, as a power supply for cameras monitoring endangered species, on the highway operating traffic management systems for construction sites, in volcano sensor systems in Italy, in earthquake early warning systems in Asia and Europe or in public spaces, where they operate mobile surveillance systems. By contrast to solar modules, the weather is not an issue for EFOY Pro fuel cells. They are reliable, quiet and environmentally friendly, operating in temperatures ranging from –50 °C to +40 °C, and therefore work self-sufficiently in both hot desert climates and the cold Canadian winter for weeks and months at a time. Customers value these benefits. In particular, the SFC energy solutions` long periods of self-sufficiency are a real competitive advantage: the teams operating them no longer regularly have to travel to the often remote locations in which the devices are deployed to change batteries, maintain generators or remove sand, dust and ice from solar modules. This saves time and money with the result that the cost of the fuel cells can be amortized within a very short period. In this market EFOY Pro fuel cells are mainly hybridized with other alternative power generators, primarily solar modules. This enables solar energy to be used without any fuel consumption. However, if the solar module stops producing power the fuel cell switches on automatically and reliably, bridging the power gap. SFC Energy offers EFOY Pro fuel cells in a variety of versions that can be flexibly configured and combined as required for the relevant application.

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EFOY Pro Fuel Cell

EFOY Pro fuel cells charge system batteries completely automatically and on demand in an environmentally friendly manner, with long periods of self-sufficiency, and without refueling or maintenance. They are available in a variety of performance classes in compact solutions, such as weatherproof boxes, trailers and switch cabinets.

EFOY ProCube

This mobile, maintenance-free complete solution for off-grid power supply is ready for immediate use anywhere and anytime. The mobile system is easy to transport and can be put into operation very rapidly. It operates either as a stand-alone power source or in hybrid operation with other power generators such as solar cells.

For immediate use: EFOY ProCube is a fully integrated mobile solution for fast deployment anywhere, anytime.

EFOY ProEnergyBox

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

EFOY ProCabinet

This remote outdoor energy solution combines fuel cell, fuel, power management and everything else needed for the application in a weatherproof switch cabinet. The highly flexible EFOY ProCabinet can be configured according to the customer's needs, hybridized with other alternative power suppliers and used in stand-alone mode or as a backup power supply.

EFOY ProTrailer

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

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

Once installed on board, the EFOY COMFORT fuel cell from SFC Energy is completely self-sufficient and maintenance-free for years to come, providing fully charged batteries without any user intervention. Only a simple fuel cartridge change is required from time to time. Motorhome and sailboat owners have been using SFC fuel cells for over 15 years to provide reliable power far away from the hustle and bustle of campsites and harbors. Racing boats in sailing regattas represent a small but nevertheless vibrant market for SFC Energy: the level of interest in fuel cells has risen as winners of major races have increasingly used EFOY COMFORT fuel cells on board in recent years. Motorhome owners love the EFOY COMFORT, too. In 2018, it was once again ranked the second most popular power generator in a reader survey conducted by promobil, Europe's largest motorhome magazine.

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DEFENSE & SECURITY

Off-grid power supply for security and defense

THE MARKET

The global defense market is growing and bringing an increasing need for innovation, particularly in the area of new technologies. New cyber defense tools are emerging based on artificial intelligence, state-of-the-art sensor systems and machine learning. New security and surveillance technologies, digital communication network structures and data collection and analysis systems are developing just as rapidly. All these new technologies also need to be ready for mobile use. As a result, defense organizations and government agencies are now placing great emphasis on off-grid power. This is reflected in SFC Energy's new orders, too. Besides the Bundeswehr, more and more international defense organizations are ordering fuel cell products from SFC Energy. In the past financial year, SFC Energy was awarded several major contracts from international and national defense and security organizations. Before the orders were placed, the fuel cells were subjected to the toughest tests both in the laboratories and in real-life scenarios. The contracts awarded demonstrate the high performance and numerous advantages that fuel cells offer in these applications. It can be assumed that this segment will continue to grow in the coming years.

The environment in the security sector is developing in a similar way. When monitoring and safeguarding public spaces, events, construction sites and infrastructure government agencies are making ever greater use of video and sensor technology, which must be supplied with mobile power. SFC Energy's products are increasingly used here, too, as they are quiet, environmentally friendly and compact and can also be concealed where necessary.

The private security business is also covered by the Clean Energy & Mobility segment.

APPLICATION SOLUTIONS FROM SFC ENERGY

Onboard power supply for military and surveillance vehicles with EMILY fuel cells

The EMILY fuel cell supplies power to all devices on board military vehicles. It is a hardened special fuel cell for demanding operating conditions and is based on SFC Energy's many years of experience with vehicle-based fuel cell solutions for industrial, fleet and leisure vehicles. The low-noise and environmentally friendly operation of the EMILY on board is virtually undetectable from the outside. This makes it especially useful in covert operations as it supplies the devices with power fully automatically and completely autonomously for days and weeks at a time without any user intervention or attracting attention. It is no longer necessary to start the engine to charge the onboard batteries. EMILY fuel cells are approved for use by the Bundeswehr and have a NATO Stock Number. Besides vehicle-based deployment, EMILY fuel cells can also be used as a stationary, self-sufficient power supply for devices in the field.

Portable power supply with JENNY fuel cells and energy network

The JENNY fuel cell is a compact, highly efficient portable power generator for soldiers in the field. The JENNY recharges batteries on the road completely automatically. Because soldiers no longer have to carry spare batteries, their equipment weighs up to 80% less. The JENNY operates quietly, without emissions and virtually undetectably. All these advantages increase the duration of the mission, operational capability and safety of the soldiers.

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

Reliable off-grid power is essential for a growing number of defense applications. In operation, JENNY (left) and EMILY (right) are silent, with zero emissions and nearly undetectable.

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

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OIL & GAS

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

THE MARKET

In 2018, the oil and gas industry gradually caught up with the maintenance and modernization investments it had postponed in the years of low oil prices. New project business also slowly gathered pace again. However, in Canada, the core market of SFC company Simark Controls, this recovery was hampered by bottlenecks in the refinery business and a significant lack of transport and pipeline capacity for oil and gas production. Simark Controls nevertheless succeeded in winning a number of major contracts and new customers in the past year. The reason for this positive development lies in the substantial advantages that SFC energy solutions bring to customers in oil and gas production.

Simark Controls has established an excellent reputation as a service-oriented, value-added partner in Canada, integrating and manufacturing high-quality instrumentation, automation and energy solutions for customers in the oil and gas industry, and the success story continues. Simark also won several new project orders in the US over the course of the year. In the first quarter of 2019, after the end of the period under review, the company entered into a new partnership with a US instrumentation and automation expert to expand its market activities in the Water, Waste Water and Oil & Gas segments in the southern US.

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APPLICATION SOLUTIONS FROM SFC ENERGY

Energy supply solutions for Oil & Gas with EFOY Pro fuel cells

Oil and gas installations must function reliably around the clock, far away from the power grid. At drill sites or pipelines, months of self-sufficient operation of highly automated systems in all weather conditions pose enormous challenges for the operators. In addition to maintaining and safeguarding operations, they must adhere to very strict legal and environmental regulations. During the harsh Canadian winter numerous plants can only be reached by helicopter, entailing enormous cost and logistical effort. Against this background, integrated automation solutions and energy suppliers using fuel cells from SFC Energy are highly attractive to oil and gas producers as they can operate self-sufficiently without any user intervention for months on end. They ensure uninterrupted 24/7 operation of the systems, even in extremely low temperatures and during snowfall. They are also environmentally friendly, which is a very important competitive advantage for many operators.

EFOY Pro Hybrid fuel cell solutions

The EFOY Pro Hybrid fuel cell solutions are turnkey energy solutions for off-grid power. They are configured for specific applications and reliably and self-sufficiently supply industrial applications far from the grid with power over long periods, even in the most challenging of conditions. The EFOY Pro Hybrid fuel cell solutions combine EFOY fuel cells, solar modules, batteries, power management, fuel cartridges and – if required – customer equipment in weatherproof switch cabinets or outdoor boxes or on trailers. Output and functions can be adapted to the off-grid power requirements of the application at hand. You can find further information on individual EFOY Pro configurations and products for the Oil & Gas market under the product descriptions in the "Clean Energy & Mobility" section.

EFOY Pro trailer in use in Canada. Hybrid fuel cell solutions deliver reliable power even in snow and freezing climates.

SCADA & Automation Solutions from SFC Energy for Oil & Gas

Automation is currently one of the strongest trends in the oil and gas industry as well as one of the key drivers of innovation. The aim of increased automation is to lower costs and optimize security and processes. Simark Controls' integrated automation solutions are in ever more frequent demand here. Simark Controls increasingly combines these solutions with EFOY Pro fuel cells to deliver longer periods of self-sufficiency and cost savings to customers. Especially this combination of automation and power supply gives SFC Energy a real competitive edge.

SCADA Computer Systems

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

Variable Frequency Drives (VFD)

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

Intelligent automation, control and measurement systems increase the efficiency of oil & gas production.

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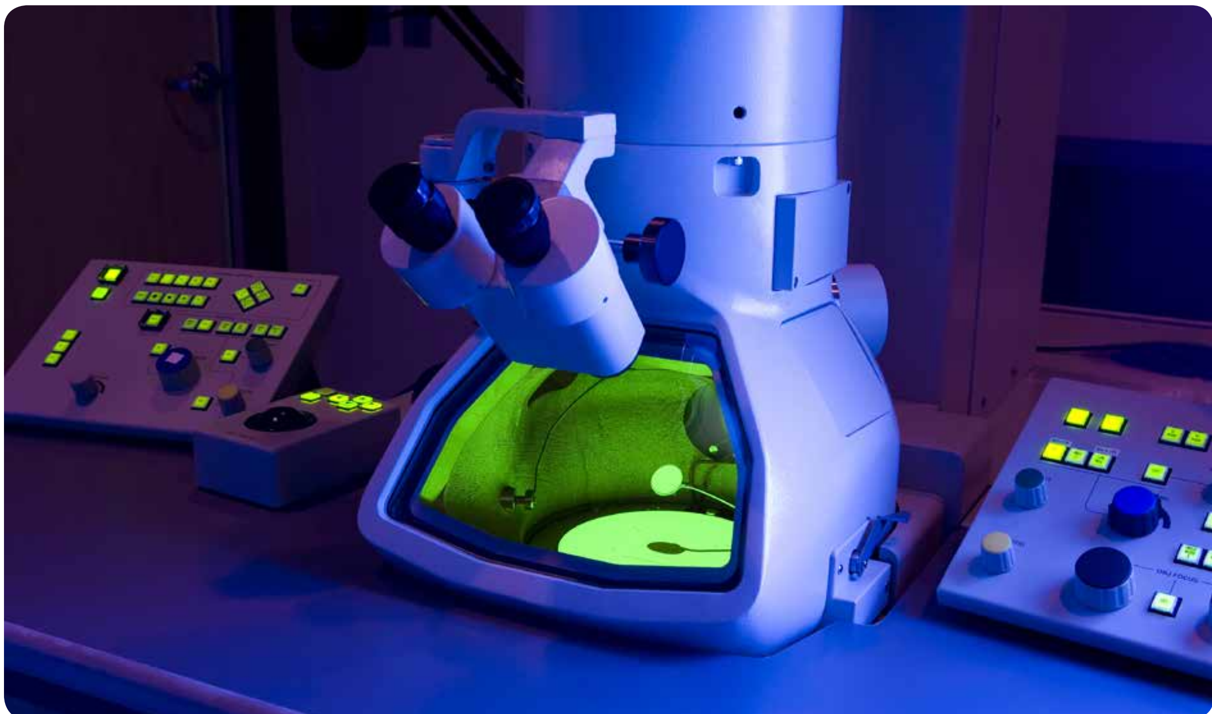
INDUSTRY

Power solutions, coils and linear drives for demanding applications



THE MARKET

Power is not always of the consistently high quality required by high-performance systems, such as electron microscopes, semiconductor manufacturing equipment or laser systems, for optimal operation and longevity. For this reason, the power must be "smoothed" prior to use, that is prepared for use by the specific systems. In the course of digitization and Industry 4.0, the demands on the quality of power continue to rise. In particular, major customers who manufacture state-of-the-art equipment worldwide want to ensure the availability of precise, smoothed power where power quality is not uniform in order to protect their high-quality systems from damage. Winning such orders is a protracted process that must be supported by extensive evidence. The systems must be developed and manufactured exactly according to the relevant requirements. The customer then tests the prototypes produced in this process in their subsequent applications over long periods. The market is now slowly starting to move following the industry's great reluctance to invest in new technologies in recent years. Experts expect demand to rise in the coming years.

PBF Group B.V., a member of the SFC Energy Group in the Netherlands and Romania, offers specialized power supply solutions as well as a range of special coils and linear drives. In previous years the company won a series of prototype orders, for example in the laser manufacturing equipment, semiconductor manufacturing equipment as well as analytical equipment. After many years of testing, these prototype orders were followed up by major series orders for the first time in 2018.

In 2018, PBF advanced this positive development even further by launching its own PBF High Power Standard Platform for commercializing ultra-precise power supplies for demanding applications such as laser technologies as well as other high-tech industrial fields. The compact, scalable and reliable platform is setting new standards in industrial power supply and offers maximum flexibility for implementing customer requirements.

SOLUTIONS FROM SFC ENERGY

Power supply solutions with the PBF High Power Standard Platform

SFC Energy Group's power supply and power management systems ensure that highly sensitive devices are reliably supplied with accurate power at all times. Numerous renowned original equipment manufacturers and system suppliers worldwide use SFC Energy's technological know-how from planning to production.

The PBF LAPS series

In addition to the specialized solutions for which the company is now renowned in the market, PBF now also offers a range of commercial products based on the new platform: the LAPS series. The products in this series were specifically developed for highly dynamic applications such as laser and semiconductor production systems, analytics systems and other high-tech industrial systems and offer customers even faster times to market and even greater flexibility.

Coils and linear drives

PBF's special coils and linear drives meet the highest quality standards and are developed and produced precisely according to the customer's requirements. The products are used, for example, for electron microscope lenses and deflection coils.

www.sfc.com/en/markets/industrial

MILESTONES IN 2018

MARKET AND PRODUCT NEWS

JANUARY 2018

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

The readers of "promobil", Europe's biggest motor home magazine, once again ranked the EFOY COMFORT fuel cell among their top 3 favorite brands in the magazine's annual reader survey. EFOY achieved the prestigious second place in the power generator category.

MARCH 2018

+++ Canadian subsidiary Simark Controls receives CAD 1.2 million follow up order for Variable Frequency Drive Systems +++

The oil producer's major follow up order is based on the success of Simark's integrated solutions in the operation of pumps used to lift heavy oil from well-pads. Simark's systems help the oil producer to significantly reduce costs with unique installation and operation benefits.

+++ SFC Energy delivers EUR 3.6 million order of Deutsche Bundeswehr +++

After the first deployment of SFC fuel cells with the Bundeswehr in 2010, the Bundeswehr's Federal Office for Equipment, Information Technologies and Usage (BAAINBw) equips additional Bundeswehr units with SFC Energy's proven portable Energy Network. The order represents the biggest single order in corporate history.

+++ SFC Energy receives EUR 1.8 million follow-up order for ruggedized fuel cell products from Asian defense customer +++

The order is for additional units of EMILY 3000, portable JENNY 600S, and SFC Power Manager 3G. The systems are used to reliably power off-grid border protection equipment, electrical equipment, and mission-critical communication systems, many of them at very remote outposts.

+++ Simark Controls receives CAD 0.1 million EFOY order for SCADA applications of new oil & gas player +++

The Canadian Oil & Gas producer ordered fully integrated, turnkey remote power packages complete with SCADA technology and EFOY Pro fuel cell for the operation of pipeline risers at the customer's new operations in North Eastern British Columbia. The fuel cell's and fuel's high stability in extreme conditions played a significant role in the customer's selection of Simark's solution.

APRIL 2018

+++ EFOY Pro fuel cells deliver reliable off-grid power to seismic monitoring stations +++

The Federal Institute for Geosciences and Natural (BGR) uses EFOY Pro fuel cells for ensuring 24/7 off-grid operation of their seismic GERES monitoring systems during a ten months construction phase. GERES monitors the compliance with the Comprehensive Nuclear Test Ban Treaty (CTBT).

+++ SFC Energy and Beijing Green Century Technologies sign business partnership agreement for EFOY Pro fuel cells in China +++

Green Century sells the EFOY Pro fuel cell as energy solution in off-grid and mobile industrial applications like solar PV and wind power, in telecommunication, railway, and automation and in other specialized industries in China. To ensure ultimate efficiency and optimum service quality, Green Century engineers have been trained and qualified by SFC Energy experts in fuel cell installation and service.

MAY 2018

+++ PBF Group receives EUR 1.2 million order for first series of integrated power supply system for high tech laser systems +++

PBF used the unique, successful PBF Power Supply Platform Technology to customize the modular laser power supply systems. PBF's Laser Power Supplies are configurable and scalable for a variety of different system loads and requirements. In addition to a range of technical add-on functions they feature decisive cost, quality, and service benefits for the customer. After successful prototype qualification, the Company expects annual product sales revenues of approx. EUR 2 million, starting 2020, from follow-on orders.

JUNE 2018

+++ PBF introduces new standard in high performance industrial power supplies: The PBF High Power Standard Platform – LAPS series +++

PBF's proprietary, standard and semi-standardized High Power Platform enables fast, cost attractive and highly efficient power supply solutions for dynamic loads in demanding applications like laser, plasma technology and other high tech fields. In the new series, PBF features a range of attractive commercial off-the-shelf products, based on successful PBF High Power Platform developments over the last three years. The compact, scalable and cost-efficient platform sets a new standard in industrial power supplies and enables maximum flexibility for meeting customer requirements.

+++ Simark Controls receives CAD 0.4 million EFOY Pro fuel cell order from major Canadian oil & gas services provider +++

The new customer uses the weatherproof EFOY Pro hybrid solutions for powering off-grid actuator valves on liquids pipelines in Canada. The fuel cells replace thermoelectric generators (TEGs) and ensure autonomous 24/7 operation of the systems while significantly reducing logistics and service cost. The high environmental friendliness of the power solution was an additional strong decision criterion.

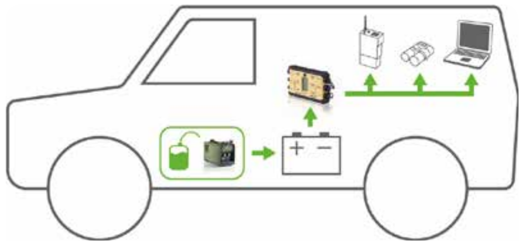
+++ SFC Energy receives EUR 1 million follow-up order for portable JENNY 1200 fuel cells from international defense organization +++

The portable JENNY 1200 fuel cells deliver reliable, fully automatic off-grid power in multi-day missions. The fuel cell enables over 80 % weight savings for soldiers in the field. Additional advantages are fully automatic and silent battery recharge, zero maintenance, almost no detectable heat signature and ultimately lower total cost of ownership. The follow-up order was placed based on the excellent performance of the JENNY 1200 fuel cell in their operations.

JULY 2018

+++ Calzavara uses EFOY Pro 12000 Duo fuel cell as back-up power source for telecommunication stations +++

As a backup power source in hybrid operation with a solar module, SFC Energy's most powerful industrial fuel cell ensures uninterrupted power supply to a remote radio base station on top of a Northern Italian mountain at an altitude of 1,800 m, in case of power outages. The order builds on the earlier success of EFOY Pro fuel cells in Calzavara applications.



+++ International defense organization equips vehicle fleet with SFC Power Manager +++

The SFC Power Manager autonomously distributes power to different voltage consumers on board and charges batteries in the vehicle. In operation it enables major weights and space savings over conventional vehicle power supplies and battery chargers. The international defense organization uses the SFC Power Manager in combination with SFC Energy's EMILY fuel cell in their vehicles.

AUGUST 2018

+++ Simark Controls receives CAD 0.7 million order for SCADA communication systems +++

The major Canadian Oil and Gas Company uses the systems in their SCADA Expansion Project in Western Canada. In this project, 2,500 wells will be added to their existing SCADA system. Simark Controls is a leading provider of fully integrated, turnkey SCADA communication systems that are often equipped with SFC Energy's EFOY Pro fuel cells for off-grid installations.

+++ Simark Controls receives new CAD 1.1 million follow-up order for integrated Variable Frequency Drive Systems (VFDs) +++

Following a first big VFD follow-up order in February, the Canadian oil producer places another major order for more of the same Simark systems, based on the success of Simark's integrated solutions in their applications. Simark's VFD systems help the oil producer to significantly reduce costs with unique installation and operation benefits.

SEPTEMBER 2018

+++ Simark Controls receives biggest oil & gas follow-up order to date (CAD 1.2 million) for turnkey EFOY power solution to reduce methane emissions from upstream oil & gas operations +++

Simark's EFOY Pro hybrid solutions are used to power the North American Energy Producer's SCADA instrumentation and electrical-chemical injection pumps in the Montney and Duvernay formations in Western Canada, enabling over 90 % CO_2 equivalent emission reductions. The hybridization with solar power ensures ultimate power reliability and system autonomy, eliminating the need for costly trips to the remote sites in inclement weather and winter.

+++ SFC Energy and Oneberry Technologies present autonomous fuel cell-powered security robot +++

Thanks to the EFOY fuel cell, the Oneberry RoboGuardTM robot is always ready for use anywhere, anytime, with extremely long off-grid autonomy. This offers decisive advantages over conventional, battery-powered robots, which require hours of recharging in between assigned tasks. The robot is intended for non-mobile, mobile, and vehicle-based use in events and infrastructure monitoring, retail and shopping center security surveillance, exhibition and conference operations, border security, industrial and construction site surveillance and safety detection, safety of public spaces and danger areas.

+++ PBF receives major order for PBF´s High Power Standard Platform solutions in semiconductor manufacturing equipment +++

In the framework of the order PBF develops two semi-standard PBF High Power Platform solutions, the order amount is in the mid-six-digit Euro range. Starting 2020 the expected annual order amount is up to EUR 4.5 million by 2023. This power supply development, too, builds on PBF's successful High Power Standard Platform.

OCTOBER 2018

+++ PBF Group receives serial order in the middle six-digit EUR range for fully integrated laser power supply systems +++

The order is for LASY series power supplies by PBF in various configurations for the direct operation of diode pumped fiber lasers used in material processing. The LASY series builds on PBF's successful standard and semi-standardized High Power Platform for fast and cost-attractive customization. The annual revenue potential following system introduction in 2020 is expected at approx. EUR 2 to 3 million.

+++ Simark Controls delivers CAD 0.5 million follow-up order for fully integrated VFD Systems +++

The Alberta Oil Producer places a follow-up order for more of Simark's successful, fully integrated Variable Frequency Drive Systems. Simark's systems help the oil producer to significantly reduce costs with unique installation and operations benefits.

NOVEMBER 2018

+++ SFC Energy enters into hydrogen technology +++

SFC Energy and adKor sign a development partnership and licensing agreement for a new H_2 fuel cell generation with energy management. SFC Energy is granted access to the existing product portfolio, expanding the SFC power range midterm up to 100 kW with the new fuel cell. adKor grants SFC Energy a non-exclusive license to IP rights of former FutureE, P21, and Heliocentris. This H_2 technology builds on 30 years of fuel cell expertise, which will significantly shorten development time and lower development cost. The strategic extension of SFC's product portfolio opens attractive new applications in critical infrastructure and telecommunication, in back-up power and – in the long run – also in e-mobility. Both companies will develop the new hydrogen fuel cell generation together and sell it to their individual core markets.

DECEMBER 2018

+++ SFC Energy receives another EUR 1.25 million Bundeswehr order for vehicle-based and stationary power supplies +++

The Bundeswehr's Federal Office for Equipment, Information Technologies and Usage (BAAINBw) buys EMILY 2200 fuel cell systems for supplying off-grid power to devices on board of vehicles, as well as SFC Power Managers and accessories. The order represents repeat business for SFC Energy following the approval and successful deployment of the fuel cell by Bundeswehr in December 2011. EMILY 2200 was specifically developed to meet demanding requirements in defense applications. It fully complies with military standards and carries a NATO stock number (NSN). The Bundeswehr uses the EMILY 2200 as power source for devices on board of defense vehicles and as field charger for soldiers in the field.

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SUPERVISORY BOARD REPORT

SUPERVISION OF COMPANY MANAGEMENT

The dominant factors in the 2018 financial year were the Company's capital market strategy, particularly the search for potential investors and strategic partners, the Company's financing options in the form of further capital measures, 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.

COMPOSITION OF THE SUPERVISORY BOARD

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 2018 financial year. These members of the Supervisory Board were (i) Tim van Delden, (ii) David Morgan, and (iii) Hubertus Krossa. In the 2018 financial year, Tim van Delden served as Chairman and David Morgan as Deputy Chairman of the Supervisory Board of the Company.

SUPERVISORY BOARD MEETINGS

In performance of its duties, the Supervisory Board met eight times during the 2018 financial year: on February 28, March 22 (to review the financial statements for the 2017 financial year), May 8, June 15, July 20, October 25, November 22, and December 12, 2018. Five of these meetings, on March 22, May 8, July 20, October 25, and December 12, 2018, were held in person and were attended by all Supervisory Board members, with the exception of the meeting held on October 25, 2018, in which the Chairman of the Supervisory Board, Tim van Delden, participated by telephone. The other three meetings on February 28, June 15, and November 22, 2018, 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 dis-

cussed 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 cooperations or strategic partnerships. 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.

Other important topics at the Supervisory Board meetings during the 2018 financial year were, once again, the search for potential investors and strategic partners as well as the discussion of possible capital market measures by the Company aimed at strengthening its liquidity base so as also to ensure implementation of its growth strategy over the medium term. The Supervisory Board was informed in detail by the Management Board, using external consultants, about possible measures to gain access to new investors at home and abroad, to finance further growth and to improve the Company's Equity Story, discussed these measures both internally and with the Management Board, and weighed up their pros and cons. The Supervisory Board was also kept regularly informed about the status of implementation and it accompanied and monitored this process.

At its meeting held via conference call on February 28, 2018, which was attended by all members of the Management Board, the Supervisory Board dealt with personnel and remuneration-related matters as well as options for strengthening the equity position. The Supervisory Board resolved to reappoint Hans Pol and to extend his contract of employment as a member of the Management Board as well as to extend the virtual stock option program and to adjust the Management Board contract of employment relating to Marcus Binder. The Supervisory Board also resolved to enter the implementation of the contingent capital increase in the commercial register after individual shareholders exercised their conversion rights.

At its meeting on March 22, 2018, which was attended by all members of the Management Board as well as guests, the Supervisory Board discussed the independence of its members and concluded that its members are independent within the meaning of the German Corporate Governance Code. Furthermore, the Supervisory Board primarily discussed and approved the annual financial statements for the 2017 financial year prepared in accordance with the German Commercial Code and the management report and the consolidated financial statements prepared in accordance with IFRS and the group management report. Representatives of the auditor attended the meeting, reported on the key outcomes of their audit and gave an opportunity for questions or queries to be raised by the Supervisory Board. The Supervisory Board also adopted the corporate governance report, the declaration on corporate governance – each for the 2017 financial year – and the declaration of conformity with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz). The Supervisory Board also dealt with the agenda for the annual general meeting 2018 and the proposal for the appointment of the auditor for the 2018 financial year. Furthermore, the Supervisory Board also had an in-depth discussion with the Management Board on the latest business processes and developments in the first quarter, the outlook on development in the second quarter and the opportunities and risks, of

the current development of the individual business units and subsidiaries of the Company. Against this backdrop, the Company's current liquidity and financial position including possible financing options were discussed again with the Management Board with the involvement of potential investors and strategic partners.

In a resolution circulated on April 27, 2018, the Supervisory Board agreed to increase a loan and extend its term.

At its meeting of May 8, 2018, which was attended by all members of the Management Board, the Supervisory Board dealt with the current business situation and development in the individual business units and subsidiaries of the Company as well as the sales figures in the first quarter and outlook on development in the second quarter of the financial year. Other matters of discussion were the financing and liquidity options for the Company and its subsidiaries as well as options to bring potential investors and strategic partners on board and possible capital market measures.

At its meeting of June 15, 2018, which was held via conference call, the Supervisory Board resolved on the Management Board's resolution to implement a capital increase on the basis of authorized capital and to amend the Articles of Association accordingly.

At its meeting of July 20, 2018, the Supervisory Board discussed, with the participation of the Management Board, the current and expected sales figures in the individual business units and subsidiaries of the Company in the second quarter and first half of 2018 as well as an outlook on development in the third quarter. In addition, the discussion dealt in more detail with the current financial figures and liquidity situation of the Company. In this context, the Supervisory Board dealt, in particular, with the funding and indebtedness situation at a subsidiary. Other matters of discussion were, again, options to bring potential investors on board and possible capital market measures. The Supervisory Board also consulted on the Company's development with respect to investments and acquisitions.

The Management Board attended the Supervisory Board meeting of October 25, 2018 and presented a short update on the business figures in the third quarter and first nine months as well as an outlook on the development in the fourth quarter of the 2018 financial year. In particular, the current figures of the "Defense" business unit taking into account potential future orders were discussed in detail. Against this backdrop, the Supervisory Board, with the participation of the Management Board, again dealt in detail with the current financial figures and the liquidity situation of the Company and of its subsidiaries. In this connection the Supervisory Board approved the extension of the term of a loan and an advance payment guarantee relating to insurance. The search for potential new investors and strategic partnerships was also discussed with the involvement of an external adviser appointed for such purpose.

At its meeting of November 22, 2018, which was held via conference call, the Supervisory Board approved a development and marketing partnership and license agreement between the Company and adKor GmbH.

At its meeting of December 12, 2018, which was attended by the Management Board and guests, the Supervisory Board dealt, first, with the general business figures in the third quarter and the forecast for the fourth quarter, addressing, in particular, the current situation in the individual business units and subsidiaries of the Company in detail. In addition, the budget planning for 2019 and the medium-term budget planning for 2020–2021 in all business units were discussed and approved. Furthermore, the options for strategic partnerships were deliberated and the search for potential new investors and possible capital market measures discussed. Finally, the representatives of Deloitte GmbH Wirtschaftsprüfungsgesellschaft who attended the meeting commented on the forthcoming audit of the annual financial statements. The Supervisory Board finally approved an

extension of the lease for office and factory premises at the Company's headquarters in Brunnthal in a resolution circulated following the meeting on December 17, 2018.

COMMITTEES

In the 2018 financial year, the Supervisory Board did (as in previous years) not form any committees since it is – consistent with the legal literature on this subject – of the opinion that the setting up of committees within a supervisory board made up of only three members does not seem adequate and will not lead to any efficiency improvements in terms of the exercise of the advisory and controlling functions.

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 289f of the German Commercial Code (Handelsgesetzbuch).

Compensation of Supervisory Board members is shown individually and broken down by component in the compensation report, which is reproduced in the annual report (page 76 et seqq.).

In the 2018 financial year, as in previous years, and in particular at its meeting on March 22, 2018, the Supervisory Board thoroughly examined potential conflicts of interest affecting its members and discussed and agreed upon its procedure for handling such conflicts, should they arise. In the year under review, the Supervisory Board did not identify any conflict of interest regarding the members of the Supervisory Board. In addition, the Supervisory Board determined at its meeting on March 22, 2018, that it included an adequate number of independent members in accordance with Section 5.4.2 of the German Corporate Governance Code. None of the members of the Supervisory Board has any business or personal relations with the Company, its executive bodies, a controlling shareholder or an enterprise associated with the latter which may cause a substantial and not merely temporary conflict of interests.

The Company is committed to complying with the recommendations of the German Corporate Governance Code. The Declaration of Conformity to be made by the Management Board and Supervisory Board on a yearly basis, and most recently of March 21, 2019, is available on the Company's website at www.sfc.com/en/investors/corporate-governance/. It is also reproduced in the annual report (on page 36).

