2G® Energy AG

Annual Report 2012

Key figures

Yield position	2012	2011
	TEUR	TEUR
Group annual net income	**11,335**	**13,602**
Operating profit	16,463	19,415
Financial result	-47	65
Earnings before interest, tax, depreciation and amortisation (EBITDA)	18,360	20,843
Earnings before interest and tax (EBIT)	16,501	19,499
Profitability in %		
Profit on turnover	11.4	11.8
Return on equity	23.7	35.6
Return on total assets	17.6	23.4
Expense/yield structure		
Turnover	146,485	167,321
YoY change in %	-12.5	82.2
Total output	140,687	176,828
Cost of materials	91,069	132,851
Material intensity in %	65.4	75.3
Personnel costs	16,973	11,746
Employees on Ø	402	237
Personnel intensity in %	11.5	6.7
Depreciation	1,859	1,338
Income tax	5,081	5,878

Financial situation	2012	2011
	TEUR	TEUR
Balance sheet total	**94,742**	**84,206**
Assets and liabilities structure		
Expenses for starting and expanding operation	0	0
Non-current assets	20,837	14,791
Material assets intensity	15.4	9.9
Current assets	72,807	68,770
Turnover ratio		
Inventories	4.7	8.9
Receivables	6.3	8.2
Accruals and deferrals	352	344
Deferred taxes	764	302
Capital structure		
Equity capital	47,754	38,177
Equity ratio in %	50.4	45.3
Working capital	**30,145**	**25,307**
Financing		
Investments in plants	7,960	4,054
Dividends	1,639	0
Cash inflow/outflow from		
Operating activities	-8,862	24,648
Investment activities	-7,951	-4,244
Financing activities	5,147	473
Changes in solvency	-11,666	20,877

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Foreword by the Board of Directors

Dear Shareholders, Ladies and Gentlemen,

the 2012 financial year has shown that we are on the right course for the future. Our management strategy is aimed at sustainable and profitable growth. We have taken the early proactive step of aiming our expansion in the direction of the European and international markets. Our presence in the market for natural gas-operated combined heat and power generation systems and applications for other gases has systematically increased as a result of successful in-house developments. We have expanded our production capacity at the Company's headquarters in Heek and consistently pressed ahead with our research work into engine development, optimisation of peripheral devices, control electronics and software development. Moreover, after the years of stormy growth, we have turned our attention to adapting internal company processes, refining risk management and adequately developing corporate structures to meet the new challenges. In the course of this we have taken on 132 new permanent employees. We systematically invest in individual training for our young employees and in the further qualification of young specialists and managerial staff. It is our intention to roll this model out internationally.

In 2012, we made strides towards becoming more independent: more independent from regulatory framework conditions, more independent from the biogas market, more independent from individual geographical markets and also more independent from suppliers and standard technologies. This freedom underpins the financial strengths of the 2G Group. 2012 marked the start of the transformation into an international technology company with a clear focus on international energy markets and clear ideas on the role of combined heat and power generation systems. We are convinced that 2G is in a very strong competitive position thanks to its individual network and that it will create an excellent foundation for highly efficient, flexible combined heat and power generation systems as a result of consistent R&D work allowing it to face future challenges in the energy market.

Based on this perception of ourselves as a company, we are pleased with the results for the 2012 financial year. 2G Energy AG has a solid financial base; the equity ratio is 50 %. 2G has largely used its own funds to finance investments in expanding production capacity, research and development work and expansion abroad. The turnover structure changed significantly in 2012 compared with the previous year (as planned). The share of foreign turnover rose from 10 % to approx. 40 % with the internationalisation of business activities. At the same time, turnover from natural gas-operated 2G power plant modules doubled to approx. 30 %, approx. 70 % originated from the sale of biogas-operated CHP systems. Although turnover fell by approx. 13 % to EUR 146.5 million compared with the 2011 financial year, which was marked by a boom in biogas systems prior to the Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz) amendment on 1 January 2012, we achieved an EBIT margin of 11.3 % almost managing to match the high level of 11.8 % reached in the previous year. Consequently, we will again be proposing a dividend of EUR 0.37 per share to our shareholders at the Annual General Meeting on 17 July 2013. We want our shareholders to continue sharing in 2G Energy AG's success.

