Annual Report 2019

SFC ENERGY

SFC ENERGY AG CONSOLIDATED KEY FIGURES

in k€

	01/01 – 12/31/2019	01/01 – 12/31/2018	Change
Sales	58,538	61,704	– 3,166
Gross profit	20,128	21,082	– 953
Gross margin	34.4 %	34.2 %	–
EBITDA	2,042	2,478	– 436
EBITDA margin	3.5 %	4.0 %	
EBITDA underlying	3,614	3,705	– 91
EBITDA margin underlying	6.2 %	6.0 %	
EBIT	– 1,288	1,325	– 2,613
EBIT margin	– 2.2 %	2.1 %	
EBIT underlying	284	2,553	– 2,269
EBIT margin underlying	0.5 %	4.1 %	
Consolidated net loss	– 1,927	– 1	– 1,927
Net loss per share, undiluted	– 0.17	0.00	– 0.17
Net loss per share, diluted	– 0.17	0.00	– 0.17

	12/31/2019	12/31/2018	Change
Order backlog	15,489	14,187	1,302

	12/31/2019	12/31/2018	Change
Equity	40,260	18,204	22,056
Equity ratio	55.3 %	43.3 %	
Balance sheet total	72,859	42,065	30,794
Cash (freely available)	20,906	7,520	13,387

	12/31/2019	12/31/2018	Change
Permanent employees	282	279	3

CONTENT

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS, BUSINESS PARTNERS AND EMPLOYEES OF SFC,

The relevance of the end-of-the-financial-year review has been pushed into the background by the unprecedented challenges posed by the spread of the COVID-19 pandemic and the uncertain developments that this will entail in the coming weeks and months. We would nevertheless like to outline some of the key developments in more detail.

The past financial year saw yet another tangible upturn in the social, industrial and political acceptance of fuel cells as a clean and efficient form of energy generation. In industries and in private households, the process of transformation toward a sustainable and clean power supply is showing no signs of slowing down. This is reflected not least in the dynamic growth of our civilian fuel cell business. SFC stands for "Smart Fuel Cell" and is operating in an industry that has undergone a radical market shake-up in the past. SFC is extremely well positioned. We have established a stable and steadily growing global customer base with our clear focus on product quality and robustness and a hybrid product strategy that is geared toward daily practicalities and technical advantages. For us, hybridization means marrying the advantages of fuel cell technology – with its considerable energy density and long lifespans – with the strengths of widely used technologies such as batteries and solar power generation to form an efficient combination, thereby giving our customers an energy supply that is reliable, efficient and clean.

Despite a very friendly macro environment, we also had to accept setbacks in fiscal 2019 and take them as challenges. The tangible reluctance to invest in the Oil & Gas sector in Canada and the postponement of a national defense programm left us with no other choice but to adjust our forecast in November. This meant that sales and earnings fell short of our expectations in 2019.

Nevertheless, we have succeeded in achieving essential milestones in our strategy and implementing key projects.

As mentioned above, there was dynamic development in the civilian applications business for fuel cell technology. We reported especially high growth momentum in civil security technology and wind measurement. The further internationalization of our defense business also picked up considerably.

The successful and quickly implemented entry into the field of hydrogen is also central to the sustainable further development of the company. We have further diversified our business model with the addition of hydrogen fuel cells and have expanded our range to include higher power classes and additional growth areas including back-up power for telecommunications and critical infrastructures, and potentially for mobility solutions in the future. The first order is an impressive testament to the assumptions about our growth strategy. We established an initial framework contract for hydrogen fuel cells for a federal digital radio program for emergency services (Security Authorities and Organizations) in Germany at the end of 2019. The agreement is valid until the end of 2021 and comprises at least 200 and as many as 650 systems with an order volume of around € 1.8 million to € 5.3 million. The awarding of this contract was a real highlight for us. It is representative of a sector that is expected to experience high demand in the years to come.

At the same time, we are developing the next generation of EFOY fuel cells. This project is also one of the priority areas for research and development in the current 2020 financial year. In addition, we have purposefully expanded our distribution network in the year under review with additional partnerships in the USA and Asia. We have also identified various strategic acquisition targets to progress further in this market and expand our technological expertise, and are currently in the process of examining the opportunities in detail.

The successful capital increase was an essential way forward, with gross issue proceeds of € 27 million in summer 2019. The high level of demand and trust from our existing shareholders and new investors fills us with a sense of pride and joy. This capital measure enabled us to restructure corporate financing, pay off the Group's debts and maintain stable financing even in a difficult environment such as the current one. At the same time, we were able to secure significant room for manoeuvre to secure our growth plans. The funds provided allow us to build on the already successful market entry in the hydrogen fuel cell sector and continue our growth.

In terms of operations, SFC Energy generated sales of € 58,538k during the past financial year, down 5.1 % on the previous year's figure (2018: € 61,704k). Underlying EBITDA adjusted for non-recurring effects for the Group amounted to € 3,614k in the year under review compared with € 3,705k in the previous year. Underlying EBIT was significantly below last year's figure of € 2,553k at € 284k due to declining development in the Oil & Gas segment as well as the fact that an order in a national defense sector tender procedure was not awarded. Excluding the application of IFRS 16 gives an underlying EBITDA figure of € 1.3 million and an underlying EBIT figure of € 0.1 million. The Group's sales and earnings figures before the effects of IFRS 16 were taken into account were thus clearly within expectations and the revised forecast, which had assumed sales of € 58 million to € 62 million, underlying EBITDA in the order of € 0.5 million to € 2.5 million and underlying EBIT of between € – 0.5 million and € 1.5 million.

In 2019 we experienced even stronger growth than expected in subsectors. For instance, we increased the share of sales with international clients in the Defense & Security segment to 84.5 % for the year as a whole and generated an increase of 36 % in the industrial customers area of the civilian fuel cell sector. This shows that our core business has continued to gain momentum and with an increase in turnover of 6 % we have been able to achieve a clear trend reversal in the consumer sector.

I would like to deal in more detail with the individual segments in the following:

Oil & Gas

In the Oil & Gas segment, a lack of pipeline capacity in Canada, and uncertainties regarding the future regulatory environment for the construction of new pipelines resulted in a general reluctance to invest. Sales in the Oil & Gas segment declined by 15.6 % to € 21,954k for the year as a whole (2018: € 26,026k).

To take advantage of regional growth opportunities in the US market and to reduce our dependence on the oil and gas industry and the Canadian market, we concluded several local sales partnerships in the year under review. These cooperations provide us with direct access to the market. SFC's sales area thus extends from Canada to the southern United States. The high-margin business with EFOY products showed again growth in the year under review. Sales in this area represented more than 16 % of product sales in this segment (previous year: 12 %).

Defense & Security

In the year under review, we continued to expand on the internationalization of the Defense business in India, Israel and the UK. Germany's share of total revenue in the Defense & Security segment therefore fell to 29.5 % (previous year: 71.0 %) in favor of a strong international share of 70.5 % (previous year: 29.0 %). International business thus improved year-on-year by 84.5 %. Nevertheless, at € 7,588k, total sales generated in the Defense & Security segment were down 24.2 % on the previous year (€ 10,011k), as the traditional year-end business in particular fell short of expectations due to the fact that a programme in Germany was not awarded.

Industry

We increased sales in the Industry segment by 5.7 % to € 17,238k (previous year: € 16,314k) in the year under review. Key factors here were the growth with existing customers and the implementation of initial substantial projects with the new modular product platform developed by PBF that is becoming increasingly established in the market. In terms of earnings, the start-up costs for the new product platform as well as low quantities continued to put pressure on the margin. This is why the focus is on improving margins, taking into consideration a more efficient purchasing and sales strategy while at the same time scaling sales based on the High Power Standard Platform technology.

Clean Energy & Mobility

Sales in the Clean Energy & Mobility segment grew considerably by 25.7 % to € 11,758k in the 2019 financial year compared with € 9,353k in the previous year. This dynamic performance was supported by a strong project pipeline in various regions as well as robust demand from different user industries. The growing demand for civil security technology and increased use of fuel cells during the construction and maintenance of wind turbines as well as greater demand in our consumer sector contributed to this growth in sales. These different applications are based on EFOY Pro and EFOY COMFORT fuel cells. The Consumer sub-segment recorded an increase of 6.3 %, with sales up 36.1 % year-on-year in Industrial Applications.

Statement of financial position

As of December 31, 2019, the equity ratio improved significantly to 55.3 %, essentially as a result of the capital measure implemented in the year under review (2018 balance sheet date: 43.3 %). Available cash and cash equivalents amounted to € 20,906k as of the 2019 balance sheet date, compared with € 7,520k at the end of the 2018 financial year. Despite the current very challenging and dynamic situation, our good good capital base and solid overall accounting ratio enable us to stably go through a turbulent phase and to achieve sustainable growth, growth in the medium term, to press ahead with essential product developments and tap into new market segments.

Shares

The SFC share price increased by 25.7 % in the year under review. Reasons for the positive development included a solid business performance and SFC's entry into hydrogen fuel cell technology, but the primary factor was increasing acceptance and demand for sustainable energy sources in society. Stricter government emission regulations for major economies are boosting demand for fuel cells and, at the same time, resulting in increased investor interest in SFC Energy AG.

Outlook 2020

SFC Energy AG assumes that the COVID-19 pandemic and the recent negative development in the price of oil in connection with the OPEC+ dispute will have a negative impact on the forecast for the 2020 financial year published on February 11, 2020 despite a very dynamic start into the current financial year. However, in view of the unprecedented operational and financial challenges posed by the spread of COVID-19 and the uncertain developments in the coming weeks, the financial impact of the pandemic on the SFC Group can currently be neither adequately determined nor reliably quantified. For this reason, we had to withdraw our forecast for the 2020 financial year published in February. A stable and sufficiently reliable forecast for the current financial year within the previously estimated bandwidths is therefore not possible at present.

For the Oil & Gas segment, the Management Board anticipates a significant slowdown in demand for products of the SFC's portfolio compared with 2019 due to COVID-19 and the negative oil price development resulting from the OPEC+ dispute.

In the Industry segment, SFC's industrial customers are themselves significantly affected by a possible disruption to supply chains and temporarily necessary closures of production facilities. After a somewhat weaker than planned first quarter 2020 the Management Board expects a significant decline in volumes in this segment in the second and possibly also the third quarter of 2020. The fourth quarter of 2020 is currently expected to be at the same level as last year.

In the Defense & Security segment, SFC expects a significant delay in demand and a slowdown in activities in the first half of 2020, as procurement authorities are also affected by precautionary measures such as temporary closures. However, the Management Board believes that a considerable increase in demand in this area is possible in the second half of the year.

Civilian fuel cell business including methanol and hydrogen products in the Clean Energy & Mobility segment is currently still running at a high level, but a slowdown in order intake and deliveries is to be expected as well in the coming months, particularly for purely practical reasons such as a lack of installation personnel. However, the Management Board expects demand in this segment to pick up again in the second half of the current financial year and is thus anticipating substantial growth.

Against this background and the current high level of uncertainty, the Management Board is expecting – subject to a recession – revenues and profitability to be significantly lower than in the previous year.

Medium-term growth strategy on track

Our medium-term goal is to return to profitable growth. Despite a phase of considerable uncertainty in 2020, we will concentrate on the further development and marketing of our future-oriented products.

Our fuel cells enable a clean, reliable and environmentally sustainable energy supply that is independent of the power grid. We believe we are well positioned, to benefit from essential trends such as the necessary decarbonization, sustainable mobility concepts and the growing need for security in countries.

Against this background, we are sticking to our medium-term outlook and reaffirming our planning, with sales of over € 100 million and an underlying EBITDA margin clearly above 10 % in the next three to four years.

Our employees are the essential basis for this. We would like to take this opportunity to thank them in particular. On behalf of the entire Management Board, I would also like to thank the members of the Supervisory Board for their constructive cooperation in a relationship of mutual trust.

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

Remain with us,
Yours

Dr. Peter Podesser
Chairman of the Board (CEO)

SMART FUEL CELL SOLUTIONS FOR BETTER SUSTAINABILITY, SAFETY AND EFFICIENCY

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 45,000 SFC Energy fuel cells are already in use worldwide in a wide variety of applications, and this number is rising every day.

SFC ENERGY'S FOUR CORE MARKET SEGMENTS:

CLEAN ENERGY & MOBILITY

- Off-grid and mobile fuel cell power solutions for security & surveillance, telecommunications, wind & solar, environmental technology and traffic management
- Hydrogen fuel cells as backup power solutions or uninterruptible power supply (UPS) and replacement for conventional diesel gensets in critical networks e.g. digital radio, traffic, energy supply, infrastructure or IT
- Auxiliary power units (APUs) with fuel cells for special purpose vehicles, recreational vehicles, boats and electric vehicles

DEFENSE & SECURITY

- Portable power supply with fuel cells for defense and security
- Onboard power with fuel cells for military vehicles
- Stationary and covert power systems with fuel cells for military applications
- Power units with fuel cells for personnel, border and property protection

OIL & GAS

- Off-grid energy systems (EFOY fuel cell based)
- SCADA (Supervisory Control and Data Aquisition) Systems
- Power products

INDUSTRY

Power supplies, coils and linear drives for
- Analytical equipment
- Laser manufacturing equipment
- Semiconductor equipment

CLEAN ENERGY & MOBILITY

Clean off-grid and back-up power for mobile people and applications

THE MARKET

The young people who support Greta Thunberg are emphatic in their assertion that environmental responsibility, sustainability and clean power are currently the most important topics for the future of our society and our planet. At the same time, many people, organizations and companies no longer want to miss out on the technical and scientific achievements and the convenience functions of our era, with innovative devices and systems bringing mobility, self-sufficiency, safety, connectedness and quality into our modern life. All these devices need power. An increasingly large number of them are operated away from the grid, including sensors, cameras, measuring devices in the open air and in environmental applications, lighting and security systems on construction sites and in public spaces, communications, security and rescue systems in government agency and disaster relief vehicles, electronic on board mobile offices and traffic surveillance vehicles, not to mention coffee machines, electric bicycles, lighting, navigation and consumer electronics on board of motorhomes and yachts, right up to electric vehicles. They all require power, preferably with exactly the same level of convenience as provided by power outlets at home.

Fuel cells facilitate the application-specific configuration of a large range of sustainable, environmentally-friendly energy systems to meet the needs of an increasingly mobile world. SFC Energy uses two tried-and-tested, powerful technologies for this purpose, both of which use extremely sustainable fuel cells: hydrogen fuel cells and direct-methanol fuel cells (DMFCs). These allow the company to configure off-grid and back-up power requirements ranging from a few watts to 20 kilowatts of continuous power on a customer-specific basis.

CLEAN ENERGY & MOBILITY APPLICATION SOLUTIONS FROM SFC ENERGY

Off-grid and back-up power for critical infrastructures with JUPITER fuel cells

The JUPITER fuel cell is successfully used in the fully integrated, weatherproof power supply units from SFC Energy to guarantee the uninterrupted, all-round operation of critical infrastructures. The systems' high reliability has recently helped them to gain a number of public tenders for back-up power sources for mobile communications systems used by emergency services. In these applications, the fuel cells ensure that the radio equipment works on its own and without interruption even if the public power grid fails for an extended period of time, and thus maintains communications with public authorities and rescue services in emergencies. Before the order was placed, the fuel cells were tested in use in the harshest of conditions. In addition to the conventional technologies, the fuel cells were able to successfully demonstrate the required operational safety. In addition, the environmentally friendly technology and the attractive cost and logistics advantages of the fuel cell impressed the official decision-makers.

A secure back-up power source is going to become increasingly important in the future. With the established JUPITER fuel cell, which has been successfully tested in numerous applications, SFC Energy is in an outstanding position to generate growth in these dynamic markets.

Mobile, quiet and environmentally friendly – onboard power supply with EFOY Pro fuel cells

The mobility requirements that need to be met by measurement, security, data collection, office and logistic services are becoming increasingly demanding. More and more devices need to work off-grid more and more frequently and for longer and longer periods of time. Providers of transport, surveillance, security and many other services operate a large number of devices on board their vehicles and vehicle fleets. All these devices need reliable, off-grid power. Not only does this power have to be generated in an environmentally friendly manner, but it must also be quiet and without idling the vehicle engine.SFC Energy's EFOY Pro fuel cells are installed inside the vehicle, continuously monitor the consumer battery's state of charge and deliver power on demand, fully automatically and with almost no noise or emissions, without any user intervention. SFC Energy already equips public authority vehicle fleets with the EFOY Pro fuel cell as standard ex works.

Self-sufficient for months on end – stationary outdoor solutions for off-grid infrastructures with EFOY Pro fuel cells

Worldwide, SFC Energy is selling more and more EFOY Pro fuel cells to act as a reliable, off-grid power source for stationary systems, sometimes in the most extreme of weather and environmental conditions and in very remote places. EFOY Pro fuel cells operate measuring stations in Antarctica, covert cameras for monitoring endangered species, traffic management systems on highway construction sites, mobile traffic monitoring systems, volcano sensors, earthquake and tsunami early warning systems, mobile monitoring systems on trailers in public spaces and countless additional off-grid applications. EFOY Pro fuel cells have been designed to work self-sufficiently and reliably for weeks and months, in hot desert climates as well as the cold Canadian winter. SFC Energy's power supply units are capable of long periods of self-sufficiency, which gives them a genuine competitive edge. Operators save on expensive logistical deployments that used to be necessary to change batteries, service generators and devices or clean solar modules on site. As a result, the cost of the fuel cells pays off within a very short period. The EFOY Pro fuel cells are frequently hybridized with other alternative power generators, such as solar modules. As long as the sun provides energy, the power comes from the solar module. In bad weather, the fuel cell switches on automatically and bridges the power gap.

Freedom and convenience for leisure and travel

In RVs, motorhomes, vans, boats or yachts, the EFOY COMFORT fuel cell provides power almost as conveniently as at home. Once installed on board, it ensures full batteries self-sufficiently for years, almost maintenance-free and without any user intervention. Only a simple fuel cartridge change is required from time to time. The fact that EFOY allows users to carry a great deal of power around at low weight and with low space requirements has now become widely known in the sailing world. More and more yacht racers have an EFOY fuel cell on board to operate their navigation, communication and lighting systems. The EFOY is still very popular among motor-home owners in Europe. In 2019, they again ranked the EFOY among the top 3 most popular power generators in the reader survey conducted by promobil, Europe's largest motorhome magazine.

EFOY fuel cells in caravans provide power comfort free from the socket.

FUEL CELLS FROM SFC ENERGY

EFOY Pro fuel cells operate GNSS receivers to monitor landslide-prone areas in northern Norway.

The EFOY JUPITER fuel cell

The EFOY JUPITER hydrogen fuel cell enables high-powered energy solutions in SFC Energy's wide-ranging product portfolio. With a unique control unit, nominal powers ranging from 2.5 kW to 20 kW can be scaled individually. In the event of elevated power demand, several EFOY JUPITER fuel cells can be combined. It operates very quietly and efficiently with zero emissions. The EFOY JUPITER fuel cell can be operated outdoor and indoor.

The EFOY Pro fuel cell

The EFOY Pro fuel cell ensures constantly full system batteries in off-grid industrial applications, fully automatically and on demand. It uses hydrogen from methanol, as a fuel. It is environmentally friendly, almost maintenance-free and enables system self-sufficiency for months on end – without refueling, user intervention or servicing. The EFOY Pro is available in several power levels, and is configured by the SFC Group's system application experts on a customer-specific basis to create unique power solutions, in stand-alone or hybrid mode with other power suppliers, as a compact solution, weatherproof box or switch cabinet or on trailers.

The EFOY ProCube

This mobile, maintenance-free complete solution for off-grid power supply is ready for immediate use anywhere with just a few preparatory steps. The mobile system with aluminium housing 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.

The EFOY ProEnergyCase

The EFOY ProEnergyCase is a portable, maintenance-free, all-in-one solution for grid-independent power supplies. Thanks to its compact dimensions, the Peli-case can be transported easily in a car. Setup and transport can be easily carried out by one person.

The EFOY ProEnergyBox

The fully integrated box was specially developed for extreme weather conditions between –40 °C and +50 °C. It allows the connected devices to operate independently for months on end. 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 the components from heat.

The EFOY ProCabinet

This remote outdoor energy solution combines a fuel cell, fuel, power management and everything else needed for the application in a weatherproof switch cabinet. The flexible EFOY ProCabinet can be configured according to the customer's needs, hybridized with other power suppliers and used in stand-alone mode or as a backup power supply. EFOY ProCabinets are available in standardized versions for climate profiles from – 40 °C to + 60 °C and in power ranges between 40 watts and 1000 watts.

The EFOY ProTrailer

This trailer renders applications both mobile and self-sufficient. The trailer can be taken to any location quickly 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.

The EFOY COMFORT fuel cell

The fuel cell family EFOY COMFORT for end users is available in several power classes. It ensures fully automatic re-charging of onboard batteries, in RVs, vans, motorhomes, sailboats or cabins. Consumers can thus enjoy electricity comfort just like at home – environmentally friendly, quiet and independent of weather conditions.

www.sfc.com/en/markets/clean-energy-mobility

EFOY Pro fuel cell secures power for obstruction lighting of wind turbines.

DEFENSE & SECURITY

Reliable off-grid power for defense and security

THE MARKET

Security is a basic requirement for people, organizations and nations. In the field of defense and security, new technologies and structures are arising to provide ways for people to respond effectively to the ever-increasing political uncertainty in the world. New cyber defense tools are being designed based on artificial intelligence, innovative sensor systems and machine learning. New security and surveillance technologies, digital communication network structures and automated data collection and analysis systems are developing just as rapidly. Many of these new technologies are used in mobile form. As a result, the requirements to be met by off-grid power sources operated by defense organizations and public authorities are very exacting. Fuel cells offer security and defense providers decisive advantages. SFC fuel cells are quiet and barely detectable thermally or acoustically. They can be used in covert form and are self-sufficient for long periods of time without any user intervention. In portable applications, SFC fuel cells allow people to bring large quantities of power at low volume and weight. These advantages have led to several major contracts from national and international defense and security organizations. Fuel cell systems from SFC Energy are currently used by numerous international NATO and PfP defense organizations. SFC fuel cells and accessories come equipped with a supply number/NATO stock number and have been approved for air transport in accordance with UN 3473. In light of this segment's performance, SFC Energy is anticipated to have good growth potential worldwide.

The demand for off-grid and back-up power is also growing in the public security sector. 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. The range of usage scenarios for power supply products from SFC Energy is becoming larger and larger internationally, which means that the company can be expected to see continued sales growth in this respect.

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

DEFENSE & SECURITY APPLICATION SOLUTIONS FROM SFC ENERGY

Full batteries on board at all times – onboard power supply for military and surveillance vehicles with SFC EMILY fuel cells

The SFC EMILY fuel cell re-charges the on-board batteries in military vehicles fully automatically, and can also be used as a charger for external and stationary devices. The hardened special fuel cell for demanding operating conditions is based on SFC Energy's many years of successful experience with vehicle-based fuel cell solutions for industrial, fleet and leisure vehicles. The low-noise and environmentally friendly operation of the SFC 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 without any user intervention or attracting attention. All the while, the fuel cells consume many times less fuel than an idling engine or an additional generator. That also reduces the CO_2 emissions significantly.

Weight saving of 80% – portable power supply with SFC JENNY fuel cells and SFC energy network

The SFC JENNY fuel cell is a compact, highly efficient portable power generator for soldiers in the field. The SFC JENNY recharges batteries on the road completely automatically. Because soldiers no longer have to carry spare batteries, their equipment weighs significantly less. The SFC 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 SFC 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. The network supplies power to a wide variety of appliances, both stationary and portable, such as radios, navigation devices, night vision devices, laser rangefinders, portable computers and PDAs. The SFC Power Manager, a smart voltage converter, can flexibly supply almost any device with power from available sources, such as fuel cells, solar panels or batteries. The network also allows different battery types to be charged while they are in use.

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

OIL & GAS

Off-grid power & automation: better security, efficiency and cost-effectiveness for the oil & gas industry

THE MARKET

In Canada, the core market of SFC´s company Simark Controls, the oil and gas industry is – due to infrastructure challenges – still suffering a lack of transport and pipeline capacity. As such, operators are looking for new, clean and efficiency-enhancing solutions in order to both develop new projects and optimize the ways in which existing systems operate. The instrumentation, automation and energy systems from SFC Energy help them doing this. All solutions are designed on a customer-specific basis, fully in tune with the application and the operational requirements of the system. SFC´s strength lies in a clear focus on service provision, many years of market experience and outstanding technological expertise as a system integrator for demanding high-tech applications in oil and gas, water and wastewater, and mining. As a rule, systems in this industry need to work self-sufficiently for months on end, far from any civilization or infrastructure, often in difficult-to-reach places. Then there is the long, harsh Canadian winter, which pushes power storage devices such as batteries and power generators, diesel generators and solar modules to their limits within a very short period of time. The manufacturers must also comply with strict legal and environmental regulations. For this reason, they look specifically for systems that allow them to comprehensively develop sustainable automation and energy solutions.

SFC Energy supports oil and gas manufacturers in all these sectors with reliable, off-grid energy systems based on fuel cells, powerful SCADA systems and smart power products.

OIL & GAS APPLICATION SOLUTIONS FROM SFC ENERGY

Oil and gas, water and wastewater, and mining installations must function reliably around the clock. Countless monitoring, control and measurement instruments ensure regulated operation and protection of the environment, people and systems. The weather, seasons and environmental conditions in the frequently remote production and transport locations subject operators to tough logistical challenges. The intelligent automation and energy solutions from SFC Energy facilitate longer self-sufficiency, more efficient operation, greater yield and maximum operational reliability. Thanks to these advantages, SFC Energy gained some new prestigious oil and gas producers as customers in 2019. Even though conditions on the market are still difficult, the SFC Group is in a good position as an established automation and sustainability partner to the industry.

Reliable self-sufficient power – EFOY Pro Hybrid fuel cell solutions from SFC Energy

These solutions with environmentally friendly fuel cells are turnkey plug-and-play 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 transportable enclosures, stationary outdoor cabinets or on mobile trailers. Output and functions can be adapted to the off-grid power requirements of the application in 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.

Sustainable, efficient, powerful – automation solutions from SFC Energy for Oil & Gas

Automation is an important driving force behind innovation for lowering costs and optimizing security and processes in the oil and gas industry. The integrated automation solutions from SFC Energy help manufacturers to improve the efficiency of their systems, increase production and cut costs. SFC increasingly combines automation solutions with EFOY Pro energy supply to deliver longer periods of self-sufficiency and increased availability of off-grid systems. This combination of automation and power supply gives SFC Energy a real competitive edge.