ACCOUNTING

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, was elected by the annual general meeting to audit the Company's financial statements for the 2018 financial year and was engaged for the audit by the Supervisory Board. The Supervisory Board negotiated the audit engagement, indicated the focal points of the audit and engaged the auditors. The agreed focal points for the audit were:

IFRS consolidated financial statements

i. going concern
ii. goodwill impairment test
iii. completeness and valuation of other accruals
iv. realization of the section testing of Simark and PBF
v. compliance with financial covenants, including the related reporting

German Commercial Code-based annual financial statements

vi. going concern
vii. impairment of the shares in affiliated companies (impairment test for PBF subgroup and Simark)
viii. valuation of inventories
ix. completeness and valuation of other accruals
x. revenue recognition
xi. disclosure and reporting of capital increases
xii. accounting-related controls in the process areas sales, personnel and inventories

The auditor audited SFC Energy AG's annual financial statements as of December 31, 2018, as prepared by the Management Board in accordance with the German Commercial Code, along with the management report, including the bookkeeping, and issued an unqualified audit opinion. Under Section 315e of the German Commercial Code, the Group's consolidated financial statements were prepared on the basis of International Financial Reporting Standards (IFRS) as applicable in the European Union. The auditor also issued an unqualified audit opinion on the consolidated financial statements and the group management report.

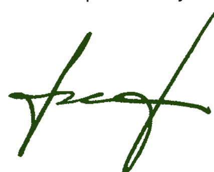
The Supervisory Board met to review the financial statements for the 2018 financial year on March 21, 2019. The members received documentation on the annual and consolidated financial statements, the audit reports, and all other documents and reports in advance of the meeting, reviewed them carefully, and discussed them thoroughly during the meeting. Since the annual financial statements for the financial year ended December 31, 2018 did not show a net profit, the the Management Board had no requirement to propose any appropriation of net profit. The auditor participated in the meeting, reported on the course of the audit and the audit reports and was available to answer questions, provide additional information and discuss the documents.

The Supervisory Board reviewed the annual and consolidated financial statements and the corresponding management reports in light of the auditor's reports as well as its discussions with the auditor, and agreed with the result of the audit. Based on its own review of the annual and consolidated financial statements and the corresponding management reports, the Supervisory Board determined that it had no objections to make. At its meeting on March 21, 2019, it approved the annual and consolidated financial statements for the 2018 financial year and the corresponding management reports. The annual financial statements for 2018 were thus approved in accordance with Section 172 para. 1 of the German Stock Corporation Act (Aktiengesetz).

The Supervisory Board would like to thank the members of the Management Board and all of the Company's employees for their deep commitment to, and hard work for, the Company as well as for their achievements in the 2018 financial year.

Brunnthal, March 21, 2019

The Supervisory Board



Tim van Delden
(Chairman)

SFC ENERGY ON THE CAPITAL MARKETS

DEVELOPMENT OF THE INDICES

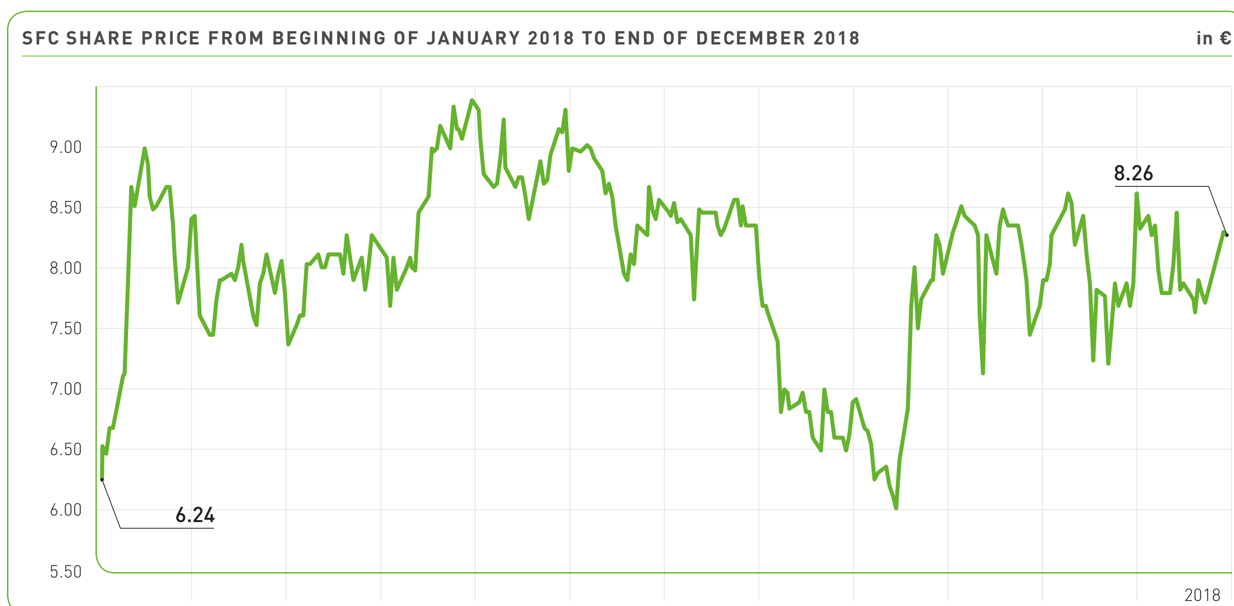
The stock market indices around the world came under pressure in the 2018 reporting year. Following a strong start, global economic momentum slowed significantly as the year progressed[1]. Political issues had a particularly pronounced impact on the development of the international stock exchanges throughout the year[2]. These included the trade dispute between the USA and China, the ongoing uncertainty surrounding the outcome and consequences of the Brexit negotiations, the Italian government's budget dispute with the EU, and the government shutdown in the USA that extended beyond the end of 2018. The leading US indices, the Dow Jones and the S&P 500, broadly moved sideways in 2018 but with considerable volatility. The losses recorded at the start of the year were recovered by around the start of the fourth quarter, and the broad-based S&P 500 even saw growth of around one percent into early December[3]. However, the further tightening of monetary policy by the Federal Reserve Bank (Fed), which was preceded by a revised growth forecast by the International Monetary Fund (IMF), triggered a downturn in the final weeks of the year[4]. All in all, the S&P 500 declined by 6.2 % in 2018. The European stock markets saw more negative development than their US counterparts, with the EURO STOXX 50 falling by 14.3 % over 2018 as a whole. The stronger performance of the US indices was due in part to the US tax reform, which provided price support for US stocks and indices[5].

On January 2, 2018, the DAX began the trading year at 12,898 points before continuing its steady rise to a new all-time high. The German blue chip index reached a new record of 13,595 points on January 23, 2018[6]. However, hopes that this bull market would continue were dashed by disappointing global economic data. This was again due in part to the more protectionist attitude of US trade policy, which led to concerns among global companies[7]. A counter-reaction failed to emerge initially, with the German stock market barometer subsequently falling to below 11,000. Signs of a more sustained recovery had to wait until the end of the first quarter and the publication of more robust economic data in the USA, which propelled the DAX to above 13,000 once again in mid-May. However, this was followed by more volatility and uncertainty. The DAX closed the first half of the year at 12,306 points (June 29, 2018). The further tightening of US monetary policy and the hardened positions between Italy and the EU concerning the member state's budget proposal curbed the performance of the DAX in the second half of 2018 and led to falling prices. The DAX closed 2018 at 10,559 points, down 18.3 % on the end of 2017. The TecDAX technology index outperformed the DAX, closing the year at 2,450 points for a slight downturn of 3.1 % compared with the end of 2017.

1 M.M. Warburg (2018): Capital Market Perspectives January 2019
2 Handelsblatt (2019): Das waren die politischen Höhepunkte im Börsenjahr 2018
3 BayernLB Research (2018): Outlook 2019: Difficult Environment
4 Neue Zürcher Zeitung (2018): Absturz der Tech-Werte: Der AnFAANG vom Ende der Aktien-Hausse?
5 BayernLB Research (2018): Outlook 2019: Difficult Environment
6 FAZ (2018): Aktienkurse auf Allzeithoch
7 M.M. Warburg (2018): Economic Situation and Strategy – Outlook 2019 (I): Trade dispute and other political imponderables

PERFORMANCE OF THE SFC SHARE

SFC SHARE PRICE FROM BEGINNING OF JANUARY 2018 TO END OF DECEMBER 2018 **in €**



In a broadly challenging stock market environment, SFC Energy AG enjoyed substantially positive share price performance and significantly outperformed the developments in German standard and technology equities. Stringent and promising company development resulted in a closing price for 2018 of € 8.26, up 33.4 % on the closing price of € 6.19 at the end of the previous year.

On January 2, 2018, the SFC share opened the 2018 trading year at € 6.24. Driven by extremely positive and dynamic performance, it reached a high for the year of € 9.68 on January 11, 2018. The SFC share maintained this level until April 30, 2018 at € 9.40. The share price then came under pressure and tracked the weakness of the overall market, falling to a low for the year of € 5.94 on September 12, 2018. However, the SFC Energy share recovered significantly by the end of the year to close the year at € 8.26 on December 28, 2018. The average daily trading volume in Germany again increased year-on-year to 19,326 shares (previous year: 14,343 shares). At the balance sheet date of December 31, 2018, the market capitalization of SFC Energy AG amounted to € 84.7 million on the basis of 10.25 million shares and a closing price of € 8.26. At the end of 2017, the market value had been € 59.8 million based on a total of 9.66 million shares and a closing price of € 6.19 (all figures based on Xetra prices).

CAPITAL INCREASE

To finance and hedge its regional growth strategy in the civilian markets and the defense segment, SFC Energy AG generated new cash from a capital increase from authorized capital that was implemented on June 15, 2018. As part of the private placement, 500,000 new shares were successfully placed with institutional investors. The placement price was set at € 8.44 per new share. The share capital increased from € 9,749,612.00 to € 10,249,612.00 as a result of the issue of the 500,000 new no-par value bearer shares. The capital increase provided the Company with gross issue proceeds in the amount of € 4.22 million.

INVESTOR RELATIONS ACTIVITIES

SFC Energy AG maintains a transparent, constructive and continuous dialog with all of its stakeholders, including investors, analysts and media representatives. This is also underlined by the fact that SFC's shares are listed in the strictly regulated Prime Standard segment of the Frankfurt Stock Exchange. The Company informs its shareholders immediately about events of significance for its business or its share price by means of ad-hoc announcements and press releases. In financial year 2018, the Management Board of SFC Energy AG continued its ongoing dialog with all essential capital market participants on a basis of mutual trust. Communication measures included numerous roadshows, discussions and interviews with the financial, business and general media, and taking part in the Munich Capital Markets Conference in April and the German Equity Forum in November. Investors can find a current business overview in the Investor Relations section of the SFC Energy AG website at www.sfc.com.

As usual, Hauck & Aufhäuser Privatbankiers AG functioned as designated sponsor in the past year, ensuring that the SFC share was traded on a continuous and adequate basis by issuing binding bid and ask prices.

ANALYST RESEARCH

The SFC share is regularly evaluated by renowned research firms. The securities specialists from First Berlin Equity Research GmbH and Warburg Research GmbH subjected the share to a fundamental critical analysis throughout 2018. On November 29, 2018, analyst Malte Schaumann from Warburg confirmed his buy recommendation while raising the target price from € 10.00 to € 10.50. His analysis focused on the expansion of SFC's product range to include hydrogen technology. The study published by analyst Dr. Karsten von Blumenthal from First Berlin on November 29, 2018 also focused on hydrogen technology. Dr. von Blumenthal upgraded his rating for the SFC share from "add" to "buy" and raised his target price from € 9.50 to € 11.20. Interested investors can find detailed information in the Investor Relations/Share section at www.sfc.com.

SHAREHOLDER STRUCTURE

The shareholder structure of SFC Energy AG changed slightly in the 2018 reporting year. This was due in particular to the exercise of the convertible bonds placed in the period from December 2015 to March 2016, as well as the capital increase resolved in June 2018. SFC Energy AG's share capital increased by € 90,156.00, from € 9,659,456.00 to € 9,749,612.00, as a result of the exercise of convertible bonds. In mid-June 2018, SFC Energy AG implemented a capital increase from authorized capital. Its share capital increased to € 10,249,612.00 as a result.

The total number of shares issued therefore increased from 9,659,456 to 10,249,612 during the reporting period. At year-end 2018, around 53.5 % of the Company's shares were held by institutional investors. Extended management, including members of the Supervisory Board, held 2.3 % of the voting rights. The free float amounted to 44.2 % at the end of 2018.

DIRECTORS' SHAREHOLDINGS

	12/31/2018
Management Board members	
Dr. Peter Podesser	106,800
Hans Pol	116,462
Marcus Binder	0
Supervisory Board members	
Tim van Delden	0
David Morgan	4,000
Hubertus Krossa	6,250

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

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

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

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

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

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

On March 21, 2019, the Management Board and the Supervisory Board of SFC Energy AG made the following declaration of conformity pursuant to Section 161 AktG:

"After due examination, the Management Board and the Supervisory Board of SFC Energy AG declare that, since March 22, 2018 (the date as of which the last declaration of conformity was made), the Company has complied and will comply with the recommendations of the German Corporate Governance Code ("Code" or "GCGC") as amended on February 7, 2017 (published in the Federal Gazette on April 24, 2017 and in its corrected version on May 19, 2017) with the following exceptions:

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

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

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

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

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

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

Brunnthal, March 21, 2018

SFC Energy AG

The Management Board
The Supervisory Board"

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

STRUCTURE AND WORK OF THE MANAGEMENT AND SUPERVISORY BODIES

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

Shareholders and General Meeting

The shareholders of SFC Energy AG exercise their co-determination and supervisory rights at the Annual General Meeting, which occurs at least once a year. SFC Energy AG regularly informs its shareholders, as well as analysts, shareholders' associations, media representatives and the interested public, through its financial calendar which is published in the Company's annual report, quarterly communications and on its website. As part of its investor relations activities, the Company further regularly meets with analysts and institutional investors. The Company also holds an analysts' conference each year. The last such conference took place on November 26, 2018.

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.

Management Board

The Management Board of SFC Energy AG manages the Company with the goal of creating sustainable value on its own responsibility and in the best interests of the Company, i. e., with the interests of the shareholders, employees and other stakeholders in mind. The Management Board acts without being subject to instructions from any third parties and in keeping with the law, the Company's Articles of Association and the rules of internal procedure laid down by the Supervisory Board for the Management Board and taking account of the resolutions by the Annual General Meeting. When filling management positions within the Company, the Management Board of SFC Energy AG also takes into consideration the principle of diversity and seeks to ensure appropriate representation of women (see in this regard also the section "Information required by Section 289f para. 2, no. 4 HGB (German Commercial Code)", page 43).

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), Markus Binder, who serves as Chief Sales Officer Defense & Security (CSO), and Hans Pol as Chief Sales Officer Power (CSO).

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

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

Supervisory Board

The Supervisory Board appoints the Management Board and supervises the latter's management of SFC Energy AG. The Supervisory Board is directly involved in all decisions that are of fundamental importance for the Company. Pursuant to applicable law, the Company's Articles of Association and the Management Board's rules of internal procedure or resolutions adopted by the Supervisory Board, certain matters relating to the management of the Company require the Supervisory Board's consent. The Supervisory Board actively guides the Management Board through advice and discussions, performs the duties incumbent on it by law and under the Company's Articles of Association, and continuously supervises the conduct of the Company's business on the basis of Management Board reports and joint meetings (see the Supervisory Board report on page 26 et seqq.).

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

Supervisory Board Membership

Pursuant to Article 10 para. 1 of the Company's Articles of Association, in the 2018 financial year the Supervisory Board of the Company was made up of three members, who were elected by the shareholders. In the 2018 financial year, the members of the Supervisory Board were (i) Tim van Delden, (ii) David Morgan, and (iii) Hubertus Krossa. In accordance with the recommendations of the German Corporate Governance Code, Tim van Delden, David Morgan and Hubert Krossa were elected individually in the last elections to the Supervisory Board at the Annual General Meeting on May 17, 2017.

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

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

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

Potential conflicts of interest of Supervisory Board members

Provisions for avoiding and dealing with potential conflicts of interest are laid out in the Supervisory Board's internal rules of procedure. Every member of the Supervisory Board is supposed to disclose conflicts of interest to the Supervisory Board. The Supervisory Board shall provide information on conflicts of interest that arise and how they have been dealt with in its report to the General Meeting. In the 2018 financial year, as in previous years, the Supervisory Board thoroughly examined potential conflicts of interest affecting its members and discussed and agreed upon its procedure for handling such conflicts, should they arise. In the year under review, the Supervisory Board did not identify any conflict of interest regarding the members of the Supervisory Board. The Supervisory Board's term of office generally amounts to five years. Since all members of the Supervisory Board who are currently in office were newly elected at the Annual General Meeting 2017, the current term of office of all members of the Supervisory Board ends at the close of the Annual General Meeting 2022.

Supervisory Board Committees

In the 2018 financial year, the Supervisory Board did (as in previous years) not form any committees since it is – consistent with the legal literature on this subject – of the opinion that the setting up of committees within a supervisory board made up of only three members does not seem adequate and will not lead to any efficiency improvements in terms of the exercise of the advisory and controlling functions. The setting-up of a nominating committee is – according to the view of the Supervisory Board – further irrelevant since there are no employee representatives on the Company's Supervisory Board.

Disclosure of relevant corporate governance practices

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

Risk management and compliance

One of the tasks of any system of good corporate governance is to deal with risks responsibly. The Management Board of SFC Energy AG ensures that an appropriate risk management and risk controlling are in place in the Company (Compliance Management System). Doing so guarantees that risks are identified in time and potential risks are minimized. More detailed information about the Company's risk management can be found in the Report on Risks and Opportunities of the Group Management Report, on page 88 et seqq.

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

Transparency

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

Pursuant to Art. 19 of the Market Abuse Regulation (Regulation (EU) No 596/2014, MAR), the members of SFC Energy AG's Management and Supervisory Boards and certain senior executives, as well as individuals and entities closely related to and affiliated with them, are required to report purchases and sales of shares in the Company and of any related financial instruments if the value of the transactions within one calendar year reaches or exceeds the amount of € 5,000. In the last financial year, members of the Management Board and Supervisory Board or other employees in managerial positions did not conduct any transactions that they were required to report.

All directors' dealings pursuant to 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, 2018

was 2.18 %, of which 1.14 % were held by Management Board Member Hans Pol and 1.04 % by the chairman Dr. Peter Podesser. As of this date, the members of the Supervisory Board combined held 0.10 % of the shares issued by the Company.

Accounting and Auditing

The consolidated financial statements of SFC Energy AG as well as the Company's interim reports are prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to the guidelines of the International Accounting Standards Board. Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed by the Ordinary Annual General Meeting to audit the Company's financial statements for the 2018 financial year and engaged for the audit by the Supervisory Board. The auditors participated in the Supervisory Board's discussions concerning the consolidated financial statements and reported on the material results of their audit. Shareholders and other interested parties can access the consolidated financial statements and interim reports on the Company's website.

INFORMATION REQUIRED BY SECTION 289F PARA. 2, NO. 4 HGB (GERMAN COMMERCIAL CODE)

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

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

Female target quota for the Supervisory Board

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

By the close of December 31, 2018, no changes were made in the composition of the Supervisory Board, meaning that the target of 0 % that had been set was then also achieved.

Female target quota for the Management Board

At its meeting on March 6, 2017, the Supervisory Board of the Company decided to again set a target of 0% for the proportion of women on the Management Board for the period up to the close of December 31, 2021 following the initial setting of such target for the period up to December 31, 2016. In doing so, the main consideration here, too, was that, whilst staffing the Management Board should consider gender-specific diversity, it was recognized 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, early for three further years and thus until March 2020. The Supervisory Board also took account of its decision of February 28, 2018 to extend the term of office of the Management Board member Mr. Hans Pol, originally due to run until June 30, 2018, along with his Management Board Service Agreement, early for three years until June 30, 2021. Currently, there are no plans to make any changes in personnel on the Management Board or to increase the size of the Management Board again.

By the close of December 31, 2018, no changes were made in the composition of the Management Board, meaning that the target of 0% that had been set was then also achieved.

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

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

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

By the close of December 31, 2018, the proportion of women at the first executive level was one third, meaning that the target of 30% that had been set was achieved.

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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.

Management Board Compensation

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

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

Members of the Management Board also receive variable compensation (performance-based bonus) if specific targets are met. The targets to reach in financial year 2018 were the amounts budgeted for consolidated sales (based on the budgeted exchange rate for the Canadian dollar to the euro), underlying gross margin, and underlying EBITDA, and each target was tied to one-fourth of the bonus. In other respects the decision is at the discretion of the Supervisory Board.

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

With the beginning of the 2014 financial year, the Supervisory Board of the Company implemented a virtual stock option program (SAR Plan 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. Mr. Hans Pol received a tranche of the fourth SAR Plan in connection with the extension of his employment agreement (SARP 2018–2021 or TR 1). Mr. Marcus Binder, who was appointed to the Management Board by resolution of September 14, 2016 effective as of March 1, 2017 until February 28, 2020, will receive a tranche of the third SAR Plan (SARP 2017–2020) under his employment agreement. 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. Further information about the SAR Plan can be found under "Share Option Programs" on page 47 of this Annual Report.

The members of the Management Board also receive certain fringe benefits. We provide a company car to the members of the Management Board. We also pay the premiums for accident, pension, and life insurance for the members of the Management Board every year up to a maximum of € 10,000.00 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 2018

Members of the Management Board received € 1,984,595 in total compensation in financial year 2018. The compensation for financial year 2018 includes their base salaries, benefits, variable profit- and performance-based pay, the expenses for the SAR plan, and the premiums for accident, pension and life insurance. This figure includes all amounts that were paid out or set aside in the 2018 consolidated financial statements, less the amounts already set aside as of December 31, 2017 (benefits granted).

The compensation of the Management Board members is shown individually pursuant to the recommended sample tables in the German Corporate Governance Code. Table 1 shows the benefits granted in financial year 2018, while Table 2 shows the amounts paid. Because the LTIP and the SARP do not provide for any maximum amounts of compensation, no maximum amounts are shown, notwithstanding the recommendation in the German Corporate Governance Code.

TABLE 1 – BENEFITS GRANTED TO MEMBERS OF THE MANAGEMENT BOARD 2018 * in €

	Dr. Peter Podesser			Hans Pol			Marcus Binder		
	CEO/Chairman			(Industry)			(Defense & Security)		
	since 11/01/2006			since 01/01/2014			since 03/01/2017		
Benefits	2017	2018	2018 (Min)	2017	2018	2018 (Min)	2017	2018	2018 (Min)
Fixed Income	350,000	350,000	350,000	180,000	189,998	189,998	150,000	180,000	180,000
Fringe Benefits	24,145	23,358	23,358	17,866	28,568	28,568	19,520	21,859	21,859
Total	**374,145**	**373,358**	**373,358**	**197,866**	**218,566**	**218,566**	**169,520**	**201,859**	**201,859**
One-year variable compensation	264,000	186,598	0	42,000	68,148	0	54,542	68,502	0
Multi-year variable compensation	259,263	647,502	0	0	133,887	0	113,213	86,175	0
SAR Programm	259,263	647,502	0	0	133,887	0	113,213	86,175	0
Total	**897,408**	**1,207,458**	**373,358**	**239,866**	**420,601**	**218,566**	**337,275**	**356,536**	**201,859**
Service costs	0	0	0	0	0	0	0	0	0
Total	**897,408**	**1,207,458**	**373,358**	**239,866**	**420,601**	**218,566**	**337,275**	**356,536**	**201,859**

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

TABLE 2 – ALLOCATION OF MANAGEMENT BOARD COMPENSATION 2018 (AMOUNTS DISBURSED) in €

	Dr. Peter Podesser		Hans Pol		Marcus Binder	
	CEO/Chairman		(Industry)		(Defense & Security)	
	since 11/01/2006		since 01/01/2014		since 03/01/2017	
Allocation	2017	2018	2017	2018	2017	2018
Fixed Income	350,000	350,000	180,000	189,998	150,000	180,000
Fringe Benefits	24,145	23,358	17,866	28,568	19,520	21,859
Total	**374,145**	**373,358**	**197,866**	**218,566**	**169,520**	**201,859**
One-year variable compensation	150,000	169,462	0	52,433	0	57,231
Multi-year variable compensation	0	0	0	0	0	0
SAR Programm	0	0	0	0	0	0
Total	**524,145**	**542,820**	**197,866**	**270,999**	**169,520**	**259,090**
Service costs	0	0	0	0	0	0
Total	**524,145**	**542,820**	**197,866**	**270,999**	**169,520**	**259,090**

Share Option Programs

With the beginning of the 2014 financial year, the Supervisory Board of the Company implemented a virtual stock option program (SAR Plan 2014–2016) to align the interests of the shareholders with those of the members of the Management Board. The SAR Plan 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. Mr. Hans Pol received a tranche of the fourth SAR Plan in connection with the extension of his employment agreement (SARP 2018–2021).

Mr. Marcus Binder, who was appointed to the Management Board by resolution of September 14, 2016 effective as of March 1, 2017 until February 28, 2020, received a tranche of the third SAR Plan (SARP 2017–2020) under his employment agreement. This also applies to the extension of the employment agreement of Management Board Chairman Dr. Peter Podesser, whose employment agreement was extended early for another three years until 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. An upper limit to the number of SARs to be allocated is set in advance and is reduced at predetermined dates if the Company's stock price falls below certain thresholds. The SAR will last seven years. The SARs are first eligible for exercise after a four-year vesting period, at which point a portion of the SARs issued can be exercised against payment of a strike price of € 1.00 per SAR, provided certain predefined profit targets have been met.

The terms of the SAR Plan 2014–2016, 2015–2018, 2017–2020 and 2018–2021 are as follows:

MAIN TERMS OF THE SAR PROGRAM 2014–2016, 2015–2018, 2017–2020 AND 2018–2021	
Date of Issuance	January 1, 2014 (Hans Pol TR 1); April 1, 2014 (Dr. Peter Podesser TR 1); July 1, 2015 (Hans Pol TR 2); March 1, 2017 (Marcus Binder TR 1); April 1, 2017 (Dr. Peter Podesser TR 2); July 1, 2018 (Hans Pol TR 3)
Term	7 years
Waiting period	4 years (Hans Pol TR 1); 4 to 6 years (Dr. Peter Podesser TR 1 and TR 2); 4 to 6 years (Hans Pol TR 2); 4 to 6 years (Marcus Binder TR 1); 4 to 6 years (Hans Pol TR 3)
Cut-off dates	January 1, 2015 (Hans Pol TR 1); April 1, 2015, April 1, 2016 and April 1, 2017 (Dr. Peter Podesser TR 1); September 1, 2015, July 1, 2016, July 1, 2017 and July 1, 2018 (Hans Pol TR 2); April 1, 2018, April 1, 2019 and April 1, 2020 (Dr. Peter Podesser TR 2); March 1, 2018, March 1, 2019 and March 1, 2020 (Marcus Binder TR 1); July 1, 2019, 2020, 2021 (Hans Pol TR 3)
Strike price	€ 1.00
Performance targets (stock market price targets) for tranches until 2016	Stock exchange price increase in respect of stock exchange price at day of issuance and better development than benchmark (ÖkoDAX)
Performance targets (stock market price targets) for tranches starting 2017	Stock exchange price increase in respect of stock exchange price at day of issuance

Compensation of the Supervisory Board

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

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

The compensation of the individual Supervisory Board members in financial year 2018 was as follows:

FINANCIAL YEAR 2018	in €
Tim van Delden, Chairman	50,000
David Morgan, Vice Chairman	37,500
Hubertus Krossa, Supervisory Board Member	25,000
Total	**112,500**

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

GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2017

BASIS OF THE GROUP

The Group's Business Model

Organizational structure of the Group and locations

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

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

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

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

Segments, sales markets, products and services

In financial year 2018, the Management Board manages the Group based on the "Defense & Security", "Industry", "Oil & Gas", and "Clean Energy & Mobility" segments. These segments represent the Group's most important sales markets. The previous year's figures from the "Oil & Gas", "Security & Industry" and "Consumer" segments have been allocated in line with the new segmentation to ensure comparability.

The corporate purpose of SFC Energy AG is the development, production and distribution of power generation systems and their components for off-grid and on-grid applications based on fuel cells and other technologies, as well as investment in the equipment and facilities required for these activities and transaction of all other related business. The 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. SFC is the first company in the world with mass-produced commercial products in the area of direct methanol fuel cells (DMFC) for multiple target markets.

In the "Defense & Security" segment, SFC Energy AG generates sales in the Defense & Security market. The "Defense & Security" market includes defense and security applications for military organizations and government authorities. The product portfolio for this market also includes the portable JENNY, the vehicle-based EMILY, the SFC Power Manager and network solutions. In addition to these products, a further portion of sales and other service revenues are generated by joint development agreements (JDAs) with military customers from Europe, Asia and the United States.

The “Clean Energy & Mobility” segment is highly diversified. It firstly includes any area of industry where professional users run electrical equipment away from the grid and use SFC’s EFOY Pro fuel cell. This includes applications in security and surveillance, traffic management, and the wind power industry. Secondly, SFC sells compact fuel cell generators in the Consumer segment under the EFOY COMFORT brand to generate electricity for mobile homes, sailboats and cabins through established commercial channels (wholesalers, retailers and OEMs).

PBF develops and manufactures reliable high-tech power supply systems. This technology-oriented company works closely with its customers to develop tailor-made 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 up to tens of thousands of units per year. PBF’s products are used in the fields of analytical systems, research and science, industry, defense and security, 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 “Industry” segment.

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

Objectives and strategies

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

In addition, SFC is entering into hydrogen technology through a development partnership agreement with a license agreement for a new H2 fuel cell generation with energy management. SFC AG will gain access to an existing product portfolio and with the new fuel cell it will expand its own range of services up to 100 kW over the medium term.

Steering system

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

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

As in financial year 2017, 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 € 5,667k was spent on R&D in financial year 2018 (prior year: € 5,282k), including costs related to joint development projects.

in k €	2018	2017
Expenses according P&L before depreciation of purchase price allocation for PBF	**3,525**	**3,704**
Expenses for Joint Development Agreements	443	377
Capitalized Development Costs	1,384	767
Assistance from Government Funding	315	247
Amortization of intangible assets recognized in purchase price allocation for PBF	0	188
Expenses from R&D	**5,667**	**5,282**

We capitalized € 1,384k in development work in 2018, versus € 767k the year before. The reason for the increase over the prior year was the capitalized development costs for the laser platform at PBF and EFOY 3.0 at SFC AG. Amortization of capitalized development costs is reported as production costs of work performed to generate sales. Impairment charges on capitalized development costs at PBF in the amount of € 23k (prior year: € 6k) were included in the financial year. No further amortization of intangible assets was recognized in the purchase price allocation for PBF (prior year: € 188k). The share of capitalized development costs in total research and development costs (capitalization rate), not including the write-downs on the purchase price allocation for PBF was therefore 24.4 % (prior year: 15.1 %).

Fifty-six employees (20 at SFC, 33 at PBF and 3 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 20 granted patents (prior year: 19).

The focus of SFC AG's research and development activities was as follows in financial year 2018:

- Development of product generation EFOY 3.0.
- Development of a battery management system (BMS) for lithium batteries for optimized connection of the new product generation.
- The Company continued to make quality improvements to its series products.
- Ongoing improvement, further development and portfolio expansion of energy solutions for industrial use.
- Further research to increase the performance and reduce the cost of coming EFOY generations was carried out.

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

- In 2018, the 3.5 kW laser power supply (LAPS3500) received all necessary certifications. The product has been approved and is in mass production.
- Based on 3.8 kW power supply, a laser system was developed in 2018. Certifications are scheduled for the first half of 2019.
- In the 2018 financial year, different prototypes of power supply for the aviation industry were delivered. The product has now been approved and is in mass production.
- The development of a 2.5 kW power supply for the laser market was completed. Final tests for the release of the product are taking place. It is scheduled to be released in the first quarter of 2019.
- The first prototypes for a 21 kW laser platform are under development. The approval for mass production is planned for the start of 2020.

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 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).