There were no end of year figures driven by regulatory requirements at the end of the 2012 financial year as there has been in previous years. This meant that there was no particular time pressure as regards the commissioning of CHP systems and part-processed orders of EUR 11 million were carried forward to the following financial year. This explains why it was no longer possible to achieve the turnover forecast made in the autumn of between approx. EUR 158 million and EUR 163 million as of the balance sheet date. We are increasingly finding that the preliminary lead times until the conclusion of new orders have become longer. Approval procedures in other countries, tenders for lucrative orders or the awarding of projects in the growing natural gas business take considerably longer than we have been used to in the German biogas business. Visible signs of our work's success from a commercial perspective may therefore be delayed and intermittently switch to other financial years.

We strengthened our position in the USA in 2012. We see huge future market potential in North America. The development of CHP systems is

Board of Directors: Christian Grotholt, Ludger Holtkamp

supported on a political level and further expansion of 40 GW is set to take place by 2020. The conditions for biogas and natural gas-operated combined heat and power generation systems are favourable in the US market. We established our own production company 2G Manufacturing Inc., in St. Augustine, Florida in February 2012. Engines and components from Heek will be fully assembled there into 2G CHP modules and marketed by the sales and service company, 2G Cenergy Power Systems Technologies Inc., under the slogan ‚German technology made in the US'. We generated turnover of approx. EUR 9 million in the US market in 2012. We intend to develop the US market in the current business year into the strongest international sales market outside Germany.

We will secure important industrial and raw material markets through sales collaborations in Russia, Japan and Canada. We entered into a strategic cooperation agreement for natural gas-operated, heat-operated useful heat/CHP systems with the remeha Group at the beginning of 2013. The aim of this agreement is the sale and distribution of CHP units in the mid thermal output range between 20 and 100 kW to customers in Germany, the United Kingdom and the Benelux countries. These kinds of sales partnerships create the prerequisite conditions for further growth.

We offer our national and international customers complete system solutions according to the motto ‚plug and play' with high-performance, economical and integrative combined heat and power generation systems. Full maintenance contracts and a regionally organised service network that is available 24/7 represent further benefits for our customers. These are important elements of fault-free CHP operation in order to safeguard the availability, useful life and profitability of the respective system. Revenue from services has already reached a high-margin turnover share of 15 % in 2012 and looks set to continue rising.

2G incorporates cutting edge technology with the highest overall electrical efficiency in the market for CHP systems in the performance class 20 kW to 2,000 kW. This is why research and development are a key element of our corporate strategy in order to maintain and develop our unique selling features. We are convinced that leadership in technology and quality is the best way to set us apart from the competition and achieve sustainable and profitable growth. We are constantly striving to further optimise gas engine mechanics, also at partial load and in terms of response capability. This also includes improving control electronics and the ability of units to integrate into combined systems using sophisticated software solutions. 2G has the clear aim of further developing its leading position in terms of technology in the defined performance class.

We presented an integrated in-house development for the first time during the reporting year for operation using natural gas and biogas. The 2G module, agenitor 406, is in performance class 250 kW and has an electrical efficiency rating of 42.5 %. 2G presented another significant in-house development in the over 500 kW performance class, the avus 500 plus, at the Hanover Trade Fair at the beginning of the year. This CHP system has an electrical efficiency rating of 42.5 % and overall efficiency of approx. 90 %. In the lower performance range, the product portfolio was topped off with the new 2G system, the G Box 20. This system has a nominal electrical output of 20 kW and can be used particularly as a highly efficient additional solution in existing systems to supply residential buildings.

There are currently two strategically important developments for biogas-operated combined heat and power generation systems. Firstly, biogas-operated CHPs may assume a new role in the energy mix beyond the previous full load principle thanks to their excellent technical controllability. This means a flexible operating mode and compensation for the volatilities of wind and solar energy in the context of virtual power plants instead of continuous coverage of the basic load. Secondly, technical options are materialising for converting excess electrical power from renewable sources into (storable) gas as a fuel using power-to-gas technology. It can be stored as a gas (green origin) in the existing gas distribution system, distributed and ultimately used as required in 2G CHP technology for decentralised generation of electricity and heat. An additional trend is emerging now. More and more industrial customers with defined heat or cold requirements

(from the food industry, for example) are currently giving greater attention to systems providing a low-priced and sustainable energy supply using CHP systems. Energy providers, or contractors, as they are known, are also investing in 2G CHP modules in order to generate and sell electricity and thermal energy on site in locations where there is demand for electricity and heat. We need to ensure therefore that our customer structure continues to demonstrate higher than average diversification. 2G systems have complex applications in agriculture, commercial operations, industry, for local or regional energy suppliers, energy providers and not least in public housing and for individual end users.