Data for more efficiency – 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.

Automated power adjustment – variable-frequency drives

Variable-frequency drives (VFDs) 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 automatically adapting the performance of the drive systems to the application requirements protecting the systems from overloading and providing energy savings.

www.sfc.com/en/markets/oil-gas

INDUSTRY

Power supply solutions, coils and linear drives

THE MARKET

Power from the grid is not always of the consistently high quality that high-performance and high-precision systems such as analytical systems, high-tech semiconductor equipment or laser manufacturing equipment require for optimal operation and maximum longevity. For this reason, the power for these systems must be "smoothed" – in other words, prepared for use by the specific systems. Power quality is becoming even more important in the course of digitization and Industry 4.0. Major customers that sell or use state-of-the-art digital devices worldwide must ensure, even in countries with heavily fluctuating power quality, that their high-quality systems are nevertheless supplied with precise, smoothed power in order to realize uninterrupted operation for their mission critical objectives.

The High-Power Platform from PBF Group B.V., SFC Energy Group's company in the Netherlands and Romania, allows grid power to be prepared reliably and to high quality standards, exactly in keeping with the system's specific requirements. The power supplies adapt the electrical performance to the energy required by the system in question, doing so in modular form. PBF Group meets demanding customer requirements on the basis of the PBF technology that it has developed in house. This compact, scalable power supply technology offers maximum flexibility in the development and manufacture of standardized and semi-standardized high-performance and high-precision power supply or demanding industrial applications such as laser technology and other high-tech industrial sectors. The advantages of PBF technology are significantly quicker development times and lower development costs.

Last year, SFC Energy gained major follow-up contracts from existing customers and new customers in industries including laser systems, semiconductor production, and aviation. However, winning new power supply contracts is a time-consuming process that must be supported by extensive evidence. Customers test prototypes in their applications over long periods of time. In light of the weakness of the global economy, industry is reluctant to invest in new technologies at present. Nevertheless, the long-term prospects of success for PBF products are good thanks to their intrinsic value in customer applications.

INDUSTRY APPLICATION 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. High-profile original equipment manufacturers and system suppliers worldwide use SFC Energy's technological know-how from planning to production. Small and initial series are developed and produced in Europe, while mass production takes place in Eastern Europe. This allows rapid development cycles and attractive prices with considerable scope for local services and expert support throughout the entire lifetimes of the power supplies.

Attractive mass-produced products – PBF LAPS power supplies

In addition to the Semi Standard power supplies, SFC Energy offers a series of commercial mass-produced power supply products based on PBF technology. The products from the LAPS series have been systematically developed for highly dynamic applications and enable quicker product launch times and increased flexibility.

Ultra-high-quality coils and linear drives

PBF co-develops and manufactures high-quality and reliable coils and linear drives. PBF's R&D team works in close cooperation with customers in order to ensure the designed product is feasible for manufacturing and to optimize its quality, price and performance.

Several automatic or manual tests and inspections are carried out. To secure the quality of the products, 100 % of all coils and linear drives are tested with high-voltage, inductance, resistance, magnetic field direction, water pressure and flow testing. Complex mechanical parts are tested in an early stage on PBF's automated 3D measuring machine.

For serial production SFC Energy Group has its own production facility in Cluj-Napoca, Romania. With highly skilled and trained people, the Cluj factory delivers coils and linear drive products in quantities from 10 to 10,000 units a year. PBF Cluj strives to be one of the most flexible coils suppliers in the industry with an ability to manage rapid design changes, schedule adjustments and use inventory management programs to achieve best-in-class cost and capacity management. PBF has dedicated in-house teams to manage all aspects of service, engineering and manufacturing requests for a fast and accurate response to customer requests.

www.sfc.com/en/markets/industrial

MILESTONES IN 2019

MARKET AND PRODUCT NEWS

JANUARY 2019

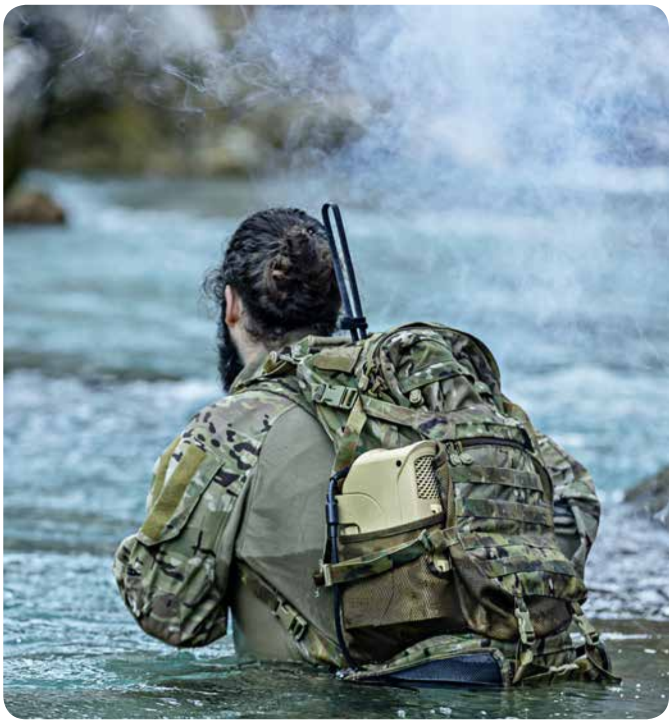
+++ EFOY fuel cell takes again a top spot in promobil reader survey +++

The readers of promobil, Europe's biggest motor home magazine, again rank SFC Energy's EFOY fuel cell among their top 3 favorite brands in the magazine's annual reader survey. In 2019 EFOY achieves third place in the power generator category.

FEBRUARY 2019

+++ SFC Energy celebrates 10th anniversary of EMILY fuel cell for defense & security applications +++

Together with the portable JENNY, EMILY is SFC Energy's most popular and successful military fuel cell. EMILY is used in vehicle-based, mobile and stationary off-grid missions by defense and government organizations worldwide. Major advantages are EMILY's ultimate power reliability, environmental friendliness, environmental and temperature ruggedness, and high flexibility.



+++ SFC Energy delivers portable JENNY 1200 fuel cells to international defense organization +++

The portable JENNY 1200 fuel cell produces reliable, clean and fully automatic off-grid power in multi-day missions. The fuel cell enables over 80 % weight savings for soldiers in the field. The order amounts to over EUR 1 million.

MARCH 2019

+++ SFC partner Oneberry is one of the fastest growing companies in Singapore +++

Oneberry Technologies is ranked 19th in Singapore's Fastest Growing Companies survey, 1st in the Security Automation Category, an initiative jointly organized by The Straits Times and Statista. Oneberry is a leader in remote surveillance solutions in Singapore and has deployed over 1,500 virtual guards in the city. Oneberry's automated mobile surveillance solutions use EFOY Pro fuel cells by SFC Energy for power autonomy and reliability and environmental friendliness.

+++ Simark Controls signs sales cooperation agreement for EFOY Pro Hybrid Fuel Cell Solutions with Vector for South Western U.S. +++

The cooperation expands SFC's territorial range from Canada further into the South of the United States: Vector markets SFC's EFOY Pro Hybrid Fuel Cell Solutions to customers in Texas, Kansas, Oklahoma and New Mexico. With the partnership SFC gains direct sales access to the U.S. upstream oil & gas, water, and waste water markets.

+++ PBF Group receives new volume follow-up order for power supply solutions of security and communication systems +++

The follow-up order builds on the success of PBF's products in these applications. PBF's power supply solutions are used in public address and professional audio systems. The order amounts to a total of approx. EUR 940,000 in 2019 and 2020.

MAY 2019

+++ SFC Energy receives new EUR 1.4 million follow-up order for tempered defense fuel cell products +++

The follow-up order of an Asian defense organization builds on the logistics and operations benefits of SFC products in the customer's off-grid applications. The ordered additional units of portable JENNY 600S, stationary and vehicle-based EMILY 3000, and SFC Power Manager 3G are used to reliably power off-grid border protection equipment, electrical equipment, and mission-critical communication and radio systems, some of which are operated at very remote outposts and on high mountain altitudes. The total order amount is approx. EUR 1.4 million.

+++ Power supply with Jupiter hydrogen fuel cell qualified for use in outdoor telecom and BOS digital radio systems +++

In tests at DLR (Deutsches Zentrum für Luft- und Raumfahrt), the Jupiter hydrogen fuel cell-based energy solution developed by SFC Energy and adKor proves its power supply robustness in outdoor telecom and BOS digital radio systems. It features reliable full-load operation at temperatures from –33 °C to +46 °C, thus securing uninterrupted operation of communication equipment even in extremely difficult environmental conditions. The tests prove the Jupiter fuel cell-based energy system's compliance with the climate regulations of several national, European and international telecommunication standards.

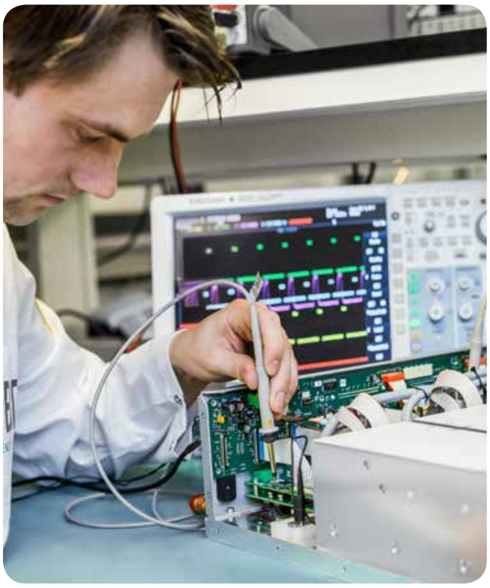
JULY 2019

+++ Simark Controls signs sales cooperation agreement for EFOY Pro Hybrid Fuel Cell Solutions with LaTech Equipment in the Western U.S. +++

LaTech Equipment will market SFC Energy's EFOY Pro Hybrid Fuel Cell Solutions to customers in Utah, Idaho, Wyoming, Montana, Colorado and North Dakota, USA. With the partnership, SFC Energy gains direct sales access to oil & gas, mining, security, telecom & radio, environmental monitoring and rail signal & control markets in the Western U.S.

+++ SFC Energy wins energy analysis/ environmental impact analysis order from German mobility & security technology group +++

In the framework of the order SFC Energy conducts energy and environmental impact analyses on military vehicles. The order amounts to approx. EUR 1 million (performance period > 12 months), incl. optional service elements. SFC Energy's energy analysis/environmental impact analysis (UVA) services portfolio supports security and defense organizations in complying with their UVA duties, while at the same time generating attractive added value in obsolescence management, REACH, risk assessment, and lifecycle cost management.



+++ PBF receives follow-up order for industrial high-power supply solutions in metalworking +++

PBF's high power supplies are used for metalworking equipment in automotive, aerospace, industrial, and medical technology applications. They were built on the basis of proprietary PBF technology and expertise to precisely meet the specific mechanical engineering requirements in the application. The PBF power supply systems enable the modular adaptation of the electrical load to the tooling machines. They can be controlled in precise stages, with the output power exactly matching the individual work processes. The order amounts to a total approx. EUR 950,000 until Q2/2021.

AUGUST 2019

+++ Sargo boats now available with integrated EFOY COMFORT fuel cell for ultimate power autonomy +++

Finnish boat builder Sarin Boats offers the EFOY COMFORT fuel cell as optional on-board power supply for all boats of their Sargo The All-Season Boat brand. On board the fuel cell provides fully automatic, silent, environmentally friendly off-grid power.

SEPTEMBER 2019

+++ Simark Controls receives order for turnkey EFOY Hybrid power solutions to provide reliable clean power in Canadian National Park +++

The weather-independent hybrid solutions with EFOY Pro fuel cells and solar modules deliver clean, reliable power to the LED lighting of the roadside brake check and chain off areas along the roads in Yoho National Park, Canada. The fully automatic and remote-controlled systems provide 12+ months of autonomy, eliminating the need for costly trips to remote sites over the winter and simplifying site management logistics.

OCTOBER 2019

+++ EFOY fuel cell delivers reliable autonomous power to AuroraHut's innovative igloo houseboats for 100 % eco-friendly North Pole adventures +++

Finnish cabin producer AuroraHut integrates the EFOY fuel cell into their new all-season igloo houseboats for highly individual vacations at spectacular locations with zero environmental impact. AuroraHut® is a completely new touristic concept for luxury adventure travelers. The modern houseboat igloo was specifically developed for observing nature, ice fishing, husky sledge riding and for watching the Northern lights. The fuel cell is the fully automatic, silent and environmentally friendly power source in all igloos.

NOVEMBER 2019

+++ SFC Energy signs framework contract for the delivery of Jupiter hydrogen fuel cells for radio tower sites +++

The framework contract runs until the end of 2021 and has a total order volume of approx. EUR 1.8 to 5.3 million, depending on installation and commissioning by the federal states. Prior to this, adKor GmbH, together with their system partners, had won tenders for emergency backup power equipment of over 400 radio tower sites with hydrogen fuel cells in different federal states. The Jupiter hydrogen fuel cells by SFC Energy and adKor deliver safe emergency back-up power to radio tower sites. At critical radio tower sites, operators have to ensure a minimum of 72 hours power autonomy for their radio systems at any time, to safeguard the radio communication of critical users during power black outs.

+++ Simark Controls signs EFOY business partnership agreement with Axsera for telecommunication applications across North America +++

The EFOY Pro fuel cells solutions are used as power source to ensure highly reliable operation of off-grid telecommunication applications. Axsera, Canada, a trusted provider of technical services, telecommunications and remote power solutions with a vast industry network, sells EFOY Pro solutions to provide highly reliable, fully autonomous power to critical off-grid telecommunications equipment in Canada and the U.S. In the context of the partnership agreement, Simark integrates the robust EFOY Pro fuel cells into a wide variety of turnkey autonomous, fully automatic and highly reliable EFOY Pro solutions for Axsera's extensive customer network.

SUPERVISORY BOARD REPORT

SUPERVISION OF COMPANY MANAGEMENT

The dominant factors in the 2019 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 the most comprehensive capital measure since the Company's initial public offering and the potential acquisition of attractive companies as well as 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 2019 financial year. These members of the Supervisory Board were (i) Tim van Delden, (ii) David Morgan, and (iii) Hubertus Krossa. In the 2019 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 ten times during the 2019 financial year: on February 25, March 21 (to review the financial statements for the 2018 financial year), May 15, May 29, June 5, June 25, June 26, July 23, October 24, and December 13, 2019. Four of these meetings, on March 21, May 15, October 24, and December 13, 2019, were held in person and were attended by all Supervisory Board members, with the exception of the meeting held on March 21, 2019, in which Hubertus Krossa participated by telephone, and the meeting held on December 13, 2019, which the Chairman of the Supervisory Board, Tim van Delden, left early. The other six meetings on February 25, May 29, June 5, June 25, June 26 and July 23, 2019, were held via conference call. In addition, the members of the Supervisory Board consulted one another between the meetings by telephone, in person or by email if required.

During the Supervisory Board's meetings, the Management Board provided the Supervisory Board with comprehensive and timely information regarding the Company's revenue, profit and, in particular, cash flow performance, budget planning, the Company's and the Group's current position, including the risk position, risk management and corporate compliance, strategic goals and any changes in the Company's organization and personnel. The Supervisory Board discussed the organization of the Company and the Group with the Management Board, ensured that the Company's organization and risk management were effective, and discussed material Company strategy and policy issues with the Management Board. At various Supervisory Board meetings, the Management Board reported to the Supervisory Board on the status of individual business units, the Company's and the Group's economic, financial, technological and strategic position, the Company's domestic and international growth strategy and material developments and events, for instance regarding 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 2019 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 equity position and 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. In the 2019 financial year, this affected in particular the subscription right capital increase in exchange for the Company's cash contributions in the amount of € 27 million to reinforce growth in the Company's core areas, the launch of hydrogen fuel cells and the potential for non-organic growth for the acquisition of attractive companies. 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 25, 2019, which was attended by all members of the Management Board and guests, the Supervisory Board discussed the structure of the Company's potential capital increase together with possible additional capital market measures (the "transaction"). The Supervisory Board also deliberated on a mandate agreement with the banks accompanying the transaction and approved this.

At the meeting on March 21, 2019, which was attended by all members of the Management Board and 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 (see "Corporate Governance" below). Furthermore, the Supervisory Board primarily discussed and approved the annual financial statements for the 2018 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 Supervisory Board report, the corporate governance report, the declaration on corporate governance – each for the 2018 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 2019 and the proposal for the appointment of the auditor for the

2019 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 last quarter, the outlook on development in the first quarter and the opportunities and risks, of the current development of the individual business units and subsidiaries of the Company. The Supervisory Board also deliberated on calculating a management participation program and approved the beginning of negotiations with financing partners. The Supervisory Board subsequently discussed possible financing options with the Management Board with the involvement of potential investors and strategic partners. With the involvement of the mandated banks, the Supervisory Board deliberated in particular on the timing and structure of the transaction. Together with the Management Board, the Supervisory Board resolved to defer the transaction to a period in June 2019.

At its meeting on May 15, 2019, which was attended by all members of the Management Board and guests, the Supervisory Board discussed 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, especially the transaction. In addition, the Supervisory Board again discussed the agenda for the 2019 Annual General Meeting. The Supervisory Board also entered into a new Management Board employment agreement for a term of four years with Company CEO Dr. Peter Podesser. Finally, the Supervisory Board deliberated on an employee participation program.

At its meeting held via conference call on May 29, 2019, the Supervisory Board resolved, together with the Management Board and following in-depth discussion with the banks involved, to continue to pursue a capital increase from authorized capital with a view to being able to implement this in June 2019. In line with the joint resolution made by the Management Board and the Supervisory Board accompanying capital market measures were not pursued any further. Against this backdrop, the Supervisory Board approved at its meeting held via conference call on June 5, 2019, the resolution of the Management Board to continue to prepare and implement the capital increase as planned and publish the details of the resolution accordingly.

At its meeting held via conference call on June 25, 2019, the Supervisory Board then approved the Management Board's fundamental framework resolution relating to the continuation of the capital increase and the amount of gross issue proceeds. At another Supervisory Board meeting held via conference call on June 26, 2019, the Supervisory Board then approved the Management Board resolutions relating to the implementation of the capital increase as well as the subscription price and ratio.

At its meeting held via conference call on July 23, 2019, the Supervisory Board discussed, with the participation of the Management Board and a guest, the current and expected sales figures in the individual business units and subsidiaries of the Company in the second quarter and first half of 2019 as well as an outlook on development in the third and fourth quarters. In addition, the discussion dealt in more detail with the current financial figures and liquidity situation of the Company. Other matters of discussion were, once again, the financing and liquidity options for the Company and its subsidiaries as well as options to bring potential investors and strategic partners on board. Finally, the Supervisory Board approved remuneration for the banks accompanying the transaction. The Supervisory Board also consulted on the Company's development with respect to investments and acquisitions. Furthermore, the Supervisory Board again discussed an employee participation program.

Alongside guests, the Management Board attended the Supervisory Board meeting on October 24, 2019 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 2019 financial year. In particular, the current figures of the

Defense business unit were discussed in detail, taking into account potential future orders, especially those from major customers and the Oil & Gas business unit. Against this backdrop, the Supervisory Board, with the participation of the Management Board, dealt with the current financial figures and the liquidity situation of the Company and of its subsidiaries. The search for potential new investors and strategic partnerships was also discussed again with the involvement of an external adviser appointed for such purpose. Finally, the representatives of Deloitte GmbH Wirtschaftsprüfungsgesellschaft who attended the meeting commented on the forthcoming audit of the annual financial statements. The Supervisory Board also deliberated on possible non-organic growth through the potential acquisition of attractive companies. Finally, the Supervisory Board approved the financial calendar for the 2020 financial year.

At its meeting on December 13, 2019, 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 of the 2019 financial year. The current situation in the individual business units and subsidiaries of the Company was discussed in particular detail, giving special consideration to the Defense business unit with respect to potential future orders, especially of a major customer and the Oil & Gas business unit, with a focus on commercial activities in Canada. In addition, the budget planning for 2020 and the medium-term budget planning for 2021–2022 in all business units were discussed and approved. The Supervisory Board also deliberated on the Company's debt and funding situation. Furthermore, the options for possible strategic partnerships and potential acquisitions of attractive companies were deliberated and the search for potential new investors discussed. Once again, the Supervisory Board deliberated on an employee participation program and approved this. The Supervisory Board also approved a short-term consultancy agreement with outgoing member of the Management Board Marcus Binder following the end of his appointment in February 2020 and deliberated on the allocation of duties as a result of Binder leaving his position. The Supervisory Board made this decision on December 10, 2019 by way of a circulation procedure.

COMMITTEES

In the 2019 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 as part of the statement pursuant to the declaration on corporate governance on pages 37 et seqq.

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

In the 2019 financial year, as in previous years, and in particular at its meeting on March 21, 2019, 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 21, 2019, 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. Conflicts of interest relating to a controlling shareholder or a company affiliated with a controlling shareholder are not possible as the Company is not controlled by any of its shareholders. This is because there is no controlling agreement in place with any shareholders and no shareholder has the absolute majority of voting rights or at least a sustained majority of votes at the Annual General Meeting.

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 on March 25, 2020, is available on the Company's website at www.sfc.com/en/investors/corporate-governance/#s2. It is also reproduced in the annual report (on page 37).

ACCOUNTING

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, was elected by the Annual General Meeting to audit the Company's financial statements for the 2019 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. Recoverability of goodwill
ii. Realization of the section testing of Simark and PBF
iii. Compliance with financial covenants, including the related reporting
iv. Capital increase
v. IFRS 15 Revenue from Contracts with Customers
vi. IFRS 16 Leases
vii. Management reporting

German Commercial Code-based annual financial statements

i. Impairment of the shares in affiliated companies (impairment test for Simark subgroup and PBF)
ii. Valuation of inventories
iii. Completeness and measurement of other provisions
iv. Revenue recognition
v. Disclosure and reporting of capital increases
vi. Accounting-related controls in the business process areas
vii. Financial reporting and financing

The auditor audited SFC Energy AG's annual financial statements as of December 31, 2019, 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 2019 financial year on March 25, 2020. The members of the Supervisory Board 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 prepared in accordance with commercial law for the financial year ending December 31, 2019, did not show a net profit, 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 25, 2020, it approved the annual and consolidated financial statements for the 2019 financial year and the corresponding management reports. The annual financial statements for 2019 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 2019 financial year.

Brunnthal, March 25, 2020

The Supervisory Board

Tim van Delden
(Chairman)

SFC ENERGY ON THE CAPITAL MARKETS

DEVELOPMENT OF THE INDICES

In the 2019 reporting year, financial markets around the world seemed unfazed both by the prospect of a recession and the US–China trade war. Although economic development was disappointing, global stock markets broadly benefited from the continuing expansionary monetary policy of central banks, resulting in rising prices for key stock market indices [1].

In the 2019 reporting year, the leading US index, the Dow Jones, recorded an increase of 23.5 % year-on-year, and the broader-based S&P 500 even saw an increase of 29.5 % [2]. In Europe and Germany, performance was consistent with that of the US stock markets, with the EURO STOXX 50 achieving growth of 25.1 % year-on-year [3]. In Germany, the Deutsche Aktienindex (DAX) achieved its biggest annual gain since 2013. The DAX started the year on January 2, 2019, at 10,509 points. Following an interim low in the middle of the year, which was triggered by the ECB's decision to keep interest rates unchanged and an escalation of tensions in the US-China trade dispute, the blue-chip German index reached its high for the reporting period on December 16, 2019, at 13,427.67 points. The DAX closed the year on December 30 at 13,123.69 points, up 24.1 % on the closing figure for 2018 [4]. The German technology index, the TecDAX, gained 22.1 % over the course of 2019 as a whole and closed trading at 2,992.27 points [5].

PERFORMANCE OF THE SFC SHARE

SFC SHARE PRICE FROM BEGINNING OF JANUARY 2019 TO END OF DECEMBER 2019 in €

1 https://boerse.ard.de/aktien/2019-ein-fantastisches-jahr-fuer-aktien100.html
2 https://www.boerse-frankfurt.de/index/dow-jones-industrial
3 https://www.boerse-frankfurt.de/index/euro-stoxx-50
4 https://www.boerse-frankfurt.de/index/dax
5 https://www.boerse-frankfurt.de/index/tecdax

The SFC share made further gains of 25.7% in the reporting year. Reasons for the positive share price development included a solid business performance and SFC's entry into hydrogen fuel cell technology, but the primary factor was increasing acceptance and demand for clean forms of energy generation in society. Major macro trends are boosting demand for fuel cells, which in turn is resulting in increased investor interest in SFC Energy AG.

The SFC share began the 2019 trading year on January 2 at an opening price of € 7.77. SFC Energy AG shares recorded their lowest price for the reporting period as early as January 4, 2019, at € 7.54. SFC share prices continued to rise during the first half of 2019 and achieved their highest price for the reporting year as a whole on June 17 and 24 at € 14.23. Publication of the revised guidance on November 13, 2019, brought the share price down temporarily, but it rallied toward the end of the year. SFC Energy AG shares closed trading on December 30, 2019, at a closing price of € 9.72. Increased investor interest sparked a further improvement in the average daily trading volume for all German trading centers to 29,424 shares (previous year: 19,326 shares).

On December 30, 2019, SFC Energy AG's market value was € 125.87 million based on a total of 12.95 million outstanding shares and a closing price of € 9.72. At the 2018 balance sheet date, market capitalization amounted to € 79.23 million based on 10.25 million shares and a closing price of € 7.73 (all figures based on Xetra prices).

SHARE PRICE		in €
Opening price	01/02/2019	7.77
Highest price	06/24/2019	14.23
Lowest price	01/04/2019	7.54
Closing price	12/30/2019	9.72

CAPITAL INCREASE

Long-term financial stability is the basis for implementing the SFC Energy growth strategy. This includes the subscription right capital increase that was successfully implemented in summer 2019, involving the issue of 2.7 million new shares and providing SFC Energy AG with gross issue proceeds totaling € 27.0 million. The capital increase was fully subscribed even before the subscription period began. The new shares offered to existing shareholders in connection with the subscription offer were almost fully subscribed with a subscription ratio of 95.4%. The increase in the Company's share capital – by € 2,700,000.00 to € 12,949,612.00 – was entered in the commercial register on July 1, 2019. SFC is planning to use the issue proceeds to accelerate organic growth in its vertical core markets and new market launches of hydrogen-based fuel cell solutions, as well as to realize selected strategic acquisitions and investments.