ECONOMIC REPORT

Macroeconomic and sector-based background conditions

Global economy slowing down

According to the ifo Institute's assessment[1] in its economic forecast in December 2018, global economic growth has slowed considerably since the third quarter of 2018. However, the institute sees the overall upswing in the global economy continuing despite this weaker growth, as capacity utilization remains on the rise in most economies. The tariff increases gradually introduced by the US since the start of 2018 and the resulting counter-tariffs imposed by its trading partners are now affecting goods with a volume of around USD 450 billion. As the proportion of products subject to tariffs remains relatively low at 2.5 % of overall trade, experts are so far still assessing the economic impact of the trade conflict as minor. This is also demonstrated by ongoing buoyant trading activity in Asia, which accounts for almost 70 % of trade with emerging economies. By contrast, a significant decline in trading activity can be observed in advanced economies due mainly to lower levels of cross-border trade in goods within the euro region. In addition to the downturn in the economy in some Member States, the problems in the German automotive industry may also have contributed to this decline. Overall, the institute expects global gross domestic product for 2018 to rise by 3.2 %. Growth of 2.9 % and 2.8 % is anticipated for 2019 and 2020 respectively.

German economy grows more slowly than expected

According to the Federal Ministry for Economic Affairs and Energy (BMWi[2]), in a turbulent external environment and despite disruption to production and sales in the German automotive industry the German economy recorded solid growth, adjusted for inflation, of 1.5 % in 2018, following 2.2 % in 2017, a record year. According to the experts, the impetus came primarily from the domestic economy; given the less dynamic global economy, exports rose more slowly than in the previous year and also more slowly than imports, which were supported by the strong domestic economy. Private and government consumption climbed appreciably but less significantly than in the previous year. Besides investment in equipment and buildings, the discernible increase in passenger car registrations again as of October also contributed to the growth in gross investment. The WLTP problem initially led to increased inventories in the automotive industry.

The BMWi believes the economy will continue to expand in 2019.

The ifo Institute expects decelerated growth in gross domestic product of just 1.1 % in 2019. Adjusted for calendar effects, a rise of 1.3 % is expected for 2020.

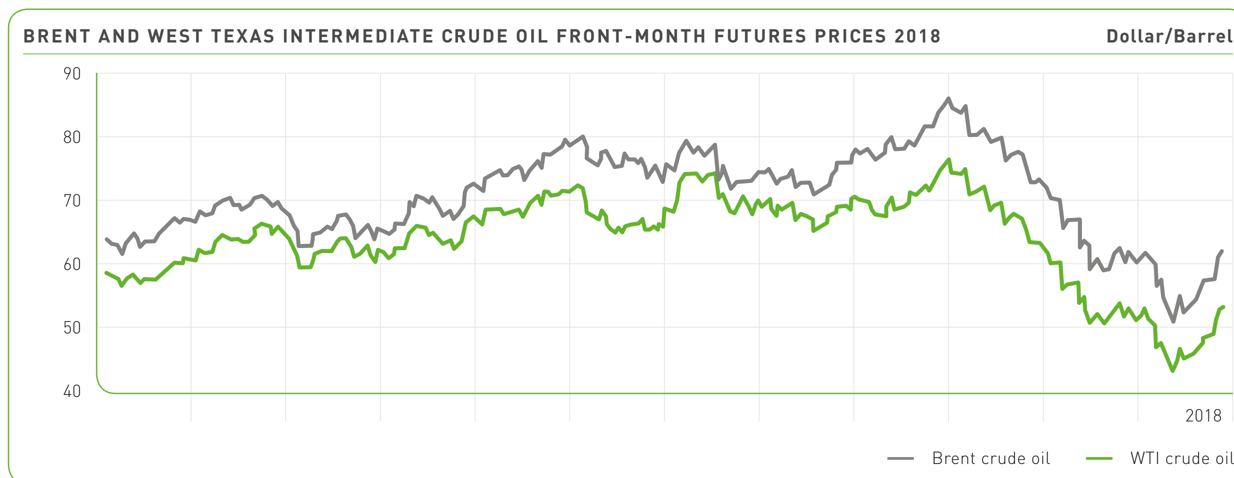
1 ifo Economic Forecast Winter 2018, "German Economy Cools Down", December 13, 2018
2 BMWi, press release, "The economic situation in Germany last year: solid growth in 2018", January 15, 2019

Oil & Gas segment

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), we draw on data on the international oil and gas markets.

Canada, Simark's domestic market, is the world's fifth-largest producer of natural gas and sixth-largest producer of crude oil. According to the Canadian Association of Petroleum Producers (CAPP)[3], Canada has crude oil reserves of 170 billion barrels, 164 billion of which are in oil sands. Canada is thus the country with the third-largest reserves worldwide, behind Venezuela and Saudi Arabia. The country's oil and gas industry complies with strict environmental legislation and, according to its association, is the technology leader. The association puts the industry's total investment for 2018 at CAD 49 billion. This represents a slight increase compared with CAD 44 billion in 2017, but is still 49 % lower than the investments of CAD 81 billion made in 2014. In particular, the association sees a need for investment in the area of transport and infrastructure, primarily in the expansion of existing and construction of new pipelines.

Oil price and storage



Source: EIA[4] – Brent and WTI front-month futures 2018

According to the U.S. Energy Information Administration (EIA), prices for Brent crude oil averaged USD 71/barrel (b) in 2018 and were thus up USD 17/b on 2017. In October 2018, the Brent variety reached its high for the year at USD 86/b and thus also its highest level since October 2014. However, the price fell to around USD 50/b by the end of the year as a result of global inventory draws, record production figures in the three largest oil supplying countries, the USA, Russia and Saudi Arabia, and uncertain forecasts regarding global demand in 2019. The administration expects an average Brent price of USD 61/b for 2019 and USD 65/b for 2020. On average, the West Texas Intermediate (WTI) crude oil price is expected to be USD 8/b lower than the price of the Brent variety in the first quarter of 2019; this difference is expected to decrease to USD 4/b by the fourth quarter and then to remain at this level in 2020.

Inventories grew by 0.4 million b/d in 2018. The EIA experts anticipate that inventories will increase by 0.2 million b/d in 2019 and 0.4 million b/d in 2020. The reasons cited for this are the expected rise in US production and only moderate declines in OPEC production.

3 CAPP website as of January 20, 2019
4 EIA, "Short-Term Energy Outlook", January 15, 2019

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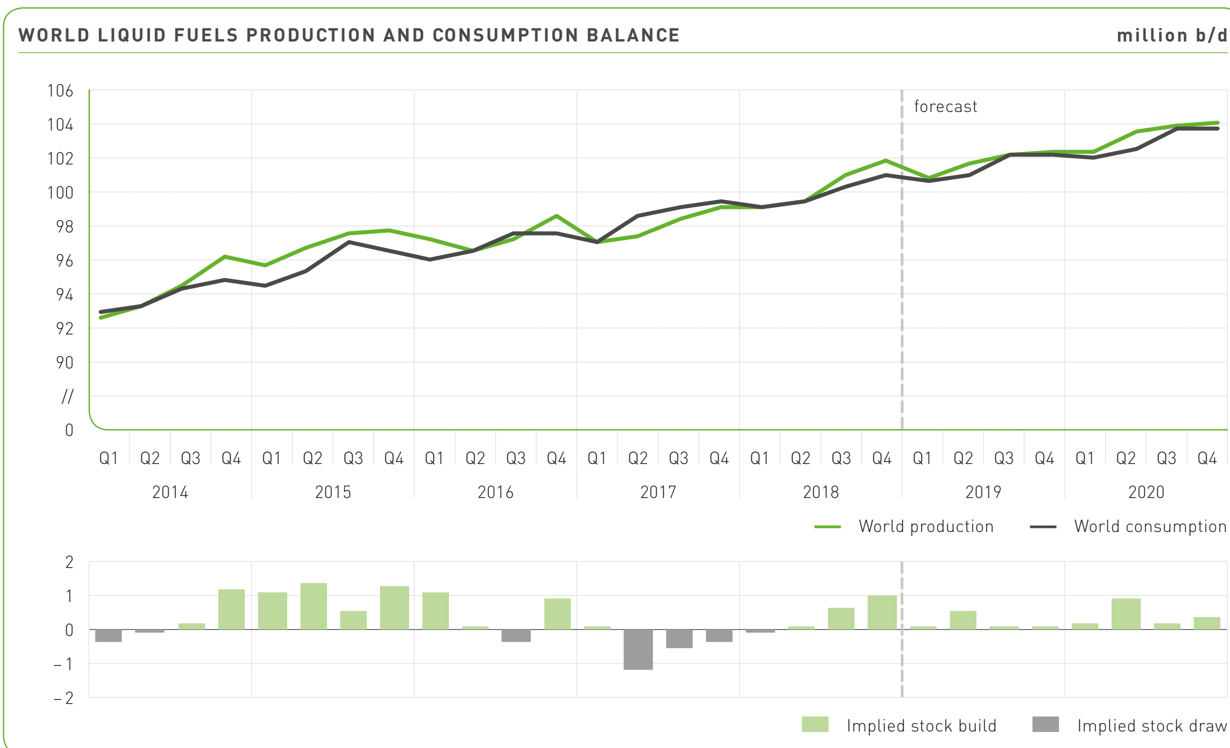
Production and demand

Global production of liquid fuels amounted to 100.4 million b/d in 2018. Consumption averaged 100.0 million b/d, corresponding to a rise of 1.4 million b/d year on year. According to the administration's assessment, global production should average 101.8 million b/d in 2019. Experts expect average global demand of 101.5 million b/d in 2019.



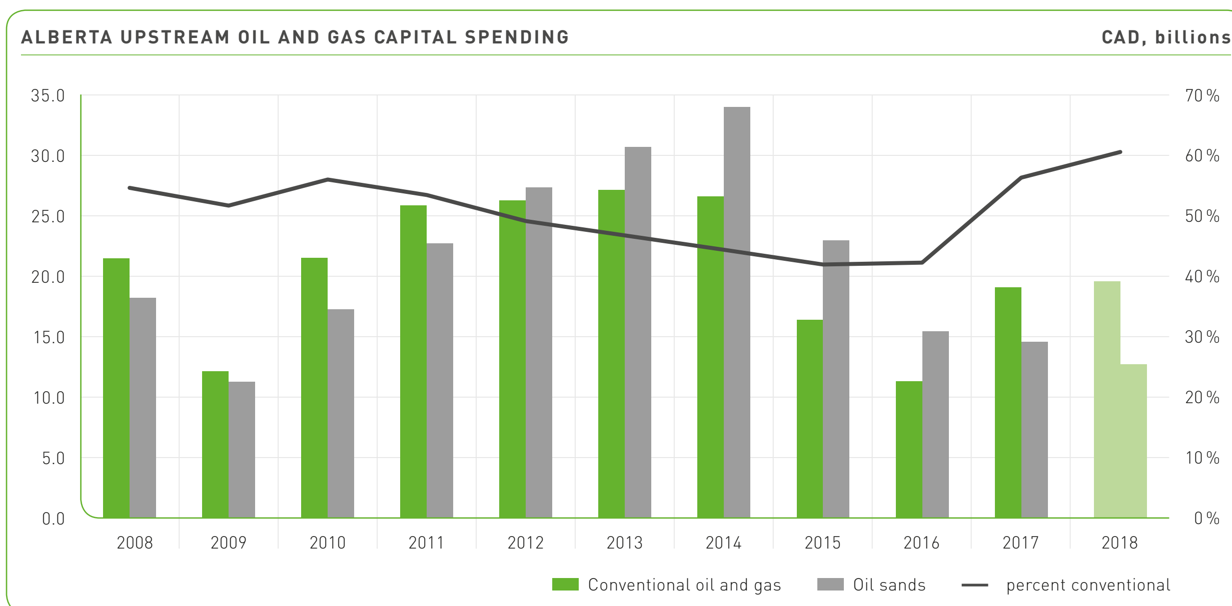
Source: EIA[5] – supply/demand forecast

5 ibid.

Canada[6]

In Canada, the divergence between production and export capacity in the final quarter of 2018 had a considerable impact on the Canadian oil price benchmarks. Due to maintenance work at refineries higher production volumes from oil sands projects increased the quantities stored in Alberta to around 35 million barrels. Lower refinery usage rates in the Midwest, where almost 70 % of Canadian crude oil exported to the US is processed, caused substantial disruption to crude oil exports into the country. Although the situation stabilized again as refinery operations normalized at the end of 2018, it has not yet been possible to reduce the delay in supply. As a result, the Alberta government ordered production cutbacks to take effect in January 2019 in order to reduce production by 0.3 million b/d until the stored quantities are decreased, which should be the case toward the end of the first quarter of 2019. The production cutbacks should subsequently be scaled back to 0.1 million b/d by the end of December 2019. The production cutbacks are also expected to have an effect on drilling activities.

The EIA[7] thus anticipates that production in Canada will decrease by 0.1 million b/d in 2019. Production is expected to increase to 0.2 million b/d again in 2020. Growth in Canada will chiefly be driven by oil sands projects. Despite the fact that 85 % of Canadian production is derived from oil sands, the analysts at Deloitte are also observing increased investment in conventional oil production projects. In 2018, 60 % of total investments reportedly flowed into maintaining and modernizing conventional projects.



Source: Deloitte Resource Evaluation & Advisory[8] – Canada investments

6 Deloitte Resource Evaluation & Advisory, "Oil and gas price forecast", December 31, 2018
7 EIA, "Short-Term Energy Outlook", January 15, 2019
8 Deloitte Resource Evaluation & Advisory, "Oil and gas price forecast", December 31, 2018

Clean Energy & Mobility segment

a) Fuel cells

According to the strategic consulting firm E4tech[9] in its "Fuel Cell Industry Review 2018," the international fuel cell industry continued to grow in 2018. According to the experts' calculations, 74,000 fuel cell units were sold worldwide with a total output of over 800 MW. This corresponds to an overall increase of around 4,000 fuel cells and a 145 MW increase in output. However, the experts rated the increases in output and cost reductions implemented in 2018 as well as the creation of supply chains for fuel cell production as more significant than this volume growth. Overall, E4tech is observing increasing consolidation and professionalization within the industry as well as renewed, increased interest in fuel cell solutions and a greater propensity toward subsidies in markets and among politicians. The vehicle sector remains the strongest driver of growth with the trend toward electromobility, followed by stationary applications. In terms of portable applications, the areas of telecommunications and defense as well as demand for hybrid and backup solutions using fuel cells are exhibiting the strongest growth. For 2019, the strategic consulting firm sees impetus for further growth in the renewed interest in the potential of hydrogen technology, increased environmental awareness, particularly in the transport sector, further increases in fuel cell output and new combined business models for fuel cells.

b) Caravaning

According to the European Caravan Federation (ECF)[10], 2018 was another record year for the German caravaning industry. In 2018, the European market for motorhomes and caravans posted a further increase of 7 %. New registrations of recreational vehicles rose by 6.7 % to 202,611 vehicles, surpassing the 200,000 mark again for the first time since 2007.

According to the federation, Germany was the frontrunner in Europe once again. With 71,186 newly registered motorhomes and caravans, registrations were up 12.5 % in Germany. The UK remained the second-largest market in Europe with 35,743 new vehicle registrations despite suffering a decline of 6.2 %, which the federation attributed to Brexit uncertainty. Apart from this special case and minimal declines in Switzerland, all European countries reported rising new vehicle registrations, such as in Italy (+ 17.3 %), Spain (+ 16.9 %), France (the second-largest market in Europe; + 8.6 %) and the four Scandinavian countries (between + 6.6 % and + 10.5 %).

The strong growth was once again supported by new motorhome registrations. In 2018, they rose by 12.8 % in Europe as a whole to 124,931 new vehicles, thus reaching a new record. In Germany, 46,859 new motorhomes were registered, representing a further increase of 15.5 %. At 77,680, new caravan registrations in Europe remained almost unchanged against the record year in 2017; the slight drop of – 1.7 % was due to the UK, where sales fell by 11.9 %. Germany overtook the UK for the first time with 24,327 newly registered caravans, an increase of 7.2 %.

9 E4tech, "The Fuel Cell Industry Review 2018", December 2018
10 ECF, press release, "Highly successful year for the European leisure-vehicle industry", January 14, 2019

c) Marine market

During the "boat 2019" trade fair, the German Marine Industry Association (BVWW) [11] reported total sales of maritime goods and services of around € 2.1 billion, a rise of 2.9 % year on year. The association sees the upward trend continuing on an international level, too, thanks to stable economic conditions. Strong trends in this market are improvements in the comfort and maneuvering characteristics of boats as well as increasing requirements for onboard electrification and digitalization. Optional extra equipment is becoming an increasingly important driver of sales and profits. Accordingly, the "equipment and accessories" submarket, which is relevant for SFC Energy's fuel cell products, was able to maintain its favorable prior-year result again.

Industry segment

Power electronics and switched mode network components

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

In its most recent outlook the ZVEI [12] reported a volume of € 4,223 billion for the global electronics market in 2017, which represents growth of 6 %. The association anticipates growth for 2018 and 2019 of 5 % and 6 % respectively. At 9 %, growth in the electronic components submarket was stronger than in the market as a whole in 2017. A further increase of 6 % is expected for 2018, followed by weaker growth of 4 % in 2019.

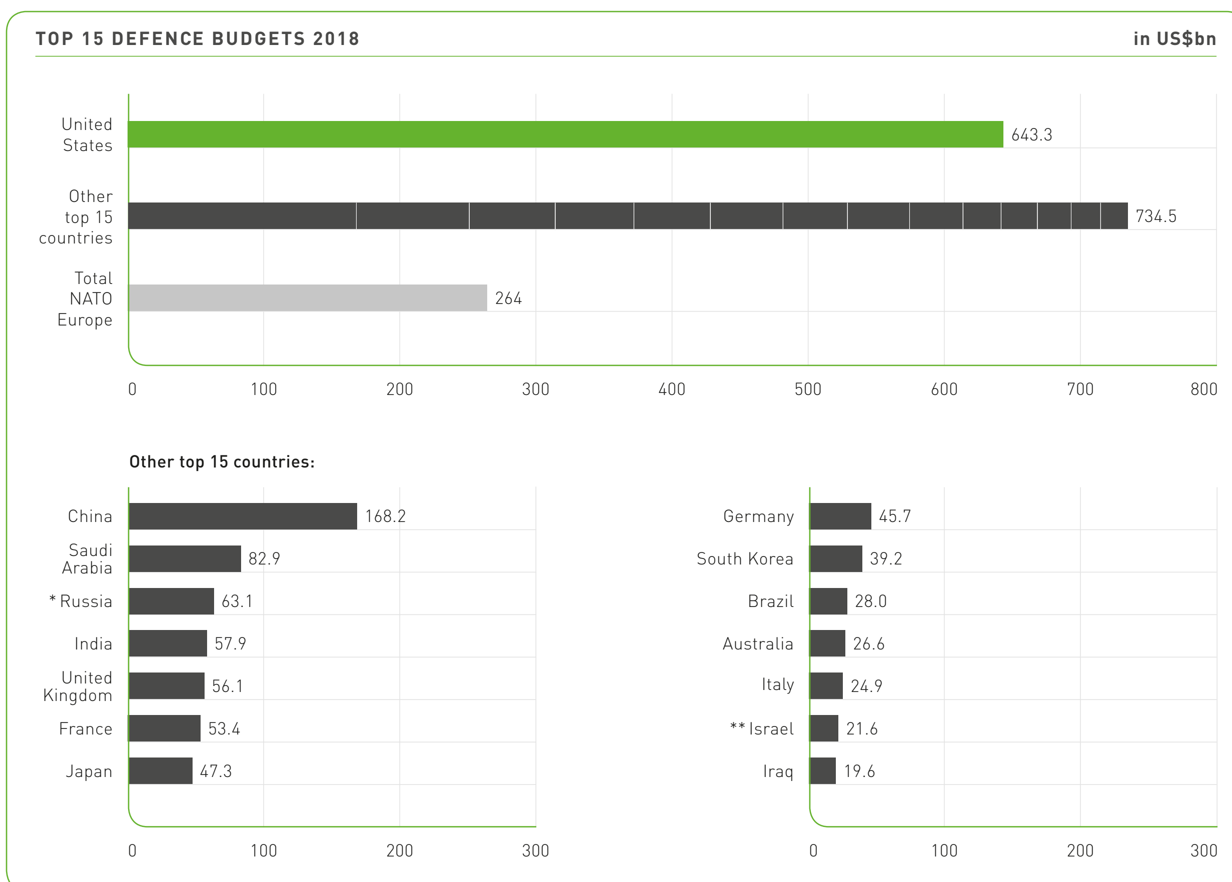
According to the association [13], real production (with price effects eliminated) in the electronics industry in Germany increased from January to November 2018 by 2.8 % over the previous year. The ZVEI's expectations are thus likely to be met by an increase of 3 % for 2018 as a whole. According to preliminary calculations, sales rose by 2.8 % to € 197 billion in 2018 [14]. New orders climbed only slightly by 0.5 % in the period from January to November, with orders from inside Germany decreasing by – 0.5 % and orders from outside Germany rising by 3.0 %. According to the ZVEI, the sector's sentiment indicators have turned gloomy for 2019. Slower growth momentum is compounded by global risks such as trade conflicts, declining growth in China, volatile oil prices, Brexit and the situation in Italy and Turkey. The association anticipates that production in the sector will grow by 1 % in 2019 after adjustment for price effects.

In the "electronic components" submarket (in-house manufacturers and electronic manufacturing services providers) in Germany, the ZVEI reported in November 2018 [15] that sales for 2018 as a whole were forecast to rise by around 6 % to a new record level of almost € 22 billion, supported by strong demand in the automotive and industrial electronics sectors. At the time of compiling this report, only the 2017 figures were available for the "electromechanical components" submarket. According to these figures, the German market for electromechanical components grew by 4.9 % to € 3.5 billion in 2017.

11 BVWW, press release, "Wassersportwirtschaft wächst im 6. Jahr in Folge", January 10, 2019
12 ZVEI, "ZVEI-Welt-Elektromarkt – Ausblick bis 2019", July 31, 2018
13 ZVEI, ZVEI Business Cycle Report, January 8, 2019
14 ZVEI, ZVEI press conference: "Elektroindustrie bleibt auf Wachstumspfad", January 22, 2019
15 ZVEI, press release on electronica 2018, "Entwicklung der Märkte für elektronische Bauelemente positiv", November 14, 2018

Defense & Security segment

In their latest edition of "The Military Balance 2019" [16] the experts of the International Institute for Strategic Studies IISS consider the international security environment to be as uncertain as it has been the last years. Great-power competition still dominates contemporary Western policy discussions, but now not only Moscow alone is generating attention. The experts see an even bigger new challenge arising in China, as the country introduces yet more advanced military systems and pushes a strategy for more long distance operability. While Western armed forces are refocusing again on traditional security challenges, the number of disruptive conflict and instability instances is further increasing. Terrorist threats persist, e.g. in Africa, the Middle East or Yemen.



* Under NATO defence spending definition ** Includes US Foreign Military Assistance

NOTE: US dollar totals are calculated using average market exchange rates for 2018, derived using IMF data. The relative position of countries will vary not only as a result of actual adjustments in defence spending levels, but also due to exchange-rate fluctuations between domestic currencies and the US dollar. The use of average exchange rates reduces these fluctuations, but the effects of such movements can be significant in a number of cases.

Source: IISS [17] – Global Top 15 Defense Spending nations 2018

Defense spending of Europe's NATO members grew by 4.2% in 2018. After US President Trump, on the July 18 NATO summit, had announced independent American initiatives unless European allies started spending 2% of their GDP on defense immediately, the pressure on Europe will stay strong. An immediate implementation would mean that European NATO states would have to find an additional 102 billion USD.

16 IISS: "The Military Balance 2019", 14 February 2019
17 ibid.

Global defense spending in 2018 amounted to 1.67 trillion USD. This is an increase of more than 80 billion USD resp. 1.8 % over previous year, mainly caused by increased expenditure in the Western nations, especially the US, which contributed a lion's share of 45 % to this increase. In the US alone military spending grew by a breath-taking 5 %, almost equaling the complete German defense budget of 2018. 8 of the Top 10 defense spending nations are Middle East countries (Algeria, Iran, Iraq, Israel, Jordan, Kuwait, Oman and Saudi Arabia) ranging from 4 to 11 % of GDP.

Advanced military systems and technology continue to be strong defense trends. Armed forces are developing capabilities in new areas like cyber, space, robotics, directed energy and quantum technologies. Artificial Intelligence and civil-military integration are additional strong innovation drivers. The IISS experts see the Western innovation edge dwindling and recommend intensified efforts for progress, especially in the digital field.

For Germany the German Federal Defense Ministry reported an incremental increase of the German defense budget on the Ministry's webpage [18]. While in 2014 the target budget had still been at € 32.4 billion, it increased to approx. € 37 billion in 2017 and further to approx. € 38.5 billion in 2018. For 2019 it has been set at € 43.2 billion [19]. The increase is designed to move German defense spending in incremental steps towards the NATO Summit 2014 target of 2 % of the gross national product. As an important indicator for this reversal of the financial trend the BMVg quotes an increase in defense investment resources designed to free up the investment backlog of the past years and to maintain and further develop military capabilities.

BMVg military investment in research, development and testing of new technologies, including contribution to research institutes and military procurement, grew by 36.3 in 2019, an increase of 36.3 % compared to 2018. Investment in military facilities, including NATO infrastructures, and in the procurement of new devices and IT systems increased by 24.4 %.

18 BMVg Website, www.bmvg.de/de/themen/verteidigungshaushalt/entwicklung-und-struktur-des-verteidigungshaushalts, Stand 5. Februar 2019
19 BMVg Website, Einzelplan 14/2019 im Vergleich zum Haushalt 2018, Stand 5. Februar 2019

EARNINGS AND FINANCIAL POSITION

Earnings position

The SFC Group (the "Group") posted sales of € 61,704k in financial year 2018, for an increase of 13.7 % from the prior-year period's € 54,292k.

SFC AG generated sales of € 19,364k, and was thus 32.6 % above the prior year's level (€ 14,603k). This was particularly attributable to a significant increase in sales in the Defense & Security segment. More than double the sales were achieved here. In the Clean Energy segment, the year-on-year decrease was reduced to 4.6 % by the end of the year.

PBF had sales of € 16,314k, thus posting a clear 7.1 % increase over last year's figure (€ 15,230k). The primary reason for this increase was the healthy order book at customers of PBF and the introduction of new products at the platform level.

Simark recorded sales of € 26,026k, an increase of 6.4 % compared to 2017 (€ 24,458k). On a CAD basis, this was an increase of 11.0 %. The key reasons for this were increased spending in the Oil & Gas industry due to the recovery of crude oil prices.

In a comparison of the two financial years, EBIT for the Group improved from minus € 885k to plus € 1,325k. Thus, there was an improvement of € 2,210k.

The following non-recurring effects are not reflected in the underlying earnings in 2018:

- Expenses in the amount of € 818k from the recognition of provisions due to the SAR Plan of the Management Board (prior year: € 492k).

- Expenses for restructuring at PBF in connection with the further relocation of production capacity in Cluj, Romania, in the amount of € 410k (prior year: € 0k).

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

		in k€
	2018	2017
Earnings according to income statement or segment reporting (EBIT)	**1,325**	**– 885**
Sales costs		
Expenses for the Management Board SAR Plan	429	319
Impairment of intangible assets identified in acquisitions Simark	0	470
General administrations costs		
Expenses for the Management Board SAR Plan	389	173
Expenses from contract terminations Simark	0	100
Restructuring costs		
Expenses from contract terminations PBF	410	0
Underlying result (EBIT)	**2,553**	**177**
EBITDA	**2,478**	**862**
Sales costs		
Expenses for the Management Board SAR Plan	429	319
Impairment of intangible assets identified in acquisitions Simark	0	0
General administrations costs		
Expenses for the Management Board SAR Plan	389	173
Expenses from contract terminations Simark	0	100
Restructuring costs		
Expenses from contract terminations PBF	410	0
Underlying result (EBITDA)	**3,705**	**1,454**

A positive underlying EBITDA of € 3,705k was achieved in financial year 2018. In the same period in 2017, the positive underlying EBITDA amounted to € 1,454k. An improvement of € 2,251k was generated.

The Group’s sales and earnings figures were thus clearly within expectations and the forecast, which had assumed sales of € 60 million to € 64 million and significantly improved underlying EBITDA and an again significantly improved underlying EBIT.

Sales by Segment

The following table shows a comparison of segment sales for the 2018 financial year:

SALES BY SEGMENT			in k€	in %
Segment	2018	2017	Change	Change
Clean Energy & Mobility	9,353	9,801	–448	–4.6 %
Industry	16,314	15,206	1,108	7.3 %
Oil & Gas	26,026	24,458	1,568	6.4 %
Defense & Security	10,011	4,826	5,185	107.4 %
Total	**61,704**	**54,292**	**7,412**	**13.7 %**

The "Oil & Gas" segment consists exclusively of sales generated by Simark through the distribution and integration of products for the Oil & Gas market in North America. Sales increased from € 24,458k to € 26,026k due to the increased spending in the Oil & Gas industry due to the recovery of oil prices. Simark executes its transactions almost exclusively in CAD. On a CAD basis, sales were increased from € 35.9 million to € 39.8 million. Particularly strong growth was achieved in high-margin business with EFOY applications with our customers from the oil and gas sector. Sales in this area represented more than 12 % of product sales in this segment.

Sales in the "Industry" segment rose by 7.1 % to € 16,314k in 2018. This increase was chiefly due to sales growth and strong demand among new and existing customers throughout the entire calendar year. Further relocation of production capacity to the plant in Cluj, Romania, as well as the downsizing of production staff in Almelo, Netherlands, was concluded at the end of the third quarter of 2018. The focus continues to be on improving margins on the purchasing side and sales side while at the same time scaling sales based on the High Power Standard Platform technology.

At € 9,353k, sales in the "Clean Energy & Mobility" segment were down 4.3 % compared to the same period of the previous year. This was attributable to a major order from Singapore in the first quarter of 2017. However, the backlog steadily decreased during the calendar year. Not including sales from Singapore, the Industrial Applications sub-segment recorded an increase of 15 %.

Business in the "Defense & Security" business is a year-end business. As previously reported, in 2018 a major order from the German armed forces with a total volume of € 3.6 million was already recognized in sales in the first three months. Furthermore, in the fourth quarter, sales of € 3.5 million were generated in this segment.

Internationalization was driven forward in particular in India and the UK.

Overall, the segment closed the quarter with sales of € 10,011k, thus doubling the previous year's figure of € 4,826k.

Sales by Region

Sales by region evolved as follows:

SALES BY REGION			in k€	in %
Region	2018	2017	Change	Change
North America	26,333	24,755	1,578	6.4 %
Europe (without Germany)	19,151	17,262	1,890	10.9 %
Germany	12,171	6,539	5,632	86.1 %
Asia	3,528	5,303	– 1,775	– 33.5 %
Rest of the world	521	434	87	20.1 %
Total	**61,704**	**54,292**	**7,412**	**13.7 %**

The increase in sales in North America, the company's highest-revenue market, resulted from increased spending in the oil & gas business in Canada in financial year 2018.

In the European market (not including Germany) PBF generated sales of € 12,852k (prior year: € 11,744k), while SFC AG posted sales of € 6,299k (prior year: € 5,517k).

In Germany, SFC AG's sales increased from € 4,232k to € 9,578k in financial year 2018. PBF contributed sales of € 2,593k in Germany (prior year: € 2,307k).

Germany's share of sales increased from 12.0 % to 19.7 % during financial year 2018 due to the strong "Defense" business.

PBF's sales in Asia amounted to € 773k (prior year: € 1,024k). A decrease to € 2,755k (prior year: € 4,279k) due to the order from Singapore mentioned above was recorded in Asia at SFC AG.

Sales in the rest of the world amounted to € 521k (prior year: € 434k).

Gross Profit

Gross profit in financial year 2018 was € 21,082k, or 34.2 % of sales. This is an improvement over the prior year of 1.5 percentage points. In the prior year, gross profit amounted to € 17,726k or 32.6 % of sales.

Gross margin improved in the "Oil & Gas" segment. An increase to 28.2 % was achieved. At 50.9 %, the "Defense & Security" segment almost reached last year's figure. The "Industry" posted a decline to 30.7 % as a result of expiring development sales and the continued expansion in Romania. A net margin of 39.0 % was generated in the "Clean Energy & Mobility" segment, which was below the previous year's level.