We are convinced that CHP systems that are driven by biogas and increasingly also by natural gas will play a noticeably bigger role during the course of the energy turnaround. Overall efficiency levels between 85 % and well over 90 % are already established standards in 2G CHP systems. In combination with the controllability of CHPs and the option to merge decentralised CHPs into virtual power stations via a control room, combined heat and power generation systems represent an ideal supplement to or indeed an efficient replacement for major power plants that previously dominated the energy supply industry. The highly efficient 2G technology is ready to meet the increased requirements of supply reliability in compliance with the market and decentrally.

Thanks to a large number of successful new and further developments, 2G is able to report increased demand for its units allowing biomethane to be used to produce power and heat in industry and public housing, and an increasing interest in repowering and the modernisation of systems that are already in operation. Business with local, regional and major energy suppliers and providers leads to the expectation of strong impetus for 2G business in Germany in the future. The suppliers represent interesting partners for 2G since they are gradually converting to decentralised, environmentallyfriendly and sustainable energy supply, operate local and domestic heating networks and assume an important role in the development of virtual power stations. We are assuming that the EEG will be amended in line with the modified tasks after the Bundestag elections in September 2013 thereby ensuring the return of planning and investment security.

As of the end of April 2013, the 2G Group has orders on hand of EUR 53 million, at the same level as in the previous year. The targets for the 2013 financial year are clearly defined: above-average development of 2G international market shares in the fossil and regenerative energy market for CHP systems, stepping up of R&D work especially in the area of controllability, response time and integration capability, further international development of 2G in-house sales and customer service with an increase in the service share of total turnover. We are optimistically assuming Group turnover of EUR 160 million and an EBIT margin in the low double digit range. Ultimately, the inclination of international customers to invest and, if needed, a functioning supply of credit via their banks as well efficient tender and approval procedures are crucial for achieving these targets.

With the expansion of production capacity at the company headquarters in Heek completed in April 2013 and the on-going optimisation and standardisation processes in production and management, we will be in a position to double turnover on this 2012 basis over the next decade and further increase the EBIT margin in particular by expanding production depth.

We would like to especially thank our employees at this point. Their motivation, commitment and open-mindedness keeps 2G open to change. New tasks in the context of internationalisation and new technical requirements are seen as opportunities and positive challenges and are always completed in a focused manner.

2G Energy AG has gained an inner strength which keeps the Group on the road to success even through economic cycles and regulatory pitfalls. This opens up attractive prospects for our shareholders and business partners. We look forward to your continued confidence and support.

Heek, May 2013
2G Energy AG

Christian Grotholt
Chairman of the Board of Directors

Ludger Holtkamp
Member of the Board of Directors


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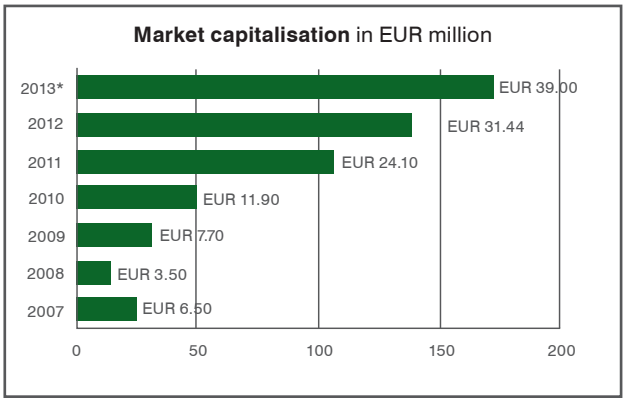
The 2G share