INVESTOR RELATIONS ACTIVITIES

In the first half of the year, the main focus of investor relations activities was the capital increase, which was completed successfully in July 2019. This involved management presenting the business model and prospects of SFC Energy AG at various national and international roadshows. SFC Energy received a very positive response to its strategic course from existing and new investors alike, and this is underpinned by a high subscription ratio of 95.4 %. The capital increase also helped to further expand the shareholder structure, making it more international and increasing the liquidity of SFC Energy shares.

As well as participating in roadshows and capital markets conferences, in the 2019 financial year under review the SFC Energy AG management team also engaged in private meetings with the financial and business media and institutional investors on a regular basis in which it disclosed information on the Company's strategy and events of significance for the share price.

Designated sponsors mwb fairtrade Wertpapierhandelsbank AG and Hauck & Aufhäuser Privatbankiers AG ensured that binding bid/ask prices were issued for SFC shares, that they had sufficient liquidity and were traded on an adequate basis.

In the Investor Relations section of the SFC Energy website – sfc.com – the Company offers extensive information on the business situation, current news, and an overview of future events and activities.

ANALYST RESEARCH

SFC Energy AG's shares are listed in the Prime Standard of the Frankfurt Stock Exchange, and are regularly analyzed and evaluated by renowned research firms. Commerzbank and ABN AMRO initiated coverage of SFC Energy shares in the reporting period. Interested investors can find detailed information in the Investor Relations/Share section at www.sfc.com

RESEARCH VALUATIONS in €

Issuer	Date	Recommendation	Price target
M.M. Warburg	02/13/2020	Hold	11.00
ABN AMRO	11/20/2019	Hold	11.00
First Berlin – Equity Research	02/13/2020	Add	11.40
Commerzbank	03/09/2020	Reduce	9.55

SHAREHOLDER STRUCTURE

The shareholder structure of SFC Energy AG has expanded significantly since the previous year as a result of the capital increase. Institutional investors hold 19.72 % of the shares. Extended management, including the Supervisory Board, holds 1.90 % of the voting rights. The percentage of SFC Energy AG shares in the free float amounts to 78.38 % as of the end of January 2020.

DIRECTORS' SHAREHOLDINGS

	12/31/2019
Management Board members	
Dr. Peter Podesser	106,800
Hans Pol	116,462
Marcus Binder	0
Supervisory Board members	
Tim van Delden	0
David Morgan	5,000
Hubertus Krossa	7,813

CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTION 315D IN CONJUNCTION WITH SECTION 289F OF HGB

The corporate governance statement pursuant to Section 289f of the German Commercial Code (HGB) and Section 315d in conjunction with Section 289f of HGB is part of the management report and also includes the compensation report. The Management and Supervisory Boards of the Company are also issuing the following report on corporate governance of SFC Energy AG pursuant to Principle 22 and Section F.4 of the German Corporate Governance Code as amended on December 16, 2019 (published in the Federal Gazette on March 20, 2020).

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 AKTG

According to Section 161 of 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 25, 2020, the Management Board and the Supervisory Board of SFC Energy AG made the following declaration of conformity pursuant to Section 161 of AktG:

"After due examination, the Management Board and the Supervisory Board of SFC Energy AG declare that, since March 21, 2019 (the date as of which the last declaration of conformity was made), the Company has complied with the recommendations of the German Corporate Governance Code ("Code") as amended on February 7, 2017 (published in the Federal Gazette on April 24, 2017, and in its corrected version on May 19, 2017, known as "GCGC 2017"), with the following exceptions:

- According to Section 3.8 para. 3 of GCGC 2017, 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 GCGC 2017.

- According to Section 4.2.3 para. 2 sentence 6 of GCGC 2017, 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 with regard to 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 GCGC 2017.

- Pursuant to Section 5.1.2 para. 2 sentence 3 of GCGC 2017, 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 conclusions to be drawn 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 GCGC 2017.

- According to Section 5.3.1 of GCGC 2017, 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 GCGC 2017 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 GCGC 2017.

- According to Section 5.3.3 of GCGC 2017, 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 GCGC 2017.

- According to Section 5.4.1 paras. 2 and 4 of GCGC 2017, the Supervisory Board shall stipulate specific 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 of 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 GCGC 2017.

After due examination, the Management Board and the Supervisory Board of SFC Energy AG declare that the Company has complied and will comply with the recommendations of the GCGC as amended on December 16, 2017 (published in the Federal Gazette on March 20, 2020, known as "GCGC 2020"), with the following exceptions:

- According to Section B.2 of GCGC 2020, the Supervisory Board together with the Management Board shall ensure that long-term succession planning is in place and shall describe this in the corporate governance statement. The Management Board and Supervisory Board of the Company are currently discussing succession planning with a view to the composition of the Management Board. The Management Board and Supervisory Board are confident of being in a position to conclude long-term succession planning in the second half of 2020. As a result this means that the Company currently deviates from the recommendation set forth in Section B.2 of GCGC 2020.

- According to Section B.5 of GCGC 2020, an age limit is to be defined for Management Board members and indicated in the corporate governance statement. SFC Energy AG takes the view that the reaching of an age limit does not allow conclusions to be drawn 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. Accordingly, no age limit has been indicated in the corporate governance statement. As a result, the Company deviates from the recommendation set forth in Section B.5 of GCGC 2020.

- According to Section C.1 of GCGC 2020, the Supervisory Board shall stipulate specific objectives regarding its composition and prepare a profile of skills and expertise for the entire Board. The Supervisory Board shall give due consideration to diversity in the process. 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 statement. This report shall also provide information about what the shareholder representatives on the Supervisory Board regard as the appropriate number of independent shareholder representatives, and the names of these members. The Company deviates from the recommendation to stipulate specific objectives, to prepare a profile of skills and expertise for the entire Board, and to provide information about what the shareholder representatives on the Supervisory Board regard as the appropriate number of independent shareholder representatives, 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. The Supervisory Board will give due consideration to diversity in the process. 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 of 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 statement does not mention any such objectives. As a result, the Company deviates from the recommendation set forth in Section C.1 of GCGC 2020.

- According to Section C.2 of GCGC 2020, an age limit is to be defined for Supervisory Board members and indicated in the corporate governance statement. SFC Energy AG takes the view that the reaching of an age limit does not allow conclusions to be drawn as to the skills and expertise of a member of the Supervisory Board. Therefore, no age limit for the members of the Supervisory Board has been specified. Accordingly, no age limit has been indicated in the corporate governance statement. As a result, the Company deviates from the recommendation set forth in Section C.2 of GCGC 2020.

- According to Section D.2 of GCGC 2020, 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 D.3 of GCGC 2020 recommends that an Audit Committee be set up. The respective committee members and the chair of the committee shall be named in the corporate governance statement. 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. Accordingly, the respective committee members and the chair of the committee have not been named in the corporate governance statement. As a result, the Company deviates from the recommendations set forth in Sections D.2 and D.3 of GCGC 2020. The fact that no Supervisory Board committees have been formed results in further deviations in respect of additional recommendations of GCGC 2020 pertaining to Supervisory Board committees and their members (Sections C.10, D.4, D.8, D.11, D.13 and G.17 of GCGC 2020).

- According to Section D.5 of GCGC 2020, 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 D.5 of GCGC 2020.

- According to Section G.1 of GCGC 2020, there shall be specific stipulations in the compensation system concerning how intended overall compensation for each Management Board member is determined and maximum limits for overall compensation. 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 with regard to 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. According to Section G.1 of GCGC 2020, there shall also be specific stipulations in the compensation system concerning the amounts of fixed compensation and of short-term variable and long-term variable compensation components relative to the intended overall compensation. Because no such intended overall compensation has been defined, it is also not possible to define the relative proportions of the individual compensation components or of this intended overall compensation. As a result, the Company deviates from Section G.1 of GCGC 2020.

- If the new version of the Code dated December 16, 2019, results in further deviations relating to the existing employment contracts of the Company's Management Board members, it should be noted that in accordance with the reasoning given in GCGC, "Amendments to the Code do not have to be taken into account in existing Management Board contracts." The Company will consider the recommendations of GCGC 2020 in the extension of existing Management Board contracts and when contracts are signed with new Management Board members and will declare any relevant deviations in that respect as and when they occur.

Brunnthal, March 25, 2020

SFC Energy AG

The Management Board
The Supervisory Board"

The declaration of conformity can be accessed at any time via the SFC Energy AG website at
www.sfc.com/en/investors/corporate-governance/#s2

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 25, 2019.

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 entitled "Information required by Section 289f para. 2, no. 4 of HGB (German Commercial Code)", page 47).

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), Marcus Binder, who serves as Chief Sales Officer for Defense & Security (CSO), and Hans Pol as Chief Sales Officer for Power (CSO). On December 11, 2019, the Supervisory Board released Marcus Binder from his duties, with his contractual compensation continuing to be paid until the end of the contract term. Following February 28, 2020, Marcus Binder will no longer be a member of the Management Board of SFC Energy AG.

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.

According to Section B.2 of GCGC 2020, the Supervisory Board together with the Management Board shall ensure that long-term succession planning is in place. The Management Board and Supervisory Board of the Company are currently discussing succession planning with a view to the composition of the Management Board. The Management Board and Supervisory Board are confident of being in a position to conclude long-term succession planning in the second half of 2020.

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 pages 27 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 2019 financial year the Supervisory Board of the Company was made up of three members, who were elected by the shareholders. In the 2019 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.

The Chairman of the Supervisory Board, Tim van Delden, has been a member of the Company's Supervisory Board since May 9, 2012. David Morgan has been a member of the Supervisory Board since March 8, 2010, and Hubertus Krossa since May 16, 2014.

Of the Supervisory Board members currently in office, David Morgan especially qualifies as an independent financial expert within the meaning of Section 100 para. 5 of 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 entitled "Information required by Section 289f para. 2 no. 4 of 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 of 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 2019 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 2019 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.

Training; self-assessment

According to Section D.12 of GCGC 2020, the Company shall lend appropriate support to the members of the Supervisory Board upon their accession to the Board, as well as with training activities. The members of the Supervisory Board have been in place since 2010, 2012 and 2014 respectively, which means that for the most part, only the part about appropriate support for training activities applies. In the 2019 financial year, the Chairman of the Supervisory Board, Tim van Delden, reported that he had attended a two-day seminar on the subject of "Future Good Governance" to mark the 15th anniversary of the Association of Supervisory Board Members in Germany. He informed the other members of the Supervisory Board about the content of the event. David Morgan also reported that he had undergone training and refresher courses on accounting and auditing in the 2019 financial year.

According to Section D.12 of GCGC 2020, the Supervisory Board shall regularly assess how effectively it is performing its duties. The Supervisory Board of SFC Energy AG regularly assesses how effectively it is performing its duties and decides on action that it can take to improve. In 2017, the Supervisory Board conducted a self-assessment (efficiency check) using a questionnaire. The Supervisory Board discussed the material results and, with the involvement of the Management Board, action that it could take to improve. The Supervisory Board will conduct another self-assessment using a questionnaire in 2020, with the involvement of an external expert if necessary.

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 pages 80 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 and 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.

All directors' dealings pursuant to Art. 19 MAR are published via the DGAP (German Ad Hoc Publicity Association) and can be viewed on the Company's website at www.sfc.com/en/investors/corporate-governance/directors-dealings. The total percentage of shares in SFC Energy AG held by Management Board members as of December 31, 2019, was 1.80 %, of which 0.82 % were held by chairman Dr. Peter Podesser and 0.98 % by Management Board member Hans Pol. 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 2019 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 OF HGB

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, 2019, 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 Marcus Binder, with effect as of March 1, 2017, up to February 28, 2020, and on the other, of its decision of May 15, 2016, to extend the term of office of the Chairman of the Management Board, Dr. Peter Podesser, originally due to run until March 2020, along with his Management Board employment contract, early for four further years and thus until March 31, 2024. The Supervisory Board also took account of its decision of February 28, 2018, to extend the term of office of

Management Board member Hans Pol, originally due to run until June 30, 2018, along with his Management Board employment contract, 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, 2019, 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 regard to 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 disciplinary authority. 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 have only one executive level below the Management Board; it comprises 13 persons, of whom four are female and nine male. The proportion of women at the first executive level below the Management Board therefore amounts to 30.8% 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 but 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, 2019, the proportion of women at the first executive level was 30.8%, meaning that the target of 30% that had been set was achieved.

COMPENSATION REPORT

According to Section 162 of AktG, the Management Board and Supervisory Board are required every year to issue a clear and easily understandable report on the compensation granted and owed to each current and previous member of the Management Board and Supervisory Board by the company and by companies in the same corporate group (Section 290 of HGB).

Management Board Compensation

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

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

Members of the Management Board also receive variable compensation (performance-based bonus) if specific targets are met. The targets to reach in financial year 2019 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.

At 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, onward 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 3). 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 extension of the employment agreement of Management Board Chairman Dr. Peter Podesser, whose employment agreement was extended early for another four years until March 31, 2024. 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. The Company provides a company car to each member 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 2019

Members of the Management Board received € 2,665,252 in total compensation in financial year 2019. The compensation for financial year 2019 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 in 2019 or set aside in the 2019 consolidated financial statements, less the amounts already set aside as of December 31, 2018 (benefits granted).

Table 1 shows the benefits granted in financial year 2019, 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 2019 * — 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	2018	2019	2019 (Min)	2018	2019	2019 (Min)	2018	2019	2019 (Min)
Fixed Income	350,000	350,000	350,000	189,998	199,898	199,898	180,000	180,000	180,000
Fringe Benefits	23,358	19,597	19,597	28,568	18,568	18,568	21,859	21,859	21,859
Total	**373,358**	**369,597**	**369,597**	**218,566**	**218,466**	**218,466**	**201,859**	**201,859**	**201,859**
One-year variable compensation	186,598	290,821	0	68,148	81,398	0	68,502	53,724	0
Multi-year variable compensation	647,502	955,526	0	133,887	286,044	0	86,175	207,817	0
SAR Programm	647,502	955,526	0	133,887	286,044	0	86,175	207,817	0
Total	**1,207,458**	**1,615,944**	**369,597**	**420,601**	**585,908**	**218,466**	**356,536**	**463,400**	**201,859**
Service costs	0	0	0	0	0	0	0	0	0
Total	**1,207,458**	**1,615,944**	**369,597**	**420,601**	**585,908**	**218,466**	**356,536**	**463,400**	**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 2019 (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	2018	2019	2018	2019	2018	2019
Fixed Income	350,000	350,000	189,998	199,898	180,000	180,000
Fringe Benefits	23,358	19,597	28,568	18,568	21,859	21,859
Total	**373,358**	**369,597**	**218,566**	**218,466**	**201,859**	**201,859**
One-year variable compensation	169,462	326,957	52,433	96,613	57,231	67,037
Multi-year variable compensation	0	0	0	53,625	0	0
SAR Programm	0	0	0	53,625	0	0
Total	**542,820**	**696,554**	**270,999**	**368,704**	**259,090**	**268,896**
Service costs	0	0	0	0	0	0
Total	**542,820**	**696,554**	**270,999**	**368,704**	**259,090**	**268,896**

Share Option Programs

At 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, onward 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. CEO Dr. Peter Podesser, whose employment agreement was extended early for another four years to March 2024 in the 2019 financial year, received a tranche of the fifth SAR Plan (SARP 2020–2024) as part of the extension of his Management Board employment contract.

After the end of a fixed waiting period, the virtual stock options confer the right to cash pay out depending on the stock exchange price of the shares of SFC Energy AG at the date the right is exercised. 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 has a duration of 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 SAR Plans 2014–2016, 2015–2018, 2017–2020, 2018–2021 and 2020–2024 are as follows:

MAIN TERMS OF THE SAR PROGRAM 2014–2016, 2015–2018, 2017–2020, 2018–2021 AND 2020–2024

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); April 1, 2020 (Dr. Peter Podesser 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); 4 to 7 years (Dr. Peter Podesser 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, July 1, 2020 and July 1, 2021 (Hans Pol TR 3); April 1, 2021, April 1, 2022, April 1, 2023 and April 1, 2024 (Dr. Peter Podesser 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 fixed annual compensation in the amount of € 25,000.00, 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 2019 was as follows:

FINANCIAL YEAR 2019	in €
Tim van Delden, Chairman	50,000
David Morgan, Vice Chairman	37,500
Hubertus Krossa, Supervisory Board Member	25,000
Total	**112,500**

GROUP MANAGEMENT REPORT

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

GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2019

BASIS OF THE GROUP

The Group's business model

Organizational structure of the Group and locations

The Group (SFC or SFC 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).

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.

SFC AG'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 2019, the Management Board managed 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 corporate purpose of SFC AG is the development, production and distribution of power generation systems and their components for off-grid and on-grid applications based on fuel 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 AG is the first company in the world with mass-produced commercial products in the area of direct methanol fuel cells (DMFC) for multiple target markets.

In the Defense & Security segment SFC AG generates sales in the defense and security market. The Defense & Security market includes defense and security applications from military organizations and government agencies. 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. Firstly it includes any area of industry where professional users run electrical equipment off the grid and use SFC AG's EFOY Pro methanol or hydrogen fuel cells. This includes applications in security and surveillance, traffic management, and the wind power industry. Secondly, SFC AG 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).

The High Power platform from PBF Group B.V., SFC's company in the Netherlands and Romania, allows the grid power to be prepared reliably and to high quality standards, exactly in keeping with the system's specific requirements. Power Supplies adapt the electrical performance to the energy required by the system in question, doing so in modular form. PBF Group meets demanding customer requirements on the basis of the PBF technology that it has developed in house. This compact, scalable power supply technology offers maximum flexibility in the development and manufacture of standardized and semi-standardized high-performance and high-precision power supplies for demanding industrial applications, e.g. in laser technology and other high-tech industrial sectors.

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 AG entered into hydrogen technology in the 2019 financial year through a development partnership agreement with a license agreement for a new H_2 fuel cell generation with energy management. This has given SFC AG 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 most significant core indicators of 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 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 2018, 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 € 6,760k was spent on R&D in financial year 2019 (prior year: € 5,667k), including costs related to joint development projects.

		in k €
	2019	2018
Expenses according P&L	**3,104**	**3,525**
Expenses for Joint Development Agreements	1,038	443
Capitalized Development Costs	2,456	1,384
Assistance from Government Funding	163	315
Expenses from R&D	**6,760**	**5,667**

We capitalized € 2,456k in development work in 2019, versus € 1,384k the year before. The reason for the increase over the prior year was the capitalized development costs for the laser platform at PBF and the hydrogen fuel cell and EFOY 3.0 at SFC AG. Amortization of capitalized development costs is reported as production costs of work performed to generate sales. No impairment charges on capitalized development costs were included in the financial year (prior year: € 23k). As in the prior year, no further amortization of intangible assets was recognized in the purchase price allocation for PBF. The share of capitalized development costs in total research and development costs (capitalization rate) was therefore 36.3 % (prior year: 24.4 %).

61 employees (21 at SFC, 36 at PBF and 4 at Simark), around one-fifth of the people employed by the Group, primarily worked on developing 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: 20).

The focus of SFC AG's research and development activities was as follows in financial year 2019:

- Development of product generation EFOY 3.0
- Development of a smart fuel management system for prolonging the autonomy of the new product generation
- Development of a battery management system (BMS) for lithium batteries for optimized connection of the new product generation
- Analysis, design and ongoing development of hydrogen fuel cell systems based on the Jupiter system
- Continuation of 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

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

- A laser system developed in 2018 on the basis of a 3.8 kW power supply was certified in 2019. It is scheduled to enter series production in 2020.
- Various power supply products for the aviation industry were certified and put into series production in the 2019 financial year. A test system was also developed and delivered.
- 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 enter series production in the second quarter of 2020. In addition, a 3.5 kW system was ordered and certified following the prototype test phase. The 3.5 kW system also due to enter series production in Q2 2020.
- The test phase for the first prototypes for a 21 kW laser platform was completed. It is scheduled to enter series production in fall 2020.

We plan to keep R&D expenditure 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 still cooling

According to the ifo Institute's assessment [1] in its economic forecast in December 2019, production in the manufacturing industry declined in the second half of the year, particularly in advanced economies. This had a corresponding effect on general economic production, the increase of which slowed again in the third quarter of 2019. In contrast, the service and consumer economy was robust, supported by strong wage increases.
In 2019, global GDP expanded more moderately than the long-term trend. Accordingly, over-utilization of the global economy decreased. The Institute sees two main reasons for the weakness in industry and global trade. On the one hand, the trade policy conflict between the USA and China severely restricted the trade of goods between the two countries, thus curbing production. On the other hand, demand for motor vehicles fell sharply in many places, with corresponding drops in production. As this is a very trade-intensive group of goods, the global economy was severely affected. Overall, the Institute expects the global economy to stabilize in 2019. According to the Institute's estimates, global GDP should have grown by 2.6 % in 2019, by 2.5 % in 2020 and 2.6 % in 2021.

Global economy slowing down due to the coronavirus crisis

The economic reports and forecasts published at the beginning of 2020 by economic experts and institutes have been rendered obsolete by the global spread of the coronavirus after the end of the reporting period. Experts are now expecting the spread of the coronavirus to have a significant impact on the global economy.

Based on the current OECD study from March 2, 2020, which analyzed the impact of COVID-19 on global economic growth and the major economies, all growth forecasts from late last year are now subject to a high degree of uncertainty and have been revised downward.

German economy affected by the coronavirus crisis

In its Economic Outlook [2] published in March, the Kiel Institute for the World Economy (IfW) sees the German economy in a situation from which it was just about to bounce back following last year's downturn. At the beginning of 2020, there were an increasing number of signs that the industry would bottom out and gradually emerge from the recession. However, IfW experts now believe that the actual economic damage caused by the coronavirus is virtually impossible to quantify. For one thing, the impact is yet to be reflected in the current leading indicators. For another, it is unclear how the spread of the virus will continue to develop, particularly because the economic implications also depend in large part on the measures for containing the virus.
In its forecast, the IfW expects the coronavirus to dampen economic activity mainly in the first half of the year. Tangible catch-up effects are then expected. Experts therefore believe that the economic situation in 2020 will resemble a V shape. The IfW also expects a significant impact on external trade in the coming months. Here, trade with not only China, but also other regions severely affected by the virus is likely to be in significant decline. In the course of this, problems delivering intermediate products could also result in tangible declines in production. The IfW also expects the spread of the virus to have a significant impact on the domestic economy. Private households are likely to withdraw, particularly from leisure activities, to avoid infection. Companies are

1 ifo Economic Forecast Winter 2019, "German Economy Stabilizes", December 12, 2019
2 IfW Kiel Institut für Weltwirtschaft, Kieler Konjunkturberichte "Deutsche Konjunktur im Frühjahr 2020"
(ifW Kiel Institute for the World Economy, Kiel Economic Report "German economy in spring 2020"), March 11, 2020

expected to postpone investment plans in light of the uncertain spread of the virulent disease. If the major negative effects are actually restricted to the first half of the year, there is likely to be low impact on employment figures. Overall, the IfW expects gross domestic product for the current year to drop slightly by 0.1 %. In its winter forecast, the IfW had previously still expected an increase of 1.1 %. In 2021, experts also expect gross domestic product to increase by 2.3 % due to catch-up effects. However, overall, downside risks prevail in the IfW forecast and, depending on the further spread of the coronavirus illnesses, significantly more negative scenarios are also possible.

Based on the publications available to us, the economic conditions for the segments are as follows:

Oil & Gas segment

In its Oil Market Report [3] about the global oil market in 2020 published after the end of the reporting period in March, the International Energy Agency (IEA) also sees the international oil market as severely affected by the global coronavirus crisis and has reduced its forecast for global oil demand to 1.1 million b/d. So, demand is to decline year-on-year for the first time since 2009, by 90,000 b/d. In the first quarter of 2020, demand in China had already dropped by 1.8 million b/d year-on-year. Altogether, demand declined globally by 2.5 million b/d. The IEA expects demand to return to normal in the second half of 2020.

Oil price and storage

According to the US Energy Information Administration (EIA) [4], prices for Brent crude oil averaged USD 64/barrel (b) in 2019 and were thus down USD 7/b on 2018. WTI averaged USD 57/b in 2019, which was USD 7/b lower than the price of the Brent variety. Unlike in previous years, in 2019 both crude oil prices moved within relatively narrow price ranges. The Brent variety reached its lowest price of USD 55/b in early January 2019 and by late April climbed to its high for the year at USD 75/b. The range of USD 20/b is the narrowest since 2003. The WTI crude oil price ranged between USD 47/b and USD 66/b.

Due to the latest forecasts with regard to the differences of opinion between the OPEC on one hand and Russia on the other as well as the related increased output, which have led to the current price war, the outlook on the trend in oil prices is negative at present. Thus, a temporarily corrected crude oil price of USD 40/b is expected.

Production and demand

According to the EIA, the global oil markets were almost offset in 2019 by a slight downturn in global oil supply and the slowest increase in global oil demand since 2011. Global production [5] of liquid fuels amounted to 100.7 million b/d in 2019 and was therefore on a par with the previous year. According to the administration's assessment, global production should rise by 1.6 million b/d to 102.3 million b/d in 2020. In 2020, global demand is expected to increase by 1.3 million b/d to an average of 102.0 million b/d.

3 International Energy Agency IEA, Oil Market Report 2020, March 2020
4 EIA, Short-Term Energy Outlook, January 14, 2020
5 EIA, Short-Term Energy Outlook – Tables Production & Consumption, January 14, 2020

Canada

Canada, Simark's domestic market, is one of the world's largest producers of natural gas and crude oil. Oil sand deposits account for 96 % of the country's oil reserves. Canada's largest export market is the US[6]. At the beginning of this year, the Canadian Association of Petroleum Producers (CAPP)[7] put the industry's investment for 2019 at CAD 36 billion, meaning that this figure fell to a further low in 2019. 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.

In November 2019, the CAPP published its forecast for the growth of Canadian oil production from 2019 to 2035, lowering the growth rate by 6 % in comparison with its forecast[8] from 2018. According to the association, total annual production is set to increase by 2 % by 2021. Oil sand production is expected to rise from 2.9 million b/d in 2018 to 4.25 million b/d in 2035 – a growth rate that is as much as 12 % lower than the association's forecast from 2018. The association cites the cancellation of planned larger-scale pipeline construction projects as well as delays and difficulties in existing pipeline projects as reasons for this. The resulting bottlenecks in transport capacities significantly limit both the supply of existing markets in the US and Canada and expansion into new overseas markets.