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

GROSS PROFIT			in k€	in %
Segment	2018	2017	Change	Change
Clean Energy & Mobility	3,647	4,235	– 588	– 13.9 %
Industry	5,005	5,133	– 127	– 2.5 %
Oil & Gas	7,335	5,829	1,506	25.8 %
Defense & Security	5,094	2,529	2,565	101.4 %
Total	**21,082**	**17,726**	**3,356**	**18.9 %**

The margin contribution in the "Defense & Security" segment improved by € 2,565k, due to higher sales. Similarly, gross income improved by € 1,506k in the "Oil & Gas" segment, but margins were also higher due to an increase in sales.

The margin contribution in the "Industry" segment was down by 2.5 %. Gross profit decreased in terms of amount in the "Clean Energy & Mobility" segment by € 588k over the prior year.

Overall, gross profit saw an increase of € 3,356k year-on-year.

Sales Costs

Sales costs increased by 10.3 %, from € 9,786k to € 10,792k. However, the increase was behind the 13.7 % increase in sales. Across the Group, the cost of sales as a percentage of sales dropped from 18.0 % to 17.5 %.

Cost of sales increased at the subsidiary SFC AG to € 5,480k, compared with last year's € 4,647k.

Sales costs at Simark amounted to € 4,160k (prior year: € 3,959k). The effects of the purchase price allocation will no longer apply after 2018.

Sales costs at PBF remained virtually constant at € 1,151k (prior year: € 1,180k).

Research and Development Costs

Research and development costs decreased by € 367k in financial year 2018 from € 3,892k to € 3,525k.

In 2018, SFC AG incurred lower costs of € 1,208k (prior year: € 1,312k) overall due to significantly higher capitalization.

Research and development costs at PBF amounted to € 2,110k and were thus less than in the prior year (€ 2,371k). This was due to capitalizable expenses for the development of the laser platform.

Simark had research and development costs of € 207k (prior year: € 209k).

General Administration Costs

General administration costs increased by 4.3 %, from € 5,016k to € 5,230k. They were therefore 8.5 % of sales versus 9.2 % the year before.

Other Operating Income

Other operating income of € 320k (prior year: € 277k) contains insurance compensation of € 252k as the largest item and income from exchange rate differences of € 32k. In the prior year, the figure included insurance compensation of € 140k and income from exchange rate differences of € 77k.

Other Operating Expenses

Other operating expenses amounted to € 119k in 2018, resulting from expenses from exchange rate differences (prior year: € 194k).

Restructuring Costs

The restructuring expenses of € 410k (previous year: € 0k) consist entirely of costs relating to the job cuts at PBF as a result of the relocation of production to Cluj, Romania.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

EBITDA improved significantly year-on-year, from plus € 862k to plus € 2,478k. EBITDA in relation to sales increased from plus 1.6 % to plus 4.0 %. Adjusted to eliminate the one-off effects mentioned above, EBITDA amounted to plus € 3,705k (prior year: plus € 1,454k) or plus 6.0 % (prior year: plus 2.7 %) in relation to sales.

Operating Loss (EBIT)

EBIT for the Group improved from minus € 885k to plus € 1,325k in 2018. EBIT in relation to sales improved from minus 1.6 % to plus 2.1 %. Adjusted to eliminate the one-off effects mentioned above, EBIT amounted to € 2,553k (prior year: plus € 177k) or plus 4.1 % (prior year: plus 0.3 %) in relation to sales.

Interest and Similar Income

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

Interest and Similar Expenses

Interest and similar expenses in the amount of € 737k (prior year: € 1,175k) include interest paid to lending institutions and investors, and expenses from the interest cost added back on discounted provisions and liabilities.

INTEREST AND SIMILAR EXPENSES		in k €
	2018	2017
Financing costs Harbert	449	284
Banks	240	241
Convertible Bond	0	332
Financing Private Investor (secured loan)	0	278
Interest costs on provisions and others	47	40
Total	**737**	**1,175**

Income from Investments

There was no income from investments (prior year: € 25k).

Consolidated Net Result

The consolidated result for financial year 2018 improved to minus € 1k, from minus € 2,072k in the prior year. The one-off effects described above in the total amount of € 1,227k (prior year: € 1,061k) are included in the financial year 2018.

Earnings per Share

Undiluted and (diluted) earnings per share pursuant to IFRS improved from minus € 0.23 (minus € 0.23) to € 0.00 (€ 0.00) because of the improved result for the year.

New Orders and Order Backlog

While new orders in the amount of € 56,068k were received in financial year 2017, new orders of € 57,263k were received in 2018.

Accordingly, the order backlog in the Group relating to the reporting date decreased to € 14,187k (prior year: € 18,628k) as of December 31, 2018. Of this amount € 1,831k (prior year: € 4,425k) was attributable to SFC AG, € 10,105k (prior year: € 9,966k) to PBF, and € 2,251k (prior year: € 4,237k) to Simark.

Financial position

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

Capital Structure

SFC's strategic orientation, and especially its chosen strategy, will require further investments that will have to be financed to ensure future business success – particularly in product development, the tapping of further market segments and new regions, and expanding the business in existing market segments. The funds that flowed to the company in connection with the public offering in May 2007, the cash capital increase in 2014, the convertible bonds in 2015 and 2016, the capital increases in 2016, 2017 and 2018, the issue of a secured loan and the warrant-linked bond in 2016, and the bearer bond with warrant issue in 2017 were acquired for these investments. Until used, excess liquidity is invested with various banks in low-risk securities (e.g., call and time deposits).

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

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

Corporate Action and Harbert Financing

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

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

The warrant-linked bond with a face value of € 2,500 and a maturity by 2022 bears interest at 4.0 % p. a. The issue price of the warrant-linked bond was set at 100 % of its face value. In addition, the warrant-linked bond offers option rights to 204,700 no-par-value shares of the Company's common stock with a notional amount of the Company's capital of € 1.00 per share at an option price of € 3.6639 per share.

This corporate action provided the Company with gross issue proceeds in the amount of € 5 million in 2017.

With an agreement dated June 11, 2018, the final maturity date was December 31, 2019, and the monthly repayment installments were adjusted accordingly. As of December 31, 2018, this financing was valued at € 2.596.765.

Corporate Action and Convertible Bond Financing

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

On December 20, 2017 the creditors exercised their conversion rights for a total face value of € 2,750k. A total of 450,780 no-par value bearer ordinary shares were thus issued at the end of December 2017.

On January 12, 2018 the creditors exercised their conversion rights for a total face value of € 550k. A total of 90,156 no-par value bearer ordinary shares were thus issued at the end of January 2018.

Thus, the convertible bonds issued with a total nominal value of € 3,300k were fully converted.

Cash Capital Increase

On June 15, 2018, SFC AG resolved a capital increase. As part of a private placement, 500,000 no-par value bearer shares were successfully placed with institutional investors. The placement price was set at € 8.44 per new share. This capital increase provided the Company with gross issue proceeds in the amount of € 4.22 million.

Available cash and cash equivalents amounted to € 7,520k at December 31, 2018 (prior year: € 4,408k).

The total current liabilities to banks amounted to € 4,585k at December 31, 2018 (prior year: € 4,010k). Non-current liabilities to banks amounted to € 1,710k (prior year: € 0k).

Simark

In connection with financing for the subsidiary Simark, comprehensive financial covenants were entered into with the lending banks depending on various threshold values at Simark, as were repayment clauses that apply in the event of a default. The following covenants and threshold values were agreed to for Simark at December 31, 2018:

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

The threshold values were met at December 31, 2018.

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

PBF

No financial covenants were agreed to with the financing bank in connection with the refinancing of the subsidiary PBF Holland via a factoring agreement.

On the basis of converting a partner loan of € 2,602k as of July 20, 2018, for which a subordination of € 2,350k had been given to the bank, FC AG declared conversion into capital surplus. SFC AG is the sole shareholder of PBF Holland.

PBF in Cluj, Romania has also restructured its financing. As of the reporting date on December 31, 2018, financial covenants and the debt and solvency ratio were complied with.

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

COMPANY'S EQUITY RATIO		in €
	12/31/2018	12/31/2017
Equity	**18,204,159**	**13,894,781**
As a percentage of total capital	43.3 %	40.2 %
Non-current liabilities	4,996,007	2,075,623
Current liabilities	18,864,823	18,563,477
Liabilities	**23,860,830**	**20,639,100**
As a percentage of total capital	56.7 %	59.8 %
Total capital	**42,064,990**	**34,533,882**

The Group's capital structure improved in 2018 due to the capital measures and the conversion of the bond. The Group still shows an equity ratio of 43.3 % (prior year: 40.2 %).

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

Capital Expenditures

Capital expenditures per segment were as follows:

	in k €
	2018
Industry	869
Clean Energy & Mobility	755
Defense & Security	558
Oil & Gas	192
Total	**2,373**

In financial year 2018, € 1,384k (prior year: € 767k) was capitalized for the further development of products. Capital expenditures were also made in software, machinery and equipment.

Total capital expenditures in 2018 came to € 2,373k (prior year: € 1,336k). Capital expenditures were financed with the Company's own funds or under existing loan agreements.

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

Cash and Cash Equivalents

There was a net cash outflow of € 3,111k (prior year: € 2,654k) in financial year 2018. Cash in the amount of € 2,005k (prior year: € 1,704k) was provided by operating activities in 2018.

At the end of December 2018, the Company had available cash and cash equivalents of € 7,520k (end of December 2017: € 4,408k). In addition, cash in the amount of € 286k (prior year: € 286k) was blocked in favor of a landlord.

There were current liabilities to banks in the amount of € 4,585k as of the reporting date (prior year: € 4,010k). Non-current liabilities to banks amounted to € 1,710k (prior year: € 0k). None of the covenants had been breached.

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

Simark:	line of credit CAD 4,000k,	of which drawn: CAD 2,341k
PBF in Cluj:	line of credit € 650k,	of which drawn: € 502k

Cash Flow from Operating Activities

Cash flow from operating activities of € 2,005k was recorded in the financial year 2018; cash flow amounted to € 1,704k in the prior year.

The primary cause of the inflow again in 2018 was the improved results for the year and the resulting positive operating cash flow before changes in working capital in the amount of € 3,164k (prior year: € 849k). However, set against this, material changes in working capital in inventories and trade receivables were recognized in financial year 2018, although the positive cash flow from operating activities mentioned above was achieved nonetheless.

Cash Flow from Investment Activity

Net cash used for investment activity totaled € 2,373k in the period under review (prior year: € 1,308k). The increase is primarily attributable to the spending on capitalized assets from development projects from € 767k in the prior year to € 1,384k in 2018.

Cash Flow from Financial Activity

There was a net cash inflow of € 3,479k from financial activity in 2018, in contrast to a net cash inflow of € 2,258k the prior year. In 2018, the cash inflow was mainly generated by the issue proceeds from the capital increase in the amount of € 4,220k. The change in funds from additions to and the repayment of financial debt and changes in current account liabilities was almost balanced (plus € 15k). Interest paid amounted to € 625k (prior year: € 842k).

Assets

Total assets as of December 31, 2018 increased by 21.8 % to € 42,065k compared to December 31, 2017 (€ 34,534k).

The equity ratio also increased due to the financing measures to 43.3 % (prior year: 40.2 %).

Inventories, trade accounts receivables and assets from contracts with customers increased by € 3,260k or 19.6 % in comparison with the prior year.

The most significant intangible assets are the goodwill of Simark in the amount of € 6,688k (prior year: € 6,941k) and PBF in an unchanged amount of € 1,179k (prior year: € 1,179k).

Other intangible assets in connection with the acquisition of Simark were no longer reported as in the prior year. As of the reporting date, the value for PBF was € 161k (prior year: € 337k). The decrease in other intangible assets relating to the Simark and PBF acquisitions reflects the amortization of the customer relationships and technology.

Capitalized development costs amounted to € 3,190k (prior year: € 2,191k). With respect to the capitalized development costs, € 1,384k was capitalized (prior year: € 767k) and € 385k was amortized (prior year: € 314k) in financial year 2018.

Non-current assets increased from € 12,684k to € 13,776k. However, the share of non-current assets in total assets fell from 36.7 % to 32.8 % as a result.

Liabilities rose by 15.6 % from € 20,639k to € 23,861k. Altogether, liabilities made up 56.7 % of total equity (prior year: 59.8 %).

As a result of the corporate actions, equity increased from € 13,895k as of December 31, 2017 to € 18,204k as of December 31, 2018.

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 2018 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

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

Supplier quantity was up on the previous year (6.0 %), with 7.8 % of deliveries having defects. The ratio of defective parts was kept stable. The mean time to failure of SFC AG's industrial equipment increased from 2,500 hours in the previous year to 2,700 hours.

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

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

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

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, 2018:

EMPLOYEES

	12/31/2018	12/31/2017
Management Board	3	3
Research and development	56	53
Production, logistics, quality management	109	101
Sales & Marketing	79	73
Administration	32	28
Permanent employees	**279**	**258**

The Group employed 11 trainees, graduates, and student trainees as of December 31, 2018 (December 31, 2017: 7).

With 87 permanent employees at December 31, 2018, SFC had slightly more employees than in the prior year (76).

The number of employees at PBF remained stable at 114.

Simark had 78 employees as of the reporting date and thus employed more people than in the prior year (68).

There were thus 21 more employees at the end of 2018 than at the end of the prior year.

Business and background conditions

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

COMPENSATION REPORT

The compensation report summarizes the principles used to determine the compensation of the Management Board of SFC 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.

Management Board Compensation

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

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

Members of the Management Board also receive variable compensation (performance-based bonus) if specific targets are met. The targets to reach in financial year 2018 were the amounts budgeted for consolidated sales (based on the budgeted exchange rate for the Canadian dollar to the euro), underlying gross margin, and underlying EBITDA, and each target was tied to one-fourth of the bonus. In other respects the decision is at the discretion of the Supervisory Board.

With the beginning of the 2014 financial year, the Supervisory Board of the Company implemented a virtual stock option program (SAR Plan 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. Mr. Hans Pol received one tranche of the second SAR program (SARP 2015–2018 or TR 2) and the fourth SAR program (SARP 2018–2021) in connection with the extension of his employment agreement. Mr. Marcus Binder, who was appointed to the Management Board by resolution of September 14, 2016 effective as of March 1, 2017 until February 28, 2020, will receive a tranche of the third SAR Plan (SARP 2017–2020) under his employment agreement. 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. Further information about the SAR Plan can be found under "Share Option Programs" on page 78 of this Annual Report.

The members of the Management Board also receive certain fringe benefits. We provide a company car to the members of the Management Board. We also pay the premiums for accident, pension, and life insurance for the members of the Management Board every year up to a maximum of € 10,000.00 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 2018

Members of the Management Board received € 1,984,595 in total compensation in financial year 2018. The compensation for financial year 2018 includes their base salaries, benefits, variable profit- and performance-based pay, the expenses for the SAR plan, and the premiums for accident, pension and life insurance. This figure includes all amounts that were paid out or set aside in the 2018 consolidated financial statements, less the amounts already set aside as of December 31, 2017 (benefits granted).

The compensation of the Management Board members is shown individually pursuant to the recommended sample tables in the German Corporate Governance Code. Table 1 shows the benefits granted in financial year 2018, while Table 2 shows the amounts paid. Because the LTIP and the SARP do not provide for any maximum amounts of compensation, no maximum amounts are shown, notwithstanding the recommendation in the German Corporate Governance Code.

TABLE 1 – BENEFITS GRANTED TO MEMBERS OF THE MANAGEMENT BOARD 2018 * in €

	Dr. Peter Podesser			Hans Pol			Marcus Binder		
	CEO/Chairman			(Industry)			(Defense & Security)		
	since 11/01/2006			since 01/01/2014			since 03/01/2017		
Benefits	2017	2018	2018 (Min)	2017	2018	2018 (Min)	2017	2018	2018 (Min)
Fixed Income	350,000	350,000	350,000	180,000	189,998	189,998	150,000	180,000	180,000
Fringe Benefits	24,145	23,358	23,358	17,866	28,568	28,568	19,520	21,859	21,859
Total	**374,145**	**373,358**	**373,358**	**197,866**	**218,566**	**218,566**	**169,520**	**201,859**	**201,859**
One-year variable compensation	264,000	186,598	0	42,000	68,148	0	54,542	68,502	0
Multi-year variable compensation	259,263	647,502	0	0	133,887	0	113,213	86,175	0
SAR Programm	259,263	647,502	0	0	133,887	0	113,213	86,175	0
Total	**897,408**	**1,207,458**	**373,358**	**239,866**	**420,601**	**218,566**	**337,275**	**356,536**	**201,859**
Service costs	0	0	0	0	0	0	0	0	0
Total	**897,408**	**1,207,458**	**373,358**	**239,866**	**420,601**	**218,566**	**337,275**	**356,536**	**201,859**

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

TABLE 2 – ALLOCATION OF MANAGEMENT BOARD COMPENSATION 2018 (AMOUNTS DISBURSED) in €

	Dr. Peter Podesser		Hans Pol		Marcus Binder	
	CEO/Chairman		(Industry)		(Defense & Security)	
	since 11/01/2006		since 01/01/2014		since 03/01/2017	
Allocation	2017	2018	2017	2018	2017	2018
Fixed Income	350,000	350,000	180,000	189,998	150,000	180,000
Fringe Benefits	24,145	23,358	17,866	28,568	19,520	21,859
Total	**374,145**	**373,358**	**197,866**	**218,566**	**169,520**	**201,859**
One-year variable compensation	150,000	169,462	0	52,433	0	57,231
Multi-year variable compensation	0	0	0	0	0	0
SAR Programm	0	0	0	0	0	0
Total	**524,145**	**542,820**	**197,866**	**270,999**	**169,520**	**259,090**
Service costs	0	0	0	0	0	0
Total	**524,145**	**542,820**	**197,866**	**270,999**	**169,520**	**259,090**

Compensation of the Supervisory Board

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

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

The compensation of the individual Supervisory Board members in financial year 2018 was as follows:

FINANCIAL YEAR 2018	in €
Tim van Delden, Chairman	50,000
David Morgan, Deputy Chairman	37,500
Hubertus Krossa, Member of the supervisory board	25,000
Total	**112,500**

Share Option Programs

With the beginning of the 2014 financial year, the Supervisory Board of the Company implemented a virtual stock option program (SAR Plan 2014–2016) to align the interests of the shareholders with those of the members of the Management Board. The SAR Plan 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. Mr. Hans Pol received a tranche of the second SAR program (SARP 2015–2018) and the fourth SAR program (SARP 2018–2021) in connection with the extension of his employment agreement to June 30, 2021. Mr. Marcus Binder, who was appointed to the Management Board by resolution of September 14, 2016 effective as of March 1, 2017 until February 28, 2020, received a tranche of the third SAR Plan (SARP 2017–2020) under his employment agreement. This also applies to the extension of the employment agreement of Management Board Chairman Dr. Peter Podesser, whose employment agreement was extended early for another three years until 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. An upper limit to the number of SARs to be allocated is set in advance and is reduced at predetermined dates if the Company's stock price falls below certain thresholds. The SAR will last seven years. The SARs are first eligible for exercise after a four-year vesting period, at which point a portion of the SARs issued can be exercised against payment of a strike price of € 1.00 per SAR, provided certain predefined profit targets have been met.

The terms of the SAR Plan 2014–2016, 2015–2018, 2017–2020 and 2018–2021 are as follows:

MAIN TERMS OF THE SAR PROGRAM 2014 – 2016, 2015 – 2018, 2017 – 2020 AND 2018 – 2021

Date of Issuance	January 1, 2014 (Hans Pol TR 1); April 1, 2014 (Dr. Peter Podesser TR 1); July 1, 2015 (Hans Pol TR 2); March 1, 2017 (Marcus Binder TR 1); April 1, 2017 (Dr. Peter Podesser TR 2); July 1, 2018 (Hans Pol TR 3)
Term	7 years
Waiting period	4 years (Hans Pol TR 1); 4 to 6 years (Dr. Peter Podesser TR 1 and TR 2); 4 to 6 years (Hans Pol TR 2); 4 to 6 years (Marcus Binder TR 1); 4 to 6 years (Hans Pol TR 3)
Cut-off dates	January 1, 2015 (Hans Pol TR 1); April 1, 2015, April 1, 2016 and April 1, 2017 (Dr. Peter Podesser TR 1); September 1, 2015, July 1, 2016, July 1, 2017 and July 1, 2018 (Hans Pol TR 2); April 1, 2018, April 1, 2019 and April 1, 2020 (Dr. Peter Podesser TR 2); March 1, 2018, March 1, 2019 and March 1, 2020 (Marcus Binder TR 1); July 1, 2019, 2020, 2021 (Hans Pol TR 3)
Strike price	€ 1.00
Performance targets (stock market price targets) for tranches until 2016	Stock exchange price increase in respect of stock exchange price at day of issuance and better development than benchmark (ÖkoDAX)
Performance targets (stock market price targets) for tranches starting 2017	Stock exchange price increase in respect of stock exchange price at day of issuance

Other Related Parties

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

GROUP ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM

Accounting-Related Internal Control System

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

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

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

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

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

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

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

The Management Board of SFC AG has reviewed the accounting-based internal control system and believes that it was fully functional in financial year 2018. The effectiveness of the internal control system is monitored by the Supervisory Board of SFC Energy AG in accordance with the requirements of the Accounting Rule Modernization Act (Bilanzrechtsmodernisierungsgesetz), which went into force in May 2009. It is important to note that an internal control system does not provide absolute certainty that material misstatements in the financial statements will be avoided or discovered, regardless of how it is designed.

Risk Management System

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

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

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

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

RISK REPORTING WITH REGARD TO THE USE OF FINANCIAL INSTRUMENTS

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

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

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

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

Credit Risk

Credit risk results primarily from trade accounts receivable. The risk consists of the possibility of default by a contractual partner. The customer structure at SFC AG 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 PBF and Simark, which have a transparent and practically unchanging clientele and can readily identify delinquencies, past-due accounts are first handled by employees in the accounting department and then turned over to the responsible sales employee for discussion with the customer.

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

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

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

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

Liquidity Risk

Liquidity risk describes the possibility that SFC may not be able to meet its payment obligations. This risk was counteracted by the capital increases in May 2007, November 2014, August 2016, July 2017 and June 2018. To further secure liquidity, a convertible bond was issued in December 2015. In January and March 2016, additional tranches were placed. In addition, in October 2016, the company took out a loan and issued a warrant-linked bond. A bearer bond was issued in August 2017. As of December 2017 and January 2018, the convertible bonds were exercised and converted into equity. Because of this financing, liquidity reserves increased significantly.

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

Interest Rate Risk

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

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

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

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

Exchange Rate Risk

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

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

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

Credit Risk

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

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

The loan agreement concluded by PBF in Cluj, Romania also includes financial covenants. If the covenants are breached, there is the risk that the loan will be accelerated. In addition to the earnings situation of PBF in Cluj, Romania, an increased need for financing can lead to an increased covenant risk.

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

The capital stock of SFC AG totals € 10,249,612 and is divided into 10,249,612 ordinary bearer shares with no par value representing a notional amount of the capital stock of € 1.00 per share. The capital stock is completely paid-up. Each share confers one vote. For additional information, see the section entitled "Earnings per Share". The change in the number of shares by 590,156 shares in comparison with the prior year is as follows:

CHANGE IN THE NUMBER OF SHARES	Capital stock in €
Ordinary Shares 12/31/2017	**9,659,456**
Capital increase January 2018	90,156
Capital increase June 2018	500,000
Ordinary Shares 12/31/2018	**10,249,612**

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	Share in %
Holland Private Equity B. V. (via HPE PRO Institutional Fund B. V.)	26.94 %

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

Shareholders have no special rights that confer control.

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

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

Authorized Capital

At their meeting on May 17, 2017, the shareholders resolved to cancel Authorized Capital 2016/I, to create new Authorized Capital and to amend section 5 (Authorized Capital 2017/I) of the Company's bylaws.

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

In accordance with the capital measures described below, SFC AG has Authorized Capital 2017/I in the amount of € 4,023,624.

Conditional Capital

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

Following the corporate actions described below, SFC AG has Conditional Capital 2016 in the amount of € 3,324,503 and Conditional Capital 2011 in the amount of € 278,736 to secure the issuance of no-par-value bearer shares to the holders or creditors of convertible bonds and/or warrant-linked bonds, participatory rights and/or participatory bonds (or combinations of these instruments).

Corporate Action and Harbert Financing

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

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

The warrant-linked bond with a face value of € 2,500 and a maturity by 2022 bears interest at 4.0 % p. a. The issue price of the warrant-linked bond was set at 100 % of its face value. In addition, the warrant-linked bond offers option rights to 204,700 no-par-value shares of the Company's common stock with a notional amount of the Company's capital of € 1.00 per share at an option price of € 3.6639 per share.

This corporate action provided the Company with gross issue proceeds in the amount of € 5 million in 2017.

With an agreement dated June 11, 2018, the final maturity date was December 31, 2019, and the monthly repayment installments were adjusted accordingly. As of December 31, 2018, this financing was valued at € 2.596.765.

Corporate Action and Convertible Bond Financing

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

On December 20, 2017 the creditors exercised their conversion rights for a total face value of € 2,750k. A total of 450,780 no-par value bearer ordinary shares were thus issued at the end of December 2017.

On January 12, 2018 the creditors exercised their conversion rights for a total face value of € 550k. A total of 90,156 no-par value bearer ordinary shares were thus issued at the end of January 2018.

Thus, the convertible bonds issued with a total nominal value of € 3,300k were fully converted.

Cash Capital Increase

On June 15, 2018, SFC AG resolved a capital increase. As part of a private placement, 500,000 no-par value bearer shares were successfully placed with institutional investors. The placement price was set at € 8.44 per new share. This capital increase provided the Company with gross issue proceeds in the amount of € 4.22 million.

Agreements with Management Board Members

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

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

Hans Pol was appointed to the Management Board from January 1, 2014 to June 30, 2015. His Management Board employment agreement contains an agreement regarding the 2014 – 2016 SAR Plan with a term until December 31, 2018. Mr. Pol was granted 90,000 SARs on January 1, 2014. On March 24, 2015, Mr. Pol's Management Board employment agreement was extended until June 30, 2018. In connection with that agreement, Mr. Pol was granted an additional 180,000 SARs on July 1, 2015 under the 2015 – 2018 SAR Plan. On March 27, 2018, Mr. Pol's Management Board employment agreement was extended until June 30, 2021. In connection with that agreement, Mr. Pol was granted an additional 180,000 SARs on July 1, 2018 under the 2018 – 2021 SAR Plan.

Marcus Binder was appointed to the Management Board from March 1, 2017 to February 28, 2020. His Management Board employment agreement contains an agreement regarding the 2017 – 2020 SAR Plan with a term until February 28, 2020. Mr. Binder was granted 180,000 SARs on March 1, 2017.

RISK REPORT

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

Market risks

Macroeconomic Developments

In its economic forecast for 2019, the ifo Institute [20] considers that the downside risks to the global economy have increased appreciably again. The reasons for this are the US tariffs on a large number of imports, followed by countermeasures by China and the EU. It is not possible to foresee which direction the trade dispute will take. If it escalates, global trade in goods and general economic production could be severely hampered. Inflation rates could rise more rapidly owing to higher import prices, which could force the central banks to implement more restrictive policies. This would also be the case if oil price rises impacted consumer prices via second-round effects. A "hard" Brexit constitutes a further risk. If the United Kingdom leaves the European Union in a disorderly fashion in 2019, the reintroduction of border controls and tariffs could have serious consequences for the British economy and thus also for the euro region as a whole. The high risk premiums on Italian government bonds also pose a risk for economic growth in the euro region. As Italian government bonds are held by banks outside Italy as well as Italian banks, any further price loss could also affect financial institutions in other Member States of the EU.

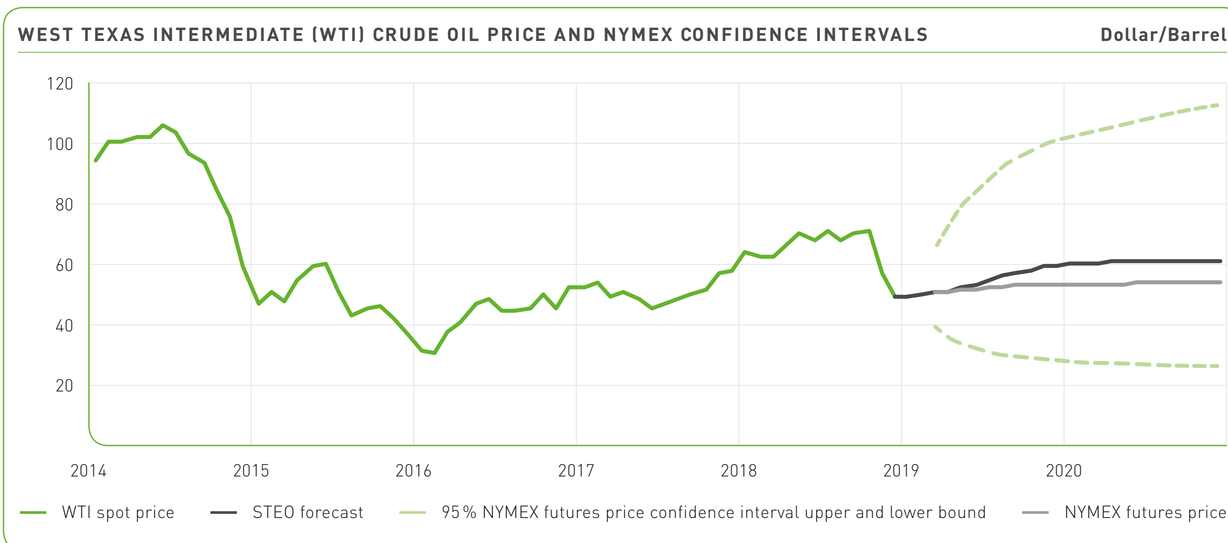
In addition to the international and European risks, Germany is also facing uncertainty regarding the future development of its automotive industry. There is the risk of further downward revisions should the observed weakening of international demand for German vehicles continue.

20 ifo Economic Forecast Winter 2018, "German Economy Cools Down", December 13, 2018

Oil & Gas segment

In its January 2019 energy forecast[21], the EIA states that, due to global economic trends and geopolitical events, average daily and monthly crude oil prices may differ significantly from its annual average forecast. The reasons for this are uncertainty regarding the extent of declines in supply following the lifting of the moratorium on US sanctions against Iran in the first half of 2019, as well as regarding the duration and extent of the current OPEC+ production cutbacks. Economic growth trends and the impact on global demand for oil are also contributing to price uncertainty. Although the EIA believes the IMO regulations coming into effect in 2020 will have a limited impact on the price of crude oil, it remains to be seen how the global refinery and shipping industry will respond to them. It is also difficult to predict at present what effect the dynamically evolving US light tight oil sector will have on crude oil prices.

WEST TEXAS INTERMEDIATE (WTI) CRUDE OIL PRICE AND NYMEX CONFIDENCE INTERVALS **Dollar/Barrel**



Note: Confidence interval derived from options market information for the five trading days ending Jan 10, 2019. Intervals not calculated for months with sparse trading in near-the-money options contracts.

Source: EIA – WTI price trend forecast[22]

In December, the OPEC and non-OPEC countries agreed to cut production by 1.2 million b/d. In the view of the experts at Deloitte[23], this may cause stored quantities to decline and Brent prices to rise. However, due to the steady growth in supply in the US the WTI variety may post a larger than usual discount against Brent until additional transport and export infrastructure goes into operation.

For Canada, the EIA experts do not anticipate any production from new upstream projects in 2019, only extensions of existing projects[24]. This expansion, along with the stronger focus on increasing the efficiency of conventional production facilities, offers opportunities for SFC's products: SFC's integrated management and power supply systems enable the reliable and attractively-priced operation of off-grid equipment in any season of the year, even in remote locations. In addition, the strict environmental legislation in Canada is contributing to increased demand for efficient low-emission products such as SFC's power generators.