2G Energy AG – 2012 stock market year

2G Energy AG shares can look back on pleasing growth in 2012. The share price increased significantly at the beginning of the year in unison with international share markets, and climbed to the year-high of EUR 40.84 on 3 April 2012. The closing price at the end of 2011 was EUR 24.10. This trend was supported not only by a sound economic environment, but also by a series of positive corporate reports that were received sympathetically by investors. 2G Energy AG had an excellent fourth quarter in 2011 and the interim figures on 19 March 2012 promised a result for the whole of 2011 that exceeded expectations. Analyst estimates were therefore also positive. Upside targets fluctuated overall between EUR 35.00 and EUR 42.00 per share. Following the fantastic jump in the first few months, the shares then took a breather and the price began to level off. In spite of fundamentally excellent figures as before, the shares came under pressure in the undertow of the major world indexes in May, recovered in the run-up to the publication of the figures for the first quarter of 2012 and stabilised at a price of EUR 33.50. In spite of the fact that 2G Energy AG published convincing quarterly results on 31 May, the market players responded disappointingly to the outlook and cashed in shares. After the share price had increased by just under 70 % between January and April, it lost half of these gains again and hit a temporary year-low of EUR 25.60 on 14 June. The price subsequently recovered again in a brightening share market environment and climbed to EUR 34.70 in mid-July. The share price began to fall again in August and dipped below the EUR 30.00 mark. Following the publication of figures for the first six months of 2012, the price of 2G shares rallied and reached figures above EUR 36.00 again in September. Against the backdrop of a weak German biogas plant market and a once again gloomy economic environment, the price of 2G Energy shares fell in unison with the international share markets to its lowest point of year of EUR 24.70 on 15 November. The solid results after three quarters brought the share price back on the road to success again at the end of November. 2G shares began to rally at the end of the year concurrently with the stock markets.

2G Energy AG shares marked the end of 2012 at a price of EUR 31.44 thus registering a significant premium of 30.46 % for the year. Since 2008, shares at the end of the year have always shown a significantly higher rate. With original capital of EUR 4,430,000.00, which has not changed over the years, divided into 4,430,000 bearer shares without a nominal value, the market capitalisation of EUR 15.5 million at the end of 2008 rose to almost EUR 140 million at the end of the reporting year.

The market liquidity of 2G shares is still good. It represents the sustained high interest in these shares and the 2G business model. During the reporting year, the average daily volume on the XETRA trading platform was approx. 15,900 shares (previous year approx. 18,900 shares). One of the reasons for the fall in daily liquidity may be larger and long-term orientated institutional investors who have developed gradually larger positions in 2G shares.

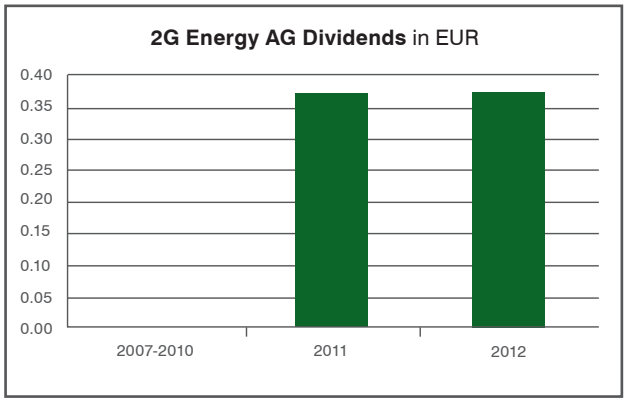


2G Energy AG market capitalisation 2007 to 2013 and XETRA year-end rate
* XETRA closing rate on 20 May 2013

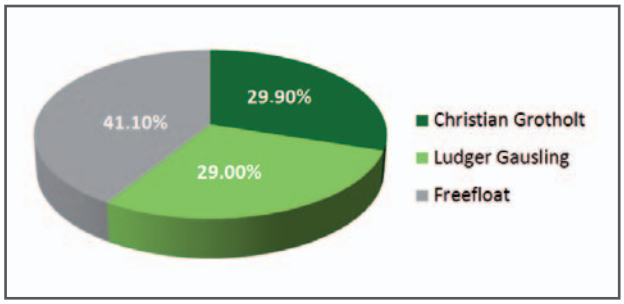
The continued proactive investor relations work during the 2012 financial year also contributed to the higher profile among institutional investors. This included individual discussions with investors and analysts, answering shareholders‘ questions, guided tours of the Company, explanation of technological developments and research work and the presentation of the 2G business model in the context of various capital market events and international roadshows. The Board of Directors highly values investor relations work. Research on 2G shares is

produced by analysts, First Berlin, Hauck & Aufhäuser, Warburg and the WGZ Bank, which unanimously see further price increase potential based on their assessment models.

2G Energy AG pursues a sustainable and stable dividend strategy which allows shareholders to participate in the Company's success. Distribution should be based on profits and should avoid payments from capital assets in order to maintain the Company's financial and innovative strength for further growth. Based on profitable business trends in 2012, the Company will again propose a dividend of 37 cents per share for the preceding financial year to the Annual General Meeting on 17 July 2013.