The EIA[9] thus anticipates that production in Canada will increase by almost 0.2 million b/d in 2020 and 2021. The association expects that production will grow in comparison with 2019 because production cuts mandated by the government in Alberta have been lifted, while greater rail capacities have been made available for oil transport. Nevertheless, this growth in production will be significantly lower than it was for the longest period of the past ten years. We should also refer to the information about oil price and storage in relation to COVID-19 and differences of opinion between Russia and Saudi Arabia. These will result in developments of which the scope ultimately remains to be seen.

SFC expects an increased percentage of fuel cells in the segment Oil & Gas.

Clean Energy & Mobility segment

For the Clean Energy & Mobility segment a key factor is how the fuel cell industry develops.

Fuel cells

According to the strategic consulting firm E4tech[10] in its "Fuel Cell Industry Report 2019", 2019 was a landmark year for the fuel cell industry, as the total output of fuel cells sold worldwide exceeded 1 GW for the first time. In 2019, this figure was roughly 1.1 GW, which represents a 40 % increase year-on-year. According to experts, this increase is testament to increasingly efficient supply chains and the mounting success of fuel cells in numerous applications. The total number of fuel cells sold worldwide increased slightly to 70,000. E4tech is observing considerable industrial progress in expanded sales and production capacities as well as in ongoing industry cost reductions. Experts are observing renewed interest from politicians and the public in fuel cells as environmentally friendly energy sources, particularly in the e-mobility and the commercial and residential stationary CHP (combined heat and power) sector. The focus here is primarily on hydrogen and hydrogen fuel cells. Politicians and industry figures are hoping that these will become environmentally friendly energy supply solutions and support the achievement of climate targets. The first bus fleets, trains and ships to have hydrogen

6 Natural Resources Canada, Website https://www.nrcan.gc.ca/science-data/data-analysis/energy-data-analysis/energy-facts/crude-oil-facts/20064, as of January 2020
7 Canadian Association of Petroleum Producers CAPP, Frequently Used Statistics, October 2019
8 CAPP, 2019 Crude Oil Forecast, Markets and Transportation, November 9, 2019
9 EIA, Short-Term Energy Outlook, January 15, 2019
10 E4tech, The Fuel Cell Industry Review 2019, January 9, 2020

fuel cells are already in the test or even series production stage. Hydrogen fuel cells are increasing in importance in stationary applications as well. This applies, above all, to telecommunications applications. SFC AG is extremely well positioned here with the Jupiter fuel cell systems. According to E4tech, sales of direct methanol fuel cells (DMFCs) are also growing, particularly in off-grid military and industrial applications. Based on E4tech's assessment, SFC AG is now the only player with series production capacity in the stationary DMFC segment.

According to the German Caravan Industry Association (CIVD) [11], the German caravan industry experienced further growth of 13.6 % to reach 80,863 new registrations in 2019, which is yet another record. The water sports market grew again according to its BVWW industry association [12]. In November, the association expected total sales of maritime goods and services to increase by 3 % to € 2.16 billion for 2019 as a whole.

SFC believes it is well positioned with its fuel cell offer in the segment.

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 [13] reported a volume of € 4,423 billion for the global electronics market in 2018, which represents year-on-year growth of 5 %. The association is anticipating slower growth of 4 % in 2019 and 3 % in 2020. At 7 %, growth in the "electronic components" submarket was stronger than in the market as a whole in 2018. Experts are anticipating a slowdown in growth of the market as a whole of 4 % in 2019 and 3 % in 2020.

According to the association [14], real production in the German electronics industry adjusted for price effects declined by 4.2 % year-on-year in the period from January to November 2019. A similar decline in production activity is anticipated for the year as a whole. Aggregated income in the industry also fell by 1.4 % to € 175.2 billion in the period from January to November. The business climate in the German electronics industry picked up again in the first half of 2019 following a period of steady deterioration. Nevertheless, both the assessment of the current situation and the general business expectations for the industry remain below zero, resulting in a negative climate overall.

In the "electronic components" submarket (in-house manufacturers and electronic manufacturing services providers) in Germany, in November 2019 the ZVEI expected that sales for 2019 [15] as a whole would decrease by a good 4 % year-on-year to € 20 billion, which is the same level of sales as 2017. The association attributes this decrease primarily to the decline of the semiconductor components sector, which accounts for 70 % of the German electronic components market and is expected to post a downturn of 8 % in 2019. At the time of compiling this report, only the 2018 figures [16] were available for the "electromechanical components" submarket. According to these figures, the German market for electromechanical components grew by 3.4 % to € 3.6 billion in 2018.

11 CIVD, CIVD Info 01/2020, January 13, 2020.
12 BVWW, press release: Wassersportmarkt 2019 bleibt stabil, erste Wolken am konjunkturellen Himmel [The Water Sports Market Is Holding Stable in 2019, First Clouds on the Economic Horizon], November 2019
13 ZVEI, Welt-Elektromarkt – Ausblick bis 2020 [Global Electronics Market – Outlook until 2020], July 10, 2019
14 ZVEI, ZVEI Business Cycle Report, January 9, 2020
15 ZVEI, press release for productronica 2019, Entwicklung der Märkte für elektronische Bauelemente rückläufig [Markets for Electronic Components in Decline], November 12, 2019
16 ZVEI, Bericht zur Mitgliederversammlung 2019 – Fachgruppe Elektromechanische Bauelemente 2019 [General Meeting Report 2019 – Specialist Group for Electromechanical Components 2019], September 25, 2019

The VDMA[17] forecast a difficult 2020 for equipment and plant engineering after the end of the reporting period. The coronavirus is now joining trade conflicts, global economic weaknesses and structural change in automotive manufacturing, with unforeseeable consequences for the economy as a whole. After new orders were still down 9% on the previous year's figure, the spread of the coronavirus presents a further tangible setback for the industry. Even assuming that the situation eases in the second half of the year and business improves, the association does not expect that it will be possible to offset the additional decline in 2020. To the extent that it is at all possible to calculate at the moment, experts expect a real drop in production of 5% for equipment and plant engineering.

Defense & Security segment

In its report on worldwide military capabilities released to coincide with the Munich Security Conference in February 2020, entitled The Military Balance 2019[18], the International Institute for Strategic Studies (IISS) regards 2019 as characterized by the continuing spread of advanced military capabilities coupled with potentially disruptive new technologies. The next few months will be crucial in determining whether New START, the last remaining pillar of the bilateral architecture that has existed since the Cold War, will be maintained. However, the program covers neither China nor an array of new technologies. The conflict in Ukraine persists, North Korea has resumed testing missiles and terrorists continue to challenge security forces, as do conflict and instability in Africa, the Middle East, Libya and Yemen. The US decision to withdraw troops from northern Syria and the Turkish incursion into Kurdish regions have resulted in Russian and Turkish troops conducting joint operations for the first time. The assassination of Qasem Soleimani by the USA in January 2020 served as a reminder of the power of US forces in the region, but also demonstrated the importance of combining military might with a clear strategic direction.

According to the IISS, global defense spending rose by 4% in real terms over 2018 figures in 2019 – the largest year-on-year increase of the decade. Defense spending climbed by 6.6% in both China and the USA in 2019. Both countries increased their expenditure, but the pace of growth in defense spending accelerated in the USA and slowed in China. The rise in defense spending in Asia mirrored the sustained economic growth in the region. Data from the IISS shows that defense spending in Asia grew by more than 50% in real terms over the past decade, from USD 275 billion in 2010 to USD 423 billion in 2019.

European defense spending rose by USD 11.5 billion in 2019, or 4.2% relative to 2018 and thereby returned to the level recorded before the financial crisis. Germany was responsible for more than a third of this increase, with German defense spending climbing 9.7% between 2018 and 2019. Despite this, Germany remains USD 28.7 billion short of the NATO target of 2% of gross domestic product by 2024. In November 2019, the German Federal Minister of Defense announced on her ministry's website[19] that the German defense budget would increase to approximately €45 billion in 2020, which would represent an increase of €1.7 billion year-on-year.

In general, SFC believes it is well positioned with fuel cells in Defense & Security.

17 VDMA – Maschinen- und Anlagenbau, "Maschinenbau durchlebt schwieriges Jahr"
[VDMA – Organization of German manufacturers of Machinery and Equipment Constructors, "Difficult year for machinery construction"], March 12, 2020
18 IISS, The Military Balance 2020, February 14, 2020
19 BMVg website, https://www.bmvg.de/de/themen/verteidigungshaushalt/entwicklung-und-struktur-des-verteidigungshaushalts, as of February 5, 2019

EARNINGS AND FINANCIAL POSITION

Financial performance

The SFC Group (the "Group") posted sales of € 58,538k in financial year 2019, a 5.1 % decline from the prior-year period's € 61,704k.

SFC AG generated sales of € 19,346k, and was thus at the level of the previous year (€ 19,364k). This was due to a significant increase in sales of 25.7 % in the Clean Energy & Mobility segment. However, the Defense & Security segment reported a 24.2 % decline year-on-year, caused chiefly by the fact that an order in a defense sector tender procedure in Germany was not awarded.

PBF had sales of € 17,238k, thus posting a 5.7 % increase over last year's figure (€ 16,314k). 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 € 21,954k, a decline of 15.6 % compared with 2018 (€ 26,026k). This was due to considerable reluctance to invest in the Oil & Gas segment.

In a comparison of the two financial years, EBIT for the Group deteriorated from plus € 1,325k to minus € 1,288k.

First application of IFRS 16 caused an increased EBITDA, as there was an impact at an amount of T€ 2,291 with lower lease costs and higher depreciation on rights of use Assets at an amount of T€ 2,138.

The lower operating result was thus € 2,613k. This was due to the lack of earnings contributions as a result of a tender not being awarded and thus also no sales being generated for an order in the defense segment as well as declining sales in the Oil & Gas segment in the second half of 2019.

The following non-recurring effects are not reflected in the underlying earnings in 2019:

- Expenses of € 1,446k from the recognition of provisions due to the SAR Plan of the Management Board (prior year: € 818k).

- Costs of € 126k associated with acquisition efforts (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€
	2019	2018
Earnings according to income statement or segment reporting (EBIT)	**– 1,288**	**1,325**
Sales costs		
Expenses for the Management Board SAR Plan, personnel expenses	872	429
Administration costs		
Expenses for the Management Board SAR Plan, personnel expenses	573	389
Costs associated with acquisition efforts; other operating expenditure	126	0
Restructuring costs		
Expenses from contract terminations PBF	0	410
Underlying result (EBIT)	**284**	**2,553**
EBITDA	**2,042**	**2,478**
Sales costs		
Expenses for the Management Board SAR Plan, personnel expenses	872	429
Administration costs		
Expenses for the Management Board SAR Plan, personnel expenses	573	389
Costs associated with acquisition efforts; other operating expenditure	126	0
Restructuring costs		
Expenses from contract terminations PBF	0	410
Underlying result (EBITDA)	**3,614**	**3,705**

Positive underlying EBITDA of € 3,614k was achieved in financial year 2019. In the same period in 2018, the positive underlying EBITDA amounted to € 3,705k. There was thus a deterioration of € 91k.

Excluding the application of IFRS 16 gives an underlying EBITDA of € 1.3 million and an underlying EBIT figure of € 0.1 million.

With sales of € 58.5 million the Group achieved the revised forecast of sales between € 58 million and € 62 million. Before the effects of IFRS 16, the earnings figures in the revised forecast (underlying EBITDA between € 0.5 million and € 2.5 million; underlying EBIT between minus € 0.5 million and € 1.5 million) were slightly exceeded.

Sales by segment

The following table shows a comparison of segment sales for the 2019 financial year:

SALES BY SEGMENT		in k€	in k€	in %
Segment	2019	2018	Change	Change
Oil & Gas	21,954	26,026	– 4,072	– 15.6 %
Industry	17,238	16,314	924	5.7 %
Clean Energy & Mobility	11,758	9,353	2,405	25.7 %
Defense & Security	7,588	10,011	– 2,423	– 24.2 %
Total	**58,538**	**61,704**	**– 3,166**	**– 5.1 %**

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 fell from € 26,026k to € 21,954k due to considerable reluctance to invest in the oil and gas industry. Simark executes its transactions almost exclusively in CAD. Sales decreased from CAD 39.8 million to CAD 32.6 million. However, 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 16 % of product sales in this segment (prior year: 12 %).

Sales in the Industry segment rose by 5.7 % to € 17,238k in 2019. This increase was chiefly due to sales growth and strong demand among new and existing customers throughout the entire calendar year. The focus continues to be on improving margins on the purchasing and sales side while at the same time scaling sales based on the High Power Standard Platform technology.

At € 11,758k, sales in the Clean Energy & Mobility segment were up 25.7 % in 2019 compared with the same period of the previous year. The Consumer sub-segment recorded an increase of 6.3 %. Driven particularly by an extended client base, Industrial Applications sales were up year on year by 36.1 %.

The Defense & Security segment closed the year with sales of € 7,588k, down a considerable 24.2 % on the previous year's figure of € 10,011k. Internationalization continued with growth of 84.5 %, particularly in India, Israel and the UK. Germany, however, saw sales slump by two thirds, especially as a result of failure to achieve traditional year-end business with the German defense customer.

Sales by region

Sales by region developed as follows:

SALES BY REGION		in k€	in k€	in %
Region	2019	2018	Change	Change
North America	22,668	26,333	–3,665	–13.9 %
Europe (without Germany)	21,458	19,151	2,307	12.0 %
Germany	7,909	12,171	–4,263	–35.0 %
Asia	4,825	3,528	1,296	36.7 %
Rest of the world	1,679	521	1,158	222.4 %
Total	**58,538**	**61,704**	**–3,166**	**–5.1 %**

It is in North America, the market that generates the highest sales, that the sales trend for the Oil and Gas segment is particularly important.

In the European market (not including Germany), PBF generated sales of € 13,392k (prior year: € 12,852k), while SFC AG posted sales of € 8,066k (prior year: € 6,299k).

In Germany, SFC AG's sales decreased from € 9,578k to € 5,020k in financial year 2019 owing to the lack of sales in defense. PBF contributed sales of € 2,889k in Germany (prior year: € 2,593k).

Germany's share of sales fell from 19.7 % to 13.5 % during financial year 2019 due to the weak national defense business business.

SFC AG posted an upturn in sales to € 4,462k in Asia as a result of the international defense business (prior year: € 2,755). PBF's sales in Asia amounted to € 362k (prior year: € 773k).

Sales in the rest of the world were € 1,679k (prior year: € 521k). This result was attributable primarily to the international defense business.

Gross profit

Gross profit in financial year 2019 was € 20,128k, or 34.4 % of sales. This is an improvement over the prior year of 0.2 percentage points. In the prior year, gross profit amounted to € 21,082k or 34.2 % of sales.

Gross margin improved in the Oil & Gas segment. An increase to 29.2 % was achieved. At 44.7 %, the Defense & Security segment was significantly below last year's figure. The Industry segment posted a slight decline to 30.4 %. A net margin of 43.2 % was generated in the Clean Energy & Mobility segment, which was markedly higher than the previous year. The key factor here was the higher share of sales with industrial clients which traditionally has a higher margin than the consumer business.

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

GROSS PROFIT		in k€	in k€	in %
Segment	2019	2018	Change	Change
Clean Energy & Mobility	5,085	3,647	1,439	39.4 %
Industry	5,241	5,005	236	4.7 %
Oil & Gas	6,413	7,335	– 921	– 12.6 %
Defense & Security	3,388	5,094	– 1,706	– 33.5 %
Total	**20,128**	**21,082**	**– 953**	**– 4.5 %**

However, the margin contribution in the Defense & Security segment declined by € 1,706k due to a lack of sales in the German defense sector. Gross profit was also € 921k lower in the Oil & Gas segment as a result of falling sales.

The margin contribution in the Industry segment was up by 4.7 %. Gross profit increased in terms of amount in the Clean Energy & Mobility segment by € 1,439k over the prior year as a result of both sales growth and distinctly improved margins.

Overall, gross profit saw a decrease of € 953k year-on-year.

Sales costs

Sales costs increased by 15.3 %, from € 10,792k to € 12,438k. Across the Group, the cost of sales as a percentage of sales rose from 17.5 % to 21.2 %. The increase was attributable to the fact that appropriate resources, especially in respect to staffing, were built up for the anticipated growth in sales.

Sales costs increased at the SFC AG subsidiary to € 6,599k, compared with last year's € 5,480k, due in part to higher expenditure from the SAR Plan, but particularly as a result of the number of employees in the sales area being 24 % higher at the end of 2019 in comparison to one year previously.

Sales costs at Simark amounted to € 4,574k (prior year: € 4,160k).

Sales costs at PBF increased to € 1,265k (prior year: € 1,151k).

Research and development costs

Research and development costs decreased by € 421k in financial year 2019 from € 3,525k to € 3,104k.

In 2019, SFC AG incurred lower costs of € 776k (prior year: € 1,208k) overall due to significantly higher capitalization.

Research and development costs at PBF amounted to € 2,107k and were thus more or less exactly the same as in the prior year (€ 2,110k). Capitalizable expenses affected the development of the laser platform.

Simark had research and development costs of € 221k (prior year: € 207k).

General administration costs

General administration costs increased by 14.6 %, from € 5,230k to € 5,994k. They were therefore 10.2 % of sales versus 8.5 % the year before. The increase was due not only to higher expenditure from the SAR Plan, but also to the costs resulting for the acquisition efforts.

Other operating income

Other operating income of € 178k (prior year: € 320k) contains income from exchange rate differences of € 157k (prior year: € 32k) as the largest item.

Other operating expenses

Other operating expenses amounted to € 57k in 2019 and resulted from expenses from exchange rate differences (prior year: € 119k).

Restructuring costs

There were no restructuring costs in the reporting period (prior year: € 410k).

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

EBITDA deteriorated year-on-year from € 2,478k to € 2,042k. EBITDA in relation to sales changed from 4.0 % to 3.5 %. Adjusted to eliminate the one-off effects mentioned above, underlying EBITDA amounted to € 3,614k (prior year: € 3,705k) or 6.2 % (prior year: 6.0 %) in relation to sales.

Operating result (EBIT)

The Group's EBIT decreased from € 1,325k to minus € 1,288k in 2019. EBIT in relation to sales deteriorated from 2.1 % to minus 2.2 %. Adjusted to eliminate the one-off effects mentioned above, underlying EBIT amounted to € 284 (prior year: € 2,553) or 0.5 % (prior year: 4.1 %) 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 of € 752k (prior year: € 737k) 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 €
	2019	2018
Lease liabilities (IFRS 16)	293	0
Banks	262	240
Financing costs Harbert	178	449
Interest costs on provisions and others	19	47
Total	**752**	**737**

Consolidated net result

The consolidated result for financial year 2019 worsened to minus € 1,927k, from minus € 1k in the prior year. The one-off effects described above amounting to € 1,572k (prior year: € 1,227k) are included in the financial year 2019.

Earnings per share

Basic and (diluted) earnings per share pursuant to IFRS declined from minus € 0.00 (minus € 0.00) to minus € 0.17 (minus € 0.17) because of the improved result for the year.

New orders and order backlog

While new orders of € 57,263k were received in financial year 2018, new orders of € 59,840k were received in 2019.

Accordingly, the order backlog in the Group relating to the reporting date grew to € 15,489k (prior year: € 14,187k) as of December 31, 2019. Of this amount, € 3,412k (prior year: € 1,831k) was attributable to SFC AG and € 6,209k (prior year: € 10,105k) to PBF. Simark contributed € 5,868k to the figure (prior year: € 2,251k).

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 received by the Group, in particular for capital measures, most recently in July 2019, were raised for these capital expenditures. 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.

Capital measure and Harbert financing

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 plan 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.

This capital measure provided the Company with gross issue proceeds 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.

This financing was withdrawn completely in the 2019 financial year. The bond warrant was in place unchanged at December 31, 2019. Subscription rights were then exercised in January 2020.

Cash capital increase

SFC AG resolved a subscription right capital increase on June 26, 2019. As part of a private placement, 2,700,000 no-par value bearer shares were successfully placed with institutional investors. The placement price was set at € 10.00 per new share. This capital increase provided the Company with gross issue proceeds of € 27.0 million.

Cash and cash equivalents and financial covenants

Available cash and cash equivalents amounted to € 20,906k at December 31, 2019 (prior year: € 7,520k).

The total current liabilities to banks amounted to € 5,352k at December 31, 2019 (prior year: € 4,585k). Non-current liabilities to banks amounted to € 1,161k (prior year: € 1,710k).

Simark

In connection with financing for the subsidiary Simark, extensive 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 the December 31, 2019 reporting date:

- Working capital ratio (WCR) (both banks):
  Current assets/current liabilities: > 1.20

- Debt service coverage ratio (DSCR):
  EBITDA/debt service: > 1.00

The threshold values were thus met at December 31, 2019.

SFC

The subordination agreement given by SFC AG to the banks of CAD 2,637k plus interest for an already existing shareholder loan is still in effect. As of the balance sheet date, this loan was valued at CAD 2,615k including interest.

PBF

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

As of the reporting date on December 31, 2019, PBF in Cluj, Romania, had also complied with its financial covenants and the debt and solvency ratio.

- Debt ratio:
  Debt/EBITDA: < 3.5

- Solvency ratio (DSCR):
  Equity/current assets: > 35 %

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

COMPANY'S EQUITY RATIO		in €
	12/31/2019	12/31/2018
Equity	**40,260,269**	**18,204,159**
As a percentage of total capital	55.3 %	43.3 %
Non-current liabilities	12,084,529	4,996,007
Current liabilities	20,514,044	18,864,823
Liabilities	**32,598,573**	**23,860,830**
As a percentage of total capital	44.7 %	56.7 %
Total equity and liabilities	**72,858,842**	**42,064,990**

The Group's capital structure improved markedly in the 2019 financial year due to the capital measures implemented. The Group still shows an equity ratio of 55.3 % (prior year: 43.3 %).

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

Capital expenditure

Capital expenditure by segment, including additions (during the year), for the 2019 financial year in accordance with IFRS 16 are as follows:

in k €	2019	2018
Industry	753	869
Clean Energy & Mobility	1,341	755
Defense & Security	1,401	558
Oil & Gas	132	192
Total	**3,628**	**2,373**

In financial year 2019, € 2,456k (prior year: € 1,384k) was capitalized for the further development of products. Capital expenditure was also made in software, machinery and equipment.

Total capital expenditure in 2019 came to € 3,628k (prior year: € 2,373k). Capital expenditure was financed with the Company's own funds or under existing loan agreements.

Cash and cash equivalents

There was a net cash inflow of € 13,387k (prior year: € 3,111k) in financial year 2019. Cash outflow from operating activities amounted to € 1,261k (prior year: cash inflow of € 2,005k) in 2019.

At the end of December 2019, the Company had available cash and cash equivalents of € 20,906k (end of December 2018: € 7,520k). In addition, cash of € 286k (prior year: € 286k) was blocked in favor of a landlord.

SFC invests its cash exclusively in short-term assets. In principle, SFC is therefore exposed to an interest rate risk in times of low or even negative interest rates.

There were no outstanding currency or commodity futures as of December 31, 2019.

There were current liabilities to banks of € 5,352k as of the reporting date (prior year: € 4,585k). Non-current liabilities to banks amounted to € 1,161k (prior year: € 1,710k). 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 2,915k
PBF in Cluj:	line of credit € 1,000k,	of which drawn: € 807k

The credit lines for SFC AG at Deutsche Bank AG (€ 4.000k) and Commerzbank Aktiengesellschaft (€ 5,000k) were not utilized at the reporting date.

Cash flow from ordinary operations

Cash outflow from operating activities of € 1,261k was recorded in financial year 2019; cash inflow amounted to € 2,005k in the prior year.

The reasons for the outflow 2019 were the negative changes in working capital, which more than offset improved changes in operating cash before working capital.

Cash flow from investment activity

Net cash used for investment activity totaled € 3,628k in the period under review (prior year: € 2,373k). The increase is primarily attributable to spending on capitalized assets from development projects from € 1,384k in the prior year to € 2,456k.

Cash flow from financial activity

There was a net cash inflow of € 18,275k from financial activity in 2019, in contrast to a net cash inflow of € 3,479k the prior year. In 2019, the cash inflow was mainly generated by the issue proceeds € 27,000k from the capital increase. The change in funds from additions to and the repayment of financial debt and changes in current account liabilities was negative at € 2,361k (prior year: plus € 15k). In 2019, interest of € 705k was also paid (prior year: € 625k).

Assets

Total assets as of December 31, 2019 increased by 73.2 % to € 72,859k compared with December 31, 2018 (€ 42,065k). The reasons for this were the cash capital increase and the first-time adoption of IFRS 16.

The equity ratio also increased due to the financing measures to 55.3 % (prior year: 43.3 %).

Inventories, trade accounts receivables and assets from contracts with customers increased by € 5,894k or 29.6 % in comparison with the prior year.

The most significant intangible assets are the goodwill of Simark of € 7,164k (prior year: € 6,688k) and PBF in an unchanged amount of € 1,179k (prior year: € 1,179k).

Other intangible assets in connection with the acquisition of PBF were no longer reported (prior year: € 161k).

Capitalized development costs amounted to € 5,292k (prior year: € 3,190k). With respect to the capitalized development costs, € 2,456k was capitalized (prior year: € 1,384k) and € 354k was amortized (prior year: € 385k) in financial year 2019 as sheduled in particular for rented buildings.

Due primarily to the first-time adoption of IFRS 16, non-current assets increased from € 13,776k to € 25,040k. At the same time, the share of non-current assets in total assets rose from 32.8 % to 34.4 %. First the adoption of IFRS 16 amounted to € 9,453.

Liabilities rose by 36.6 % from € 23,861k to € 32,599k. Here too the key factor was the first-time adoption of IFRS 16. Altogether, liabilities made up 44.7 % of total equity (prior year: 56.7 %).

As a result of the capital measures, equity increased from € 18,204k as of December 31, 2018, to € 40,260k as of December 31, 2019.

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 2019 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.