21 EIA, "Short-Term Energy Outlook", January 15, 2019
22 ibid.
23 Deloitte Resource Evaluation & Advisory, "Oil and gas price forecast", December 31, 2019
24 CAPP, press release, "Growth in the oil sands projects drives need for more pipelines to 2030", June 13, 2017

Clean Energy & Mobility segment

a) Fuel cells market: Public interest in fuel cells is growing steadily. Established industries such as the security and surveillance, telecommunications and transport sectors have recognized the major benefits offered by using environmentally friendly, weather-independent and mobile power generators. The automotive industry has also focused its attention on fuel cells again in relation to stand-alone or hybrid drives for vehicles. This is creating attractive market opportunities for SFC AG that the company intends to leverage in the next few years, including by entering into hydrogen fuel cell technology in partnership with adKor. The risk remains that many, particularly public, projects are dependent on the overall economic situation and government economic stimulus programs.

b) Caravaning: Following another record year, the German caravanning association, the CIVD[25], reports that German motorhome and caravan manufacturers are expecting their record performance to continue in 2019. For 2019, the CIVD is forecasting sales of over 213,000 newly sold leisure vehicles in Europe and corresponding growth of 5% against 2018[26]. The industry also expects export sales to continue to rise in Germany in 2019. New, more lightweight high-performance batteries for caravanning applications continue to pose a risk to SFC AG's fuel cell business. They can be used to supply motorhomes with the appropriate equipment with power for a few days independently of the conventional grid. Motorhome owners could therefore decide in favor of increasing their battery capacity rather than a fuel cell.

c) Marine: The boating and water sports industry is cautiously optimistic for 2019. Its association, the BVWW[27], predicts stable growth in 2019. Consumers continue to invest in vacations and leisure time, in which comfort, safety, mobility and digitalization are playing an ever greater role. Modern sanitary facilities and heating, cooling, cooking and lighting technology are now required as a matter of course, as is entertainment equipment. The same applies to onboard digitalization. All data and information generated on board should be as centrally accessible as possible, including via one's own laptop. State-of-the-art technology, a familiar feature in cars, is increasingly also expected on board. The resulting power requirements give rise to opportunities for SFC AG's quiet, environmentally friendly power generators. However, the association also warns of the impact of the trade dispute with the US, Brexit and the financial risks within the euro zone. Although many families are now also discovering an enjoyment of boats, SFC AG's products still face a risk in terms of the age of their most solvent target groups. Furthermore, SFC AG's fuel cell products cannot provide the complete off-grid power supply, especially on larger boats, so that a fuel cell purchase can only be considered for smaller boats and racing yachts.

Industry segment

Power electronics and switched mode network components: Power electronic components and systems are needed anywhere power is used. The electronics industry usually develops in sync with the overall economy. New opportunities are arising for SFC thanks, in particular, to the PBF product platform developed by its subsidiary PBF, which enables rapid, attractively-priced, extremely efficient and highly dynamic power generation solutions for demanding applications such as laser and plasma technologies as well as other high-tech industrial fields. This platform gives SFC a key competitive advantage in the market. Following a successful introductory phase, several international manufacturers are expected to place substantial follow-up orders over the coming years. Risks are to be seen in the long project lead times and the ordering behavior of major international customers, which remains difficult to assess.

25 CIVD, press release, "On track for new records – optimistic outlook for 2019 in the caravanning industry", January 14, 2019
26 CIVD, CIVD annual press conference presentation 2019, January 16, 2019
27 BVWW, press release, "Wassersportwirtschaft wächst im 6. Jahr in Folge", January 10, 2019

Defense & Security Segment

Defense experts are also observing an increase in defense budgets worldwide to protect against threats of all kinds. The trend is increasingly towards networked systems, digitization, artificial intelligence, machine learning, data mining and mobility. Traditional, modern and unconventional equipment, technologies, strategies and ways of working are increasingly integrated and used to increase agility and mobility across a wide range of classic and modern defense scenarios. In addition to the introduction of new innovative technologies, it is necessary to modernize existing technologies after years of investment backlog to increase the efficiency and protection of soldiers and equipment in mobile and stationary use. Here the experts are observing governments and defense organizations taking greater risks and investing more in the development and testing of new technologies. In this context, SFC AG's products have great potential because all of these new technologies need to be automated and require reliable and uninterrupted power, as more and more data collection and applications are carried out off-grid.

Technological risks

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

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

Patent-related risks

As the intellectual property situation becomes more complicated and products become more complex, there remains a certain risk of possible patent infringement by SFC. On the other hand, as a result of its unique position as a supplier of commercial direct methanol fuel cell systems, SFC has obtained patents or filed patent applications (currently 20 patent families or decisions to grant received), which puts us in a strong position relative to our competitors. However, is it entirely possible that we may incur legal expenses to defend these patents. Due to SFC's orientation as a provider of energy supply solutions, there is a risk that integration solutions are covered by patents that have already been granted. SFC works continuously with experienced patent attorneys to ensure that it is operating in full compliance with the law by staying abreast of patents that may be relevant to the Company, including those granted in other countries.

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

Competition

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

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

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

Product risks

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

Procurement and production-related risks

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

In anticipation of large orders in the defense industry, SFC AG must begin preliminary work and put a large part of the expected order volume in storage. If this order had not come about, there is the risk that the inventories, which have already been written down, could only be sold to other customers to a small extent.

The products of two suppliers accounted for around 56 % of Simark's sales in 2018 (prior year 57 %). Simark's result is therefore strongly dependent on the stability of those supplier relationships.

Commodity price risks

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

The precious metals are shown in the balance sheet as inventory assets until they are used in SFC AG products. A write-down of the precious metals would be in order only if the product manufactured from them could not be sold on the market at a price that covered its costs. The value of the platinum and ruthenium was € 233k on the balance sheet date.

In general, rising commodity and energy costs continue to pose a risk to our product margins. At 5 % volatility in the platinum price, the effect would be about € 20k annually.

Foreign exchange rate risks

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

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

No currency forwards were entered into in financial year 2018. There were no open currency forwards as of the reporting date. In that respect, foreign exchange risk exists for the unhedged portion of sales.

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

There would have been a negative effect of € –734 (prior year: € –763) on the Group's equity if, when translating the assets and liabilities of Simark as of December 31, 2018, the exchange rate had fluctuated by –5 % and a positive effect of € 734 (prior year: € 763) if the rate had fluctuated by +5 %.

A 5 % change in the exchange rate of the Canadian dollar versus the euro compared with the assumptions used for corporate planning would have an effect of around 2 % on consolidated revenue and around 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 a warrant-linked bond and the loan issued in October 2016; in addition, the cash capital increase was carried out in July 2017 and June 2018 and the bearer warrant-linked bond was issued in August 2017.

Cash is being deposited with various banks in low-risk investments (such as call and time deposits) until it is used within the framework of our growth strategy. The 2018 result and financings led to an increase in cash on hand.

Thanks to our customer structure (high percentage of industrial customers, security officials, and wholesalers, low percentage of private end customers), there were no significant payment defaults in 2018 not addressed through write-downs. As of the reporting date, specific write-downs totaling € 247k had been recognized at SFC AG for at-risk receivables. There were specific write-downs of € 70k at PBF and specific write-downs of € 128k at Simark. In addition, a write-down of € 179k was recognized according to IFRS 9.

Additional liquidity risks could result from the postponement of large projects or if this does not come about. If the expected liquidity is not obtained through future sales of inventory on hand, this could result in risks that threaten the Company's survival.

Interest rate risks

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

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

Personnel risks

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

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

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

IT risks

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

Regulatory risks

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

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

Other risks

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

Summary of the risk report

Based on the information known to us today, we believe that there are no risks that could threaten the continued existence of the Group or its material companies if business in financial year 2019 develops in accordance with the corporate planning that has been adopted. If the order of planned large projects in the defense market does not come about, it could lead to liquidity risks and thus threaten the Company's survival.

REPORT ON OPPORTUNITIES

Market opportunities

The key determinants of the Group's future growth lie in our ability to successfully increase sales. The primary examples of this are raising volumes and margins in current markets, particularly in the "Defense & Security", "Oil & Gas" segments 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 segment

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 recovery of relative stability in oil prices resulted in significantly higher demand in 2018. Maintenance spending that was put on hold during the crisis is picking up steam, and customers are negotiating and deciding on new projects again.

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

Defense & Security segment

SFC AG has made more progressive planning for this market in financial year 2019 compared to 2018, as core parameters such as the general security situation and increased defense budgets in NATO member states continue to develop positively. The very positive testing results of SFC products and the confirmation of the interest in and increasing demand for light, mobile and hard-to-detect power supply systems on the part of major user groups are important prerequisites for a continuation of the growth course embarked upon in this market. Demand in the core markets of Germany and Israel, combined with a regional expansion of activities, e.g., in other NATO countries such as France and the United Kingdom, but also in countries such as India and Singapore, are important steps towards this goal.

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

Innovation and Further Development

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

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

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

Opportunities could result from the entry into hydrogen technology with extension of SFC's product portfolio expanding the SFC power range.

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

External factors

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

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

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

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DECLARATION ON CORPORATE GOVERNANCE

The Management Board issued the corporate governance statement for 2018 and published it on the website of SFC AG (www.sfc.com/en/investors/corporate-governance). It will issue an updated corporate governance statement pursuant to § 289a of the Handelsgesetzbuch (HGB – German Commercial Code) on March 21, 2019 and make it accessible to the public on the Internet at www.sfc.com/en/investoren/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 positive sales growth in 2019, because of the rising trend in oil and gas prices since reaching their low in 2016.

For 2019, SFC expects its Defense business to grow and its international Industry business to expand. Further 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. Due to the geopolitical situation, the management expects sales in the "Defense & Security" segment to increase significantly.

For the current financial year 2019, the Management Board expects further organic growth and plans consolidated revenue of € 67 million to € 74 million. In addition, another significant increase in profitability with adjusted EBITDA of € 4.5 million to € 7 million and an adjusted EBIT of € 3.5 million to € 6 million is planned for 2019.

We expect the volatility on the global currency markets to continue in 2019. When calculating sales revenue and Simark's earnings, the Management Board assumes an exchange rate of 1.50 between the Canadian dollar and the euro. Our planning is based on an oil price of USD 50 – 60 (WTI). Falling oil and gas prices would have a negative impact on spending by oil and gas customers, particularly with respect to new projects.

Management board assumes a moderately positive development of gross profit given a development as planned.

We expect to capitalization of research and development costs at a greater rate than in the previous fiscal year.

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 € 7.5 million. With a trend for its operating result in financial year 2019 in line with forecasts for sales and earnings, the Group will have sufficient liquidity to meet its financial obligations.

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

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SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

Regarding the events after the balance sheet date, please see the discussion in the Notes to the Consolidated Financial Statements for Financial Year 2018.

Brunnthal, March 21, 2019

The Management Board

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (Industry)

Marcus Binder
Board Member (Defense & Security)

CONSOLIDATED FINANCIAL STATEMENTS

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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, 2018

			in €
	Notes	2018	2017
Sales	(1)	61,704,242	54,291,819
Production costs of work performed to generate sales	(2)	–40,622,703	–36,565,940
Gross profit		**21,081,539**	**17,725,879**
Sales costs	(3)	–10,791,967	–9,786,034
Research and development costs	(4)	–3,525,032	–3,892,013
General administration costs	(5)	–5,230,382	–5,015,879
Other operating income	(6)	320,167	277,166
Other operating expenses	(7)	–119,354	–193,838
Restructuring costs	(8)	–409,636	0
Operating result		**1,325,335**	**–884,719**
Interest and similar income	(9)	0	7
Interest and similar expenses	(9)	–737,310	–1,174,822
Income from investments	(9)	0	24,534
Result from ordinary operations		**588,025**	**–2,035,000**
Income taxes	(10)	–588,542	–37,222
Consolidated net result		**–517**	**–2,072,222**
NET LOSS PER SHARE	(36)		
undiluted		0.00	–0.23
diluted		0.00	–0.23

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

			in €
	Notes	2018	2017
Consolidated net result		**–517**	**–2,072,222**
OCI items that may be recycled to profit or loss in the future:			
Result from currency translations		–206,064	–327,018
Total other result	(30)	**–206,064**	**–327,018**
Total comprehensive income		**–206,581**	**–2,399,240**

All amounts are attributable in full to equity holders of the parent company. No deferred tax effects arise from value changes recognized directly in equity.

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2018

			in €
	Notes	12/31/2018	12/31/2017
Current assets		**28,288,672**	**21,849,419**
Inventories	(14)	9,753,129	7,939,322
Trade accounts receivable	(15)	9,665,357	7,798,627
Receivables from contracts with customers *	(16)	492,281	913,114
Income tax receivables	(17)	2	0
Other short-term assets and receivables	(18)	572,594	504,338
Cash and cash equivalents	(19)	7,519,689	4,408,398
Cash and cash equivalents with limitation on disposal	(20)	285,620	285,620
Non-current assets		**13,776,317**	**12,684,463**
Intangible assets	(21)	11,496,977	10,950,437
Property, plant and equipment	(22)	1,595,740	1,197,253
Financial assets	(33)	71	71
Deferred tax assets	(10)	683,529	536,702
Assets		**42,064,989**	**34,533,882**

* In previous year receivables or liabilities from percentage-of-completion

SFC ENERGY AG, BRUNNTHAL CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2018

in €

	Notes	12/31/2018	12/31/2017
Current liabilities		**18,864,822**	**18,563,477**
Provisions for taxes	(23)	32,257	51,509
Other provisions	(23)	939,310	748,659
Liabilities to banks	(24)	4,585,244	4,010,253
Liabilities from prepayments	(25)	27,144	15,184
Trade accounts payable	(26)	7,093,371	5,520,020
Liabilities under finance leases	(27)	43,653	40,442
Liabilities from contracts with customers*	(16)	24,581	191,353
Liabilities from financing	(28)	2,568,811	5,399,603
Other short-term liabilities	(28)	3,550,452	2,586,454
Non-current liabilities		**4,996,007**	**2,075,623**
Other long-term provisions	(23)	1,063,737	874,283
Liabilities to banks	(24)	1,710,006	0
Liabilities under finance leases	(27)	53,736	19,616
Other long-term liabilities	(28)	4,383	4,157
Other liabilities from financing	(28)	1,346,469	528,906
Deferred tax liabilities	(10)	817,676	648,661
Equity		**18,204,161**	**13,894,782**
Subscribed capital	(30)	10,249,612	9,659,456
Capital surplus	(30)	79,497,706	75,475,155
Foreign exchange translation reserve	(30)	–1,022,986	–816,921
Consolidated net loss	(30)	–70,520,171	–70,422,908
Liabilities and shareholders' equity		**42,064,989**	**34,533,882**

* In previous year receivables or liabilities from percentage-of-completion

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

in €

		Notes	2018	2017
	Cash flow from ordinary operations			
	Result from ordinary operations		**588,025**	**–2,035,000**
+	Net interest income	(9), (37)	737,310	1,174,815
+	Depreciation/amortization of intangible assets and property, plant and equipment	(12), (21), (22)	1,152,546	1,746,804
–/+	Income/expenses from SAR Plan/ Long Term Incentive Plan	(34)	817,564	491,515
+	Changes in allowances	(14), (15)	–226,262	–795,656
–	Losses from disposal of property, plant and equipment	(21), (22)	0	–2,296
+/–	Other non-cash expenses/income		94,380	269,277
	Changes to operating result before working capital		**3,163,563**	**849,459**
–	Changes to provisions	(23)	361,733	–433,535
–/+	Changes to trade account receivables	(15)	–2,138,586	768,703
+/–	Changes to inventories	(14)	–1,643,306	334,669
+	Changes to other receivables and assets	(16), (17), (18)	321,229	32,451
–/+	Changes to trade accounts payable	(26)	1,677,100	–93,367
–	Changes to other liabilities	(25), (28)	366,342	319,140
	Cash flow from ordinary operations before taxes		**2,108,075**	**1,777,520**
+/–	Income tax refund/payment	(10), (37)	–102,594	–73,400
	Cash flow from ordinary operations		**2,005,481**	**1,704,120**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

in €

		Notes	2018	2017
	Cash flow from investment activity			
–	Investments in intangible assets from development projects	(21)	–1,383,571	–767,275
–	Investments in other intangible assets	(21)	–61,481	–77,079
–	Investments in property, plant and equipment	(22), (27)	–928,180	–496,960
+	Interest and similar income	(9), (37)	0	7
+/–	Payments for acquisition of bank deposits with limitation on disposal	(20)	0	–620
+	Proceeds from disposal of property, plant and equipment	(21), (22)	0	34,103
	Cash flow from investment activity		**–2,373,232**	**–1,307,824**
	Cash flow from financial activity			
+	Payments from capital increase	(30)	4,220,000	400,000
–	Cash outflows for costs from capital increase	(30)	–130,960	–11,085
+	Cash flow from financial debt	(24)	1,136,722	0
–	Repayment of financial debt	(24)	–2,923,087	–2,648,102
+	Proceeds from issuance of convertible bonds and options	(28)	0	4,900,050
–	Expenses from issuance of convertible bonds and options	(28)	0	–88,483
+	Changes to current account liabilities	(24)	1,801,402	547,367
–	Interest paid and other expenses	(9), (37)	–625,035	–842,069
	Cash flow from financial activity		**3,479,042**	**2,257,678**
	Net change in cash and cash equivalents		**3,111,291**	**2,653,974**
	Currency effects on cash and cash equivalents		0	–1,578
	Net change in cash and cash equivalents			
	Cash and cash equivalents at beginning of period	(19)	4,408,398	1,756,001
	Cash and cash equivalents at end of period	(19)	7,519,689	4,408,398
	Net change in cash and cash equivalents		**3,111,291**	**2,653,975**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

in €

	Notes	Subscribed capital	Capital surplus	Foreign exchange translation reserve	Net accumulated loss	Total
As of 01/01/2017		**9,047,249**	**73,132,012**	**– 489,904**	**– 68,350,685**	**13,338,672**
Consolidated net loss						
Result from currency translation recognized in equity					– 2,072,222	– 2,072,222
Changes in the group of consolidated companies						
Net income from foreign currency translation	(30)			– 327,018		– 327,018
Total comprehensive income						**– 2,399,240**
Capital increase						
Issuance of convertible bonds – equity component	(30)	450,780	2,114,727			2,565,507
Issuance of option bonds – equity component			928			928
Capital increase		161,427	238,573			400,000
Less costs from capital increase	(30)		– 11,085			– 11,085
As of 12/31/2017		**9,659,456**	**75,475,155**	**– 816,922**	**– 70,422,907**	**13,894,782**
Consolidated net loss						
Consolidated net loss					– 517	– 517
Result from currency translations recognized in equity	(30)			– 206,064		– 206,064
Effect of first-time adoption of IFRS 9					– 96,747	– 96,747
Total comprehensive income						**– 303,328**
Capital increase						
Issuance of convertible bonds – equity component	(30)	90,156	433,511			523,667
Issuance of option bonds – equity component						
Capital increase	(30)	500,000	3,720,000			4,220,000
Less costs from capital increase			– 130,960			– 130,960
As of 12/31/2018		**10,249,612**	**79,497,706**	**– 1,022,986**	**– 70,520,171**	**18,204,161**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED SEGMENT REPORTING (AS PART OF THE NOTES)
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

FINANCIAL YEAR 2018 in €

	Clean Energy & Mobility	Industry	Oil & Gas	Defense & Security	Consolidated financial statements
Sales	9,353,318	16,313,672	26,026,206	10,011,047	61,704,242
Production costs of work performed to generate sales	–5,706,626	–11,308,256	–18,691,252	–4,916,570	–40,622,703
Gross profit	**3,646,692**	**5,005,416**	**7,334,954**	**5,094,477**	**21,081,539**
Sales costs	–2,337,261	–1,174,465	–4,558,643	–2,721,597	–10,791,967
Research and development costs	–640,630	–2,109,862	–292,386	–482,155	–3,525,032
General administration costs	–1,477,772	–1,133,456	–864,820	–1,754,334	–5,230,382
Other operating income	142,929	0	29,993	147,246	320,167
Other operating expenses	–18,363	0	–82,073	–18,918	–119,354
Other income/expenses	124,566	0	–52,081	128,328	200,813
Restructuring costs	0	–409,636	0	0	–409,636
Operating result (EBIT)	**–684,405**	**177,997**	**1,567,024**	**264,719**	**1,325,335**
Adjustments EBIT	73,139	409,636	155,400	589,024	1,227,199
EBIT underlying	**–611,266**	**587,633**	**1,722,424**	**853,743**	**2,552,534**
Depreciation/amortization	–377,611	–443,305	–67,396	–264,235	–1,152,547
EBITDA	**–306,794**	**621,302**	**1,634,420**	**528,954**	**2,477,882**
Adjustments EBITDA	73,139	409,636	155,400	589,024	1,227,199
EBITDA underlying	**–233,655**	**1,030,938**	**1,789,820**	**1,117,978**	**3,705,081**
Financial result					–737,310
Result from ordinary operations					**588,025**
Income taxes					–588,542
Consolidated net result					**–517**

With regard to the information on Group segment reporting, please refer to note 38 "Disclosures on consolidated segment reporting" in the notes to the consolidated financial statements.

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED SEGMENT REPORTING (AS PART OF THE NOTES)
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

FINANCIAL YEAR 2017 in €

	Clean Energy & Mobility	Industry	Oil & Gas	Defense & Security	Consolidated financial statements
Sales	9,801,495	15,205,743	24,458,144	4,826,438	54,291,819
Production costs of work performed to generate sales	–5,566,858	–10,072,983	–18,629,099	–2,297,001	–36,565,941
Gross profit	**4,234,637**	**5,132,760**	**5,829,045**	**2,529,437**	**17,725,879**
Sales costs	–2,601,580	–1,179,955	–4,242,743	–1,761,755	–9,786,034
Research and development costs	–809,117	–2,370,608	–209,355	–502,933	–3,892,013
General administration costs	–1,282,109	–1,138,622	–1,452,627	–1,142,521	–5,015,879
Other operating income	104,692	1,278	83,619	87,577	277,166
Other operating expenses	–43,593	0	–113,778	–36,467	–193,838
Other income/expenses	61,099	1,278	–30,159	51,110	83,328
Restructuring costs	0	0	0	0	0
Operating result (EBIT)	**–397,071**	**444,853**	**–105,839**	**–826,662**	**–884,719**
Adjustments EBIT	110,332	0	676,504	274,545	1,061,381
EBIT underlying	**–286,739**	**444,853**	**570,665**	**–552,117**	**176,662**
Depreciation/amortization	–404,801	–600,442	–511,279	–230,283	–1,746,804
EBITDA	**7,730**	**1,045,295**	**405,440**	**–596,379**	**862,085**
Adjustments EBITDA	110,332	0	206,944	274,545	591,821
EBITDA underlying	**118,062**	**1,045,295**	**612,384**	**–321,834**	**1,453,906**
Financial result					–1,150,281
Result before tax					**–2,035,000**
Income taxes					–37,222
Consolidated net result					**–2,072,222**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

1. GENERAL POLICIES AND SCOPE OF CONSOLIDATION

SFC Energy AG (the "Company" or "SFC") is a public 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 Munich District Court under commercial register sheet number 144296. The principal activities of the Company and its subsidiaries (the Group) include 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 such activities, and the transaction of all other related business. The Company's product portfolio also includes accessories and spare parts, particularly fuel cartridges, solutions for combining fuel cell products with other power sources, power storage units and electrical devices, as well as mechanical, electronic and electrical instruments to monitor and control production and logistics processes. As a provider of off-grid and grid-based power supplies, the Group serves the following segments: Clean Energy Mobility, Industry, Oil & Gas and Defense & Security.

Accounting principles

The consolidated financial statements for 2018 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, 2018, no standards or interpretations required application that were effective, but had not yet been adopted by the EU and had an effect on the consolidated finance statements. Accordingly, the consolidated financial statements also comply 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 stated in these notes are rounded to the nearest whole euro (€). Minor differences can arise in rounded amounts and percentages due to commercial rounding of figures.

The consolidated income statement was prepared applying the cost of sales method. The additional disclosures of costs of materials and personnel costs are presented separately in the notes to the consolidated financial statements. The notes also contain the disclosures required under Section 315e (1) of the German Commercial Code (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 21, 2019. 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 adopted by the European Commission that became effective on January 1, 2018 and were applied to the consolidated financial statements for the first time in the 2018 financial year.

Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions": The amendments relate to the inclusion of exercise conditions in the context of measurement of cash-settled share-based payments, the classification of share-based compensation that provides for a net settlement for taxes for be withheld, and accounting for a change in classification of remuneration from cash-settled to equity-settled. Applying the new and revised standards had no effect at all or no material effect on the consolidated financial statements.

Amendment to IFRS 4 "Applying IFRS 9, Financial Instruments with IFRS 4, Insurance Contracts": The adjustments relate to the first-time application of IFRS 9 for insurers. As a result of the different dates on which IFRS 9 and the new standard for insurance contracts come into force, increased volatilities arise in relation to results, and double the conversion expenses for a transitional period without such adjustments. Applying the new and revised standards had no effect at all, or no material effect, on the consolidated financial statements.

Applying IFRS 9 "Financial Instruments": IFRS 9 Financial Instruments contains rules for the recognition, measurement and derecognition of hedging instruments. The IASB published the final version of the standard on July 24, 2014, as part of the completion of the various phases of its comprehensive project on financial instruments. Accounting for financial instruments under former IAS 9 "Financial Instruments: Recognition and Measurement" is now completely replaced by accounting under IFRS 9. The Group is applying IFRS 9 for the first time in its consolidated financial statements as of January 1, 2018.

With the exception of certain trade receivables, an entity initially measures its financial assets at fair value and, in the case of a financial asset that is not measured at fair value through profit or loss, at transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), at amortized cost or at fair value through other comprehensive income (FVOCI) based on their contractual cash flows and the business model under which they are held. A fair value option (FVO) exists that allows financial assets to be redesignated upon initial recognition as FVTPL when this eliminates or significantly reduces accounting mismatches. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to the income statement. For the Group, no significant changes were identified in relation to the effects of the new standard on the classification and measurement of financial instruments. The Group's existing bonds and loans have been allocated to the amortized cost category. No significant differences in accounting treatment and measurement are expected.

The changeover to IFRS 9 provides for impairments based on an expected credit loss (ECL) model and diverges from the previously applicable incurred loss model of IAS 39. As a consequence, IFRS 9 no longer requires a credit event to have occurred before credit losses are recognized. Instead, an entity always considers expected credit losses and changes in expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced in the types of transactions eligible for hedge accounting, in particular by extending the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that qualify for hedge accounting. In addition, the effectiveness test was revised and replaced by the principle of a "business relationship". A retrospective assessment of the effectiveness of hedging transactions is no longer required.

In accordance with the transitional provisions of IFRS 9, SFC Energy AG decided not to make any retrospective adjustments to prior periods. Instead, the impairment of doubtful trade receivables was revalued as of January 1, 2018 in accordance with the impairment model pursuant to IFRS 9, with the initial application effect being recognized in equity.

The Group's existing bonds with warrants as well as loans have been allocated to the amortized cost category. Equity instruments that could previously be recognized at cost under IAS 39 must be measured at fair value in accordance with IFRS 9 (with or without an effect on profit and loss). The standard's valuation option is applied to the existing equity instruments in the Group, so that the investment in SFC Inc. was allocated to the at fair value category (without reclassification) with no effect on profit or loss. For reasons of materiality, a fair value calculation was not performed and recognition continues to be at amortized cost.

The Group adjusted the impairment model applicable to financial assets to the requirements of IFRS 9 as of January 1, 2018. The standard replaces the model of losses incurred under IAS 39 with a forward-looking model, the model of expected credit losses. This requires considerable judgement as to the extent to which expected credit losses are affected by changes in economic factors. This assessment is determined on the basis of weighted probabilities.

The first-time application of IFRS 9 resulted in an overall effect of € 96,747 on the consolidated balance sheet net loss as of 1 January 2018 (including the effect of deferred taxes).

EXPLANATION OF CHANGE OF ACCOUNTING FOR FINANCIAL INSTRUMENTS in €

	Previous measurement categories and carrying amount according to IAS 39 (12/31/2017)				
	Loans and receivables	Amortized cost	Fair Value through profit or loss	Amortized cost	Revaluation due to IFRS 9 (01/01/2018)
Cash and cash equivalents	4,408,398				
Cash and cash equivalents with limitation on disposal	285,620				
Trade accounts receivable	7,798,627				– 133,224
Other short-term assets and receivables	11,828				
Other long-term assets and receivables			0		
Financial assets		71			
Total assets	**12,504,473**	**71**	**0**	**0**	**– 133,224**
Liabilities to banks				4,010,253	
Trade accounts payable				5,520,020	
Liabilities under finance leases				60,058	
Other long-term financial liabilities				4,157	
Other short-term liabilities				152,101	
Liabilities from financing				5,399,603	
Total liabilities	**0**	**0**	**0**	**15,146,192**	**0**

	New measurement categories and carrying amount according to IFRS 9 (01/01/2018)			
	Fair Value through profit or loss	Fair Value through other comprehensive income (OCI)	Amortized cost	Impacts on retained earnings as of 01/01/2018
Cash and cash equivalents			4,408,398	
Cash and cash equivalents with limitation on disposal			285,620	
Trade accounts receivable			7,665,403	– 133,224
Other short-term assets and receivables			11,828	
Other long-term assets and receivables	0		0	
Financial assets		71	0	
Total assets	**0**	**0**	**12,371,249**	**– 133,224**
Liabilities to banks			4,010,253	
Trade accounts payable			5,520,020	
Liabilities under finance leases			60,058	
Other long-term financial liabilities			4,157	
Other short-term liabilities			152,101	
Liabilities from financing			5,399,603	
Total liabilities	**0**	**0**	**15,146,192**	**0**

The following table compares the closing balances of impairment losses as of December 31, 2017 with the opening balance of impairment losses as of January 1, 2018.

in €

	Impairment as of 12/31/2017	Impairment as of 01/01/2018
Cash and cash equivalents		
Trade accounts receivable	–445,117	–578,341
Other short-term assets and receivables		
Other long-term assets and receivables		
Financial assets		

Application of IFRS 15 "Revenue from Contracts with Customers": IFRS 15 regulates 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 replaces all previous revenue requirements under IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue from contracts with customers. The standard does not apply to contracts that fall within the scope of other standards, such as IAS 17 (Leases) or IFRS 16 (Leases, when applied), IFRS 4 (Insurance Contracts), financial instruments or other contractual rights or obligations under IFRS 9 (Financial Instruments), IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), IAS 27 (Separate Financial Statements) and IAS 28 (Investments in Associates and Joint Ventures). The standard also provides a model for recognizing and measuring gains and losses on the disposal of certain non-financial assets, including property, plant and equipment and intangible assets.

The standard describes the principles that an entity must apply to measure and recognize revenue. The rationale is that an entity recognizes revenue in the amount that reflects the consideration to which the entity is expected to be entitled in exchange for the transfer of goods or services to a customer. 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, whereby explicit provisions exist regarding the treatment of variable consideration, financing components, payments to the customer and barter transactions. After the transaction price is determined, Step 4 is to allocate the transaction price to the performance obligations in the contract. This is based on the standalone selling prices of the individual performance obligations. Step 5 is to recognize revenue when (or as) the entity satisfies a performance obligation. Revenue is recognized when control over the asset or service transfers to the customer. When a contract is entered into, IFRS 15 requires companies to determine whether the revenue generated by the contract should be recognized at a point in time or over time. First, it must be determined by applying certain criteria whether control over the performance obligation has transferred over time. If this is not the case, the revenue must be recognized at the point in time when control transfers to the customer. The transfer of control has occurred if the customer can independently determine the utilization of a good or service and derive an economic benefit from it. By contrast, if control transfers over time, revenue may only be recognized if progress towards completion can be reliably determined by applying 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 fulfil contracts and when such costs are to be capitalized. Costs that do not meet such criteria are to be expensed as they are incurred. Finally, the standard

contains new comprehensive provisions concerning disclosures to be made about revenue in IFRS reporter's financial statements. In particular, qualitative and quantitative disclosures on each of the following points must be made:

- its contracts with customers,
- material judgements and changes to them made when applying the revenue provisions to such contracts,
- assets deriving from capitalized costs to obtain and fulfil a contract with a customer.