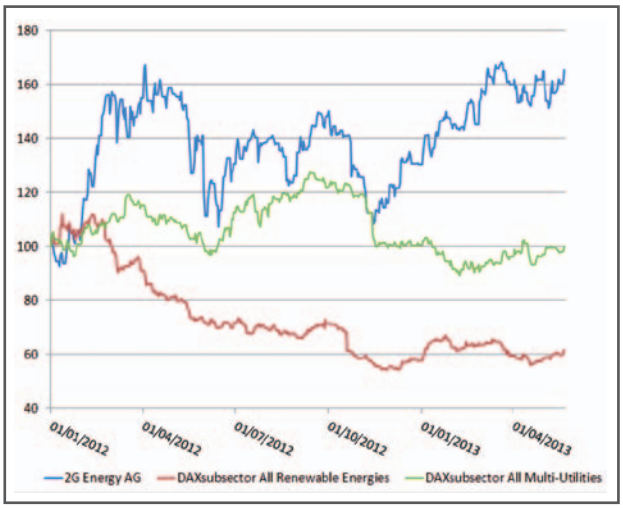


The shareholders' structure of 2G Energy AG remained unchanged during the reporting year in terms of the key shareholdings. Company founders, Christian Grotholt and Ludger Gausling retained 29.9 % and 29.0 % of the shares respectively. 41.1 % of the shares are free float.



2G Energy AG shareholders' structure

As a stock-exchange listed company, open, continuous and prompt dialogue with all capital market participants is an important part of 2G's corporate communication strategy. 2G Energy AG intends to bring all capital market players closer to the 2G business model with a proven track record and to make the potential for an increase in value clear for an appropriate assessment of 2G shares through transparent reporting.



Growth in the value of 2G shares 2012/2013 (index-linked)

Statement by the Supervisory Board

Dear Shareholders,

once again, the Supervisory Board has performed its statutory duties and fulfilled its obligations with due diligence in the 2012 financial year. The Supervisory Board has regularly supported the work of the Board of Directors, offering advice and constructive criticism and monitored the management of the Company. The Board of Directors closely involved the Supervisory Board in all management decisions that were intrinsically important to the Company. The Board of Directors provided detailed reports in verbal and written form concerning the business development of 2G Energy AG and the Company's general cash, net earnings and asset position in particular, which constituted the basis for these decisions. The Supervisory Board monitored business development at 2G Energy AG on this basis and agreed upon the Company's strategic alignment with the Board of Directors.

The Chairman of the Supervisory Board also maintained regular contact with the Board of Directors between meetings and provided advice on issues relating to the strategy, planning, business development, risk position and risk management at 2G Energy AG. The Chairman of the Supervisory Board was always immediately informed of any important events that were significant in terms of assessing position and growth as well in terms of managing the Company.

Four ordinary Supervisory Board meetings were held during the 2012 financial year; on 13 January, 29 May, 28 August and 30 October. All Supervisory Board members attended all of these Supervisory Board meetings. It was not necessary to form committees. Current business development and important individual issues facing the Company were discussed in detail at the Supervisory Board meetings with the Board of Management in attendance using the reports and documents produced by the latter.

Moreover, the members of the Supervisory Board were also in regular contact with the Board of Directors outside these meetings and kept themselves up-to-date with current developments within the Company.

Summary of the main focuses of discussion in the Supervisory Board

The main focuses of discussion at all Supervisory Board meetings during the reporting period were corporate strategy, planning and business development, in particular increasing turnover, the assets, liabilities, financial position and profit and loss, risk position, risk management and international market trends in combined heat and power generation and the opportunities for expansion associated with this.

The following topics were discussed in detail at individual meetings:

The subject of the extraordinary meeting of the Supervisory Board on 13 January 2012 was the approval of business transactions in the context of expansion in the USA.

Important topics at the Supervisory Board meeting held on 29 May 2012 were business development in the 2011 financial year, the acquisition of land and buildings at the group headquarters in Heek, the renewal of management contracts and deciding the agenda for the 2012 annual general meeting. At this Supervisory Board meeting, the Board carried out a detailed check of the annual financial statements, the consolidated financial statements, the management reports for 2G Energy AG and the Group for the 2011 financial year as well as the proposal made by the Board of Directors for the appropriation of distributable profit. In addition to the Board of Directors, the auditors of the financial statements were also present at this meeting in the form of the auditor who signed the auditors' report. Questions from Supervisory Board members were answered comprehensively and individual matters were discussed in detail. Following the final outcome of the check performed by the Supervisory Board, the Supervisory Board declared that there were no objections. Consequently, the Supervisory Board approved the Company's financial statements and the consolidated financial statements and management reports for the 2011 financial year presented by the Board of Directors. The Company's financial statements were thus adopted. Following an in-depth discussion, the Supervisory Board approved the Board of Director's proposal for the appropriation of distributable profit. Lastly, the Supervisory Board prepared the 2012 annual general meeting.