With 7.0 % of deliveries having defects, supplier quality was under the figure from the prior year (7.8 %). The ratio of defective parts was kept stable. The mean time to failure of SFC AG’s industrial equipment increased from 2,700 hours in the previous year to approximately 2,800 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 certified in accordance with ISO 14001. 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, 2019:

EMPLOYEES

	12/31/2019	12/31/2018
Management Board	3	3
Research and development	61	56
Production, logistics, quality management	105	109
Sales & Marketing	85	79
Administration	28	32
Permanent employees	**282**	**279**

The Group employed 17 trainees, graduates, and student trainees as of December 31, 2019 (December 31, 2018: 11).

With 100 permanent employees at December 31, 2019, SFC had slightly more employees than in the prior year (87).

The number of employees at PBF remained virtually stable at 113.

Simark had 69 employees as of the reporting date and thus employed fewer people than in the prior year (78).

There were thus 3 more employees at the end of 2019 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 capital measures and financing measures and taking into account additional future contributions, irrespective of the current result. 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 2019 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.

At 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, onward 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 Plan (SARP 2015–2018 or TR 2) and the fourth SAR Plan (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, 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 four years until March 2024. 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. The Company provides a company car to each member 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 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 2019

Members of the Management Board received € 2,665,252 in total compensation in financial year 2019. The compensation for financial year 2019 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 in 2019 or set aside in the 2019 consolidated financial statements, less the amounts already set aside as of December 31, 2018 (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 2019, 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 2019 * 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	2018	2019	2019 (Min)	2018	2019	2019 (Min)	2018	2019	2019 (Min)
Fixed Income	350,000	350,000	350,000	189,998	199,898	199,898	180,000	180,000	180,000
Fringe Benefits	23,358	19,597	19,597	28,568	18,568	18,568	21,859	21,859	21,859
Total	**373,358**	**369,597**	**369,597**	**218,566**	**218,466**	**218,466**	**201,859**	**201,859**	**201,859**
One-year variable compensation	186,598	290,821	0	68,148	81,398	0	68,502	53,724	0
Multi-year variable compensation	647,502	955,526	0	133,887	286,044	0	86,175	207,817	0
SAR Programm	647,502	955,526	0	133,887	286,044	0	86,175	207,817	0
Total	**1,207,458**	**1,615,944**	**369,597**	**420,601**	**585,908**	**218,466**	**356,536**	**463,400**	**201,859**
Service costs	0	0	0	0	0	0	0	0	0
Total	**1,207,458**	**1,615,944**	**369,597**	**420,601**	**585,908**	**218,466**	**356,536**	**463,400**	**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 2019 (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	2018	2019	2018	2019	2018	2019
Fixed Income	350,000	350,000	189,998	199,898	180,000	180,000
Fringe Benefits	23,358	19,597	28,568	18,568	21,859	21,859
Total	**373,358**	**369,597**	**218,566**	**218,466**	**201,859**	**201,859**
One-year variable compensation	169,462	326,957	52,433	96,613	57,231	67,037
Multi-year variable compensation	0	0	0	53,625	0	0
SAR Programm	0	0	0	53,625	0	0
Total	**542,820**	**696,554**	**270,999**	**368,704**	**259,090**	**268,896**
Service costs	0	0	0	0	0	0
Total	**542,820**	**696,554**	**270,999**	**368,704**	**259,090**	**268,896**

Compensation of the Supervisory Board

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

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

The compensation of the individual Supervisory Board members in financial year 2019 was as follows:

FINANCIAL YEAR 2019	in €
Tim van Delden, Chairman	50,000
David Morgan, Vice Chairman	37,500
Hubertus Krossa, Supervisory Board Member	25,000
Total	**112,500**

Share Option Programs

At 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, onward and replaces the existing LTIP. Mr. Hans Pol received a tranche of the second SAR Plan (SARP 2015–2018) and the fourth SAR Plan (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. CEO Dr. Peter Podesser, whose employment agreement has been extended early for another four years to March 2024, received a tranche of the fifth SAR Plan (SARP 2020–2024).

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 has a duration of 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 SAR Plans 2014–2016, 2015–2018, 2017–2020, 2018–2021 and 2020–2024 are as follows:

MAIN TERMS OF THE SAR PROGRAM 2014–2016, 2015–2018, 2017–2020, 2018–2021 AND 2020–2024

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); April 1, 2020 (Dr. Peter Podesser 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); 4 to 7 years (Dr. Peter Podesser 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, July 1, 2020 and July 1, 2021 (Hans Pol TR 3); April 1, 2021, April 1, 2022, April 1, 2023 and April 1, 2024 (Dr. Peter Podesser 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.

RISK AND OPPORTUNITIES REPORT

The SFC segments are exposed to numerous risks that are inextricably linked with the Company's business activities. "Risk" refers to the possibility of events or actions preventing the Group or one of its segments from accomplishing its stated objectives. At the same time, it is important to identify opportunities, make use of them and secure the competitive position. Opportunities are not offset against risks. Opportunities and risks are outlined below.

Risks are assessed on the basis of their probability of occurrence on a scale with grades of "Unlikely", "Possible" and "Likely", as well as the potential significance of each risk. The potential significance is evaluated in relation to the SFC's underlying EBITDA.

Evaluation of probability of occurrence/potential significance

Unlikely	0 % – 20 % probability of occurrence
Possible	21 % – 70 % probability of occurrence
Likely	71 % – 100 % probability of occurrence

Low	€ 0 – € 500k significance
Moderate	€ 500 – € 1,000k significance
High	> € 1,000k significance

Description of risks and opportunities

SFC makes a distinction between financial risks and business opportunities and risks. These are the key influencing factors for SFC.

The financial risks are described in "Risk Reporting with Regard to the Use of Financial Instruments".

"Risk Report" discusses in detail the financial risks as well as the business risks and opportunities. Any changes from the prior year are explained clearly.

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. This 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 2019. The effectiveness of the internal control system is monitored by the Supervisory Board of SFC AG. 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 significance 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. 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 project management tool for the entire Group, and other process-related indicators. PBF and Simark are integrated into the risk management system for certain key figures.

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 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, lease liabilities 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:

RISK REPORTING WITH REGARD TO FINANCIAL INSTRUMENTS	Probability of occurrence	Significance
Credit risk	Possible	Moderate
Liquidity risk	Unlikely	High
Interest rate risk	Possible	Low
Exchange rate risk	Possible	Low
Credit risk	Possible	Moderate

Credit risk

Credit risk derives 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 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. In terms of credit risk, prevention practices at PBF and Simark, which have a transparent and practically unchanging clientèle and can readily identify delinquencies, past-due accounts are first handled by employees in the accounting department and then turned over to the appropriate 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 value adjustments are applied as soon as an indication exists that receivables could be uncollectible. The indications are based on close contact with the respective customers as part of receivables management.

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. 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 thanks to the structure of the current client base. No indication existed as of the reporting date that any defaults were to be expected on these receivables.

Furthermore, no default risks exist in relation to cash and cash equivalents. These cash and cash equivalents 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 cash and cash equivalents to the extent that 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 are made. 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 counteracted by the capital increases in May 2007, November 2014, August 2016, July 2017, June 2018, and July 2019. Liquidity reserves increased significantly as a result of the capital increase in 2019 in particular. Furthermore, two banks granted lines of credit for equipment for SFC AG at the end of the 2019 financial year.

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. 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 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 risk arising from short- and long-term floating-rate liabilities. There is also an interest rate risk due to the credit rating. In addition, the Group is not exposed to any material interest rate risks from variable-rate 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 sales 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 aim of foreign currency management is to minimize currency losses in comparison with budget assumptions. In the case of larger open positions, it is possible to hedge balances 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 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 business combination 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.

The bearer bond was withdrawn completely at SFC AG by the end of 2019. There is therefore no longer any risk from the covenants for the Harbert bearer bond.

The loan agreement made 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 SECTION 315(A) OF HGB)

The capital stock of SFC AG totals € 12,949,612 and is divided into 12,949,612 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 2,700,000 shares in comparison with the prior year is as follows:

CHANGE IN THE NUMBER OF SHARES	Capital stock in €
Ordinary shares 12/31/2018	**10,249,612**
Capital increase July 2019	2,700,000
Ordinary shares 12/31/2019	**12,949,612**

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.)	15.99 %

* 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 (notification on February 12, 2020).

Shareholders have no special rights that confer control.

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

Pursuant to section 179 of the German Stock Corporation Act in conjunction with section 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 the AGM on May 16, 2019, shareholders passed a resolution to cancel Authorized Capital 2017/I dated May 17, 2017, to create a new Authorized Capital (2019/I) and to amend section 5 (Authorized Capital) of the articles of incorporation accordingly.

Authorized Capital 2017/I was revoked. Prior to revocation, Authorized Capital 2017/I had been partially used and amounted to € 1,323,624.

On the basis of an AGM resolution of May 16, 2019, the Management Board was authorized, with the Supervisory Board's consent, to increase the share capital, with it being possible to exclude shareholder subscription rights, on one or more occasions, in exchange for cash or non-cash capital contributions, by up to € 5,124,806 by May 15, 2024 (Authorized Capital 2019/I).

SFC AG has authorized capital of € 5,124,806 (Authorized Capital 2019/I).

Conditional capital

Based on the resolution of the SFC AG Annual General Meeting on May 16, 2019, Conditional Capital 2016 was partially revoked and now exists only up to € 500,000. Further conditional capital (Conditional Capital 2019) of € 2,824,503 was created.

SFC AG also has Conditional Capital 2011 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).

Capital measure and Harbert financing

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. This capital measure provided the Company with gross issue proceeds 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.

This financing was withdrawn completely in the 2019 financial year. The bond warrant was in place unchanged at December 31, 2019. Subscription rights were then exercised in January 2020.

Cash capital increase

SFC AG resolved a subscription right capital increase on June 26, 2019. As part of a private placement, 2,700,000 no-par value bearer shares were successfully placed with institutional investors. The placement price was set at € 10.00 per new share. This capital increase provided the Company with gross issue proceeds of € 27.0 million.

Agreements with Management Board members

There are currently the following 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 section 31(1) of the 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 connection with that agreement, Dr. Peter Podesser was granted an additional 360,000 SARs (2017–2020 SAR Plan) on December 14, 2016. In addition, Dr. Peter Podesser's Management Board employment agreement was extended from April 1, 2020, to March 31, 2024. Dr. Peter Podesser was accordingly granted an additional 420,000 SARs (2020–2024 SAR Plan) on May 15, 2019.

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 agreement was not extended beyond February 28, 2020.

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.

BUSINESS RISKS	Probability of occurrence	Significance
Market risks	Likely	High
Oil & Gas segment	Likely	High
Clean Energy & Mobility segment	Unlikely	Moderate
Industry segment	Possible	Moderate
Defense & Security segment	Possible	High

Market risks

Macroeconomic developments

In its economic forecast, the ifo Institute [20] considers there to be a risk that the trade conflict the US started with China will escalate further despite the temporary detente in fall 2019. This risk includes the extension of the conflict to other countries and regions. China's financial stability presents an additional risk. In recent years, attempts to curb the expansion of the shadow banking system have rapidly had a stifling effect on the economy, forcing China to reverse restrictive measures. Overall, the indebtedness of non-financial companies (companies with their main function in the production of market goods and the provision of non-financial services) has risen considerably in many advanced economies over the past ten years. If the economy were to weaken further, many loans would be written down.

The general economic development could be additionally adversely impacted by the spread of the corona virus.

On the one hand, the trade conflict originating in the US is impacting the German economy as German industrial production specializes in intermediate and capital goods. On the other hand, automotive engineering – one of Germany's key industries – is being confronted with particular challenges. In addition to global consumer reticence, which is mainly reflected in the declining number of new car registrations, the automotive industry is in a technological period of transition toward the production of vehicles with non-conventional drive systems. In the course of the realignment of existing value chains, this is resulting in significant production losses and relocations. However, the renewed interest in the Company's hydrogen fuel cell products for clean energy and e-mobility applications is also giving rise to opportunities for SFC AG.

In its statement on the coronavirus published in March 2020, the ifo Institute [21] expects Germany to experience a complex economic crisis, the scale of which is currently still being underestimated by many. The institute sees the German economy as exposed to both supply and demand shock. There is also the risk that the economy's credit supply will be disrupted and the sovereign debt crisis will return to the euro region. After the German federal government was still expecting growth of 1.1 % for 2020 at the beginning of the year, the ifo Institute sees a risk that German economic output could shrink by 5 % for the year as a whole if economic activity drops to 65 % of the normal level for only two months and then starts growing again. This would be a slump similar to that seen in the 2009 financial crisis. However, it could also be much worse.

20 ifo Economic Forecast Winter 2019, "German Economy Stabilizes", December 12, 2019
21 ifo Standpunkte Nr. 215, "Die Corona-Epidemie: Ökonomische Folgen und politischer Handlungsbedarf" [ifo position paper Nr. 215, "The Corona epidemic: Economic consequences and required political action"], March 18, 2020

Oil & Gas segment

The CAPP[22] sees crucial risks for the growth of the Canadian oil and gas sector in limited transport capacities as well as the legal overregulation of the industry by authorities, which is weakening the international competitiveness of the Canadian crude oil industry considerably. Regulatory and political challenges continue to limit investment capability and the Canadian oil sand industry's propensity to invest. This is making it difficult to explore new projects as well as expand and automate existing projects, and therefore is also having an influence on the business opportunities for SFC's products that are sold in this industry for the development and automation of new production plants.

With regard to the forecast trend in oil prices, in its energy forecast from January 2020 the EIA points toward risks relating to possible OPEC production cuts and geopolitical disruptions such as the attacks on Saudi Arabia's oil infrastructure in September 2019[23]. Global economic growth trends and their impact on global demand for oil are also contributing to the uncertainty of oil price forecasts. Although the EIA still believes the IMO regulations that came 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 over time. It is also difficult to predict at present what effect the dynamically evolving US light tight oil sector will have on crude oil prices.

Oil price uncertainty continued to mount after the end of the reporting period. As a result of the US military operation in Iraq, crude oil prices rose in January 2020, but declined considerably due to uncertainties relating the the spread of the corona virus.

Due to the latest forecasts with regard to the differences of opinion between the OPEC on one hand and Russia on the other as well as the associated output, which have led to the current price war, the outlook on the trend in oil prices is negative at present. Thus, a temporarily corrected crude oil price of USD 40/b is expected.

For Canada, the EIA experts do not anticipate any production from new upstream projects in 2020 either, only extensions of existing projects. 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.

22 CAPP, 2019 Crude Oil Forecast, Markets and Transportation, November 9, 2019
23 EIA, Short-Term Energy Outlook, January 14, 2020

Clean Energy & Mobility segment

Fuel cells: Fuel cells, particularly hydrogen fuel cells, are currently the subject of a lot of attention from politicians and the public. They are expected to make crucial contributions to more environmentally friendly traffic and CHP solutions. This opens up market opportunities for SFC AG both with hydrogen fuel cell technology (in partnership with adKor) and DMFC technology for off-grid industrial and defense applications. The risk remains that many, particularly public-sector, projects are dependent on the overall economic situation and government economic stimulus programs.

Consumer (caravans & boats): According to the German Caravan Industry Association (CIVD)[24], the German caravan industry experienced further growth of 13.6 % to reach 80,863 new registrations in 2019, which is yet another record. The association[25] is expecting slower but still robust growth of 8 % overall in 2020 to 87,600 new registrations as a result of decreasing export activity in Europe. Germany is also set to remain Europe's strongest recreational vehicle market in 2020. Overall growth of 5 % for the European recreational vehicle market is anticipated for 2020. The water sports market grew again according to its BVWW industry association[26]. In November, the association expected total sales of maritime goods and services to increase by 3 % to € 2.16 billion for 2019 as a whole. Overall, this association is also confident for the future, particularly for the equipment and accessories segment. Both associations believe that an economic slowdown would pose risks for their respective industries. For SFC AG this could harbor risks relating to sales volumes.

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. The first prototypes for PBF power generation solutions are currently undergoing beta testing at various international manufacturers. This is expected to result in follow-up orders over the coming years. Risks can be seen in the long project lead times and the ordering behavior of major international customers, which remains difficult to assess.

On account of the economic slowdown to be expected because of COVID-19, there could be a negative impact and delays both in the supply chain when it comes to suppliers and in customers' ordering behavior.

24 CIVD, CIVD Info 01/2020, January 13, 2020
25 CIVD – Annual Press Conference 2020, January 13, 2020
26 BVWW, press release: Wassersportmarkt 2019 bleibt stabil, erste Wolken am konjunkturellen Himmel [The Water Sports Market Is Holding Stable in 2019, First Clouds on the Economic Horizon], November 2019

Defense & Security segment

Defense budgets worldwide are increasing to protect against threats of all kinds. The trend here is toward connectivity, digitalization, artificial intelligence, machine learning, data mining and mobility. Traditional, modern and unconventional equipment, technologies, strategies and ways of working are being integrated and used to increase agility and mobility in classic and modern defense scenarios. In addition to the introduction of new and innovative technologies, there is a visible trend toward the modernization of existing technologies to increase and maintain the efficiency and protection of soldiers and equipment. Governments and defense organizations are looking specifically for alternative and environmentally friendly off-grid and backup solutions for an uninterrupted power supply. This is resulting in international potential for the Company's reliable and sustainable fuel cell solutions. Several SFC products are already being used successfully in defense applications with a NATO Stock Number. The slow bureaucratic processes and cycles themselves pose a significant risk, however, as they prevent solutions required by users from being ordered for long periods of time.

OPERATIONAL RISKS	Probability of occurrence	Significance
Technological risks	Possible	Moderate
Patent-related risks	Unlikely	Low
Competition	Possible	Moderate
Product risks	Possible	High
Procurement- and production-related risks	Possible	High
Commodity price risks	Possible	Low

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 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 entered into an agreement on the acquisition of a non-exclusive license for SFC 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 in which 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 US 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 US 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. 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. Errors 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.

SFC counteracts against this risk with increased efforts in quality control.

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 overdependency on certain suppliers, SFC is working to diversify its suppliers and is entering into intensive cooperative projects to that end. Arrangements have been made with suitable second suppliers for some components. Supply chain risks are being reduced through professional quality management and supplier management. Nevertheless, insufficient availability of all components procured from suppliers poses a risk in the event that these components cannot be made available on time, at the planned cost, or in the required quality.There is also the risk of the loss of a supplier. This may cause our customers to incur consequential damages if SFC 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 terms of supply, there is a risk for certain components that supply chains could be slowed or even broken owing to circumstances such as the coronavirus outbreak, which could lead to a loss of sales.

SFC counteracts against this risk with increased tracing in Supply Chain.

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 does not materialize, there is also the risk that the inventories, which would then have to be written down, could be sold to other customers only to a small extent.

The products of two suppliers accounted for around 57 % of Simark's sales in 2019 (prior year: 56 %). Simark's result is therefore strongly dependent on the stability of those supplier relationships.

Commodity price risks

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

The precious metals are shown in the balance sheet as inventory assets until they are used in SFC products. A write-down of the precious metals would be in order only if the product manufactured from them could not be sold on the market at a price that covered its costs. The value of the platinum and ruthenium was € 183k 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 € 29k annually.

FINANCIAL RISKS	Probability of occurrence	Significance
Foreign exchange rate risks	Possible	Low
Financial and liquidity risks	Unlikely	High
Interest rate risks	Possible	Low
Personnel risks	Possible	Low
IT risks	Possible	High
Regulatory risks	Possible	Low

Foreign exchange rate risks

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

No forward exchange contracts were concluded in the 2019 financial year. No open forward exchange transactions exist as of the reporting date. In that respect, a lower level of foreign exchange risk exists for the unhedged portion of sales.

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

There would have been a negative effect of € – 850k (prior year: € – 734k) on the Group's equity if, when translating the assets and liabilities of Simark as of December 31, 2019, the exchange rate had fluctuated by – 5 % and a positive effect of € 850k (prior year: € 734k) 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 expenditure, 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 this capital expenditure. 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, June 2018 and July 2019 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 capital measure in 2019 led to a marked 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 2019 not addressed through write-downs. As of the reporting date, specific write-downs totaling € 228k had been recognized at SFC AG for at-risk receivables. There were specific write-downs of € 70k at PBF and specific write-downs of € 154k 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, unlike the prior year, no risks that could threaten the Company's survival would arise if major orders were postponed or not secured; this is due to adequate liquidity reserves.

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 USA. 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 this respect, SFC's net interest income is significantly influenced by short-term capital market 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. The Group is to counter this risk with a long-term incentive for key personnel, which should mitigate the risk to some extent relative to the previous year.

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. Therefore related employees for segment Oil & Gas are required.

IT risks

We have continued to expand and improve important IT features such as 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 reacts to objections by stating its opinion. If changes are required, they are implemented by the deadline imposed. The possibility cannot be ruled out 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 that their employees possess the proper skills.

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. However, it should be noted that unlike in the previous years, no additional subsidy projects were launched in 2019 and funding for existing projects had almost run out, which means that the opportunities outweigh the risks, particularly as a result of the recently enacted German Research Allowance Act (Forschungszulagengesetz).

RISKS THAT COULD THREATEN THE COMPANY'S SURVIVAL	Probability of occurrence	Significance
Threat to Company's survival	Unlikely (prior year: possible)	High

Altered assessment of risks after the end of the reporting period

The World Economic Forum (WEF) considers epidemics such as the outbreak of the coronavirus infection (COVID-19) to present both an independent business risk and an influence on existing opportunities and risks. The outbreak of COVID-19 was identified for the first time in a densely populated production and transport center in central China at the end of 2019. After the end of the reporting period, the global pandemic spread throughout the world due to the Chinese new year festival and international travel.

According to WEF, it is within the realms of possibility that the global economy's growth will slow down in 2020 as a consequence of production losses due to COVID-19. The global economy would thereby lose at least 0.1 percentage points.

The influence of production delays on company earnings is still impossible to predict following partial disruptions to supply chains. For companies, risk exposure is reduced depending on existing demand and the current order backlog.

SFC currently expects an influence on its future earnings that it is not yet possible to predict. It is impossible to rule out delays for contract awards and project completions as well as bottlenecks in logistics.

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 in financial year 2019 owing to the Group's liquidity reserves.

In contrast to the previous year, failure to secure major projects would not lead to existential risks due to adequate liquidity reserves.

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 and 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 with 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 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 potential for improving gross margins at the product level. Joint Development Agreements (JDA) with customers allow the company to tap into new performance areas and/or application fields.

Other opportunities

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.

DECLARATION ON CORPORATE GOVERNANCE

The corporate governance statement pursuant to Section 289f of the German Commercial Code (HGB) and Section 315d in conjunction with Section 289f of HGB is part of the Group management report and also includes the compensation report. The SFC AG Management Board published the corporate governance statement on March 25, 2020. It can be accessed any time at www.sfc.com/en/investors/corporate-governance

FORECAST REPORT

SFC Energy AG assumes that the COVID-19 pandemic and the recent negative development in the price of oil in connection with the OPEC+ dispute will have a negative impact on the forecast for the 2020 financial year published on February 11, 2020 despite a very dynamic start into the current financial year. However, in view of the unprecedented operational and financial challenges posed by the spread of COVID-19 and the uncertain developments in the coming weeks, the financial impact of the pandemic on the SFC Group can currently be neither adequately determined nor reliably quantified. The forecast for the 2020 financial year published on February 11, 2020 has therefore been withdrawn due to the COVID-19 pandemic and the negative oil price development. A stable and sufficiently reliable forecast for the current financial year within the previously estimated bandwidths is therefore not possible at present. The fundamental premise for the following segment analysis is the weakening of COVID-19 effects after the third quarter 2020.

For the Oil & Gas segment, the Management Board anticipates a significant slowdown in demand for products of the SFC's portfolio compared with 2019 due to COVID-19 and the negative oil price development resulting from the OPEC+ dispute.

In the Industry segment, SFC's industrial customers are themselves significantly affected by a possible disruption to supply chains and temporarily necessary closures of production facilities. After a somewhat weaker than planned first quarter 2020 the Management Board expects a significant decline in volumes in this segment in the second and possibly also the third quarter of 2020. The fourth quarter of 2020 is currently expected to be at the same level as last year.

In the Defense & Security segment, SFC expects a significant delay in demand and a slowdown in activities in the first half of 2020, as procurement authorities are also affected by precautionary measures such as temporary closures. However, the Management Board believes that a considerable increase in demand and subsequent orders in this area is possible in the second half of the year.

Civilian fuel cell business including methanol and hydrogen products in the Clean Energy & Mobility segment is currently still running at a high level, but a slowdown in order intake and deliveries is to be expected as well in the coming months, particularly for purely practical reasons such as a lack of installation personnel. However, the Management Board expects demand in this segment to pick up again in the second half of the current financial year and is thus anticipating substantial growth.

On the whole, the Management Board expects sales revenues and profitability to be significantly lower than in the previous year given this background and the current high level of uncertainty, subject to a recession.

It expects capitalization of research and development costs to maintain a similar rate to the previous financial year. Quality indicators are also expected to improve.

On the reporting date, the Group had available cash and cash equivalents in the amount of € 20.9 million. With a trend for its operating result in financial year 2020 in line with forecasts for sales and earnings, the Company 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.

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 2019.