As part of the completed implementation project for the recognition of revenue from contracts with customers, the relevant contracts of all business segments were reviewed to determine whether the requirements of IFRS 15, in particular in relation to the recognition of revenue over time, continue to be met and what effects the application of IFRS 15 will have. On the basis of this analysis as of December 31, 2017 and December 31, 2018, the first-time application of IFRS 15 did not result in any material changes to the previous accounting method for sales for the vast majority of the contracts and consequently had no effects on the balance sheet, income statement or cash flow statement as of January 1, 2018. In accordance with the standard's transitional provisions, the Group applies the new regulation retrospectively from the start of the 2018 financial year.

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 start of the earliest period presented or that have been changed before the start of the earliest period. No material effects arose in relation to the consolidated financial statements.

Amendment to IAS 40 "Transfers of Investment Property": The amendment to IAS 40 clarifies the cases in which the classification of a property as an "investment property" begins or ends if the property is still under construction or development. The exhaustive list in the current rule IAS 40.57 was unclear regarding the classification of property that had not yet been completed. The list is now no longer considered exhaustive so that unfinished property can be subsumed under the rule. No material effects arose in relation to the consolidated financial statements.

Application of IFRIC 22 "Foreign Currency Transactions and Advance Consideration": IFRIC 22 addresses a question on the application of IAS 21 – The Effects of Changes in Foreign Exchange Rates. The interpretation clarifies 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 arising from the advance consideration is recognized for the first time. In the case of receiving or making a one-time prepayment, the date of initial recognition of the non-financial asset/liability is the transaction date. The transaction date is the date on which the Group has to convert the amount of the functional currency and the foreign currency at the valid spot rate. If a transaction leads to several advance payments to be made or received over a period of time, the transaction date and thereby the exchange rate for each advance payment must be determined separately.

Application of IFRIC 22 is mandatory as of January 1, 2018. Upon initial application, the interpretation is to be applied either retrospectively in accordance with IAS 8 or prospectively to all assets, expenses and income within the scope of the interpretation. These are the periods presented as comparative information on initial recognition, after the beginning of the first reporting period (first-time interpretation) or at the beginning of the earlier reporting period. No material effects arise for the consolidated financial statements.

Improvements to IFRS 2014–2016 "Amendments to IFRS 1, IFRS 12, IAS 28": 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 in the meaning of IFRS 5; the disclosures under IFRS 12.B10–B16 (financial information) comprise an exception to this. IAS 28 clarifies that the option to measure an interest in an associate or a joint venture held by a venture capital company or another qualifying company may be exercised differently in the case of each interest held. In addition, the temporary relief provisions of IFRS 1 Appendix E (IFRS 1.E3–E7) were removed for first-time adopters of IFRS. No material effects arose for the consolidated financial statements.

New accounting standards not yet applied

Below is a summary of the new and revised standards, some of which have been endorsed by the European Commission, which were released by the IASB prior to this report's publication, but which SFC did not adopt early for 2018:

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

Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or 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 associate or a joint venture or the contribution of assets to an associate or joint venture.

Under IFRS 10, a parent company must recognize in profit or loss the gain or loss on the disposal of a subsidiary 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) be recognized only in the amount of the other parties' interest in this company.

In the future, the entire gain or loss on a transaction is to be recognized only if the assets sold or contributed comprise a business in 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 for an indefinite period.

Applying IFRS 16 "Leases": The new lease standard leads to far-reaching changes, particularly in the treatment of leases by lessees. The most significant change is that leases are no longer regarded as off-balance-sheet transactions and thereby as contingent transactions, and must instead be recognized on the balance sheet. This eliminates the previous differentiation between operating and finance leases for the lessee. In the future lessees will recognize "right-of-use" assets and a lease liability for all leases within the scope of the standard. The asset is amortized over the lease term in accordance with the provisions for non-financial assets and the liability is recognized in accordance with the provisions for financial instruments. In addition, the lessee is required to remeasure the lease liability when certain events occur. For low-value leased assets and for short-term leases (less than twelve months), application simplifications may be applied. The new standard is effective for financial years commencing on or after January 1, 2019. Early adoption of the standard is possible, provided that IFRS 15 "Revenue from Contracts with Customers" is also applied. The standard was endorsed by the EU in October 2017.

The change can have a significant effect on the Group's balance sheet ratios such as leverage and financial ratios, debt covenants and income statement ratios such as earnings before interest, tax, depreciation and amortization (EBITDA). The cash flow statement for lessees could also be affected, as payments for most of the lease liability are reported as financing activities. Lessor accounting will hardly change compared to today's lessor accounting. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17. Given the significant effect on accounting, lessees must carefully examine the contracts they have entered into in order to identify those that are or contain leases. This measurement will also be important for lessors in determining which contracts (or parts of contracts) are subject to the new revenue recognition standard. The Group has made an initial evaluation of the possible effects on its consolidated financial statements, but has not yet completed a detailed evaluation. The actual effects from the application of IFRS 16 on the consolidated financial statements at the time of initial application will depend on future economic conditions, such as the Group's interest rate on January 1, 2019, the composition of the leasing portfolio at that time, the Group's estimation concerning the exercise of extension options and the extent to which the Group takes advantage of rules concerning exceptions and recognition exemptions.

SFC will apply IFRS 16 for the first time for the financial year beginning January 1, 2019. Under the transitional provisions, SFC will apply the modified retroactive approach. The transitional effects are reported cumulatively in retained earnings.

SFC expects an increase in leasing liabilities as well as a comparable increase in non-current assets due to the rights-of-use to be capitalized at the time of first application. In future, depreciation and interest expenses will be recognized in the consolidated income statement instead of leasing expenses. This will lead to an improvement in EBITDA, but will have only an insignificant effect on the group result for the year.

To date, the most significant effect that has been identified is that the Group will recognize new assets and liabilities for its operating leases. On the basis of the previous analysis for the first-time application of IFRS 16, the Group expects an increase in liabilities (and corresponding rights-of-use) in the amount of € 9,453k.

In addition, the type of expenses related to these leases will change, as IFRS 16 replaces the straight-line expenses for operating leases with an amortization expense for right-of-use assets and interest expense for liabilities under the lease.

Applying IFRS 17 "Insurance Contracts": IFRS 17 replaces IFRS 4 and thereby for the first time establishes uniform requirements for the recognition, measurement, presentation and disclosure of information on insurance contracts, reinsurance contracts and investment contracts with discretionary participation. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, primary and reinsurance), irrespective of the type of entity issuing them, and to certain guarantees and financial instruments with discretionary participation features. The core of IFRS 17 is the general model, supplemented by a specific adjustment for contracts with direct participation features (variable fee approach) and a simplified approach (premium allocation approach), mainly for short-term contracts.

In accordance with the valuation model of IFRS 17, groups of insurance contracts are measured on the basis of the expected value of discounted cash flows with an explicit risk adjustment for non-financial risks and a contractual service margin that leads to the reporting of earnings in accordance with the provision of services.

Subject to adoption into EU law, IFRS 17 must be applied for reporting periods commencing on or after January 1, 2021. No significant effects are expected.

Amendment to IAS 19 "Prepayment Options": The amendments govern accounting when a plan amendment, curtailment or settlement in the employee benefit area occurs during the reporting period. The changes relate to current service cost and net interest income. It provides that an entity is required to perform the following when a plan is amended during a reporting period: (1) Determine the current service cost for the remainder of the period following the amendment, curtailment or settlement of the plan applying the actuarial assumptions underlying the remeasurement of the net defined benefit obligation. (2) Determine the net interest expense for the remainder of the period after the plan amendment.

As the modifications apply prospectively to plan amendments that occur on or after the date of initial application, most entities are unlikely to be affected by such modifications on transition. However, entities considering a plan amendment after initial application of the modifications may be affected.

Pending adoption into EU law, the modifications are to be applied to plan amendments granted or modified in financial years commencing on or after January 1, 2019. No significant effects are expected.

Amendment to IAS 28 "Long-Term Interests in Associates and Joint Ventures": The amendments clarify that IFRS 9 is to be applied to non-current investments in associates or joint ventures that are not equity accounted. The amendments are to be applied for the first time as of January 1, 2019, subject to their being adopted into EU law. The Group currently assumes that no material effects will arise for the consolidated financial statements.

Application of IFRIC 23 "Uncertainty over Income Tax Treatments": The tax treatment of certain items and transactions may depend on future recognition by the tax authorities or fiscal jurisdiction. IAS 12 Income Taxes regulates how actual and deferred taxes are to be measured and recognized. IFRIC 23 supplements the provisions of IAS 12 in relation to taking into consideration uncertainties regarding the income tax treatment of circumstances and transactions. Accordingly, the introduction of IFRIC 23 is intended to determine how the appropriate unit of account is to be determined and, depending on whether the uncertain tax view is better viewed individually or collectively as a group. In addition, the entity must reflect the effect of the tax exposure if it is unlikely that the tax authority will be able to accept the treatment. The effect of uncertainty must be measured either at the most probable amount or at the expected value, whichever method is better to resolve the uncertainty, and must be reassessed each time a change occurs or new information becomes available.

Subject to adoption into EU law, the interpretation is to be applied for the first time in the first reporting period of a financial year commencing on or after January 1, 2019, although early adoption is permissible. Earlier application is permitted. The Group currently assumes that no material effects will arise for the consolidated financial statements.

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

IFRS 3 clarifies that an entity should apply the principles of step business combinations when it obtains control over an operation in which it previously held an interest as part of a joint operation. The interest previously held by the acquirer must be remeasured.

IFRS 11 stipulates that a party is not to remeasure the interest previously held in a business operation in which it was previously involved as part of a joint operation if it obtains joint control.

IAS 12 is amended to the effect that all income tax consequences of dividend payments must be taken into consideration in the same way as the income on which the dividends are based.

Finally, IAS 23 stipulates that, when determining the cost of financing, if an enterprise has generally borrowed funds for the procurement of qualifying assets, borrowing costs incurred in connection with the procurement of qualifying assets are not to be taken into consideration until their completion.

Subject to adoption into EU law, the amendments are to be applied for the first time in the first reporting period of a financial year commencing on or after January 1, 2019. Earlier application is permitted. The Group currently assumes that no material effects will arise for the consolidated financial statements.

Estimation uncertainty and judgements

The preparation of the consolidated financial statements in accordance with IFRS requires management to make certain assumptions that have an effect on the measurement of assets and liabilities, disclosure of contingent assets and contingent liabilities on 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 applied to measure provisions. The carrying amount of warranty provisions, for example, is based on the historical development of warranties and on an assessment of all future, potential warranty cases, weighted by probability of occurrence. The long-term portion of the provisions determined on the basis of such assumptions is discounted. Previously applied discount rates were adjusted in the year under review to reflect current market developments. Note 23 contains information about the discount rates applied, the change in present value, and the effect of the rate adjustments.

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

Mandatory capitalization of self-developed intangible assets: Based on management's planning and estimates, development costs are capitalized to the extent that IFRS criteria are met. 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: Deferred tax assets are recognized on the Company's tax loss carryforwards based on tax profit planning. Please see note 10 "Income taxes" for additional information.

Measurement of share-based compensation: The Company's Supervisory Board has set up an SAR plan (SAR Plan) with the goal of reconciling the interests of shareholders and management. This provides for the allocation of virtual stock options to the members of the Management Board. Note (34) Share-based compensation contains information about the measurement model and inputs applied to determine the resultant expenses.

Recognition of sales from development assignments: SFC performs development assignments under joint development agreements (JDAs). Simark also has long-term customer contracts whose revenues are recognized over time pursuant to the related IFRS 15 method.

Write-down of non-financial assets: The Group evaluates all non-financial assets at each balance sheet date to determine whether indications of impairment exist. Goodwill is tested for impairment at least once per year, irrespective of whether related indications exist. 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 the expected credit loss model and the current economic environment. See note 33 "Financial instruments".

Scope of the consolidated financial statements

The consolidated financial statements include SFC and all companies directly or indirectly controlled by SFC. Control exists when the Company has power over the investee, is exposed to variable returns from its investment, and has the ability to exert its power to affect the level of returns. The Company re-assesses whether it controls an investee when facts and circumstances indicate that one or more of the three aforementioned criteria for control 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 consideration the voting patterns at earlier shareholder meetings.

The consolidated financial statements consequently include SFC as the ultimate parent company, the PBF Group acquired in 2011 and Simark Controls Ltd. acquired in 2013. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control is obtained until the date on which control ceases.

In the 2016 financial year, the US subsidiary SFC Energy Inc. was deconsolidated and since then was recognized as an investment on the consolidated balance sheet. The company is not material to the consolidated financial statements.

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 policies. The financial year of the companies included is the calendar year (January 1 to December 31).

The table below shows the direct and indirect interests held by the Company in each of its subsidiaries as of December 31, 2018.

FULLY CONSOLIDATED SUBSIDIARIES in %

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

In the 2018 financial year, no changes occurred to the ownership interests in the Group that would have resulted in a loss of control. No material limitations exist to the ability of the Group or its subsidiaries to gain access to, or to utilize, the Group's assets or to meet the Group's liabilities.

ACCOUNTING PRINCIPLES

Revenue recognition

SFC AG generates the predominant portion of its sales from the sale of fuel cell systems. Among other areas it addresses, the EFOY COMFORT product is utilized in the leisure market, especially in mobile homes and on boats. The industrial version, EFOY Pro, is sold for off-grid industrial applications. The Company also generates sales from the sale of fuel cell systems specifically developed for the defense & security segment (EMILY) and from the sale of portable fuel cells (JENNY). The Power Manager is also sold in this market. The Power Manager is a versatile electronic converter that enables and facilitates charging and operation of various types of electronic equipment and batteries with different power sources. Revenues are also generated from the sale of fuel cartridges and other products for network solutions and the sale of services and consulting in the military arena.

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

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

Until December 31, 2017, these sales were recognized when the customer or other party responsible for transport collected the order, i. e. at the time when opportunities and risks transferred to the customer, provided the amount of sales could be reliably calculated, economic benefits were to flow to the Company, and the costs involved in selling the item could be reliably calculated. Revenues are recognized at the value of the consideration for the sale and delivery of the product to the customer.

Since January 1, 2018, the recognition of such sales has been based, as a matter of principle, on the time (or period) at which the respective performance obligation is fulfilled, i. e. the control over the goods or services in question transfers to the customer. This is fulfilled if the customer has the opportunity to utilize the asset and essentially receives all of the remaining economic benefits from the asset.

Revenue is recognized when the amount of the expected consideration can be reliably measured, it is probable that the economic benefits associated with the sale will flow to the entity and the entity's own costs can be estimated. For this reason, SFC recognizes revenue from the sale of products when control transfers to the buyer. The majority of sales are realized through the sale of products at specific points in time. Customer discounts and rebates as well as the return of goods are generally deducted from sales. Provisions for customer discounts and rebates as well as returns of goods are recognized on an accrual basis in accordance with the underlying sales. Management utilizes the best possible estimates in this context.

The determination of the transaction price depends on the consideration expected from the customer for the service to be rendered. To the extent that SFC's contracts are based on contracts with only one performance obligation, the transaction price attributable to the respective performance obligation is recognized as revenue, net of estimated customer discounts and rebates, as soon as the respective performance obligation is fulfilled.

After receipt of payment, sales are adjusted by the actual payment. As the benefit obligations are generally significantly shorter than one year, the open obligations as of the balance sheet date are not presented in the notes to the financial statements. SFC utilizes the option under IFRS 15, whereby no need exists for short-term performance periods to take a financing component into consideration.

In the area of joint development agreements (JDAs), SFC develops fuel cells customized to clients' requirements. The joint development agreements are development contracts executed by the Company together with various public-sector clients.

Until December 31, 2017, these long-term development contracts and Simark's long-term production contracts were recognized applying the percentage-of-completion method (PoC method). The percentage of contract completion was determined applying the ratio of costs incurred to the expected total cost (cost-to-cost method). Contracts were reported under assets or liabilities from percentage-of-completion. Where accumulated performance (production costs incurred plus reported profits) exceeded individual advance payments, production orders were carried under assets from percentage-of-completion. If a negative net balance remained after deduction of advance payments, orders were carried under liabilities from percentage-of-completion.

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

Since January 1, 2018, these long-term development contracts and Simark's long-term production contracts have been recognized over time. Accordingly, performance obligations are settled on an ongoing basis over a period of time if the entity's performance creates or expands an asset over which the customer has control, or an asset is created for which the providing entity has no alternative utilization and the customer receives a benefit simultaneously with the performance, or another entity would essentially not be required to perform the work already performed, or the providing entity has a right to receive payment for the work already performed and expects to perform the contract. Revenue from such continuous performance obligations must be recognized in accordance with the stage of completion in the sense of transfers of control over goods or services as described above, provided that this can be reliably determined. The percentage of contract completion is determined applying the ratio of costs incurred to the expected total cost (cost-to-cost method). Contracts were reported under assets and liabilities from contracts with customers. Where accumulated performance (production costs incurred plus reported profits) exceeds individual advance payments, production orders are carried under assets from contracts with customers. If a negative result remains after deduction of advance payments, orders are carried under liabilities from contracts with customers.

If the profitability of a production order can be estimated reliably, the sales 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 realized is determined by comparing the costs incurred for the work performed to the total expected costs.

Expense recognition

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

Intangible assets

Purchased intangible assets are carried at cost less straight-line amortization. Intangible assets are generally amortized straight-line over their useful economic lives. The amortization periods are:

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

Customization costs for acquired ERP software as costs directly attributable to the acquisition are allocated to intangible assets. Amortization is applied straight-line 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 utilization 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 straight-line over the expected useful life of the asset. The useful life of the development costs to be amortized is 5 years at SFC and at PBF. Where requirements for capitalization are not met, expenses are recognized in the year in which they arise. Research costs are presented 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. Such assets are amortized straight-line over their expected useful life.

- PBF customer relationships 8 years
- PBF technology 5 years

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

The other intangible assets identified as part of the acquisition of Simark Controls Ltd. were completely written off as of December 31, 2017.

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 is to be utilized and made 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 straight-line.

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, 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 in the previous year, no such borrowing costs were incurred during the 2018 financial year.

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 realizable value (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 that cannot yet be utilized must be tested for impairment annually. If the net carrying amount of an asset is higher than its recoverable amount (greater of value in use or net realizable 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 an asset's recoverable amount, 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 amount of the asset (or cash-generating unit) is increased 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 recognized in previous years. Impairment reversals are recognized in profit or loss immediately.

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

Leases

Leases are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases, where economic ownership remains with the lessor, are operating leases. The subsidiary Simark Controls Ltd. had several leases in the form of a finance lease in the 2018 financial year. Please see note 27 "Liabilities from finance leases" for additional information.

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

Inventories

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

Inventories are subsequently measured taking into consideration their expected net realizable value as of the balance sheet date. The weighted average method is applied in order to measure the consumption of inventories.

Financial assets

Until December 31, 2017, financial assets in the meaning of IAS 39 were classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, or available-for-sale assets.

With the introduction of IFRS 9 on January 1, 2018, a new classification and measurement approach for financial assets applies, which reflects the business model under which the assets are held and the characteristics of their cash flows. The following categories of financial instruments are possible under IFRS 9:

- Debt instruments at amortized cost;
- Debt instruments measured at fair value through other comprehensive income (FVOCI), with cumulative gains and losses reclassified to the income statement upon derecognition of the financial asset (with reclassification);
- Debt instruments, derivatives and equity instruments that are measured at fair value through profit or loss (FVTPL);
- Equity instruments measured at fair value through equity, with gains and losses remaining in other comprehensive income (FVOCI) (without reclassification).

Until December 31, 2017, financial assets were measured at fair value upon initial recognition. In the case of financial assets not measured at fair value through profit or loss, transaction costs directly attributable to the acquisition of the financial asset or the issue of the financial liability were also included.

As of January 1, 2018, a normal market purchase or sale of financial assets must be recognized or derecognized either on the trade date or on the settlement date. The method selected must be applied consistently to all purchases and sales of financial assets that are classified in the same way in accordance with IFRS 9. According to IFRS 9, all financial assets are initially recognized at fair value, regardless of the valuation category to which

a financial instrument is assigned. Transaction costs must also be included in the valuation if financial instruments are subsequently measured at amortized cost.

The subsequent measurement of financial instruments continues to depend on their classification. Depending on the category, they are measured at amortized cost, at fair value through profit or loss, or at fair value in other comprehensive income. The effective interest method is applied for instruments measured at amortized cost.

As of December 31, 2018, financial assets were not allocated to the “at fair value through profit or loss” category in the Group.

Financial assets measured at amortized cost applying the effective interest method especially include trade receivables, other financial assets and receivables as well as 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 opportunities 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. In 2018, the last of three convertible bonds was converted into equity.

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

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

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

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

The issuer’s obligation to make scheduled payments of interest and principal represents a financial liability. On initial recognition, the fair value of the debt component is the present value of contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments

of comparable credit quality and generating essentially the same cash flows on the same terms, albeit without any equity warrant existing.

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

The bond with warrants categorized as FLAC and the loan categorized as FLAC are subsequently measured at amortized cost applying the effective interest method. The loan transaction costs are subsequently expensed over the loan term. The equity component is subsequently not remeasured, so that its carrying amount remains unchanged.

Impairment of financial assets

Until December 31, 2017, financial assets or groups of financial assets were tested for impairment at each balance sheet date. Any impairment losses were recognized immediately in the income statement. Financial assets were impaired if objective evidence was present as a result of one or more events that occurred after the initial recognition of the asset that a negative change had occurred in the cash flows expected from the financial investment. For the Group, objective evidence essentially referred to significant financial difficulties on the part of customers or a breach of contract, such as payment default.

Since January 1, 2018, SFC has applied the simplified approach for determining the expected credit loss model in accordance with IFRS 9 to determine the expected credit loss for trade receivables, according to which the credit loss is calculated on the basis of the total term of the financial asset. If objective indications are present of a credit loss, an individual value adjustment is made to the corresponding receivables. Risk provisions for expected credit losses on receivables not individually impaired are determined on the basis of the customer group-specific term profile of trade receivables. These are grouped into bands according to risk level and period outstanding. The historical default rates applied for this purpose are adjusted for forward-looking information such as economic market conditions and general future risks. In individual cases, trade receivables continue to be individually impaired if significant financial difficulties on the part of customers exist, or a breach of contract, such as non-payment.

The recognition of an expected credit loss generally applies a three-stage procedure for allocating valuation allowances:

Stage 1 includes all contracts with no significant increase in credit risk since initial recognition and regularly includes new contracts and contracts with payments less than 31 days past due. The portion of expected credit losses over the life of the instrument attributable to a default within the next twelve months is recognized.

If, after initial recognition, a financial asset has experienced a significant increase in credit risk but is not impaired in its credit quality, it is assigned to stage 2. The expected credit losses, which are measured over possible payment defaults over the entire term of the financial asset, are recorded as value adjustments.

If a financial asset's creditworthiness is impaired or a default has occurred, it is assigned to stage 3. The expected credit losses over the entire term of the financial asset are recognized as an impairment loss.

Objective evidence that the creditworthiness of a financial asset is impaired includes a past due date of 91 days or more and further information about significant financial difficulties of the debtor.

Trade accounts receivable are measured at amortized cost, less appropriate valuation allowances for recognizable default risks; this corresponds to the market value. Other financial assets and receivables are also recognized at amortized cost.

Offsetting and derecognition

Financial assets and liabilities are offset and recognized on the balance sheet at their net amount only when a legal right to them exists, and the intention exists to settle them on a net basis or to extinguish the associated liability simultaneously with the realization of the respective asset.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At the balance sheet date, the Group had no exposure to financial assets that were transferred but not fully derecognized.

Government grants

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

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

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 applying 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 sufficient future taxable profits will exist 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, as 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 a current obligation to a third party exists from a past event that will probably lead to a future outflow of resources and can be reliably determined. As a consequence, 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 as of the balance sheet date.

Provisions for warranty claims are recognized on the basis of existing or estimated future claims for damages, taking into consideration future income from the recycling of fuel cells. No guarantees or warranty obligations existed 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 incur 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, whichever is applicable, exceeds the anticipated economic benefit from the contract.

Financial liabilities

Until December 31, 2017, in accordance with IAS 39, financial liabilities were classified either as financial liabilities measured at fair value through profit or loss or as financial liabilities measured at amortized cost.

As of January 1, 2018, financial liabilities are classified either as measured at amortized cost (FLAC) or at fair value through profit or loss (FVTPL). FVTPLs are categorized if they are classified as held for trading, if they are derivatives, or if the liabilities are designated as at fair value through profit or loss at the time of acquisition.

SFC decides on the classification of its financial liabilities at initial recognition. Financial liabilities measured at amortized cost are initially recognized at the fair value of the consideration received less any transaction costs associated with the borrowing. After initial recognition, financial liabilities are measured at amortized cost applying the effective interest method.

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

Consolidation

Capital consolidation (consolidation of the investment account) is performed 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 intragroup transactions are eliminated. Receivables and liabilities between consolidated companies are mutually offset. Equally, all income and expenses from intragroup transactions are eliminated.

Net gains and losses on the intragroup supply of goods, which are included in the carrying amount of inventories, are eliminated. Deferred taxes are formed for differences resulting from the elimination of unrealized results of intragroup transactions.

Foreign currency translation

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

The consolidated companies' single-entity financial statements prepared in foreign currency are translated applying the modified closing rate method on the basis of the concept of functional currency under IAS 21 "Effects of Changes in Foreign Exchange Rates". Since SFC's subsidiaries generally conduct 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 deriving from foreign currency translation is offset with no effect on profit or loss, and is recognized separately in equity as other changes in equity not affecting profit or loss.

The exchange rates for the foreign currencies that are of material interest to the Group report the following changes:

in €

	Average rate	Average rate	Rate on reporting date	Rate on reporting date
	2018	2017	12/31/2018	12/31/2017
US-Dollar (USD)	1.1810	1.1307	1.1451	1.1988
Canadian Dollar (CAD)	1.5293	1.4662	1.5596	1.5027

2. NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) Sales

The following table presents an overview of sales:

in €	2018	2017
Sales	**61,704,242**	**54,291,819**
thereof from revenue recognition over time*	8,373,469	7,538,838

* from percentage-of-completion in the previous year

In the Oil & Gas segment, sales increased by 6.41 % due to growth in investment activity in the oil & gas industry in line with the recovery in the oil price. In the Industry segment, sales increased by 7.29 % in 2018 due to stronger demand from both new and existing customers. Sales in the Clean Energy & Mobility segment were down by 4.57 % year-on-year, reflecting the effect of a major order from Singapore that was recognized in the first quarter of 2017. Sales in the Defense & Security segment doubled due to strong national and international demand.

Sales are composed as follows:

in €	Segment				
	Clean Energy & Mobility	Industry	Defense & Security	Oil & Gas	Total
Region					
North America	126,405	87,464	26,026,206	92,816	26,332,891
Europe (without Germany)	5,358,663	12,852,468		940,166	19,151,297
Germany	2,468,398	2,592,846		7,109,971	12,171,215
Asia	1,312,984	772,676		1,442,510	3,528,170
Rest of the world	86,868	8,217		425,584	520,669
Total	**9,353,318**	**16,313,672**	**26,026,206**	**10,011,047**	**61,704,242**
Product					
Fuel cells	9,353,318		0	10,011,047	19,364,365
Instrumentation and Automation products in Oil & Gas Industry			26,026,206		26,026,206
Power Supplies		16,313,672			16,313,671
Total	**9,353,318**	**16,313,672**	**26,026,206**	**10,011,047**	**61,704,242**
Revenue recognition					
Revenue recognition recognized at a certain point in time	9,353,318	16,313,672	18,232,666	9,431,119	53,330,774
Revenue recognized over a period of time		0	7,793,540	579,928	8,373,469
Total	**9,353,318**	**16,313,672**	**26,026,206**	**10,011,047**	**61,704,242**

Further information can be found in (38) Disclosures on consolidated segment reporting and (16) contracts with customers.

(2) Production costs of work performed to generate sales

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

		in €
	2018	2017
Cost of materials	32,864,992	29,944,740
Personnel costs	4,179,488	3,353,089
Cost of premises	1,235,942	1,484,335
Transport costs	856,159	916,185
Amortization of self developed intangible assets	256,274	307,321
Other depreciation, amortization and impairments	370,799	258,365
Consultancy	120,911	38,322
Other	738,138	263,583
Total	**40,622,703**	**36,565,940**

(3) Sales costs

Sales costs were as follows:

		in €
	2018	2017
Personnel costs	7,194,614	6,252,335
Depreciation, amortization and impairments	222,805	674,500
Advertising and travel costs	1,208,043	1,028,813
Consultancy/commissions	449,767	551,064
Cost of materials	172,401	104,874
Additions to allowances for receivables	156,112	42,080
Other	1,388,225	1,132,368
Total	**10,791,967**	**9,786,034**

(4) Research and development costs

Other long-term financial liabilities were as follows:

in €	2018	2017
Personnel costs	3,014,987	2,733,108
Consultancy and patents	1,116,188	846,054
Cost of premises	293,389	376,112
Cost of materials	441,448	338,977
Other depreciation, amortization and impairments	100,722	328,862
Impairment losses/amortization of self developed intangible assets	0	587
Capitalization of self developed intangible assets	– 1,383,571	– 767,275
Set-off against grants	– 314,913	– 246,511
Other	256,782	282,099
Total	**3,525,032**	**3,892,013**

(5) General administration costs

General administration costs were as follows:

in €	2018	2017
Personnel costs	2,688,683	2,699,476
Audit and consultancy costs	621,089	619,396
Investor relations/annual meeting	295,467	273,372
Insurance	202,510	220,963
Depreciation, amortization and impairments	181,417	177,171
Recruiting costs	162,136	191,517
Car-operating costs	69,386	140,635
Travel costs	126,899	164,597
Supervisory Board compensation	112,500	112,500
Costs of hardware and software maintenance	48,373	71,100
Set-off against grants	– 2,276	– 12,567
Other	724,198	357,719
Total	**5,230,382**	**5,015,879**

(6) Other operating income:

Other operating income reports the following changes:

		in €
	2018	2017
Foreign currency exchange transaction gains	30,926	77,644
Income from tangible fixed assets sales	0	2,296
Other	289,241	197,226
Total	**320,167**	**277,166**

(7) Other operating expenses

Other operating expenses are composed as follows:

		in €
	2018	2017
Foreign currency exchange transaction losses	119,354	193,837
Contingent losses for premises	0	1
Total	**119,354**	**193,838**

(8) Restructuring expenses

In the 2018 financial year, expenses for restructuring measures were incurred in the amount of € 409,636 (previous year: € 0).

(9) Financial result

Interest and similar income reports the following changes:

		in €
	2018	2017
Interest income from liquid funds	0	7
Total	**0**	**7**

The composition of interest and similar expense is presented in the following table:

		in €
	2018	2017
Interest expense on option bond/loan	504,424	895,947
Other interest and similar expense	213,087	241,294
Interest costs on other provisions	19,799	37,582
Total	**737,310**	**1,174,822**

Interest and similar expenses include the interest expense from the convertible bond in the amount of € 4,495 (previous year: € 332,470). Interest expenses on loans amounted to € 499,451 (previous year: € 563,169). Interest expense on bonds with warrants amounted to € 478 (previous year: € 307).

(10) Income taxes

The following table presents the composition of taxes on income:

in €	2018	2017
Actual income taxes on the result for the current year	538,405	205,401
Deferred tax income (-)/expense (+)	50,137	– 168,179
Net Income (-)/expenses (+) from income taxes	**588,542**	**37,222**

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

Income taxes for the subsidiaries in the Netherlands, Romania and Canada are calculated applying the respective tax rate for the specific country. For the year under review, tax rates of 16 % to 26.91 % (previous year: 16 % to 25 %) were applied.