Brunnthal, March 25, 2020

The Management Board

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (Industry)

CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED FINANCIAL STATEMENTS

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

in €

	Notes	2019	2018
Sales	(1)	58,538,144	61,704,242
Production costs of work performed to generate sales	(2)	– 38,409,809	– 40,622,703
Gross profit		**20,128,335**	**21,081,539**
Sales costs	(3)	– 12,438,244	– 10,791,967
Research and development costs	(4)	– 3,103,601	– 3,525,032
General administration costs	(5)	– 5,994,437	– 5,230,382
Other operating income	(6)	177,543	320,167
Other operating expenses	(7)	– 57,481	– 119,354
Restructuring costs	(8)	0	– 409,636
Operating result		**– 1,287,885**	**1,325,335**
Interest and similar expenses	(9)	– 751,855	– 737,310
Result before taxes		**– 2,039,740**	**588,025**
Income taxes	(10)	112,626	– 588,542
Consolidated net result		**– 1,927,114**	**– 517**
NET LOSS PER SHARE	(36)		
undiluted		– 0.17	– 0.00
diluted		– 0.17	– 0.00

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

in €

	Notes	2019	2018
Consolidated net result		**– 1,927,114**	**– 517**
OCI items that may be recycled to profit or loss in the future:			
Result from currency translations		364,091	– 206,064
Total other result	(30)	**364,091**	**– 206,064**
Derecognition financial instrument		– 71	0
Total comprehensive income		**– 1,563,095**	**– 206,581**

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

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2019

in €

	Notes	12/31/2019	12/31/2018
Current assets		**47,818,345**	**28,288,672**
Inventories	(14)	12,031,984	9,753,129
Trade accounts receivable	(15)	13,693,778	9,665,357
Receivables from contracts with customers	(16)	79,096	492,281
Income tax receivables	(17)	2	2
Other short-term assets and receivables	(18)	821,485	572,594
Cash and cash equivalents	(19)	20,906,380	7,519,689
Cash and cash equivalents with limitation on disposal	(20)	285,620	285,620
Non-current assets		**25,040,497**	**13,776,317**
Intangible assets	(21)	13,921,284	11,496,977
Property, plant and equipment	(22)	9,869,180	1,595,740
Financial assets	(33)	0	71
Deferred tax assets	(10)	1,250,033	683,529
Assets		**72,858,842**	**42,064,989**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2019

in €

	Notes	12/31/2019	12/31/2018
Current liabilities		**20,514,044**	**18,864,822**
Provisions for taxes	(23)	34,252	32,257
Other provisions	(23)	1,228,689	939,310
Liabilities to banks	(24)	5,351,805	4,585,244
Liabilities from prepayments	(25)	62,184	27,144
Trade accounts payable	(26)	8,090,427	7,093,371
Liabilities under finance leases*	(27)	2,278,193	43,653
Liabilities from contracts with customers	(16)	279,503	24,580
Liabilities from financing	(28)	0	2,568,811
Other short-term liabilities	(28)	3,188,993	3,550,452
Non-current liabilities		**12,084,529**	**4,996,007**
Other long-term provisions	(23)	1,334,420	1,063,737
Liabilities to banks	(24)	1,160,830	1,710,006
Liabilities under finance leases*	(27)	5,755,073	53,736
Other long-term liabilities	(28)	4,639	4,383
Other liabilities from financing	(28)	2,792,231	1,346,469
Deferred tax liabilities	(10)	1,037,336	817,676
Equity		**40,260,269**	**18,204,161**
Subscribed capital	(30)	12,949,612	10,249,612
Capital surplus	(30)	100,416,909	79,497,706
Other changes in equity non affecting profit or loss	(30)	– 658,895	– 1,022,986
Consolidated net loss	(30)	– 72,447,357	– 70,520,171
Liabilities and shareholders' equity		**72,858,842**	**42,064,989**

* Lease liabilities as of Dec 31, 2018 have been declared as Liabilities under finance lease.

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

in €

		Notes	2019	2018
	Cash flow from ordinary operations			
	Result before taxes		**– 2,039,740**	**588,025**
+	Net interest income	(9), (37)	751,855	737,310
+	Depreciation/amortization of intangible assets and property, plant and equipment	(12), (21), (22)	3,329,916	1,152,546
–/+	Income/expenses from SAR Plan/ Long Term Incentive Plan	(32)	1,445,762	817,564
+	Changes in allowances	(14), (15)	4,399	– 226,262
+/–	Other non-cash expenses/income		403,796	94,380
	Changes to operating result before working capital		**3,895,988**	**3,163,563**
–	Changes to provisions	(23)	541,212	361,733
–/+	Changes to trade account receivables	(15)	– 3,722,318	– 2,138,586
+/–	Changes to inventories	(14)	– 2,109,988	– 1,643,306
+	Changes to other receivables and assets	(16), (17), (18)	199,757	321,229
–/+	Changes to trade accounts payable	(26)	809,888	1,677,100
–	Changes to other liabilities	(25), (28)	– 203,154	366,342
	Cash flow from ordinary operations before taxes		**– 588,615**	**2,108,075**
+/–	Income tax refund/payment	(10), (37)	– 672,158	– 102,594
	Cash flow from ordinary operations		**– 1,260,773**	**2,005,481**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

in €

		Notes	2019	2018
	Cash flow from investment activity			
–	Investments in intangible assets from development projects	(21)	– 2,455,877	– 1,383,571
–	Investments in other intangible assets	(21)	– 125,763	– 61,481
–	Investments in property, plant and equipment	(22), (27)	– 1,109,574	– 928,180
+	Proceeds from disposal of property, plant and equipment	(21), (22)	63,630	0
	Cash flow from investment activity		**– 3,627,584**	**– 2,373,232**
	Cash flow from financial activity			
+	Payments from capital increase	(30)	27,000,000	4,220,000
–	Cash outflows for costs from capital increase	(30)	– 3,380,796	– 130,960
+	Cash flow from financial debt	(24)	0	1,136,722
–	Repayment of financial debt	(24)	– 3,249,560	– 2,923,087
+	Changes to current account liabilities	(24)	618,606	1,801,402
–	Repayment of liabilities under finance lease	(27)	– 2,008,287	0
–	Interest paid and other expenses	(9), (37)	– 704,915	– 625,035
	Cash flow from financial activity		**18,275,048**	**3,479,042**
	Net change in cash and cash equivalents		**13,386,691**	**3,111,291**
	Net change in cash and cash equivalents			
	Cash and cash equivalents at beginning of period	(19)	7,519,689	4,408,398
	Cash and cash equivalents at end of period	(19)	20,906,380	7,519,689
	Cash on the balance sheet		**13,386,691**	**3,111,291**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

in €

	Notes	Subscribed capital	Capital surplus	Other changes in equity not effecting profit or loss	Net accumulated loss	Total
As of 01/01/2018		**9,659,456**	**75,475,155**	**– 816,922**	**– 70,422,907**	**13,894,782**
Consolidated net loss						
Result from currency translation recognized in equity					– 517	– 517
Changes in the group of consolidated companies				– 206,064		– 206,064
Effect from first-time adoption of IFRS 9	(30)				– 96,747	– 96,747
Total comprehensive income						**– 303,328**
Capital increase						
Issuance of convertible bonds – equity component	(30)	90,156	433,511			523,667
Capital increase		500,000	3,720,000			4,220,000
Less costs from capital increase	(30)		– 130,960			– 130,960
As of 12/31/2018		**10,249,612**	**79,497,706**	**– 1,022,986**	**– 70,520,171**	**18,204,161**
Consolidated net loss						
Consolidated net loss					– 1,927,114	– 1,927,114
Result from currency translations recognized in equity	(30)			364,091		364,091
Derecognition FVOCI financial instrument					– 71	– 71
Total comprehensive income						**– 1,563,095**
Capital increase						
Capital increase	(30)	2,700,000	24,300,000			27,000,000
Less costs from capital increase			– 3,380,797			– 3,380,797
As of 12/31/2019		**12,949,612**	**100,416,909**	**– 658,895**	**– 72,447,357**	**40,260,269**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED SEGMENT REPORTING (AS PART OF THE NOTES)
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

FINANCIAL YEAR 2019 — in €

	Clean Energy & Mobility	Industry	Oil & Gas	Defense & Security	Consolidated financial statements
Sales	11,757,856	17,238,171	21,953,932	7,588,185	58,538,144
Production costs of work performed to generate sales	– 6,672,593	– 11,996,749	– 15,540,445	– 4,200,022	– 38,409,809
Gross profit	**5,085,263**	**5,241,422**	**6,413,487**	**3,388,163**	**20,128,335**
Sales costs	– 3,478,408	– 1,265,223	– 4,894,393	– 2,800,220	– 12,438,244
Research and development costs	– 375,416	– 2,106,995	– 220,832	– 400,358	– 3,103,601
General administration costs	– 1,717,812	– 1,299,684	– 904,140	– 2,072,801	– 5,994,437
Other operating income	25,276	0	126,998	25,269	177,543
Other operating expenses	– 9,468	0	– 38,548	– 9,465	– 57,481
Restructuring costs	0	0	0	0	0
Operating result (EBIT)	**– 470,565**	**569,520**	**482,572**	**– 1,869,412**	**– 1,287,885**
Adjustments EBIT	431,298	0	199,476	940,988	1,571,762
EBIT underlying	**– 39,267**	**569,520**	**682,048**	**– 928,424**	**283,877**
Depreciation/amortization	– 871,177	– 880,226	– 786,159	– 792,355	– 3,329,917
EBITDA	**400,612**	**1,449,746**	**1,268,731**	**– 1,077,057**	**2,042,032**
Adjustments EBITDA	431,298	0	199,476	940,988	1,571,762
EBITDA underlying	**831,910**	**1,449,746**	**1,468,207**	**– 136,069**	**3,613,794**
Financial result					– 751,855
Result before tax					**– 2,039,740**
Income taxes					112,626
Consolidated net result					**– 1,927,114**

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, 2019

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	61,704,243
Production costs of work performed to generate sales	– 5,706,626	– 11,308,256	– 18,691,252	– 4,916,570	– 40,622,704
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	– 10,791,966
Research and development costs	– 640,630	– 2,109,862	– 292,386	– 482,155	– 3,525,033
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
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 before tax					**588,025**
Income taxes					– 588,542
Consolidated net result					**– 517**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

1. GENERAL POLICIES AND SCOPE OF CONSOLIDATION

SFC Energy AG (the "Company" or "SFC") is a stock corporation domiciled in Germany. The Company's headquarters are located at Eugen-Sänger-Ring 7, 85649 Brunnthal. The Company is registered in the Commercial Register of the 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 2019 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, 2019, 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 financial 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 25, 2020. 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, 2019 and were applied to the consolidated financial statements for the first time in the 2019 financial year:

Amendment to IFRS 9 – "Prepayment Features with Negative Compensation"

The amendments relate to the assessment criteria relevant for the classification of financial assets. Under certain circumstances, prepayment features with negative compensation may be recognized at amortized cost or at fair value through other comprehensive income instead of at fair value through profit or loss.

The amendments to the revised standard must be applied for the first time from January 1, 2019, and have no effect at all, or no material effect, on the consolidated financial statements.

IFRS 16 – "Leases"

IFRS 16 supersedes the existing guidelines on leases according to IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease. The standard is effective for the first time for financial years beginning on January 1, 2019.

The Group changed its accounting policy in accordance with the transitional provisions and applied IFRS 16 for the first time as of January 1, 2019, using the modified retrospective method. The comparative figures for 2018 were thus not restated. The option is exercised to assess the contracts in the portfolio at the transitional point not according to the new leasing definition under IFRS 16, but according to the leasing definition in IAS 17. As of January 1, 2019, the present value of the values in use corresponded to the present value of the lease liabilities.

The material effects as of the January 1, 2019 reporting date were as follows:
At the lessee the rights and obligations from all leases are to be recognized in the balance sheet as rights of use and lease liabilities. Here the right of use is initially to be calculated as the present value of the future lease payments plus initial direct costs and subsequently to be written down on a straight-line basis over the duration of the lease. Lease liabilities are initially recognized as the present value of the lease payments that are paid over the duration of the lease. Subsequently, the carrying amount is accrued at the level of the interest rate used and the lease payments made.

The weighted average incremental borrowing rate of the lessee applied to lease liabilities as of January 1, 2019, is 3.00 %. Main impact on the average incremental borrowing rate is the high percentage of real estate.

In connection with the obligations under leases, as of January 1, 2019, there was an increase in lease liabilities of € 9,453,065 and in property, plant and equipment at the same level. As a result of this extension of the balance sheet, as of January 1, 2019, the equity ratio declined by 7.94 percentage points in comparison with December 31, 2018.

in €

	12/31/2018	Adjustment IFRS 16	12/31/2019
Assets			
Non-current assets	**13,776,317**	**9,453,065**	**23,229,382**
Intangible assets	11,496,977		11,496,977
Property, plant and equipment	1,595,740	9,453,065	11,048,805
Financial assets	71		71
Deferred tax assets	683,529		683,529
Current assets	**28,288,672**	**0**	**28,288,672**
Inventories	9,753,129		9,753,129
Trade accounts receivables	9,665,357		9,665,357
Receivables from contracts with customers	492,281		492,281
Income tax receivables	2		2
Other current assets and receivables	572,594		572,594
Cash and cash equivalents	7,519,689		7,519,689
Cash and cash equivalents with limitation on disposal	285,620		285,620
Total Assets	**42,064,989**	**9,453,065**	**51,518,054**

in €

	12/31/2018	Adjustment IFRS 16	12/31/2019
Equity and liabilities			
Equity	**18,204,161**	**0**	**18,204,161**
Subscribed capital	10,249,612		10,249,612
Capital surplus	79,497,706		79,497,706
Other changes in equity not affecting profit or loss	– 1,022,986		– 1,022,986
Consolidated net loss	– 70,520,171		– 70,520,171
Non-current liabilities	**4,996,007**	**7,279,087**	**12,275,094**
Other provisions	1,063,737		1,063,737
Liabilities to banks	1,710,006		1,710,006
Liabilities under finance leases*	53,736	7,279,087	7,332,823
Other non-current liabilities	4,383		4,383
Other liabilities	1,346,469		1,346,469
Deferred tax liabilities	817,676		817,676
Current liabilities	**18,864,822**	**2,173,978**	**21,038,800**
Provisions for taxes	32,257		32,257
Other provisions	939,310		939,310
Liabilities to banks	4,585,244		4,585,244
Liabilities from prepayments	27,144		27,144
Trade accounts payable	7,093,371		7,093,371
Liabilities under finance leases*	43,653	2,173,978	2,217,631
Liabilities from contracts with customers	24,580		24,580
Other current liabilities from financing	2,568,811		2,568,811
Other liabilities	3,550,452		3,550,452
Liabilities	**23,860,829**	**9,453,065**	**33,313,894**
Total equity and liabilities	**42,064,989**	**9,453,065**	**51,518,054**

* Lease liabilities as of Dec 31, 2018 have been declared as Liabilities under finance lease.

Obligations under operating leases of € 10,229,029 were reported as of December 31, 2018. The difference between the present value of the liabilities from operating leases as of December 31, 2018, in line with IAS 17 and the present value of the lease liabilities recognized on January 1, 2019, is based on the fact that these are discounted in line with the recognition and measurement regulations of IFRS in the measurement of the additional lease liabilities.

RECONCILIATION	in €
	2019
Obligations under operating leases reported as of 12/31/2018	10,229,029
Minimum lease payments (nominal value) of finance lease liabilities as of 12/31/2018	97,389
Gross lease liabilities as of 01/01/2019	**10,326,418**
Discount	–873,353
Additional leasing liabilities as a result of the initial application of IFRS 16 as of 01/01/2019	**9,453,065**

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 expenses for liabilities under the lease. This change will result in a significant improvement of EBITDA from ordinary operations.

The payments made to pay the lease liabilities and the payments relating to the interest portion of the lease liabilities are allocated to cash flow from financing activities. Only payments not included in the calculation of the lease liability and payments from short-term leases and leases from low-value assets where the convenience option was utilized are to be allocated to cash flow from operating activities. This change in allocation against the previous recognition of leasing expenses from operating leases will result in an improvement of cash flow from operating activities and a reduction of cash flow from financing activities.

Amendments to IAS 19 – "Plan Amendment, Curtailment or Settlement"

The amendments to IAS 19 govern accounting when a plan amendment, curtailment or settlement in employee benefits 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.

The amendments to the revised standard have no effect at all, or no material effect, on the consolidated financial statements as SFC does not have any pension obligations as defined in IAS 19.

Amendments to IAS 28 – “Long-term Interests in Associates and Joint Ventures”

The amendments to IAS 28 include clarification that IFRS 9 is applicable to long-term interests in associates and joint ventures not accounted for according to the equity method.

The amendments to the revised standard have no effect at all, or no material effect, on the consolidated financial statements.

Application of IFRIC 23 – “Uncertainty over Income Tax Treatments”

The tax treatment of certain circumstances and transactions can depend on future recognition by the tax authorities or courts. IAS 12 Income Taxes governs how current and deferred taxes are to be measured and accounted for. IFRIC 23 complements the IAS 12 requirements with regard to accounting for uncertainties over the income tax treatment of circumstances and transactions. Accordingly, the introduction of IFRIC 23 is intended to set out how the appropriate unit of account is to be determined, 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.

No material effects arose for the consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle

Annual Improvements to IFRS Standards 2015–2017 Cycle amended IFRS 3, IFRS 11, IAS 12 and IAS 23.

In IFRS 3, it is clarified that an entity should apply the principles for successive business combinations when it obtains control of a business that was previously a joint operation. The interest it previously held must be remeasured.

In IFRS 11, it is clarified that when an entity obtains joint control of a business that was previously a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividend payments are to be recognized in the same way as the income based on the dividends.

Finally, the amendments to IAS 23 clarify that, if an entity has borrowed generally for the acquisition of qualifying assets, the costs of borrowing specifically for the acquisition of qualifying assets do not have to be included in the calculation of the capitalization rate until completion.

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, that were released by the IASB prior to this report's publication, but that the SFC Group did not adopt early for 2019:

Amendments to References to the Conceptual Framework in IFRS Standards

Firstly, the revised conceptual framework assists the IASB in developing accounting standards. Secondly, it helps entities to clarify accounting circumstances that are not directly covered in the IFRSs. Lastly, it is also intended to help all other interested parties improve their understanding of the IFRSs.

The conceptual framework consists of a new general change on the status and purpose of the conceptual framework and of eight completely new chapters.

Where the amendments constitute actual amendments, they should be applied for annual reporting periods beginning on or after January 1, 2020. No significant effects are expected.

Amendments to IAS 1 and IAS 8 – regarding "Definition of Material"

The objective of the amendments is to clarify the definition of material by aligning the wording of the definition of material in the various standards and pronouncements of the IASB and to improve the clarity of concepts accompanying the definition. To avoid duplicating the definition of material in IAS 1 and IAS 8, in the future the definition will appear in IAS 1 (IAS 1.7) only. IAS 8 will merely contain a reference that "material" is defined in IAS 1 and should be applied in IAS 8 with the exact same meaning.

The amendments should be applied for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. No significant effects are expected.

Application of 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.

IFRS 17 must be applied for reporting periods commencing on or after January 1, 2021. No significant effects on the consolidated financial statements are expected.

Amendments to IFRS 3 – “Business Combinations: Definition of a Business”

The amendments to IFRS 3 regarding the “definition of a business” concern Appendix A “Definitions”, changes to the application guidance of IFRS 3 and changes to the illustrative examples.

The amendments:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments should be applied for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period, beginning on or after January 1, 2020, and to acquisitions of assets that take place on or after the beginning of this period.

Amendments to IFRS 9, IAS 39 and IFRS 7 – “Interest Rate Benchmark Reform”

The amendments to IFRS 9, IAS 39 and IFRS 7 aim to mitigate the effects on financial reporting as a result of the IBOR reform. Despite the expected phasing out of some interest rate benchmarks, the amendments are designed to enable hedge accounting and designation of hedged items to continue.

The amendments should be applied for annual reporting periods beginning on or after January 1, 2020. As SFC had not engaged in any hedge accounting as of the reporting date, the amendments are not expected to have any effect on the consolidated financial statements.

Amendments to IAS 1 – regarding "Classification of Liabilities as Current or Non-Current"

The amendments with regard to the classification of liabilities as current or non-current affect only the presentation of liabilities in the consolidated statement of financial position – not the amount or timing of recognition of any asset, liability, income or expenses, or the information that SFC discloses about those items.

The amendments:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

Subject to adoption into EU law by the European Union, the amendments should be applied for annual reporting periods beginning on or after January 1, 2022. No significant effects on the consolidated financial statements are expected.

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 noted inconsistency between the requirements of IFRS 10 and IAS 28 in the case of a sale or contribution of assets to an associate or joint venture.

According to IFRS 10, a parent company must recognize the profit or loss from the sale of a subsidiary in full in the income statement if it loses control of the subsidiary. In contrast, the currently applicable IAS 28.28 requires that the gains and losses on sale transactions between an investor and an investment accounted for using the equity method – be it an associate or joint venture – be recognized only to the extent of unrelated investors' interests in this entity.

In the future, the full gain or loss from a transaction is only to be recognized if the assets sold or contributed constitute a business as defined in 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.

Estimation uncertainty and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make certain assumptions that have an effect on the measurement of assets and liabilities, the disclosure of contingent assets and contingent liabilities on the reporting 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 customer relationships was determined applying statistical analyses and management estimates, while that of acquired technology was determined applying empirical values for the industry's average product life cycle (see "Intangible assets" in the section "Accounting policies").

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 financial year.

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 a virtual stock option program (SAR Plan) to align the interests of the shareholders with those of the members of the Management Board. 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 for which revenue is recognized over time pursuant to the related IFRS 15 method.

Leases – estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the leases. It therefore uses its incremental borrowing rate to measure the lease liabilities. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group uses observable inputs, where available, to determine the incremental borrowing rate and has to make certain company-specific estimates.

Impairment of non-financial assets

The Group evaluates all non-financial assets at each reporting date to determine whether indications of impairment exist. Goodwill is tested for impairment at least once per year, irrespective of whether indications of potential impairment 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 Energy AG 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 holders of voting rights;
- potential voting rights held by the Company, other holders of voting rights 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 as of December 31, 2016, and has since been recognized as an investment on the consolidated balance sheet. In the past financial year, the asset recognized at fair value through other comprehensive income was eliminated against the consolidated net loss. The investment value of € 71 was reduced to € 0. See note (33) "Financial instruments".

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 consolidated companies 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, 2019.

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 2019 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 POLICIES

Revenue recognition

SFC AG generates its revenue from the sale of fuel cell systems. The EFOY COMFORT product is used, among others, in the consumer market sub-segment within the Clean Energy & Mobility segment, in mobile homes and on boats in particular. In the industrial applications sub-segment, the EFOY Pro is sold for off-grid industrial applications. In the Defense & Security segment, the Company also generates revenue from the sale of fuel cell systems specifically developed for the defense & security market (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. Revenue is also generated from the sale of fuel cartridges and other products for network solutions and the sale of services and consulting in the military sector.

The High-Power Platform from PBF Group B.V., SFC Energy Group's company in the Netherlands and Romania, allows grid power to be prepared reliably and to high quality standards, exactly in keeping with the system's specific requirements. The power supplies adapt the electrical performance to the energy required by the system in question, doing so in modular form. PBF Group meets demanding customer requirements on the basis of the PBF technology that it has developed in house. This compact, scalable power supply technology offers maximum flexibility in the development and manufacture of standardized and semi-standardized high-performance and high-precision power supply parts for demanding industrial applications such as laser technology and other high-tech industrial sectors.

Simark is a product integration specialist for high-tech power supply, instrumentation and automation products, selling and designing customer solutions for the Canadian oil and gas industry in particular. Simark's product portfolio includes instrumentation and measurement systems, power supply components and drives for a variety of applications.

The recognition of this revenue is generally based on the time (or period) at which the respective performance obligation is fulfilled, i. e. control over the goods or services in question has been transfered 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 revenue is realized through the sale of products at specific points in time upon transfer of control of the assets. 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 the return of goods are recognized on an accrual basis in accordance with the underlying sales. Management utilizes the best possible estimates in this context. Contracts with customers are also reviewed for separate performance obligations. This is particularly relevant for sales of additional warranties extending beyond the statutory warranty period. SFC recognizes payments for long-term maintenance agreements for the portion that extends beyond the statutory minimum of the first year and collects this revenue on a pro rata basis during the contractual warranty period.

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. Once payment has been received, revenue is adjusted for the actual payment. Because performance obligations are usually much shorter than one year, outstanding obligations as of the reporting date are not presented in the notes. SFC utilizes the option under IFRS 15, whereby financing components do not need to be included for short-term provision of services.

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

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 reporting date. The amount of progress realized is determined by comparing the costs incurred for the work performed with the total expected costs.

Long-term development contracts and Simark's long-term production contracts are recognized over time pursuant to the related revenue method. 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.

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 on a straight-line basis over their useful economic lives. The amortization periods are:

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

Customization costs for acquired ERP software are allocated to intangible assets as incidental costs of acquisition. Amortization is applied on a straight-line basis over the expected useful life of the ERP software.

Development costs are capitalized in accordance with IAS 38 "Intangible Assets" if a newly developed asset can be clearly defined, is technically feasible and is intended either for the Company's own 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 on a straight-line basis over the expected useful life of the asset. The useful life of the development costs to be amortized is 5 years at SFC and at PBF. Where requirements for capitalization are not met, expenses are recognized through profit or loss 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 were amortized on a straight-line basis 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.

During the financial year just ended, the residual other intangible assets identified in the PBF Group (customer relationships) were completely written off to € 0 (previous year: € 161,376).

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 on a straight-line basis.

The amortization periods are:

- Technical equipment 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 longer 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 2019 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

A lease is a contract that transfers the right to use an asset (right-of-use assets) for an agreed period in return for a fee. Up to December 31, 2018, one lease was declared as an arrangement in which the lessor conveyed to the lessee the right to use an asset for an agreed period of time in exchange for contractually agreed payments.

In accordance with IAS 17, beneficial ownership of the leased assets was assigned to the lessee only if it bore substantially the risks and rewards of ownership of the respective leased asset. Up to December 31, 2018, accounting for such finance leases applied to a small extent to equipment, fixtures and fittings for the Group's subsidiary Simark Controls Ltd. Up to December 31, 2018, assets under finance leases were capitalized at the present value of the minimum lease payments. A lease liability was recognized for the same amount. They were subsequently measured at amortized cost using the effective interest method. The interest portion of the payments is recognized through profit or loss in the income statement.

Since January 1, 2019, SFC as a lessee has accounted for right-of-use assets obtained and liabilities for payment obligations assumed under leases. The right of use is initially calculated as the present value of the future lease payments plus initial direct costs and is subsequently written down on a straight-line basis over the duration of the lease. The lease liability is initially recognized as the present value of the lease payments that are to be paid over the duration of the lease. Subsequently, the carrying amount is accrued at the level of the interest rate used and the lease payments made. The incremental borrowing rate is applied to the SFC Group's lease payments.

The following lease payments are accounted for under lease liabilities:

- fixed payments, less lease incentives to be made by the lessor,
- variable payments linked to an index or interest rate,
- expected residual value payments from residual value guarantees,
- renewal and termination options,
- the exercise price of a purchase option if it is reasonably certain that the option will be exercised, and
- penalties for terminating the lease, if the lease term reflects the exercising of an option to terminate the lease.

Right-of-use assets are measured at cost, and this is comprised as follows:

- lease liability,
- lease payments made at or before the commencement date, less any lease incentives received,
- initial directly attributable costs, and
- restoration obligations.

Capitalized right-of-use assets are subsequently carried at amortized cost and written down on a straight-line basis over the term of the contract. The amortization periods are:

- Right-of-use assets 3 – 6 years

The recognition exemption for low-value leased assets or leased assets with a term of less than twelve months is not applied.