Deferred tax assets and liabilities were as follows:

in €	12/31/2018	12/31/2017
Deferred tax assets		
Loss carryforwards	503,978	346,167
Provisions	30,934	23,741
Inventories	86,709	148,332
Other liabilities	0	5,549
Other	61,908	12,913
Total	**683,529**	**536,702**
Deferred tax liabilities		
Other intangible assets	40,343	84,354
Self developed intangible assets	774,198	488,545
Convertible bonds	0	456
Other assets	3,135	75,306
Total	**817,676**	**648,661**

Subject to the tax audit, tax loss carryforwards existed in Germany and Netherlands of € 51,741,883 (previous year: € 49,841,436) for corporation tax and € 48,781,462 (previous year: € 47,233,547) for trade tax as of the balance sheet date. Deferred tax assets of € 503,978 (previous year: € 346,167) have been recognized on these tax loss carryforwards of SFC AG and its Netherlands subsidiary. As of December 31, 2018, no deferred tax assets had

been recognized for € 92,367,947 (previous year: € 91,294,287) of tax loss carryforwards within the Group. Of these tax loss carryforwards, an amount of € 92,367,947 (previous year: € 91,294,287) can be carried forward indefinitely in Germany. The previous year's figures for loss carryforwards were adjusted to reflect the separate determination of the remaining loss carryforward.

No deferred tax liabilities exist relating to outside basis differences.

The following table presents a reconciliation of the income taxes expected in the respective financial year to the actual taxes presented in the consolidated income statement:

		in €
	2018	2017
Tax rate	**27.38 %**	**27.38 %**
Result from ordinary operations	**588,025**	**– 2,035,000**
Expected tax expenses	**161,001**	**– 557,183**
Reconciliation to the reported tax income/expense		
Tax ineffective loss carryforwards	42,257	0
Change in write-down of deferred tax assets	165,609	555,252
Differences in the tax rate	– 42,762	8,837
Taxes from permanent differences – non-deductible expenses	50,521	19,728
Capitalisation of costs for capital increase	35,856	0
Other	176,060	10,589
Reported tax expense in the consolidated income statement	**588,542**	**37,222**

(11) Cost of materials

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

		in €
	2018	2017
Raw materials and supplies and related goods	31,172,713	27,728,270
Related services	2,306,128	2,660,321
Total	**33,478,841**	**30,388,591**

(12) Depreciation, amortization and impairments

For information about depreciation, amortization and impairments, please see notes (21) Intangible assets and (22) Property, plant and equipment.

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

in €	2018	2017
Wages and salaries	12,072,861	11,574,737
Social security expenses required by law	1,560,420	1,355,551
Variables/bonuses	1,283,919	858,366
Other social security expenses/pensions	350,312	324,160
Expenses for settlements	409,636	0
Expenses/income from SAR/Long Term Incentive Plan	817,563	491,515
Other	583,061	183,932
Total	**17,077,772**	**14,788,261**

The social security expenses required by law include the Company's share of € 619,777 in contributions to the public pension insurance system (previous year: € 555,312).

The average number of permanent employees was as follows:

	2018	2017
Full-time employees (incl. Management Board)	239	212
Part-time employees	30	29
Total	**269**	**241**

The Company employed an average of 8 (previous year: 9) 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 €	12/31/2018	12/31/2017
Finished goods	5,970,283	4,808,622
Raw materials and supplies	3,258,029	2,736,608
Unfinished goods	524,817	394,092
Total	**9,753,129**	**7,939,322**

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

in €	12/31/2018	12/31/2017
Raw materials and supplies – before impairment	3,476,723	2,882,701
Impairment	– 218,694	– 146,093
Net book value	**3,258,029**	**2,736,608**

in €	12/31/2018	12/31/2017
Unfinished and finished goods – before impairment	7,428,926	6,395,749
Impairment	– 933,825	– 1,193,035
Net book value	**6,495,101**	**5,202,714**

Inventories with a residual carrying amount of € 5,345,831 (previous year: € 2,246,170) were pledged as collateral for liabilities, while inventories with a remaining carrying amount of € 3,819,350 (previous year: € 3,353,021) were pledged as security.

(15) Trade accounts receivable

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

in €	12/31/2018	12/31/2017
Trade accounts receivable – gross	10,343,872	8,243,744
Allowances for risk of default	– 678,515	– 445,117
Total	**9,665,357**	**7,798,627**

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 carrying amount of € 9,892,638 (previous year: € 7,487,061) were pledged as collateral for liabilities.

Trade accounts receivable with a residual carrying amount before write-downs of € 551,328 (previous year: € 27,157) were pledged as collateral for an as yet undrawn credit line (original interest rate of 5.5 %) in the amount of € 1,211,702 (previous year: € 966,071).

(16) Assets and liabilities from contracts with customers

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 (instalment payments received), the difference is reported as an asset from contracts with customers. Conversely, construction contracts with a negative net balance are reported as liabilities from contracts with customers.

		in €
	12/31/2018	12/31/2017
Proceeds shown	8,373,469	7,538,838
Costs incurred and gains recognized under contracts on or before the reporting date	8,373,469	7,825,349
Partial settlements	7,905,768	7,103,588
Production contracts with a positive balance due from the customer (reported as receivables from contracts with customers)*	**492,281**	**913,114**
Production contracts with a negative balance due from the customer (reported as liabilities from contracts with customers)*	**– 24,580**	**– 191,353**

* In previous year receivables or liabilities from percentage-of-completion

During the project duration, changes to the order by the customer in relation to the agreed scope of services to be provided, e. g. changes to the specification of the service or the duration of the contract, may lead to an increase or reduction in contract sales and costs. The resultant effects for the current period as well as foreign currency effects are recognized through profit or loss.

The assets and liabilities from contracts with customers have a remaining term of less than one year.

The period-related sales are distributed within the Group as follows:

	in €
	12/31/2018
Receivables from contracts with customers (period-related)	492,281
Liabilities from contracts with customers (period-related)	24,580

The transaction price for the remaining benefit obligations is € 24,580, which will be settled in 2019.

As of December 31, 2018, no capitalized costs existed that are incurred in connection with the initiation or fulfilment of contracts.

(17) Income tax receivables

Income tax receivables of € 2 (previous year: € 2) relate to tax refund claims of Simark Controls Ltd. of € 0 (previous year: € 0), PBF of € 0 (previous year: € 0) and SFC AG of € 2 (previous year: € 2) 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 €
	12/31/2018	12/31/2017
Deferred income	181,883	182,817
VAT receivables	133,331	77,638
Receivables from grants	3,966	11,828
Prepayments made	87,497	32,280
Others	165,917	199,775
Total	**572,594**	**504,338**

Other current assets and receivables include financial assets amounting to € 3,966 (previous year: € 11,828).

(19) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and current account balances as well as time and overnight money accounts with banks that are due within three months. In the 2018 financial year, bank accounts in the amount of € 7,474,508 were pledged.

(20) Cash and cash equivalents with limitations on disposal

In connection with the rental agreement for the Company's building at Eugen-Sänger-Ring 7, a fixed-term deposit account in the amount of € 285,620 (previous year: € 285,620) was blocked in favor of the landlord as of the balance sheet date.

(21) Intangible assets

The Group's intangible assets report the following changes:

in €

	Software	Patents and licences	Capitalised patents	Development costs	Goodwill PBF Group and Simark	Other intangible assets	Total
Acquisition costs							
As of 01/01/2017	**906,825**	**410,335**	**571,487**	**6,397,946**	**13,517,558**	**6,966,694**	**28,770,845**
Additions	77,079	0	0	767,275	0	0	844,354
Disposals	– 768	0	0	– 1,829,972	0	0	– 1,830,740
Reclassification	0	– 5,416	0	0	0	0	– 5,416
Differences arising from currency translation	– 2,495	0	0	0	– 436,459	– 255,139	– 694,093
As of 12/31/2017	**980,641**	**404,919**	**571,487**	**5,335,249**	**13,081,099**	**6,711,555**	**27,084,950**
Additions	44,331	17,150	0	1,383,571	0	0	1,445,052
Disposals	– 17,383	0	0	0	0	0	– 17,383
Differences arising from currency translation	– 1,611	0	0	0	– 253,238	– 148,034	– 402,883
As of 12/31/2018	**1,005,978**	**422,069**	**571,487**	**6,718,820**	**12,827,861**	**6,563,521**	**28,109,736**
Depreciation and impairment losses							
As of 01/01/2017	**– 757,883**	**– 187,877**	**– 570,308**	**– 4,660,937**	**– 4,961,138**	**– 5,778,142**	**– 16,916,285**
Scheduled depreciation	– 109,120	– 30,630	– 1,180	– 313,135	0	– 833,729	– 1,287,794
Disposals	768	0	0	1,829,972	0	0	1,830,740
Differences arising from currency translation	1,256	– 166	0	0	0	237,735	238,826
As of 12/31/2017	**– 864,979**	**– 218,673**	**– 571,488**	**– 3,144,100**	**– 4,961,138**	**– 6,374,136**	**– 16,134,513**
Scheduled depreciation	– 60,894	– 22,425	0	– 385,079	0	– 176,044	– 644,442
Disposals	17,383	0	0	0	0	0	17,383
Differences arising from currency translation	779	0	0	0	0	148,034	148,813
As of 12/31/2018	**– 907,711**	**– 241,098**	**– 571,488**	**– 3,529,179**	**– 4,961,138**	**– 6,402,146**	**– 16,612,759**
Carrying amounts							
As of 01/01/2017	148,942	222,458	1,179	1,737,009	8,556,420	1,188,552	11,854,560
As of 12/31/2017	**115,662**	**186,246**	**– 1**	**2,191,149**	**8,119,961**	**337,419**	**10,950,437**
As of 12/31/2018	**98,267**	**180,971**	**0**	**3,189,641**	**7,866,723**	**161,375**	**11,496,977**

SFC AG has assigned IP rights (patents, trademarks, domains) with a residual carrying amount of € 155,465 (previous year: € 162,570) as security. No intangible assets have been pledged at Simark Controls Ltd.

Development costs

Grants in the amount of € 8,851 (previous year: € 259,078) were received in connection with development activities and reported as a reduction in research and development costs of € 6,575 (previous year: € 246,511) as well as general administrative costs of € 2,276 (previous year: € 12,567).

Impairment Tests for Goodwill

The goodwill included in the consolidated financial statements relates to differences in the respective purchase prices arising from the business combinations of the PBF Group and Simark Controls Ltd. over the net assets of the acquired businesses measured in accordance with IFRS 3.

The goodwill of the PBF Group was allocated in full to the PBF Group cash-generating unit within the Industry segment, and the goodwill from the Simark Controls Ltd. business combination was allocated in full to the Oil & Gas segment.

In both cases, the recoverable amount is calculated by determining the fair value less costs to sell applying the discounted cash flow method. Taking into consideration the significant inputs, the determination of the fair value falls under Level 3 of the IFRS 13 hierarchy.

The planned cash flows from the three-year plan prepared by the relevant management (2019 to 2021) are applied. In addition, the plan values were then extrapolated applying a growth rate of 1.5 % (2022) and 0.5 % (2023 ff.), which was also applied as the long-term growth rate.

Goodwill: PBF Group

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

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

Sales growth and EBITDA margin

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

The growth assumptions are based on the general economic environment, the performance of the relevant markets and the specific tapping of new markets in terms of region (Asia) and industry (lasers, semiconductors, security), particularly on the basis of system solutions. Based on this identified potential, an above-average growth rate is expected, which corresponds to a compound average growth rate (CAGR) of approximately 7.7 % p. a. over the entire planning horizon (2019 – 2023).

The planned expansion in the EBITDA margin is based on the historically observed gross margin and on a detailed resource and materials cost planning. The operating EBITDA margin expected in the long term amounts to around 10.80 %.

Cost of capital

The cost of capital applied to discount the cash flows is the weighted average cost of capital (WACC), which was determined on the basis of a group of peergroup companies in the same industrial sector as the PBF Group utilizing publicly available data. The WACC indicates the average weighted return requirement of equity and debt capital providers on the basis of the ratio of the capital granted at present values. To determine the WACC, an analysis of the cost of equity, the cost of debt and the capital structure at present values is required. The cost of capital applied in the reporting year was approximately 8.02 % (or approximately 7.52 % after subtracting growth from the terminal value).

On the basis of the above information, no impairment loss was recognized for goodwill in the year under review.

Goodwill of Simark Controls Ltd.

The goodwill from the business combination of Simark Controls Ltd. amounts to € 6,687,891 (prior year: € 6,941,131; CAD 10,430,435).

The main assumptions applied in determining the fair value less costs to sell are sales growth, the operating EBIDTA margin and the cost of capital applied.

Sales growth and EBITDA margin

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

The growth assumptions are based on the segment-specific market environment and the Company's currently observed growth rates. Based on the overall planning horizon (2019 – 2023), average sales growth (CAGR) amounts to approximately 6.0 % p. a.

The planned expansion in the EBITDA margin is based on the historically observed gross margin and on a detailed resource and materials cost planning. The operating EBITDA margin expected in the long term amounts to around 9.3 %.

Cost of capital

The cost of capital applied to discount the cash flows is the weighted average cost of capital (WACC) determined on the basis of a group of peer companies in the same industry as Simark Ltd., making recourse to 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. To determine the WACC, an analysis of the cost of equity, the cost of debt and the capital structure at fair value is required. The cost of capital applied in the reporting year was approximately 8.61 % (or approximately 8.11 % after subtracting growth from the terminal value).

No indications of impairment of goodwill existed in the year under review.

Other intangible assets: PBF Group

As part of the acquisition of the PBF Group, the company's customer relationships, technology and order backlog were identified. The following table shows the changes in other intangible assets relating to the acquisition of the PBF Group:

in €

	Customer relationships	Technology	Order book	Total
Acquisition costs				
As of 01/01/2018	**1,408,354**	**1,231,359**	**14,309**	**2,654,022**
As of 12/31/2018	**1,408,354**	**1,231,359**	**14,309**	**2,654,022**
Amortization and impairment losses				
As of 01/01/2018	**– 1,070,934**	**– 1,231,359**	**– 14,309**	**– 2,316,602**
Scheduled amortization	– 176,044	0	0	– 176,044
As of 12/31/2018	**– 1,246,978**	**– 1,231,359**	**– 14,309**	**– 2,492,646**
Carrying amounts				
As of 01/01/2018	**337,420**	**0**	**0**	**337,420**
As of 12/31/2018	**161,376**	**0**	**0**	**161,376**
Remaining term of amortization (in years)	1	0	0	

(22) Property, plant and equipment

The Group's property, plant and equipment reports the following changes:

				in €
	Technical equipment and machinery	Other equipment, fixtures and fittings	Payments in advance and assets under construction	Total
Acquisition costs				
As of 01/01/2017	**1,891,402**	**3,808,170**	**31,470**	**5,731,042**
Additions	200,437	272,577	23,946	496,960
Disposals	– 145,629	– 26,111	– 16,296	– 188,035
Reclassification	0	15,174	– 15,174	0
Differences arising from currency translation	– 4,439	– 23,280	0	– 27,720
As of 12/31/2017	**1,941,771**	**4,046,530**	**23,946**	**6,012,247**
Additions	331,594	554,514	42,072	928,180
Disposals	0	– 37,869	0	– 37,869
Reclassification	0	32,784	0	32,784
Differences arising from currency translation	– 3,459	– 17,149	0	– 20,608
As of 12/31/2018	**2,269,906**	**4,578,810**	**66,018**	**6,914,734**
Depreciation and impairment losses				
As of 01/01/2017	**– 1,636,852**	**– 2,889,314**	**0**	**– 4,526,166**
Scheduled depreciation	– 88,707	– 370,304	0	– 459,011
Disposals	141,989	14,241	0	156,230
Differences arising from currency translation	593	13,360	0	13,953
As of 12/31/2017	**– 1,582,977**	**– 3,232,017**	**0**	**– 4,814,994**
Scheduled depreciation	– 98,283	– 409,822	0	– 508,105
Disposals	0	37,870	0	37,870
Depreciation on reclassifications	0	– 46,411	0	– 46,411
Differences arising from currency translation	1,418	11,228	0	12,646
As of 12/31/2018	**– 1,679,842**	**– 3,639,152**	**0**	**– 5,318,994**
Carrying amounts				
As of 01/01/2017	254,550	918,857	31,470	1,204,876
As of 12/31/2017	**358,794**	**814,513**	**23,946**	**1,197,253**
As of 12/31/2018	**590,064**	**939,658**	**66,018**	**1,595,740**

At Simark Controls Ltd., non-current assets with a residual carrying amount of € 260,497 (previous year: € 148,792) are pledged as collateral for liabilities. At SFC AG, non-current assets with a residual carrying amount of € 418,958 (previous year: € 427,747) have been pledged as collateral.

(23) Other provisions and tax provisions

The changes in other provisions are presented in the following table:

in €	Warranty provisions	Total other provisions	Tax provisions
As of 01/01/2018	**1,622,942**	**1,622,942**	**51,509**
Additions	745,838	745,838	32,257
Interest costs	19,799	19,799	0
Utilization	– 202,722	– 202,722	– 51,509
Reversal	– 182,810	– 182,810	0
As of 12/31/2018	**2,003,047**	**2,003,047**	**32,257**
thereof with a remaining term between one and five years	**1,063,737**	**1,063,737**	**0**

Warranty provisions

Warranty provisions are reported at the present value of the net amount required to satisfy the obligations. Discounting is based on an interest rate of 1.10 % (previous year: 1.33 %) on the part due after 2 years, 1.20 % (previous year: 1.43 %) on the part due after 3 years, 1.34 % (previous year: 1.58 %) on the part due after 4 years and 1.48 % (previous year: 1.73 %) on the part due after 5 years.

Tax provisions

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

(24) Liabilities to banks

Short-term liabilities to banks include loans and overdrafts. Current liabilities to banks consist of a variable interest loan of € 621,821 (previous year: € 1,794,781) granted to Simark Controls Ltd. as well as the utilization of the credit line of Simark Controls Ltd. of € 1,501,133 (previous year: € 1,363,070) and of the PBF Group of € 2,462,291 (previous year: € 852,402). The long-term portion of the loan to Simark Controls Ltd. in the amount of € 1,710,006 (previous year: € 0) is reported under long-term liabilities to banks. The loan extended to Simark Controls has a term until September 2022.

(25) Liabilities from prepayments

Liabilities from prepayments relate to prepayments received on orders and have a remaining term of less than one year. This relates to liabilities from contracts with customers deriving from contracts with revenue recognition at a point in time.

(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. The Group's finance leases relate exclusively to other equipment and factory and office equipment of Simark Controls Ltd. The contractual terms are between three and five years. They contain clauses for month-by-month renewal and purchase options at expiration. The net carrying amounts of leased assets capitalized under finance leases as of the balance sheet date are presented in the following table:

in €

	12/31/2018	12/31/2017
Other equipment, fixtures and fittings	100,849	63,649
Net book value capitalized in conjunction with finance leases	**100,849**	**63,649**

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, the lease instalments to be paid to the respective lessors reduce the liability in the amount of the repayment portion. The interest portion of the payments is recognized in the income statement.

The following table shows a reconciliation of the future minimum lease payments to liabilities:

in €

	12/31/2018			12/31/2017		
	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	46,061	1,543	43,653	42,886	1,437	40,442
Between 1 and 5 years	68,333	13,532	53,736	25,068	4,964	19,616
Total	**114,394**	**15,075**	**97,389**	**67,954**	**6,401**	**60,058**

(28) Other liabilities

Other short-term liabilities were as follows:

		in €
	12/31/2018	12/31/2017
Variables/bonuses	989,660	906,614
Outstanding vacation	496,150	394,930
Wage tax	256,456	244,612
VAT	436,257	264,275
Social security	68,117	97,532
Supervisory board compensation	112,500	112,500
Christmas bonus	204,407	172,957
Trade association contributions	39,600	39,600
Retention of business records	33,100	32,100
Compensatory tax for the severely disabled	7,920	3,120
Overtime	65,941	3,313
Other	840,344	314,902
Total	**3,550,452**	**2,586,455**

Other current liabilities include financial liabilities in the amount of € 152,100 (previous year: € 152,100).

The other short-term assets and receivables consist of the following:

		in €
	12/31/2018	12/31/2017
Other loans	2,568,811	4,880,363
Convertible bond – bond component	0	519,240
Total	**2,568,811**	**5,399,603**

Other current financial liabilities include a bond issued in August 2017 in the amount of € 2,568,811.

The tranche of the convertible bond of € 519,240 existing as of December 31, 2017, was exercised in January 2018 and consequently no longer exists as of December 31, 2018.

This convertible bond was issued in January 2016 with a nominal amount of € 550,000, an issue amount of € 495,000 and an interest rate of 4 %. The convertible bond consisted of a liability component (financial liability) and an equity component. The equity component was reported in equity in the capital surplus account. The effective interest rate of the financial liability at inception was 10.56 %.

In August 2017 a bond with warrants was issued in connection with a fixed-interest bond. The nominal amount of the bond is € 4,997,500. The bond with warrants with a nominal value of € 2,500 and a term until 2022 bears interest at 4.0 % p. a. The issue price of the bond with warrants was set at 100 % of the nominal amount. In addition, the bond with warrants comprises warrant rights to 204,700 no-par-value ordinary bearer shares in the Company with a notional value of € 1.00 per share of the Company's share capital at an option price of € 3.6639 each.

		in €
	12/31/2018	12/31/2017
SAR Stock Appreciation Rights	1,346,469	528,905
Total	**1,346,469**	**528,905**

Other non-current liabilities as of December 31, 2018 relate exclusively to the liability from the Stock Appreciation Rights Plan (SAR Plan) for members of the Management Board in the amount of € 1,346,469 (previous year: € 528,905).

Other long-term financial liabilities were as follows:

		in €
	12/31/2018	12/31/2017
Option bond	4,383	4,157
Total	**4,383**	**4,157**

(29) Income tax liabilities

No income tax liabilities existed as of the balance sheet date (previous year: € 0).

(30) Equity

The change in equity of SFC is presented in the consolidated statement of changes in equity.

Subscribed capital

The subscribed capital increased from € 9,659,456 to € 10,249,612 in the 2018 financial year. This increase is attributable, firstly, to the exercise of a convertible bond. As a consequence, 90,156 no-par-value bearer shares were converted, increasing the subscribed capital by € 90,156.

Secondly, a capital increase of 500,000 shares was implemented as part of a private placement in June 2018 on the basis of Authorized Capital 2017. The placement price was fixed at € 8.44 per new share. The Company received gross proceeds of € 4,220,000 from the capital increase. As a consequence, the share capital rose by € 500,000.

Capital surplus

The capital surplus amounted to € 79,497,706 as of the balance sheet date (previous year: € 75,475,155). The increase in the capital surplus results on the one hand from the convertible bond of € 433,511 exercised in January 2018 and the capital increase of € 3,720,000 implemented in June 2018 less the associated costs of the capital increase.

Conditional capital

Pursuant to the resolution of the Annual General Meeting of the shareholders of SFC AG on June 14, 2016, the Company's Management Board was authorized to issue by June 13, 2021, with the Supervisory Board's consent, bearer convertible bonds and/or bonds with warrants or a combination of such instruments (referred to collectively as the bonds) with a total nominal value of up to € 14,000,000, with or without a term limit, and to grant to the bondholders conversion or warrant rights (including with conversion obligations) to new bearer shares in the Company with a proportional amount in the share capital of up to € 3,485,930 (Conditional Capital 2016) as defined in greater detail in the terms and conditions of the convertible bonds or bonds with warrants. Conditional Capital of € 819,672 also existed (Conditional Capital 2011).

Following the capital measures described below, SFC AG has Conditional Capital 2016 in the amount of € 3,324,503 and Conditional Capital 2011 in the amount of € 278,736 to secure the issuance of no-par-value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, participation rights and/or participation bonds (or combinations of such instruments).

Authorized capital

At the AGM on May 17, 2017 shareholders passed a resolution to cancel Authorized Capital 2016/I, to create a new Authorized Capital and to amend section 5 (Authorized Capital 2017/I) of the articles of incorporation accordingly.

The Management Board was authorized by an AGM resolution of May 17, 2017 to increase the share capital, with the Supervisory Board's consent, on one or more occasions, in exchange for cash or non-cash capital contributions, by up to € 4,523,624.00 (Authorized Capital 2017/I).

Following the capital measures described below, SFC AG has Authorized Capital 2017/I of € 4,023,624.

Authorization to purchase treasury shares

The Company's Management Board is not authorized at present to purchase treasury shares.

Foreign exchange translation reserve

The foreign exchange translation reserve relates to changes not recognized in profit or loss from foreign subsidiaries' currency translation.

Effect of applying IFRS 9 and IFRS 15 for the first time

The first-time application of IFRS 9 had a negative effect on the equity of SFC AG in the amount of € 96,747. The first-time application of IFRS 15 had no effect on the Group's equity.

4. OTHER DISCLOSURES

(31) Contingent liabilities

Contingent liabilities are potential 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 utilized and/or the amount of the obligation cannot be measured with sufficient reliability.

No identifiable contingent liabilities existed as of the reporting date.

(32) Other financial liabilities

The other financial liabilities derived from rental and leasing agreements which the Company has entered into.

Obligations under operating leases

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

In the financial year under review, an amount of € 2,288,260 (previous year: € 2,060,244) was expensed under operating leases.

The total minimum rent payments under such non-terminable operating leases that had an initial or remaining term of more than one year as of the reporting date were comprised as follows, analyzed by due date:

		in €
	12/31/2018	12/31/2017
Minimum rental payments under operate leases		
Within 1 year	2,179,307	2,053,064
Between 1 and 5 years	6,733,986	3,604,427
More than 5 years	1,315,736	0
Total	**10,229,029**	**5,657,491**

The operating leases also include rent for the Company's production, development and administration buildings. The agreement automatically terminates after the renewal for an additional five years at March 31, 2025.

Order commitments

The Group had purchasing commitments of € 13,757,846 (previous year: € 12,895,834) as of the reporting date. These relate primarily to framework orders for raw materials and supplies.

Contingent liabilities

No contingent liabilities existed as of the balance sheet date.

Financial Covenants

Simark Controls Ltd.

In connection with financing for the Simark subsidiary, comprehensive financial covenants were entered into with the lending banks depending on various threshold values at Simark, as were repayment clauses that apply in the event of a breach. The following covenants and threshold values were agreed to for Simark at December 31, 2018:

- Working capital ratio (WCR) (both banks):
  Current assets/current liabilities: > 1.20

- Debt service coverage ratio (DSCR):
  EBITDA/debt service: > 1.20

- Funded debt to EBITDA ratio (FDER):
  Interest-bearing liabilities/EBITDA: < 2.50

PBF

The following financial covenant (lending agreement clause) existed as of December 31, 2018 in connection with the financing of the PBF subsidiary (PBF Power Srl):

- Debt ratio < 3.5
  Solvency ratio > 35 %

SFC AG

As part of the financing of SFC AG, a financial covenant was agreed with the lender. This covenant provides for compliance with the following clause:

- Financial liabilities at Group level < € 14 million

As at December 31, 2018, all credit agreement clauses were complied with.

(33) Financial instruments

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

CARRYING AMOUNTS SHOWN ON THE BALANCE SHEET	in €
	12/31/2018
Financial assets	
Loans and receivables	
Trade accounts receivable	9,665,357
Other assets and receivables – short term	3,966
Cash and cash equivalents	7,519,689
Cash and cash equivalents with limitation on disposal	285,620
Financial assets measured as at fair value through profit or loss	
Other long-term assets and receivables	71
Financial liabilities	
Liabilities carried at amortized cost	
Liabilities to banks	6,295,250
Trade accounts payable	7,093,371
Liabilities under finance leases	97,389
Other long-term financial liabilities	4,383
Other liabilities – short term	152,100
Other financial liabilities – short term	2,568,811

As of December 31, 2017, financial assets and liabilities were classified by measurement category in accordance with IAS 39 as follows:

CARRYING AMOUNTS SHOWN ON THE BALANCE SHEET	in €
	12/31/2017
Financial assets	
Financial assets measured as at net book value	
Interests in SFC Energy Inc.	71
Loans and receivables	
Trade accounts receivable	7,798,627
Other assets and receivables – short term	11,828
Cash and cash equivalents	4,408,398
Cash and cash equivalents with limitation on disposal	285,620
Financial assets measured as at fair value through profit or loss	
Other long-term assets and receivables	0
Financial liabilities	
Liabilities carried at amortized cost	
Liabilities to banks	4,010,253
Trade accounts payable	5,520,020
Liabilities under finance leases	60,058
Other long-term financial liabilities	4,157
Other liabilities – short term	152,101
Other financial liabilities – short term	5,399,603

The carrying amounts of the financial assets and financial liabilities carried at amortized cost in the financial statements largely correspond to their fair values. The fair value of the bond with warrants issued in August 2017 and recognized at amortized cost amounts to € 1,900 (previous year: € 1,656) as of the balance sheet date and the fair value of the loan amounts to € 2,566,912 (previous year: € 4,936,878).

Financial assets and liabilities measured at fair value are allocated to the following three hierarchy levels: Level 1 is applied to financial assets and liabilities if a market price exists for the same assets and liabilities in an active market. 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 reported at Level 3 if the fair value is determined from unobservable parameters. In the 2018 financial year, no financial liabilities and financial assets exist that are based on fair value measurement at Level 3.

The assignment to the fair value levels was as follows:

FAIR VALUE HIERARCHY in €

	12/31/2018		
	Level 1	Level 2	Total
Financial assets			
measured as at amortized cost			
Trade accounts receivable	0	9,665,357	9,665,357
Other assets and receivables – short term	0	3,966	3,966
Cash and cash equivalents	0	7,519,689	7,519,689
Cash and cash equivalents with limitation on disposal	0	285,620	285,620
recognised at fair value directly in equity			
Interests in SFC Energy Inc.	0	71	71
Financial liabilities			
Liabilities carried at amortized cost			
Liabilities to banks	0	6,295,250	6,295,250
Trade accounts payable	0	7,093,371	7,093,371
Liabilities under finance leases	0	97,389	97,389
Other long-term financial liabilities	0	4,383	4,383
Other short-term financial liabilities	0	2,568,811	2,568,811
Other liabilities – short term	0	152,100	152,100

Pursuant to IAS 39, the allocation to the fair value levels in the previous year was as follows:

FAIR VALUE HIERARCHY			in €
	12/31/2017		
	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	7,798,627	7,798,627
Other assets and receivables – short term	0	11,828	11,828
Cash and cash equivalents	0	4,408,398	4,408,398
Cash and cash equivalents with limitation on disposal	0	285,620	285,620
Financial liabilities			
Liabilities carried at amortized cost			
Liabilities to banks	0	4,010,253	4,010,253
Trade accounts payable	0	5,520,020	5,520,020
Liabilities under finance leases	0	60,058	60,058
Other long-term financial liabilities	0	4,157	4,157
Other short-term financial liabilities	0	5,399,603	5,399,603
Other liabilities – short term	0	152,101	152,101

Equity instruments that were previously recognized at cost under IAS 39 must be measured at fair value in accordance with IFRS 9 (with or without an effect on profit or loss). The valuation option of the standard is applied for the existing equity instruments in the Group, so that the investment in SFC Inc. was allocated to the category at fair value (without reclassification) with no effect on profit or loss. For reasons of materiality, a fair value calculation was not performed and recognition continues to be at amortized cost.