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 progress are capitalized at 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 reporting date. The weighted average method is applied in order to measure the consumption of inventories.

Financial assets

As defined in IFRS 9, the 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).

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, 2019, 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 rewards of ownership of the financial asset are also transferred.

Compound financial instruments

Compound financial instruments issued by the Group include convertible bonds in euros, which can be converted into equity shares at the holder's option, as long as the number of shares to be issued has been determined and does not change through changes in fair value, and a special termination right connected with the convertible bonds. 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 bond 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 the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit 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. The loan was paid back in full in 2019 and the option component was exercised at the start of the 2020 financial year. For more information, please see note (33) "Financial instruments" and note (41) "Material events after the reporting period".

Impairment of financial assets

SFC applies 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 in the event of 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 reporting 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 recognized only 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 reporting 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 exist 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

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 canceled 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' single-entity 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". As SFC's subsidiaries generally conduct business autonomously in financial, economic and organizational terms, the functional currency is identical to 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
	2019	2018	12/31/2019	12/31/2018
US-Dollar (USD)	1.1196	1.1810	1.1227	1.1451
Canadian Dollar (CAD)	1.4856	1.5293	1.4620	1.5596

2. NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) Sales

The following table presents an overview of sales:

in €	2019	2018
Sales	**58,538,144**	**61,704,242**
thereof from period-related revenue recognition	3,524,807	8,373,469

Sales in the Oil & Gas segment declined by 15.6 % year-on-year based on the business segment's diminishing momentum, which was already apparent in the second quarter. Restrained investment activity in Western Canada resulting from a lack of pipeline capacity in combination with uncertainties regarding current approval procedures negatively impacted sales performance. The Industry segment posted a good result, which boosted sales by 5.7 %. The Clean Energy & Mobility segment reported a significant upturn in sales of 25.7 % as a result of strong growth in industrial fuel cell sales. Sales in the Defense & Security segment were down 24.2 % year-on-year. This was because an order that was expected to be awarded in the defense segment in Germany in the fourth quarter of 2019 did not go ahead.

Sales are composed as follows:

FINANCIAL YEAR 2019	Segment				in €
	Clean Energy & Mobility	Industry	Oil & Gas	Defense & Security	Total
Region					
North America	0	383,816	21,953,932	330,546	22,668,294
Europe (without Germany)	6,470,288	13,392,376	0	1,595,506	21,458,170
Germany	2,787,761	2,888,546	0	2,232,263	7,908,570
Asia	2,351,110	362,115	0	2,111,287	4,824,512
Rest of the world	148,697	211,318	0	1,318,583	1,678,598
Total	**11,757,856**	**17,238,171**	**21,953,932**	**7,588,185**	**58,538,144**
Product					
Fuel cells	11,757,856	0	3,467,286	7,588,185	22,813,327
Instrumentation and Automation products in Oil & Gas Industry	0	0	18,486,646	0	18,486,646
Power Supplies	0	17,238,171	0	0	17,238,171
Total	**11,757,856**	**17,238,171**	**21,953,932**	**7,588,185**	**58,538,144**
Revenue recognition					
Revenue recognition refer to a certain point in time	11,757,856	17,238,171	19,665,542	6,351,768	55,013,337
Revenue recognition refer to a certain period	0	0	2,288,390	1,236,417	3,524,807
Total	**11,757,856**	**17,238,171**	**21,953,932**	**7,588,185**	**58,538,144**

FINANCIAL YEAR 2018					in €
	Segment				
	Clean Energy & Mobility	Industry	Oil & Gas	Defense & Security	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	0	940,166	19,151,297
Germany	2,468,398	2,592,846	0	7,109,971	12,171,215
Asia	1,312,984	772,676	0	1,442,510	3,528,170
Rest of the world	86,868	8,217	0	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	0	10,011,047	19,364,365
Instrumentation and Automation products in Oil & Gas Industry	0	0	26,026,206	0	26,026,206
Power Supplies	0	16,313,672	0	0	16,313,671
Total	**9,353,318**	**16,313,672**	**26,026,206**	**10,011,047**	**61,704,242**
Revenue recognition					
Revenue recognition refer to a certain point in time	9,353,318	16,313,672	18,232,666	9,431,119	53,330,774
Revenue recognition refer to a certain period	0	0	7,793,540	579,928	8,373,468
Total	**9,353,318**	**16,313,672**	**26,026,206**	**10,011,047**	**61,704,242**

Further information can be found in note (38) “Disclosures on consolidated segment reporting” and note (16) “Assets and liabilities from contracts with customers”.

(2) Production costs of work performed to generate sales

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

		in €
	2019	2018
Cost of materials	30,138,786	32,864,992
Personnel costs	4,351,597	4,179,488
Cost of premises	144,564	1,235,942
Transport costs	796,748	856,159
Depreciation on capitalized development costs	350,574	256,274
Other depreciation and amortization	1,366,874	370,799
Consultancy	116,968	120,911
Capitalization of amortized development costs	0	20,530
Other	1,143,698	717,608
Total	**38,409,809**	**40,622,703**

(3) Sales costs

Sales costs were as follows:

		in €
	2019	2018
Personnel costs	8,246,168	7,194,614
Depreciation and amortization	809,638	222,805
Advertising and travel costs	1,718,046	1,208,043
Consultancy/commissions	519,534	449,767
Cost of materials	199,960	172,401
Additions to allowances for receivables	25,661	156,112
Other	919,237	1,388,225
Total	**12,438,244**	**10,791,967**

(4) Research and development costs

Research and development costs were as follows:

		in €
	2019	2018
Personnel costs	3,320,724	3,014,987
Consultancy and patents	861,663	1,116,188
Cost of premises	47,803	293,389
Cost of materials	612,648	441,448
Other depreciation and amortization	440,194	100,722
Capitalization of self developed intangible assets	– 2,455,878	– 1,383,571
Set-off against grants	– 6,543	– 314,913
Other	282,990	256,783
Total	**3,103,601**	**3,525,032**

As in the previous year, amortization of self-developed intangible assets did not include any impairment charges on capitalized development costs.

(5) General administration costs

General administration costs were as follows:

		in €
	2019	2018
Personnel costs	3,193,482	2,688,683
Audit and consultancy costs	815,833	621,089
Investor relations/annual meeting	233,944	295,467
Insurance	225,688	202,510
Depreciation and amortization	427,451	181,417
Recruiting costs	114,673	162,136
Car-operating costs	67,594	69,386
Travel costs	161,633	126,899
Supervisory Board compensation	112,500	112,500
Costs of hardware and software maintenance	43,903	48,373
Set-off against grants	−2,257	−2,276
Other	599,993	724,198
Total	**5,994,437**	**5,230,382**

(6) Other operating income

Other operating income reports the following changes:

		in €
	2019	2018
Foreign exchange transaction gains	156,845	30,926
Income from the sales of fixed assets	42	0
Other	20,656	289,241
Total	**177,543**	**320,167**

(7) Other operating expenses

Other operating expenses are composed as follows:

		in €
	2019	2018
Foreign exchange transaction losses	57,481	119,354
Total	**57,481**	**119,354**

(8) Restructuring costs

There were no costs for restructuring measures in the 2019 financial year (previous year: € 409,636).

(9) Financial result

No interest and similar income was generated in the financial year just ended (previous year: € 0).
The composition of interest and similar expense is presented in the following table:

		in €
	2019	2018
Interest expense on option bond/loan	177,999	504,424
Other interest and similar expense	262,146	213,087
Interest costs on finance lease	292,860	0
Compounding other provisions	18,850	19,799
Total	**751,855**	**737,310**

Interest expenses on loans amounted to € 177,456 (previous year: € 499,451). Interest expenses on bonds with warrants amounted to € 543 (previous year: € 478).

(10) Income taxes

The following table presents the composition of taxes on income:

in €	2019	2018
Actual income taxes on the result for the current year	206,611	538,405
Deferred tax income (-)/expense (+) from:	–319,237	50,137
Balance Income (-)/expenses (+) from income taxes	**–112,626**	**588,542**

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 26.91%) were applied.

Deferred tax assets and liabilities were as follows:

in €	12/31/2019	12/31/2018
Deferred tax assets		
Loss carryforwards	940,389	503,978
Provisions	43,262	30,934
Inventories	157,616	86,709
Lease liabilities	61,578	0
Other	47,188	61,908
Total	**1,250,033**	**683,529**
Deferred tax liabilities		
Other intangible assets	0	40,343
Self developed intangible assets	998,552	774,198
Other assets	38,784	3,135
Total	**1,037,336**	**817,676**

Subject to the tax audit, as of the reporting date there were tax loss carryforwards in Germany and Canada of approximately € 60,056,227 (previous year: € 51,741,883) for corporation tax and approximately € 57,014,524 (previous year: € 48,781,462) for trade tax. Deferred tax assets of € 940,389 (previous year: € 503,978) have been recognized on these tax loss carryforwards of SFC AG and its Canadian subsidiary. As of December 31, 2019, no deferred tax assets had been recognized for € 104,459,563 (previous year: € 92,367,947) of tax loss carryforwards within the Group. Of these tax loss carryforwards, an amount of € 104,459,563 (previous year: € 92,367,947) 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 €
	2019	2018
Tax rate	**27.38 %**	**27.38 %**
Result before tax	**– 2,039,740**	**588,025**
Expected tax income	**– 558,481**	**161,001**
Reconciliation to the reported tax income/expense		
Tax ineffective loss carryforwards	20,322	42,257
Change in write-down of deferred tax assets	1,666,389	165,609
Differences in the tax rate	– 62,696	– 42,762
Taxes from permanent differences – non-deductible expenses	47,780	50,521
Effect of goodwill impairment, non-tax-deductible	– 264,499	0
Capitalisation of costs for capital increase	– 925,662	35,856
Other	– 35,779	176,060
Reported tax income/expense in the consolidated income statement	**– 112,626**	**588,542**

(11) Cost of materials

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

		in €
	2019	2018
Raw materials and supplies and related goods	28,274,975	31,172,713
Related services	2,243,735	2,306,128
Total	**30,518,710**	**33,478,841**

(12) Depreciation, amortization and impairments

For information about depreciation, amortization and impairments, please see note (21) “Intangible assets”, note (22) “Property, plant and equipment” and note (27) “Leases”.

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 €	2019	2018
Wages and salaries	14,049,695	12,072,861
Social security expenses required by law	1,716,995	1,560,420
Variables/bonuses	726,232	1,283,919
Other social security expenses/pensions	395,758	350,312
Expenses for settlements	42,222	409,636
Expenses/income from SAR/Long Term Incentive Plan	1,445,762	817,563
Other	735,307	583,061
Total	**19,111,971**	**17,077,772**

The social security expenses required by law include the Company’s share of € 667,861 in contributions to the public pension insurance system (previous year: € 619,777). The public pension insurance system is treated as a defined contribution plan pursuant to IAS 19.

The average number of permanent employees was as follows:

	2019	2018
Full-time employees (with Management Board)	255	239
Part-time employees	30	30
Total	**285**	**269**

The Company employed an average of 14 (previous year: 8) trainees, graduates and student trainees.

3. NOTES TO THE CONSOLIDATED BALANCE SHEET

(14) Inventories

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

in €	12/31/2019	12/31/2018
Finished goods	7,560,370	5,970,283
Unfinished goods	494,582	524,817
Raw materials and supplies	3,977,032	3,258,029
Total	**12,031,984**	**9,753,129**

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

in €	12/31/2019	12/31/2018
Raw materials and supplies – before impairment	4,162,410	3,476,723
Impairment	– 185,378	– 218,694
Net book value	**3,977,032**	**3,258,029**

in €	12/31/2019	12/31/2018
Unfinished and finished goods – before impairment	8,991,808	7,428,926
Impairment	– 936,856	– 933,825
Net book value	**8,054,952**	**6,495,101**

Inventories with a residual carrying amount of € 4,811,673 (previous year: € 5,345,831) were pledged as collateral for liabilities. There are no longer any inventories pledged as security (previous year: € 3,819,350).

(15) Trade accounts receivable

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

in €	12/31/2019	12/31/2018
Trade accounts receivable – gross	14,325,910	10,343,857
Allowances for risk of default	– 632,132	– 678,499
Total	**13,693,778**	**9,665,357**

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 € 7,831,464 (previous year: € 9,892,638) were pledged as collateral for liabilities.

Trade accounts receivable with a residual carrying amount before write-downs of € 268,142 (previous year: € 551,328) were pledged as collateral for an as yet undrawn credit line (original interest rate of 5.5 %) in the amount of € 935,577 (previous year: € 1,211,702).

(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 (installment 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 €
	12/31/2019	12/31/2018
Proceeds shown	3,524,807	8,373,469
Costs incurred and gains recognized under contracts on or before the reporting date	3,528,007	8,373,469
Partial settlements	3,728,414	7,905,768
Production contracts with a positive balance due from the customer (reported as receivables from contracts with customers) *	**79,096**	**492,281**
Production contracts with a negative balance due from the customer (reported as liabilities from contracts with customers)	**– 279,503**	**– 24,580**

* 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 €
	12/31/2019
Receivables from contracts with customers (period-related)	79,096
Liabilities from contracts with customers (period-related)	279,503

The transaction price for the remaining benefit obligations is € 279,503, which will be settled in 2020.

As of December 31, 2019, no capitalized costs existed that were incurred in connection with the initiation or fulfillment of contracts.

(17) Income tax receivables

Income tax receivables of € 2 (previous year: € 2) relate to tax refund claims of SFC AG and have a remaining term of less than one year.

(18) Other assets and receivables

The other current assets and receivables are due in less than one year and consist of the following:

		in €
	12/31/2019	12/31/2018
Deferred income	279,143	181,883
VAT receivables	304,093	133,331
Receivables from grants	3,133	3,966
Prepayments made	91,469	87,497
Others	143,647	165,917
Total	**821,485**	**572,594**

Other current assets and receivables include financial assets amounting to € 3,133 (previous year: € 3,966).

(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.

(20) Cash and cash equivalents with limitation 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 reporting date. Additional bank accounts are no longer pledged as collateral (previous year: € 7,474,508).

(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 01/01/2018	**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**	**571,488**	**6,718,820**	**12,827,861**	**6,563,521**	**28,109,736**
Additions	125,763	0	0	2,455,877	0	0	2,581,640
Differences arising from currency translation	3,090	0	0	0	446,468	260,991	710,549
As of 12/31/2019	**1,134,831**	**422,069**	**571,488**	**9,174,697**	**13,274,329**	**6,824,512**	**31,401,926**
Depreciation and impairment losses							
As of 01/01/2018	**– 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
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**
Scheduled depreciation	– 64,155	– 25,286	0	– 353,698	0	– 161,377	– 604,516
Differences arising from currency translation	– 2,376	0	0	0	0	– 260,989	– 263,365
As of 12/31/2019	**– 974,242**	**– 266,384**	**– 571,488**	**– 3,882,877**	**– 4,961,138**	**– 6,824,512**	**– 17,480,640**
Carrying amounts							
As of 01/01/2018	115,662	186,246	0	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**
As of 12/31/2019	**160,589**	**155,685**	**0**	**5,291,820**	**8,313,191**	**0**	**13,921,284**

SFC AG IP rights (patents, trademarks, domains) are no longer pledged as security as of December 31, 2019 (previous year: € 155,465).

Development costs

Grants in the amount of € 8,800 (previous year: € 8,851) were received in connection with development activities and reported as a reduction in research and development costs of € 6,543 (previous year: € 6,575) as well as general administrative costs of € 2,257 (previous year: € 2,276).

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 higher of the asset's fair value less costs to sell and the value in use, 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 (2020 to 2022) are applied. In addition, the plan values were then extrapolated applying a growth rate of 1.5 % (2023) and 0.5 % (2024 onward), 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 main assumptions applied in determining the fair value less costs to sell and the value in use are sales growth, the operating EBIT margin and the cost of capital applied.

Sales growth and EBIT 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 (2020 – 2024).

The planned expansion in the EBIT margin is based on the historically observed gross margin and on detailed resource and materials cost planning. The operating EBIT margin expected in the long term amounts to around 10.40 %.

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 peer companies in the same industrial sector as the PBF Group utilizing 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 8.35 % (or approximately 7.85 % 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 € 7,134,360 (CAD 10,430,435).

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

Sales growth and EBIT 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 (2020 – 2024), average sales growth (CAGR) amounts to approximately 7.80 % p. a.

The planned expansion in the EBIT margin is based on the historically observed gross margin and on detailed resource and materials cost planning. The operating EBIT margin expected in the long term amounts to around 7.10 %.

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 8.66 % (or approximately 8.16 % 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: As of December 31, 2019, the identified other intangible assets were completely written off:

in €

	Customer relationships	Technology	Order book	Total
Acquisition costs				
As of 01/01/2019	1,408,354	1,231,359	14,309	2,654,022
As of 12/31/2019	1,408,354	1,231,359	14,309	2,654,022
Amortization and impairment losses				
As of 01/01/2019	– 1,246,978	– 1,231,359	– 14,309	– 2,492,646
Scheduled amortization	– 161,376	0	0	– 161,376
As of 12/31/2019	– 1,408,354	– 1,231,359	– 14,309	– 2,654,022
Carrying amounts				
As of 01/01/2019	161,376	0	0	161,376
As of 12/31/2019	0	0	0	0
Remaining term of depreciation and amortization (in years)	0	0	0	

(22) Property, plant and equipment

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

in €

	Property, plant and equipment	Technical equipment and machinery	Other equipment, fixtures and fittings	Payments in advance and assets under construction	Total
Acquisition costs					
As of 01/01/2018	**0**	**1,941,771**	**4,046,530**	**23,946**	**6,012,247**
Additions	0	331,594	554,514	42,072	928,180
Disposals	0	0	– 37,869	0	– 37,869
Reclassification	0	0	32,784	0	32,784
Differences arising from currency translation	0	– 3,459	– 17,149	0	– 20,609
As of 12/31/2018	**0**	**2,269,905**	**4,578,810**	**66,018**	**6,914,734**
Adjustments IFRS 16	9,009,969	0	443,096	0	9,453,065
Additions	139,327	166,464	1,220,736	221,421	1,747,949
Disposals	0	0	– 120,815	– 286,664	– 407,479
Differences arising from currency translation	133,471	8,048	40,564	0	182,083
As of 12/31/2019	**9,282,768**	**2,444,417**	**6,162,391**	**776**	**17,890,352**
Depreciation and impairment losses					
As of 01/01/2018	**0**	**– 1,582,977**	**– 3,232,017**	**0**	**– 4,814,994**
Scheduled depreciation	0	– 98,283	– 409,822	0	– 508,105
Disposals	0	0	37,870	0	37,870
Depreciation on reclassification	0	0	– 46,411	0	– 46,411
Differences arising from currency translation	0	1,418	11,228	0	12,646
As of 12/31/2018	**0**	**– 1,679,842**	**– 3,639,152**	**0**	**– 5,318,994**
Scheduled depreciation	– 1,892,754	– 116,675	– 715,971	0	– 2,725,401
Disposals	0	0	63,630	0	63,630
Differences arising from currency translation	– 10,052	– 4,054	– 26,302	0	– 40,408
As of 12/31/2019	**– 1,902,806**	**– 1,800,572**	**– 4,317,795**	**0**	**– 8,021,172**
Carrying amounts					
As of 01/01/2018	0	358,794	814,513	23,946	1,197,253
As of 12/31/2018	**0**	**590,063**	**939,659**	**66,018**	**1,595,740**
As of 12/31/2019	**7,379,962**	**643,846**	**1,844,596**	**776**	**9,869,180**

As a result of the first-time application of IFRS 16 as of January 1, 2019, based on the modified retrospective method the Group's property, plant and equipment increased by € 9,453,065 at the start of the past financial year. Of this amount, € 9,009,969 related to leased buildings and € 443,096 to leased other equipment, fixtures and fittings. Right-of-use assets were initially calculated as the present value of the future lease payments plus initial direct costs (see note (27) "Leases").

At Simark Controls Ltd., non-current assets with a residual carrying amount of € 348,664 (previous year: € 260,497) are pledged as collateral for liabilities. At the PBF Group, non-current assets with a residual carrying amount of € 94,465 (previous year: € 0) are pledged as collateral for liabilities. No non-current assets were pledged as security at SFC AG as of December 31, 2019 (previous year: € 418,958).

(23) Other provisions and tax provisions

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

in €

	Warranty provisions	Other miscellaneous provisions	Total other provisions	Tax provisions
As of 01/01/2019	**2,003,047**	**0**	**2,003,047**	**32,257**
Additions	629,154	100,000	729,154	34,252
Interest costs	18,850	0	18,850	0
Utilization	– 105,942	0	– 105,942	– 32,257
Reversal	– 82,000	0	– 82,000	0
As of 12/31/2019	**2,463,109**	**100,000**	**2,563,109**	**34,252**
thereof with a remaining term between one and five years	**1,334,420**	**0**	**1,334,420**	**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 0.63 % (previous year: 1.10 %) on the part due after 2 years, 0.72 % (previous year: 1.20 %) on the part due after 3 years, 0.84 % (previous year: 1.34 %) on the part due after 4 years and 0.97 % (previous year: 1.48 %) on the part due after 5 years.

Tax provisions

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

(24) Liabilities to banks

Current liabilities to banks include loans and overdrafts. Current liabilities to banks consist of a variable interest loan of € 663,332 (previous year: € 621,821) granted to Simark Controls Ltd. as well as the utilization of the credit line of Simark Controls Ltd. of € 1,993,561 (previous year: € 1,501,133) and of the PBF Group of € 2,694,911 (previous year: € 2,462,291). The non-current portion of the loan to Simark Controls Ltd. in the amount of € 1,160,830 (previous year: € 1,710,006) is reported under non-current liabilities to banks. The loan extended to Simark Controls has a term until September 2022.

in €

	Amount	Interest rate	Duration
Short term loans (interest-bearing)			
Current account PBF	2,694,911	2.5 % – 3.0 %	yearly prolongation
Current account Simark	1,993,561	rd 6.0 %	until further notice
Loan Simark	663,332	5.962 %	Sep 22
Long term loans (interest-bearing)			
Loan Simark	1,160,830	5.962 %	Sep 22

(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) Leases

Up to December 31, 2018, the Group recognized a small number of finance leases relating exclusively to other equipment, fixtures and fittings for Simark Controls Ltd.

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

The first-time application of IFRS 16 as of January 1, 2019, has resulted in further leased buildings and other equipment, fixtures and fittings being recognized as right-of-use assets with corresponding lease liabilities. See "New accounting standards applied: IFRS 16 – Leases" for information on the first-time application effects as of January 1, 2019.

In the lease contracts for real estate, with the exception of Simark/Canada, there are no prolongation clauses. Prologantion clause for Simark/Canada has not been considered in the first application of IFRS 16 as prolongation is unlikely.

The contracts have terms of less than one year and up to six years. They contain clauses for month-by-month renewal and purchase options at expiration. The net carrying amounts of right-of-use assets capitalized under leases as of the reporting date are presented in the following table:

			in €
	Property, plant and equipment	Other equipment, fixtures and fittings	Total
Acquisition costs			
As of 01/01/2019	**9,009,969**	**443,096**	**9,453,065**
Additions	139,327	218,829	358,156
Differences arising from currency translation	133,471	3,169	136,640
As of 12/31/2019	**9,282,767**	**665,094**	**9,947,861**
Depreciation and impairment losses			
As of 01/01/2019	**0**	**0**	**0**
Scheduled depreciation	– 1,892,754	– 245,012	– 2,137,766
Differences arising from currency translation	– 10,052	370	– 9,682
As of 12/31/2019	**– 1,902,806**	**– 244,642**	**– 2,147,448**
Carrying amounts			
As of 01/01/2019	9,009,969	443,096	9,453,065
As of 12/31/2019	**7,379,961**	**420,452**	**7,800,413**

Capitalized leased building right-of-use assets are still written down over a five-year period as of the reporting date. Write-downs on other equipment, fixtures and fittings right-of-use assets have cycles of between less than one year and over four years.

The consolidated income statement, which was prepared in accordance with the cost of sales method, includes pro rata depreciation and amortization on leased right-of-use assets under production costs of work performed to generate sales, sales costs, research and development costs, and general administration costs amounting to € 2,137,766 for the financial year just ended. This pro rata depreciation and amortization was included in functional expenses as follows:

			in €
	Property, plant and equipment	Other equipment, fixtures and fittings	Total
Depreciation for fiscal year January 1st until December 31, 2019 included in			
Production costs of work performed to generate sales	– 850,646	– 133,309	– 983,955
Sales Costs	– 556,381	– 47,602	– 603,983
General administration costs	– 184,709	– 24,493	– 209,201
Research and development costs	– 301,019	– 39,608	– 340,627
As of 12/31/2019	**– 1,892,754**	**– 245,012**	**– 2,137,766**

Contractually agreed, undiscounted lease payments amounted to € 8,078,139 as of December 31, 2019, and had the following maturities:

	in €
	Total
Lease liabilities/Maturity structure – contractual agreed undiscounted Cash Flows	
Amounts due within 1 year	2,064,745
Amounts due between 1 and 5 years	5,750,320
Amounts due longer than 5 years	263,074
Sum of undiscounted lease payments/As of 12/31/2019	**8,078,139**

Discounted lease liabilities of € 8,033,265 were recognized on the consolidated balance sheet as of December 31, 2019. These lease liabilities break down into current and non-current liabilities as follows:

	in €
	Total
Lease liabilities/Statement as in group report	
Short-term	2,278,192
Long-term	5,755,073
Sum of lease liabilities as in Group Consolidation/As of 12/31/2019	**8,033,265**

Lease payments, divided into payments of principal and interest for lease liabilities, of € 2,301,147 were recognized in the consolidated statement of cash flows under cash flow from financing:

	in €
	Total
Lease payments in Cash Flow for the financial year from January 1 to December 31, 2019	**– 2,301,147**

	in €
	Total
Classification in Cash Flow for the financial year from January 1 to December 31, 2019	
Repayment of liabilities under finance lease in Cash Flow statement	– 2,008,287
Cash Outflow for interests under finance lease in Cash Flow statement	– 292,860

In the past financial year, no payments were made for short-term lease liabilities, for low-value asset leases or for variable lease payments that are not included in the measurement of the lease liability and should be recognized under cash flow from operations.

Interest expenses on lease liabilities recognized in the consolidated income statement for the financial year starting on January 1 and ending on December 31, 2019, totaled € 292,860.

	in €
	Total
Lease expense in Profit & Loss statement for fiscal year January 1st until December 31, 2019	
Interest expense on lease liabilities	– 292,860

(28) Other liabilities

Other current liabilities were as follows:

	12/31/2019	12/31/2018
		in €
Variables/bonuses	928,610	989,660
Outstanding vacation	597,105	496,150
Wage tax	276,348	256,456
VAT	135,986	436,257
Social security	103,871	68,117
Supervisory board compensation	112,500	112,500
Christmas bonus	210,503	204,407
Trade association contributions	43,200	39,600
Retention of business records	33,400	33,100
Compensatory tax for the severely disabled	10,920	7,920
Overtime	89,838	65,941
Other	646,712	840,344
Total	**3,188,993**	**3,550,452**

Other current liabilities include financial liabilities in the amount of € 155,700 (previous year: € 152,100).

The other current financial liabilities consist of the following:

	12/31/2019	12/31/2018
		in €
Other loans	0	2,568,811
Total	**0**	**2,568,811**

The bond of € 2,568,811 that was issued in August 2017 was withdrawn completely in 2019 and no longer existed as of the reporting date of December 31, 2019.

	12/31/2019	12/31/2018
		in €
SAR Stock Appreciation Rights	2,792,231	1,346,469
Total	**2,792,231**	**1,346,469**

Other non-current liabilities as of December 31, 2019, relate exclusively to the liability from the Stock Appreciation Rights Plan (SAR Plan) for members of the Management Board in the amount of € 2,792,231 (previous year: € 1,346,469).

Other non-current financial liabilities were as follows:

		in €
	12/31/2019	12/31/2018
Option bond	4,639	4,383
Total	**4,639**	**4,383**

(29) Income tax liabilities

No income tax liabilities existed as of the reporting 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 € 10,249,612 to € 12,949,612 in the 2019 financial year. This can be attributed to a capital increase in July 2019, which resulted in gross issue proceeds of € 27,000,000. This increased the Company's share capital by € 2,700,000.

The fully paid in ordinary bearer shares with no par value representing a notional amount of the capital stock of € 1.00 per share each carry a voting right and full profit-sharing rights (IAS 1.79 (a)).

Capital surplus

The capital surplus amounted to € 100,416,909 as of the reporting date (previous year: € 79,497,706). There was a net increase of € 20,919,203 in the Company's capital surplus resulting from the gross increase of € 24,300,000 less related costs of € 3,380,797.

Authorized capital

At the Annual General Meeting on May 16, 2019, shareholders passed a resolution to cancel Authorized Capital 2017/I dated May 17, 2017, to create a new Authorized Capital (2019/I) and to amend section 5 (Authorized Capital) of the Articles of Association accordingly.

Authorized Capital 2017/I was revoked. Prior to revocation, Authorized Capital 2017/I had been partially used and amounted to € 1,323,624.00.

On the basis of an AGM resolution of May 16, 2019, the Management Board was authorized, with the Supervisory Board's consent, to increase the share capital, with it being possible to exclude shareholder subscription rights, on one or more occasions, in exchange for cash or non-cash capital contributions, by up to € 5,124,806.00 by May 15, 2024 (Authorized Capital 2019/I).

SFC AG has authorized capital of € 5,124,806 (Authorized Capital 2019/I).

Conditional capital

Pursuant to the resolution of the Annual General Meeting of SFC AG on June 14, 2016, the Company's Management Board was authorized, with the Supervisory Board's consent, to issue bearer convertible bonds and/or bonds with warrants or a combination of such instruments with a total nominal value of up to € 14,000,000, with or without a term limit, by June 13, 2021, 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.

Based on the resolution of the SFC AG Annual General Meeting on May 16, 2019, Conditional Capital 2016 was partially revoked and now exists only up to € 500,000. Further conditional capital (Conditional Capital 2019) of € 2,824,503 was created.

SFC also has 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).

Authorization to purchase treasury shares

The Company's Management Board is not authorized at present to purchase treasury shares.

Other changes in equity not affecting profit or loss

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

4. OTHER DISCLOSURES

(31) Contingent liabilities

Contingent liabilities are 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

Obligations under operating leases (up to December 31, 2018)

Up to December 31, 2018, obligations under operating leases were reported as other financial liabilities. As a result of the first-time application of IFRS 16, these operating leases were discounted and recognized as current and non-current lease liabilities, and the corresponding right-of-use assets were recognized for the same amount.

As of December 31, 2018, the Group had financial obligations under operating leases, primarily from the leases for business premises and from motor vehicle, hardware, copier and office furniture leases.

In the 2018 financial year, an amount of € 2,288,260 was expensed under operating leases.

The total future minimum lease payments under such non-terminable operating leases that had an initial or remaining term of more than one year as of December 31, 2018, and their terms were as follows:

	in €
	31.12.2018
Minimum lease payments under operating lease	
Amounts due within 1 year	2,229,170
Amounts due between 1 and 5 years	6,091,708
Amounts due longer than 5 years	2,484,558
Total	**10,805,436**

Please see note (27) "Leases" for more information on leases as defined in IFRS 16.

Order commitments

The Group had purchasing commitments of € 12,617,426 as of the reporting date (previous year: € 13,757,846). These relate primarily to framework orders for raw materials and supplies.

Contingent liabilities

No contingent liabilities existed as of the reporting date.

Financial covenants

Simark Controls Ltd.

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 changed and agreed to for Simark for the reporting date of December 31, 2019, as follows:

- Working capital ratio (WCR) (both banks):
  Current assets/current liabilities: > 1.20

- Debt service coverage ratio (DSCR):
  EBITDA/debt service: > 1.00

PBF

The following financial covenants (lending agreement clause) existed as of December 31, 2019, in connection with the financing of the PBF subsidiary (PBF Power Srl):

- Debt ratio: < 3.5
  Solvency ratio: > 35 %

As of December 31, 2019, 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 €
	12/31/2019	12/31/2018
Financial assets		
Loans and receivables		
Trade accounts receivable	13,693,778	9,665,357
Other assets and receivables – short term	3,133	3,966
Cash and cash equivalents	20,906,380	7,519,689
Cash and cash equivalents with limitation on disposal	285,620	285,620
Financial assets measured as at fair value through profit or loss		
Other long-term assets and receivables	0	71
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks	6,512,634	6,295,250
Trade accounts payable	8,090,427	7,093,371
Liabilities under finance leases	8,033,266	97,389
Other long-term financial liabilities	4,639	4,383
Other liabilities – short term	155,700	152,100
Other financial liabilities – short term	0	2,568,811

The carrying amounts of the financial assets and financial liabilities carried at amortized cost in the financial statements largely correspond to their fair values.

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 2019 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 €

	12/31/2019		
	Level 1	Level 2	Total
Financial assets			
measured as at amortized cost			
Trade accounts receivable	0	13,693,778	13,693,778
Other assets and receivables – short term	0	3,133	3,133
Cash and cash equivalents	0	20,906,380	20,906,380
Cash and cash equivalents with limitation on disposal	0	285,620	285,620
Financial liabilities			
Liabilities carried at amortized cost			
Liabilities to banks	0	6,512,634	6,512,634
Trade accounts payable	0	8,090,427	8,090,427
Liabilities under finance leases	0	8,033,266	8,033,266
Other long-term financial liabilities	0	4,639	4,639
Other liabilities – short term	0	155,700	155,700

FAIR VALUE HIERARCHY			in €
		12/31/2018	
	Level 1	Level 2	Total
Financial assets			
Loans and receivables			
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
measured as at amortized cost			
Interests in SFC Energy Inc.	0	71	71
Financial liabilities			
Liabilities carried at amortized cost	0	6,295,250	6,295,250
Liabilities to banks	0	7,093,371	7,093,371
Trade accounts payable	0	97,389	97,389
Liabilities under finance leases	0	4,383	4,383
Other long-term financial liabilities	0	2,568,811	2,568,811
Other liabilities – short term	0	152,100	152,100

Equity instruments 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 was applied up to the reporting date 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 was at amortized cost. In the past financial year, the investment of € 71 was derecognized.

The analysis by measurement category of income and expense from the financial instruments is as follows:

EXPENSES AND INCOME FROM THE FINANCIAL INSTRUMENTS		in €
	2019	2018
Financial assets		
measured as at amortized cost		
Trade accounts receivable		
Income from write-downs of trade accounts receivable	0	55,954
Expense from write-downs of trade accounts receivable	–43,463	–101,887
Income from currency translation of trade accounts receivable	143,887	26,238
Expense from currency translation of trade accounts receivable	–37,971	–110,295
Net result of loans and receivables	**62,453**	**–129,990**
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks		
Interest expense	–262,146	–213,087
Trade accounts payable		
Income from currency translation of trade accounts payable	12,958	4,689
Expense from currency translation of trade accounts payable	–19,510	–9,059
Other long-term financial liabilities		
Interest expense	–177,999	–504,424
Net result of liabilities carried at amortized cost	**–446,697**	**–721,881**

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 increases implemented in June 2018 and July 2019 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 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.

The loan portion was fully repaid in the 2019 financial year. The bond with warrants was also exercised in January 2020. For more information, see note (41) "Material events after the reporting period".

The Group's capital management relates to cash and cash equivalents (see note (19) "Cash and cash equivalents"), equity (see note (30) "Equity") and liabilities to banks (see note (24) "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 €
	12/31/2019	12/31/2018
Equity	**40,260,269**	**18,204,161**
As a percentage of total capital	55.3 %	43.3 %
Long-term liabilities	12,084,529	4,996,007
Short-term liabilities	20,514,044	18,864,822
Liabilities	**32,598,573**	**23,860,829**
As a percentage of total capital	44.7 %	56.7 %
Total equity and liabilities	**72,858,842**	**42,064,989**

SFC's capital structure changed in the 2019 financial year due to the exercise of the capital increase. The first-time application of IFRS 16 also resulted in a significant increase in liabilities. As a result of the capital measures implemented, the equity ratio rose to 55.3 % (previous year: 43.3 %).

Underlying operating result (EBIT)

The "underlying operating result" was one of the instruments the Company employed for internal steering in the 2019 financial year. The following table shows the reconciliation of the operating result reported in SFC's consolidated income statement to the underlying operating result:

RECONCILIATION TO UNDERLYING OPERATING RESULT (EBIT)		in €
	2019	2018
EBIT (earnings before interest and taxes)	**– 1,287,885**	**1,325,335**
Restructuring costs	0	409,636
Reported as sales costs		
Expenses for the management board SAR Plan	872,446	429,062
Reported as general administrations costs		
Expenses for the management board SAR Plan	573,316	388,501
Expenses for acquisition-related costs	126,000	0
Underlying operating result (EBIT)	**283,877**	**2,552,534**

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 in a conversation between the customer and the relevant sales employee.

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 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' payment histories. At each reporting 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 accounts receivable of € 13,693,778 (previous year: € 9,665,357), amounts of € 2,113,761, € 779,820, € 573,556, € 340,139 and € 14,225, respectively, are attributable to the five largest customers, comprising a total of € 4,121,501 (previous year: amounts of € 671,240, € 539,609, € 383,500, € 368,425 and € 234,522 attributable to the five largest customers respectively, amounting to a total of € 2,197,296). No other material risk concentrations exist.

The following table shows the changes in the write-down of trade accounts receivable over the course of the year:

DEVELOPMENT OF WRITE-DOWNS OF TRADE ACCOUNTS RECEIVABLES		in €
	2019	2018
Write-downs as of January, 01	**678,499**	**445,117**
Effect of first-time adoption of IFRS 9	0	133,224
Additions	25,661	156,112
Release	– 72,028	– 55,954
Write-downs as of December, 31	**632,132**	**678,499**

The following table shows the term structure of overdue but not yet impaired trade accounts receivable in the amount of € 4,188,535 (previous year: € 2,943,483):

		in €
	2019	2018
Gross book value of the impaired receivables	632,132	853,335
Specific write-downs	– 632,132	– 678,515
Net book value of the impaired receivables	**0**	**174,820**
Not past due or impaired	9,505,243	6,547,054
Past due and not impaired		
Up to one month past due and not impaired	1,409,010	1,752,080
One to three months past due and not impaired	545,834	723,003
Three to six months past due and not impaired	603,846	444,444
Over six months past due and not impaired	1,629,845	23,956
Receivables per balance sheet	**13,693,778**	**9,665,357**

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 reporting date that any defaults were to be expected on these receivables.

The expected loss rate per term band is broken down as follows:

					in €
	12/31/2019				
	not overdue	overdue less than 30 days	overdue 30 to 90 days	overdue more than 90 days	sum
Expected loss rate (in %)	1 %	2 %	10 %	17 %	
Accounts receivables (gross)	9,582,206	1,436,783	609,193	2,697,729	14,325,910
allowance for doubtful accounts	76,963	27,773	63,359	464,038	632,132

No write-downs of the other financial assets were applied. As of the reporting date, no overdue claims existed in this respect.

Furthermore, no default risks exist in relation to cash and cash equivalents. These cash and cash equivalents 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 cash and cash equivalents to the extent that 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 July 2019, 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 €

	2019			2018		
	Total	1 year	> 1 year	Total	1 year	> 1 year
Non-derivative financial liabilities						
Liabilities to banks	– 6,512,634	– 5,351,804	– 1,160,830	– 6,295,250	– 4,585,244	– 1,710,006
Trade accounts payable	– 8,090,427	– 8,090,427	0	– 7,093,371	– 7,093,371	0
Liabilities under finance leases	– 8,033,266	– 2,278,193	– 5,755,073	– 97,389	– 43,653	– 53,736
Other long-term financial liabilities	– 4,639	0	– 4,639	– 4,383	0	– 4,383
Other short-term financial liabilities	0	0	0	– 2,568,811	– 2,568,811	0
Other financial liabilities	– 155,700	– 155,700	0	– 152,100	– 152,100	0
Total cash outflow	**– 22,796,666**	**– 15,876,124**	**– 6,920,542**	**– 16,211,304**	**– 14,443,179**	**– 1,768,125**
Non-derivative financial assets						
Cash and cash equivalents	21,192,000	21,192,000	0	7,805,309	7,805,309	0
Trade accounts receivable	13,693,778	13,693,778	0	9,665,357	9,665,357	0
Other financial assets	3,133	3,133	0	3,966	3,966	0
Total cash inflow	**34,888,911**	**34,888,911**	**0**	**17,474,632**	**17,474,632**	**0**
Net liquidity from financial instruments	**12,092,245**	**19,012,787**	**– 6,920,542**	**1,263,328**	**3,031,453**	**– 1,768,125**

Based on Simark's financial debt, the Group applies an interest rate of 5.962 % (previous year: 7.13 %) until the end of the remaining term to calculate interest payments amounting to € 102,543 (previous year: € 310,626).

The loan that was issued in August 2017 was fully repaid in the past financial year. The bond with warrants is liable for interest payments of € 575 until maturity based on an interest rate of 4 %. The bond with warrants was converted in January 2020; for more information see note (41) "Material events after the reporting period".

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 current and non-current variable-interest liabilities. An increase or decrease of 50 basis points in interest rates would have increased or decreased net interest income by € 11,755 (previous year: € 16,737). 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 2019 financial year.

The currency translation of the assets and liabilities of Simark Controls Ltd. as of December 31, 2019, would have had an effect of € – 850,494 (previous year: € – 734,457) if the exchange rate had fluctuated by – 5 % and an effect of € 850,494 (previous year: € 734,457) 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, 2019, would have resulted in a foreign currency result of € 3,372 (previous year: € 48,144) if the exchange rate had fluctuated by – 5 % and a result of € – 3,372 (previous year: € – 48,144) 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 reporting 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 2019 financial year, additional SARs were granted to Dr. Podesser (tranche PP3) under the new Management Board contract.

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 shares 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 share 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 reporting date applying a Monte Carlo model, taking into consideration the terms on which the SARs were awarded.

The status of the SARs in 2019 is presented in the following table:

	Tranche HP2	Tranche PP2	Tranche MB1	Tranche HP3	Tranche PP3
Number of stock appreciation rights (SAR)	180,000	360,000	180,000	180,000	420,000
Maximum term (years)	7	7	7	7	7
Outstanding number of phantom shares at the beginning of the reporting period (01/01/2019)	20,000	300,000	150,000	180,000	0
During 2019 reporting period					
SAR awarded	0	0	0	0	420,000
SAR forfeited	0	40,000	47,500	30,000	0
SAR exercised	0	0	0	0	0
SAR expired	0	0	0	0	0
SAR outstanding at the end of the reporting period (12/31/2019)	**20,000**	**260,000**	**102,500**	**150,000**	**420,000**
Exercisable SAR at the end of the reporting period (12/31/2019)	**0**	**0**	**0**	**0**	**0**

The SARs reported the following changes in the prior-year period:

	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 following parameters were taken into consideration in connection with the measurement as of December 31, 2019:

	Tranche HP2	Tranche PP2	Tranche MB1	Tranche HP3	Tranche PP3
Measurement date	12/31/2019	12/31/2019	12/31/2019	12/31/2019	12/31/2019
Remaining term (years)	2.50	4.25	4.17	5.50	7.00
Expected volatility	45.54 %	48.46 %	48.29 %	45.87 %	43.04 %
Risk-free interest rate	– 0.61 %	– 0.51 %	– 0.52 %	– 0.44 %	– 0.33 %
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	€ 9.72	€ 9.72	€ 9.72	€ 9.72	€ 9.72

The following parameters were taken into consideration in the measurement in the previous year (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

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, 2019. The volatility presented is based on the historical volatility of SFC shares 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 SFC shares in 2019 and 2020.

As of December 31, 2019, a liability of € 2,792,231 (of which € 2,792,231 non-current) was recognized under other liabilities under the SAR Plan (December 31, 2018: € 1,346,469; of which € ,256,537 non-current). Expenses for the period from January 1 to December 31 amounted to € 1,445,762 (previous year: € 817,563).

(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 2018 and 2019 financial years:

Management Board members

Dr. Peter Podesser, Simbach am Inn, business graduate (Chairman)
Marcus Binder, Munich, electrical engineering graduate
Hans Pol, Ede, Netherlands, business graduate

Supervisory Board members

Tim van Delden, Düsseldorf, engineering graduate (Chairman)
David William Morgan, Rolvenden (United Kingdom), MA ACA, business graduate (Deputy Chairman)
Hubertus Krossa, Wiesbaden, business graduate

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 €

	2019		2018	
	Fixed portion	Variable portion	Fixed portion	Variable portion
Management Board	789,922	1,875,330	793,783	1,190,812
Supervisory Board	112,500	0	112,500	0
Total	**902,422**	**1,875,330**	**906,283**	**1,190,812**

Liabilities to persons in key positions amounting to € 3,242,129 (previous year: € 1,899,038) were reported as of the reporting 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 2019				in €
	Fixed compensation	Short-term performance based compensation	Long-term performance based compensation	Total
Dr. Peter Podesser	369,597	290,821	955,526	1,615,944
Hans Pol	218,466	81,398	286,044	585,908
Marcus Binder	201,859	53,724	207,817	463,400
Total	**789,922**	**425,943**	**1,449,387**	**2,665,252**

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**

(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 2019 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 ordinary shares at December 31, 2019, was as follows:

	2019	2018
Number of shares in circulation at the beginning of the period	10,249,612	9,659,456
Effect of the shares issued in August	1,246,154	360,534
Weighted average number of shares at December, 31	**11,495,766**	**10,019,990**

(37) Disclosures on the consolidated statement of cash flows

The consolidated statement of cash flows 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 € 20,388,605 (previous year: € 7,319,689) as well as time and call deposit accounts in the amount of € 803,395 (previous year: € 485,620).

Income tax payments and refunds primarily pertained to withholding tax on capital and the solidarity surcharge withheld from credited interest when overnight and time deposits matured and 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 cash flow from financing activities.

in €

	12/31/2018	Payment effective	Payment non-effective			12/31/2019
			Exchange rate change	Interest	Conversion IFRS 16	
Other Liabilities from financing	– 2,573,193	– 2,746,674	0	177,999	0	– 4,518
Liabilities to banks	– 6,295,250	– 296,334	251,573	262,145	0	– 6,512,634
Liabilities from financing	– 97,389	– 2,301,147	133,063	292,860	9,811,101	– 8,033,266
Subscribed capital and capital surplus	– 89,747,318	23,619,203	0	0	0	– 113,366,521
Total	**– 98,713,150**	**18,275,048**	**384,636**	**733,004**	**9,811,101**	**– 127,916,939**

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**

(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.

Accounting and valiation policies for reportable segments are in accordance with priciples described above.

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 Consumer, 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).

In the Defense & Security segment, SFC Energy AG generates sales in the defense and security market. The defense and 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. Secondly, SFC sells compact fuel cell generators through established commercial channels in the consumer market to generate electricity for mobile homes, sailboats and cabins.

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 distribution, service and product integration company for high-tech power supply, instrumentation and automation products used in the oil and 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:

				in €
	Sales from transactions with external customers		Long-term Assets	
	2019	2018	12/31/2019	12/31/2018
North America	22,668,294	26,332,891	9,082,242	7,651,135
Europe (not including Germany)	21,458,099	19,151,297	4,588,200	3,257,586
Germany	7,908,642	12,171,215	10,120,022	2,867,596
Asia	4,824,511	3,528,170	0	0
Rest of the world	1,678,598	520,669	0	0
Total	**58,538,144**	**61,704,242**	**23,790,464**	**13,776,317**

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 € 7,908,642 (previous year: € 12,171,215) were achieved.

In the 2019 financial year, the customer Thermo Fisher Scientific Inc. generated sales of € 6,686,236. No other 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:

		in €
	2019	2018
Clean Energy & Mobility	487,360	270,975
Industry	475,075	178,825
Oil & Gas	217,687	0
Defense & Security	472,511	197,804
Total	**1,652,633**	**647,604**

There was no interest income in the 2019 financial year that would have been allocated to the respective segments.

Interest expenses of € 242,271 (previous year: € 288,568) related to the Clean Energy & Mobility segment, interest expenses of € 91,907 (previous year: € 0) related to the Industry segment, interest expenses of € 278,856 (previous year: € 178,465) related to the Oil & Gas segment and interest expenses of € 138,821 (previous year: € 270,277) related 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:

		in €
	2019	2018
Financial statements	183,000	149,000
Total	**183,000**	**149,000**

Other work performed has been:

		in €
	2019	2018
Other	499,000	0
Total	**499,000**	**0**

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

The Management and Supervisory Boards issued an updated declaration of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) in 2019 and published it on the website of SFC Energy AG (www.sfc.com/en/investors/corporate-governance) on March 21, 2019. The declaration of compliance 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

On August 4, 2017, the Management Board of SFC Energy AG had issued a bond with warrants based on the authorization granted by the Annual General Meeting of SFC Energy AG on June 14, 2016. This bond with warrants comprises a warrant right to 204,700 SFC Energy shares with a notional value of € 1.00 per share of the Company's share capital at an option price of € 3.6639 each.

In January 2020, the option on the Harbert European Growth Capital Funds bond was exercised. SFC Energy AG received gross issue proceeds of € 0.75 million as a result. Exercising the bond with warrants increased SFC Energy AG's share capital from € 12,949,612 to € 13,154,312. This brought the total number of Company shares issued up to 13,154,312 accordingly.

Up to the date of preparation of this Annual Report, no other events of particular significance occurred that are expected to have a material effect on the Group's financial position and performance.

Brunnthal, March 25, 2020

The Management Board

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (Industry)

SFC ENERGY AG, BRUNNTHAL CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2019 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 25, 2020

The Management Board

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (Industry)

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 (the Group), which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SFC Energy AG, Brunnthal, for the financial year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the consolidated corporate governance statement pursuant to Section 315d German Commercial Code (HGB) included in the Corporate Governance Statement of 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 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 2019 and of its financial performance for the financial year from 1 January to 31 December 2019, and

- the accompanying group management report as a whole provides an appropriate 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 cover the content of the aforementioned consolidated corporate governance statement.

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 law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (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.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. 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 of k€ 8,313 (11.4 % of the balance sheet total) disclosed in the consolidated financial statements of SFC Energy AG relates to two companies and 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. Judgements made by the executive directors 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 has been classified by us as key audit matter as the impairment test of goodwill is complex and depends to a great extent on a number of estimates and assumptions made by the executive directors.

Information provided by the executive directors on the impairment tests is 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 judgements, 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 executive directors 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. In the light of the specific planning uncertainties, we verified and assessed the sensitivity analyses prepared by the executive directors.

Our assessment of the fair value was based on a reconciliation of the cash inflows and the three-year planning figures (2020 to 2022) prepared by the executive directors 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 executive directors 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 executive directors are responsible for the other information. The other information comprises

- the consolidated corporate governance statement pursuant to Section 315d HGB included in the Corporate Governance Statement of the group management report,
- the corporate governance report according to No 3.10 of the German Corporate Governance Code,
- the executive directors' confirmation regarding the consolidated financial statements and the group management report pursuant to Section 297 (2) sentence 4 and Section 315 (1) sentence 5 HGB, respectively, 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 group 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 Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are 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) 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 executive directors are 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 executive directors are 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 executive directors are 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 executive directors are 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 an appropriate 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 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 detect a material misstatement. 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 judgment 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 override of internal controls.

- 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 executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- conclude on the appropriateness of the executive directors' 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) 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 executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors 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 them 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 annual general meeting on 16 May 2019. We were engaged by the supervisory board on 24 October 2019. 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, 25 March 2020

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Julius Pinckernelle
Wirtschaftsprüfer (German Public Auditor)

Oliver Pointl
Wirtschaftsprüfer (German Public Auditor)

FINANCIAL CALENDAR 2020

February 11, 2020	Preliminary Figures 2019
February 13, 2020	Energy Conference, Munich
March 26, 2020	Annual Report 2019
May 18, 2020	Interim Disclosure Q1 2020
May 19, 2020	Annual General Meeting
August 20, 2020	Half-year report 2020
September 16, 2020	ABN Amro Small Cap Conference, Amsterdam
November 16 – 18, 2020	German Equity Forum, Frankfurt
November 18, 2020	Interim Disclosure Q3 2020

SHARE INFORMATION

Bloomberg symbol	F3C
Reuters symbol	CXPNX
WKN	756857
ISIN	DE0007568578
Number of shares as of 12/31/2019	12,949,612
Number of shares as of 03/31/2020	13,154,312
Stock category	No-par value shares
Stock segment	Prime Standard, Renewable Energies
Stock exchange	Frankfurt, FWB
Designated sponsors	mwb fairtrade Wertpapierhandelsbank AG

INVESTOR-RELATIONS

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All other images: SFC Energy AG