The analysis by measurement category of income and expense from the financial instruments is as follows:

EXPENSES AND INCOME FROM THE FINANCIAL INSTRUMENTS in €

	2018
Financial assets	
Loans and receivables	
Trade accounts receivable	
Income from write-downs of trade accounts receivable	55,954
Expense from write-downs of trade accounts receivable	– 101,887
Income from currency translation of trade accounts receivable	26,238
Expense from currency translation of trade accounts receivable	– 110,295
Cash and cash equivalents	
Interest income	0
Net result of loans and receivables	**– 129,990**
Financial liabilities	
Liabilities carried at amortized cost	
Liabilities to banks	
Interest expense	– 213,087
Trade accounts payable	
Income from currency translation of trade accounts payable	4,689
Expense from currency translation of trade accounts payable	– 9,059
Other long-term financial liabilities	
Interest expense	– 504,424
Net result of liabilities carried at amortized cost	**– 721,881**

As of December 31, 2017, the expenses and income of financial instruments were presented according to the following IAS 39 measurement categories:

EXPENSES AND INCOME FROM THE FINANCIAL INSTRUMENTS	in €
	2017
Financial assets	
Loans and receivables	
Trade accounts receivable	
Income from write-downs of trade accounts receivable	166,558
Expense from write-downs of trade accounts receivable	–42,080
Income from currency translation of trade accounts receivable	60,383
Expense from currency translation of trade accounts receivable	–190,124
Cash and cash equivalents	
Interest income	7
Net result of loans and receivables	**–5,256**
Financial liabilities	
Liabilities carried at amortized cost	
Liabilities to banks	
Interest expense	–241,297
Trade accounts payable	
Income from currency translation of trade accounts payable	17,261
Expense from currency translation of trade accounts payable	–3,714
Other long-term financial liabilities	
Interest expense	–895,947
Net result of liabilities carried at amortized cost	**–1,123,697**

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 the expansion strategy it has elected to pursue require further investments, which must be financed to ensure future business success – in particular in the areas of product development, tapping additional market segments and new regions, and expanding existing market segments. The funds raised in connection with the public share offering in May 2007, the cash capital increase in November 2014 and August 2016, the issue of the convertible bond in December 2015 including the extension in 2016, the issue of a loan and the bond with warrants in August 2017, the exercise of a convertible bond in January 2018 and the capital increase implemented in June 2018 were raised for these investments. Until utilized as part of the growth strategy, liquidity surpluses are invested in low-risk financial instruments (e. g. overnight deposits and time deposits) at various banks.

On August 3, 2017, the Management Board of SFC AG, with the approval of the Supervisory Board on the same day, concluded an overall financing concept with Harbert European Growth Capital Fund (Harbert) consisting of the issue of a secured, fixed-interest bond with a nominal value of € 4,997,500, the conclusion of the corresponding collateral agreements and the issue of a bond with warrants. The secured fixed-interest bearer bond is to be redeemed in stages by December 31, 2019. The bond with warrants was issued on the basis of the authorization granted by the Company's Annual General Meeting on June 14, 2016, under exclusion of the subscription rights of the Company's shareholders, by way of a private placement to Harbert.

The bond with warrants with a nominal value of € 2,500 and a 2022 maturity bears interest at 4.0 % p. a. The issue price of the bond with warrants was set at 100 % of par value. In addition, the bond with warrants offers warrant rights to 204,700 no-par-value bearer ordinary shares of the Company with a notional value of € 1.00 per share of the Company's share capital at a warrant price of € 3.6639 each.

The Company received gross proceeds of € 5 million from these capital measures.

The Group's capital management relates to cash and cash equivalents (see note "Cash and cash equivalents"), equity (see note "Equity") and liabilities to banks (see note "Liabilities to banks").

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

COMPANY'S EQUITY RATIO		in €
	12/31/2018	12/31/2017
Equity	**18,204,161**	**13,894,782**
As a percentage of total capital	43.3 %	40.2 %
Long-term liabilities	4,996,007	2,075,623
Short-term liabilities	18,864,822	18,563,477
Liabilities	**23,860,829**	**20,639,099**
As a percentage of total capital	56.7 %	59.8 %
Total equity and liabilities	**42,064,989**	**34,533,882**

SFC's capital structure changed in the 2018 financial year due to the exercise of the convertible bond, the raising of the Simark loan and the capital increase. As a result of the capital measures implemented, the equity ratio rose to 43.3 % (previous year: 40.2 %).

Underlying operating result

The "underlying operating result" was one of the instruments the Company employed for internal steering in the 2018 financial year. The following table shows the reconciliation of the operating profit reported in SFC's consolidated income statement to the underlying operating profit:

RECONCILIATION TO UNDERLYING OPERATING RESULT (EBIT)		in €
	2018	2017
EBIT (earnings before interest and taxes)	**1,325,335**	**– 884,719**
Restructuring costs	409,636	0
Reported as sales costs		
Impairment of intangible assets identified in acquisitions	0	469,563
Expenses for the management board SAR Plan	429,062	318,419
Reported as general administrations costs		
Expenses for the management board SAR Plan	388,501	173,096
Expenses for acquisition-related personnel costs	0	100,303
Underlying operating result (EBIT)	**2,552,534**	**176,662**

Financial risks, such as market, default or liquidity risks, may arise in connection with financial instruments and are explained 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 Group's financial position and performance. In addition, credit and liquidity risks exist associated with market price risks or are accompanied by a deterioration of the operating business or disruptions to financial markets.

Credit risk

Credit risk derives primarily from trade accounts receivable. The risk consists of the possibility of default by a contractual partner, as the customer structure is characterized by various major 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 overdue receivables are discussed on a weekly basis as part of receivables management and measures are initiated with the respective sales employees. For the PBF and Simark subsidiaries, the risk of default is prevented in such a way that, due to the manageable number of customers or bad debts, overdue receivables are first investigated by accounting staff and then discussed with the customer by the relevant sales employee.

The amounts recognized on the balance sheet are net of the allowance for doubtful accounts estimated by management based on the expected credit loss model and the current economic environment. Individual value adjustments are applied as soon as an indication exists that receivables are uncollectible. The indications are based on close contact with the respective customers as part of receivables management. The expected losses are determined based on customers' historical payment histories. At each balance sheet date, the expected loss over the remaining term is determined as a percentage based on the period overdue.

The Group considers a financial asset to be impaired if it is unlikely that the debtor will be able to pay its credit obligation in full to the Group without the Group having to resort to measures such as the realization of collateral (where such collateral is available). The maximum default amount corresponds to the net carrying amount of the receivables. In the reporting period, as in the previous year, no collateral from defaulted receivables was acquired and recognized. The receivables from product sales are secured for SFC by retention of title.

Indicators that a financial asset's credit quality is impaired include the following observable data:

- significant financial difficulties on the part of the customer
- a breach of contract, such as default or overdue by more than 90 days
- restructuring of a loan or credit by the Group that it would not otherwise consider
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization, or
- the disappearance, due to financial difficulties, of an active market for a security.

Of the trade receivables of € 9,665,357 (previous year: € 7,798,627), € 671,240, € 539,609, € 383,500, € 368,425 and € 321,198, respectively, are attributable to the 5 largest customers, comprising a total of € 2,283,972 (previous year: € 1,008,997, € 599,928, € 258,381, € 209,804 and € 198,333 attributable to the 5 largest customers respectively, amounting to a total of € 2,275,444). No other material risk concentrations exist.

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 €

	2018	2017
Write-downs as of January, 01	**445,117**	**571,270**
Effect of first-time adoption of IFRS 9	133,224	0
Additions	156,112	42,080
Use	0	– 1,674
Release	– 55,954	– 166,559
Write-downs as of December, 31	**678,499**	**445,117**

The following table shows the term structure of overdue but not yet impaired trade receivables in the amount of € 2,943,483 (previous year: € 3,043,584):

in €

	2018	2017
Gross book value of the impaired receivables	853,335	377,642
Specific write-downs	– 678,515	– 278,750
Net book value of the impaired receivables	**174,820**	**98,892**
Not past due or impaired	6,547,054	4,656,150
Past due and not impaired		
Up to one month past due and not impaired	1,752,080	2,514,184
One to three months past due and not impaired	723,003	280,983
Three to six months past due and not impaired	444,444	196,393
Over six months past due and not impaired	23,956	52,025
Receivables per balance sheet	**9,665,357**	**7,798,627**

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

The expected loss rate per term band is broken down as follows:

					in €
	12/31/2018				
	not overdue	overdue less than 30 days	overdue 30 to 90 days	overdue more than 90 days	sum
Expected loss rate (in %)	1 %	2 %	5 %	57 %	
Accounts receivables (gross)	6,603,093	1,790,179	1,022,375	928,225	10,343,872
allowance for doubtful accounts	56,039	37,299	52,680	532,497	678,515

No write-downs of the other financial assets were applied. As of the balance sheet date, no overdue claims existed in this respect.

Furthermore, no default risks exist in relation to liquid assets. These liquid assets mainly comprise 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 such risk, the banks in which the deposits are made are selected with care, and the deposits are distributed 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 carrying amount 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, August 2016, July 2017, January and June 2018 and by the issue of the convertible bond in 2015 and 2016 as well as the loan and the bond with warrants in August 2017. The cash reserves increased significantly from the previous year due to these capital measures.

In the final instance, responsibility for liquidity risk management lies with the Management Board, which has established an appropriate concept to manage short-, medium- and long-term financing 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 incurs cash outflows from the financial liabilities held, which are presented undiscounted at their earliest possible dates in the table below. The cash inflows from financial instruments of current and non-current assets are presented in the same manner. The remaining net cash outflow will be covered by existing cash and cash equivalents.

in €

	2018			2017		
	Total	1 year	> 1 year	Total	1 year	> 1 year
Non-derivative financial liabilities						
Liabilities to banks	– 6,295,250	– 4,585,244	– 1,710,006	– 4,010,253	– 4,010,253	0
Trade accounts payable	– 7,093,371	– 7,093,371	0	– 5,520,020	– 5,520,020	0
Liabilities under finance leases	– 97,389	– 43,653	– 53,736	– 60,058	– 40,442	– 19,616
Other long-term financial liabilities	– 4,383	0	– 4,383	– 4,157	0	– 4,157
Other short-term financial liabilities	– 2,568,811	– 2,568,811	0	– 5,399,603	– 5,399,603	0
Other financial liabilities	– 152,100	– 152,100	0	– 152,100	– 152,100	0
Total cash outflow	**– 16,211,304**	**– 14,443,179**	**– 1,768,125**	**– 15,146,191**	**– 15,122,419**	**– 23,773**
Non-derivative financial assets						
Cash and cash equivalents	7,805,309	7,805,309	0	4,694,017	4,694,017	0
Trade accounts receivable	9,665,357	9,665,357	0	7,798,627	7,798,627	0
Other financial assets	3,966	3,966	0	11,828	11,828	0
Total cash inflow	**17,474,632**	**17,474,632**	**0**	**12,504,472**	**12,504,473**	**0**
Net liquidity from financial instruments	**1,263,328**	**3,031,453**	**– 1,768,125**	**– 2,641,719**	**– 2,617,946**	**– 23,773**

Based on Simark's financial debt, the Group applies an interest rate of 7.13 % (previous year: 5.31 %) until the end of the remaining term to calculate interest payments amounting to € 310,626 (previous year: € 63,901).

The loan, which was issued in August 2017, bears interest of € 150,049 until end of its term at an interest rate of 10.5 %. The bond with warrants is liable for interest payments of € 575 until maturity based on an interest rate of 4 %.

Cash includes cash equivalents with limitations on disposal.

Interest rate risk

Interest rate risk mainly results from the investment of cash and cash equivalents. As part of the capital increase in 2007, shares were also placed in the USA. In this context, SFC was required to assume the contractual obligation to comply with certain tax laws in the USA. Consequently, no investments may exceed a three-month term at present. In this respect, SFC's net interest income is significantly influenced by short-term capital market interest rates.

In addition, the Group is exposed to interest rate risks from short-term and long-term variable-interest liabilities. An increase or decrease of 50 basis points in interest rates would have increased or decreased net interest income by € 16,737 (previous year: € 5,370). In addition, the Group is not exposed to any material interest rate risks from variable-rate instruments.

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

Exchange rate risk

In the future, due to Simark's volume of business, SFC will generate a substantial portion of its sales in Canadian dollars, which will be offset by expenses and payments in Canadian dollars. In addition, SFC and Simark generate sales in US dollars in North America. Simark also purchases some products in US dollars. No forward exchange contracts were concluded in the 2018 financial year.

The currency translation of the assets and liabilities of Simark Controls Ltd. as of December 31, 2018 would have had an effect of € – 734,457 (previous year: € – 763,395) if the exchange rate had fluctuated by – 5 %, and an effect of € 734,457 (previous year: € 763,395) if the exchange rate had fluctuated by 5 %, which would have been reflected in the Group's equity.

No material effects arise from the foreign currency translation of the business of the Romanian subsidiary and its transactions in Romanian leu.

The measurement of the foreign currency receivables and liabilities of SFC, PBF and Simark as of December 31, 2018 would have resulted in a foreign currency result of € 48,144 (previous year: € 13,225) if the exchange rate had fluctuated by – 5 % and € – 48,144 (previous year: € – 13,225) if the exchange rate had fluctuated by 5 %.

The aim of foreign currency management is to minimize currency losses in comparison with budget assumptions. For this 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. In the case of larger open positions, the open balance is largely hedged by means of forward exchange transactions if the forecast and market expectations result in significant deviations from the budgeted assumptions. No open forward exchange transactions exist as of the balance sheet date. To this extent, foreign exchange risk exists for the unhedged portion of sales.

(34) Share-based compensation

Stock Appreciation Rights Plan

As part of the Management Board employment agreements, the Company entered into a contract for the creation of a stock appreciation rights plan (SAR Plan). The goal of the plan is to foster a business policy that is strongly aligned with shareholder interests in order to promote the long-term appreciation of the shareholders' interests in the Company. In the 2018 financial year, additional SARs were granted to Mr. Pol (tranche HP3) under the new Management Board contract. Furthermore, in 2018 an agreement was concluded between the Company and Mr. Binder providing for the SARs granted but not yet vested to expire on March 1, 2019 and March 1, 2020, in the amount of at least 47,500 SARs, irrespective of the performance of the Company's share price.

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 during blackout periods, provided certain performance targets are reached. The number of SARs available to exercise largely depends on the average price of SFC's share 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 should 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 applying a Monte Carlo model, taking into consideration the terms on which the SARs were awarded.

The status of the SARs in 2018 is presented in the following table:

	Tranche HP1	Tranche HP2	Tranche PP2	Tranche MB1	Tranche HP3
Number of stock appreciation rights (SAR)	90,000	180,000	360,000	180,000	180,000
Maximum term (years)	7	7	7	7	7
Outstanding number of phantom shares at the beginning of the reporting period (01/01/2018)	7,500	60,000	360,000	180,000	0
During 2018 reporting period					
SAR awarded	0	0	0	0	180,000
SAR forfeited	0	40,000	60,000	30,000	0
SAR exercised	7,500	0	0	0	0
SAR expired	0	0	0	0	0
SAR outstanding at the end of the reporting period (12/31/2018)	**0**	**20,000**	**300,000**	**150,000**	**180,000**
Exercisable SAR at the end of the reporting period (12/31/2018)	**0**	**0**	**0**	**0**	**0**

The SARs reported the following changes in the prior-year period:

	Tranche PP1	Tranche HP1	Tranche StS1	Tranche HP2	Tranche PP2	Tranche MB1
Number of stock appreciation rights (SAR)	360,000	90,000	180,000	180,000	360,000	180,000
Maximum term (years)	7	7	7	7	7	7
Outstanding number of phantom shares at the beginning of the reporting period (01/01/2017)	120,000	7,500	60,000	120,000	0	0
During 2017 reporting period						
SAR awarded	0	0	0	0	360,000	180,000
SAR forfeited	120,000	0	60,000	60,000	0	0
SAR exercised	0	0	0	0	0	0
SAR expired	0	0	0	0	0	0
SAR outstanding at the end of the reporting period (12/31/2017)	**0**	**7,500**	**0**	**60,000**	**360,000**	**180,000**
Exercisable SAR at the end of the reporting period (12/31/2017)	**0**	**0**	**0**	**0**	**0**	**0**

The following parameters were taken into consideration in connection with the measurement as of December 31, 2018:

	Tranche HP2	Tranche PP2	Tranche MB1	Tranche HP3
Measurement date	12/31/2018	12/31/2018	12/31/2018	12/31/2018
Remaining term (years)	3.50	5.25	5.17	6.50
Expected volatility	48.15 %	44.83 %	44.71 %	42.42 %
Risk-free interest rate	−0.50 %	−0.27 %	−0.28 %	−0.11 %
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	€ 8.26	€ 8.26	€ 8.26	€ 8.26

The following parameters were taken into consideration in the measurement in the previous year (December 31, 2017):

	Tranche PP1	Tranche HP1	Tranche HP2	Tranche PP2	Tranche MB1
Measurement date	12/31/2017	12/31/2017	12/31/2017	12/31/2017	12/31/2017
Remaining term (years)	3.25	3.00	4.50	6.25	6.17
Expected volatility	44.98 %	43.14 %	42.87 %	40.38 %	40.52 %
Risk-free interest rate	−0.44 %	−0.49 %	−0.24 %	0.00 %	−0.01 %
Dividend yield	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Strike price	€ 1.00	€ 1.00	€ 1.00	€ 1.00	€ 1.00
Share price on the measurement date	€ 6.19	€ 6.19	€ 6.19	€ 6.19	€ 6.19

For the term, the length of time from the measurement date to the end of the respective agreement was applied. The share price was determined via Bloomberg applying the closing price in XETRA trading at December 31, 2018. The volatility presented is based on the historical volatility of the SFC share over periods matching the respective remaining terms. The expected volatility taken into consideration is based on the assumption that future trends can be inferred from historical volatility, so that the actual volatility may diverge from the assumptions made. The expected dividend yield is based on market estimates for the amount of the expected dividend for the SFC share in 2018 and 2019.

As of December 31, 2018, a liability of € 1,346,469 (of which € 1,256,537 non-current) was recognized under other liabilities under the SAR Plan (December 31, 2017: € 528,906; of which € 450,725 non-current). Expenses for the period from January 1 to December 31 amounted to € 817,563 (previous year: € 491,515).

(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 members of the Management and Supervisory Boards along with close members of their families. The Management and Supervisory boards were comprised as follows in the 2017 and 2018 financial years:

Management Board members

Dr. Peter Podesser, Simbach am Inn, businessman (Chairman)
Marcus Binder, Munich, graduates electrical engineer (from March 1, 2017)
Hans Pol, Ede, Netherlands, businessman

Members of the Supervisory Board

Tim van Delden, Düsseldorf, graduate engineer (Chairman)
David William Morgan, Rolvenden (United Kingdom), MA ACA, businessman (Deputy Chairman)
Hubertus Krossa, Wiesbaden, 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 €
	2018		2017	
	Fixed portion	Variable portion	Fixed portion	Variable portion
Management Board	793,783	1,190,811	844,147	870,829
Supervisory Board	112,500	0	112,500	0
Total	**906,283**	**1,190,811**	**956,647**	**870,829**

Liabilities to persons in key positions amounting to € 1,899,038 (previous year: € 935,934) were reported as of the balance sheet date.

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

FINANCIAL YEAR 2018 in €

	Fixed compensation	Short-term performance based compensation	Long-term performance based compensation	Total
Dr. Peter Podesser	373,358	186,598	647,502	1,207,458
Hans Pol	218,566	68,148	133,887	420,601
Marcus Binder	201,859	68,502	86,175	356,536
Total	**793,783**	**323,248**	**867,564**	**1,984,595**

FINANCIAL YEAR 2017 in €

	Fixed compensation	Short-term performance based compensation	Long-term performance based compensation	Total
Dr. Peter Podesser	374,145	264,000	305,552	943,697
Hans Pol	197,866	42,000	70,640	310,506
Steffen Schneider	102,616	18,750	– 10,213	111,152
Marcus Binder	169,520	54,542	125,558	349,620
Total	**844,147**	**379,292**	**491,537**	**1,714,976**

(36) Earnings per share

Earnings per share are calculated by dividing the consolidated net income for the year that is attributable to shareholders of the parent by the average number of shares in circulation. The calculation of diluted earnings per share is based on the profit attributable to the holders of ordinary shares and a weighted average of the ordinary shares in circulation after eliminating all dilutive effects of potential ordinary shares. In the 2018 financial year, the diluted and basic earnings per share were identical thanks to dilution protection, as conversion into ordinary shares would reduce the loss per share for the current year.

The weighted average of common shares at December 31, 2018 was as follows:

	2018	2017
Number of shares in circulation at the beginning of the period	9,659,456	9,047,249
Effect of the shares issued in August	360,534	76,754
Weighted average number of shares at December, 31	**10,019,990**	**9,124,003**

(37) Disclosures on the consolidated cash flow statement

The consolidated cash flow statement shows the origin and utilization of cash flows. In accordance with IAS 7 "Cash Flow Statements", cash flow statements analyze cash flows in terms of cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. The cash and cash equivalents presented in the cash flow statement correspond to the cash and cash equivalents item on the balance sheet. Cash and cash equivalents consist of cash and credit balances in the amount of € 7,319,689 (previous year: € 3,484,778) as well as time and call deposit accounts in the amount of € 485,620 (previous year: € 923,620).

Income tax payments and refunds primarily pertained to the income tax payments for the Canadian and Romanian subsidiaries.

As SFC invests surplus cash in short-term, low-risk financial securities, the interest that is received is allocated to the cash flow from investing activities. Interest payments are presented in cash flow from financing activities.

The following table shows a reconciliation of the movements in liabilities to the cash flow from financing activities.

in €

	12/31/2017	Payment effective	Payment non-effective			12/31/2018
			Exchange rate change	Interest	Conversion	
Other Liabilities from financing	–5,403,760	–2,811,323	0	504,424	–523,668	–2,573,193
Liabilities to banks	–4,010,253	2,201,325	–130,843	214,515	0	–6,295,250
Liabilities from financing	–60,058	0	0	37,331	0	–97,389
Subscribed capital and capital surplus	–85,134,611	4,089,040	0	0	523,668	–89,747,318
Total	**–94,608,682**	**3,479,042**	**–130,843**	**756,270**	**0**	**–98,713,150**

in €

	12/31/2016	Payment effective	Payment non-effective			12/31/2017
			Exchange rate change	Interest	Conversion	
Other Liabilities from financing	–4,861,199	2,212,122	0	895,947	–2,565,507	–5,403,760
Liabilities to banks	–4,316,886	–344,287	–203,639	241,293	0	–4,010,253
Liabilities from financing	–63,835	0	–3,776	0	0	–60,058
Subscribed capital and capital surplus	–82,179,261	389,843	0	0	2,565,507	–85,134,611
Total	**–91,421,180**	**2,257,678**	**–207,415**	**1,137,240**	**0**	**–94,608,682**

(38) Disclosures on consolidated segment reporting

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

The segmentation has been adjusted to the Group's management from the 2018 financial year, which is based on the Group's most important sales markets. The Group has consequently expanded its three segments, Oil & Gas, Security & Industry and Leisure, which had been reported until December 31, 2017, to four segments, namely Clean Energy & Mobility, Industry, Oil & Gas and Defense & Security.

For the internal realignment to the core markets of Clean Energy & Mobility, Industry, Oil & Gas and Defense & Security, as well as to manage the Group, the Management Board utilizes sales, gross profit and earnings before interest, tax, depreciation and amortization (EBITDA).

The previous segment reporting for 2017 has been reconciled to the new segmentation valid from 2018 in order to ensure comparability with the current segment reporting.

In the Defense & Security segment, SFC Energy AG generates sales in the Defense & Security market. The Defense & Security market includes defense and security applications from military organizations and government agencies.

The "Clean Energy & Mobility" segment is highly diversified. Firstly it includes any area of industry where professional users run electrical equipment away from the grid and use SFC's EFOY Pro fuel cell. This includes applications in security and surveillance, traffic management, and the wind power industry. Secondly, SFC sells compact fuel cell generators in the Consumer segment under the EFOY COMFORT brand to generate electricity for mobile homes, sailboats and cabins through established commercial channels (wholesalers, retailers and OEMs).

In the Industry segment, PBF develops and produces high-quality and reliable power supply systems.

In the Oil & Gas segment, Simark operates as a specialized sales, service and product integration company for high-tech power supply, instrumentation and automation products in the oil & gas industry.

No offsetting between the segments occurs. The net result from interest income and interest expenses is presented in the financial result.

The following presents an analysis of sales and non-current segment assets by region:

	Sales from transactions with external customers		Long-term Assets	in €
	2018	2017	12/31/2018	12/31/2017
North America	26,332,891	24,755,160	7,651,135	7,109,568
Europe (not including Germany)	19,151,297	17,264,250	3,257,586	2,832,672
Germany	12,171,215	6,536,048	2,867,596	2,205,450
Asia	3,528,170	5,302,817	0	0
Rest of the world	520,669	433,544	0	0
Total	**61,704,242**	**54,291,819**	**13,776,317**	**12,147,689**

The analysis of sales by region was based on the registered offices of the respective customers. In the Group's German domestic market, sales of € 12,171,215 (previous year: € 6,536,048) were achieved.

In the 2018 financial year, as in the previous year, no customer generated more than 10 % of total sales.

The depreciation of non-current assets included in production costs can be analyzed by segment as follows:

	2018	2017 (in €)
Clean Energy & Mobility	270,975	313,165
Industry	178,825	113,561
Oil & Gas	0	0
Defense & Security	197,804	174,007
Total	**647,604**	**600,734**

Interest income is included in the Clean Energy & Mobility segment in the amount of € 0, in the Industry segment in the amount of € 0, in the Oil & Gas segment in the amount of € 0 and in the Defense & Security segment in the amount of € 0.

Interest expenses of € 288,568 relate to the Clean Energy & Mobility segment, € 0 to the Industry segment, € 178,465 to the Oil & Gas segment and € 270,277 to the Defense & Security segment.

Internal reporting is limited to expense and income items. As a consequence, the segment reporting does not include any balance sheet items.

(39) Auditor's fees

The auditor's fees were:	2018	2017 (in €)
Audit of Financial statements	149,000	160,667
Total	**149,000**	**160,667**

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

The Management and Supervisory Boards have issued an updated declaration of compliance with the German Corporate Governance Code in 2018 pursuant to Section 161 of the German Stock Corporation Act (AktG) and published it on March 21, 2018 on the website of SFC Energy AG (www.sfc.com/en/investoren/corporate-governance). The declaration of conformity will remain available on the Internet for the next five years and has thereby been made permanently accessible to the public. It is published in the Annual Report as part of the Corporate Governance Report.

(41) Material events after the reporting period

The Management Board and Supervisory Board of SFC Energy AG have initiated a process to review and prepare strategic options for the Company's future development and growth. The Company's major core shareholders are being included in such considerations. The management's goals include consistent regional expansion of business activities with a special focus on the USA and China as well as the rapid development of the hydrogen fuel cell business unit. Add-on acquisitions will also be evaluated. Strategic options also expressly include exploring the markets to attract new, medium-term strategically oriented investors and a possible capital increase.

Up to the date of preparation of these financial statements, no events of particular significance occurred that are expected to have a material effect on the Group's financial position and performance.

Brunnthal, March 21, 2019

The Management Board

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (Industry)

Marcus Binder
Board Member (Defense & Security)

SFC ENERGY AG, BRUNNTHAL CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2018 RESPONSIBILITY STATEMENT

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

Brunnthal, March 21, 2019

The Management Board

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (Industry)

Marcus Binder
Board Member (Defense & Security)

INDEPENDENT AUDITORS' REPORT

TO SFC ENERGY AG, BRUNNTHAL

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of SFC Energy AG, Brunnthal, and its subsidiaries (together, the Group), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report on SFC Energy AG, Brunnthal, for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the Declaration on Corporate Governance for the Group pursuant to Section 315d German Commercial Code (HGB), to which reference is made in the section "Declaration on Corporate Governance" in the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and

- the accompanying group management report as a whole provides a suitable view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not extend to the content of the Declaration on Corporate Governance for the Group mentioned above.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European and German law and rules of professional conduct, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) lit. (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Material Uncertainty Related to Going Concern

We refer to the statements in the section "Financial and liquidity risks" and "Summary of the risk report" in the group management report, in which the Management Board states that due to the close link between the financial performance and liquidity, any postponement or lack of orders for large projects in the defence segment may have a detrimental impact on liquidity, which could give rise to risks threatening the Group as a going concern. These sections of the group management report are referred to in the section "1. General Accounting Policies and Scope of Consolidation" in the consolidated notes. In the aforementioned sections of the group management report, the Management Board explains events and/or circumstances which indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, and constitute a risk endangering the existence of the Company as a going concern within the meaning of Section 322 (2) sentence 3 German Commercial Code (HGB). Our audit opinions are not modified in respect of this matter.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the recoverability of goodwill as the key audit matter we have determined in the course of our audit.

Our presentation of this key audit matter has been structured as follows:

a) Description (including reference to corresponding information in the consolidated financial statements)

b) Auditor's response

Recoverability of goodwill

a) The goodwill disclosed within the consolidated financial statements of SFC Energy AG of kEUR 7,867 (18.7 % of the balance sheet total) relates to the goodwill of two companies, which is subject to an impairment test at least once a year at the end of the reporting period.

The recoverable amount is determined by calculating the fair value less costs of disposal using the discounted cash flow method. Discretionary decisions of the Management Board materially affect the outcome of these measurements in estimating the future cash inflows and in selecting the discount rate. Consequently, the respective impairment tests are subject to a high degree of uncertainty.

This matter was classified as key audit matter as the impairment test of goodwill is complex and depends to a great extent on estimates and assumptions of the Management Board.

Details provided by the Management Board on the impairment tests are provided in the consolidated notes under note (21) "Intangible assets"; information on the accounting policy options applied is provided in section 1 under Accounting policies: "Impairment of non-financial assets".

b) We assessed the appropriateness of the material assumptions and discretionary decisions, and the method of computation used in the impairment test with support from valuation experts from our Valuation Services department.

Our analysis of the future cash flows determined by the Management Board to evaluate the expected impact of events or developments took into account our assessment of the reliability of the planning system of SFC Energy AG, and included, amongst other things, an analysis of the adherence to budget.

Our assessment of the fair value was based on a reconciliation of the cash inflows and the three-year planning figures (2019 to 2021) prepared by the Management Board and approved by the Supervisory Board. Furthermore, we evaluated the extrapolation of the budgeted figures taking into account the growth rate for the two years after the detailed planning horizon and a perpetual growth rate. In assessing the underlying three-year planning figures, we discussed the central planning assumptions and measures with the Management Board focusing on the development of the sales markets in Canada and Europe, and the movement in sales and procurement prices.

In auditing the discount rate, with support from our valuation experts, we examined the parameters used in determining the discount rate, including the weighted average cost of capital (WACC), and verified the computation.

In addition, we verified the systematic approach to performing the impairment test and the application of the computation scheme (discounted cash flow method) with support from our valuation experts.

Finally, we assessed the completeness and appropriateness of the disclosures on the recoverability of goodwill in the notes to the consolidated financial statements.

Other information

The Management Board is responsible for the other information. The other information comprises:

- Declaration on Corporate Governance pursuant to Section 315d German Commercial Code (HGB), to which reference is made in the section "Declaration on Corporate Governance" in the group management report,

- the Corporate Governance Report pursuant to No. 3.10 of the German Corporate Governance Codex,

- the Management Board's assurance on the consolidated financial statements and the group management report pursuant to Section 297 (2) Sentence 4 German Commercial Code (HGB) and Section 315 (1) Sentence 5 German Commercial Code (HGB) and

- all the remaining parts of the Annual Report, with the exception of the audited consolidated financial statements and group management report, and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of the Management Board and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The Management Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management Board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with

the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides a suitable view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misrepresentation. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit.
We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal control.

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.

- conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB).

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by the Management Board in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with the Supervisory Board all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the shareholders' meeting on 9 May 2018. We were engaged by the Supervisory Board on 12 December 2018. We have been the group auditor of SFC Energy AG, Brunnthal, without interruption since the financial year 2007.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Oliver Pointl.

Munich, 21 March 2019

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Julius Pinckernelle
Wirtschaftsprüfer (German Public Auditor)

Oliver Pointl
Wirtschaftsprüfer (German Public Auditor)

FINANCIAL CALENDAR 2019

February 07, 2019	Preliminary Figures 2018
March 25, 2019	Annual Report 2018
May 15, 2019	Interim Disclosure Q1 2019
May 16, 2019	Annual General Meeting
August 20, 2019	Q2 Report 2019
November 15, 2019	Interim Disclosure Q3 2019

SHARE INFORMATION

Bloomberg Symbol	F3C
Reuters Symbol	CXPNX
WKN	756857
ISIN	DE0007568578
Number of shares	10,249,612
Stock Category	No-par value shares
Stock segment	Prime Standard, Renewable Energies
Stock exchange	Frankfurt, FWB
Designated Sponsors	mwb fairtrade Wertpapierhandelsbank AG

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