Important topics for the Supervisory Board meeting on 28 August 2012 included business development in the first half of the year. The Board of Directors reported on the first two quarters and provided an overview of the whole of the 2012 financial year.

At the meeting held on 30 October 2012, in addition to the business position and market trends, the Supervisory Board discussed topics including the further development of production depth and the development of assets, liabilities, financial position and profit and loss.

Changes to the Supervisory Board and Board of Directors

During the reporting year, shareholders voted at the Annual General Meeting of 2G Energy AG to re-elect the Supervisory Board consisting of three members at the scheduled end of their term of office. Supervisory Board member, Gerhard Temminghoff, was no longer available for re-election for a new period of office. Dr. Lukas Lenz and Wiebe Hofstra were re-elected as Supervisory Board members for a further term. On the recommendation of the management, the Annual General Meeting voted Heinrich Bertling as the third member of the Supervisory Board.

In October 2012, Financial Director, Peter J. Bergsteiner asked the Supervisory Board to terminate his contract for personal reasons. The Supervisory Board conceded to this request and thanked Mr Bergsteiner for his constructive contribution. Responsibilities in the financial, legal and human resources departments were assumed by Dietmar Brockhaus as of 1 December 12 in his capacity as executive manager.

Audit of the annual and consolidated financial statements for the 2012 financial year

The Board of Directors prepared the annual financial statements, the consolidated statements and the consolidated management report for 2G Energy AG for the 2012 financial year in accordance with the regulations set out in the German Commercial Code. The auditors, Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft in Regensburg, chosen by the Annual General Meeting on 28 August 2012, audited the annual financial statements and the consolidated financial statements and consolidated management report of 2G Energy AG for the 2012 financial year, including the accounts, and provided these with an unqualified audit certificate. The annual financial statements, consolidated financial statements and consolidated management report as well as the auditors‘ audit reports were presented to all members of the Supervisory Board. The Supervisory Board discussed these documents in detail together with the Board of Directors and the auditors, who reported on the significant outcomes of the audit and were available to provide information and explanations.

We checked the annual financial statements, consolidated financial statements and the consolidated management report. No objections were raised. Consequently, the Supervisory Board approved the result of the financial statements audit. The Supervisory Board approved the annual financial statements, consolidated financial statements and consolidated management report at its meeting on 27 May 2013. The annual financial statements were thus adopted in accordance with Article 172 of the German Companies Act.

The Supervisory Board supported the Board of Directors’ proposal to distribute a dividend of EUR 1,639,100.00, i.e. EUR 0.37 per share, from the distributable profit of EUR 32,544,212.98, consisting of profit carried forward of EUR 19,276,716.41 and annual profit of EUR 13,267,496.57, and to carry the remaining distributable profit forward.

The Supervisory Board thanked the Board of Directors and all 2G employees and their group undertakings for their strong individual commitment and successful work during the 2012 financial year.

Adoption of this report

The Supervisory Board adopted this report at its meeting on 27 May 2013 in accordance with Article 171 (2) of the German Companies Act.

Heek, 27 May 2013

Supervisory Board

Dr. Lukas Lenz
Chairman of the Supervisory Board

Consolidated Management Report of 2G Energy AG

A. 2G Group

Business activity and corporate structure

The 2G Energy AG group of companies is a leading international provider of decentralised energy supply systems. The Company develops, produces and installs combined heat and power systems offering complete solutions within the growing market for highly-efficient combined heat and power generation (CHP). Comprehensive after-sales and maintenance services are an important additional service criterion. The product range includes combined heat and power systems with electrical output of between 20 and 2,000 kW operated using natural gas, biogas or other weak gases. All systems are highly efficient, resource-friendly and reduce or neutralise CO_2 emissions when generating energy. With over 3,500 systems in 25 countries, 2G combined heat and power modules in various applications supply a wide range of customers including private households, companies in the housing industry, commercial and industrial companies, energy providers and districts with heat or cold and electrical energy.

2G has a presence in nine countries with eight subsidiary companies, representative offices or participating interests.

2G Energy AG is a holding company incorporating eight companies and an associated undertaking as of the balance sheet date, 31 December 2012.

2G Energietechnik GmbH (2G GmbH) is 2G‘s core of operations with company headquarters located in Heek, Germany. The Company combines the planning, sales, production and installation of 2G systems. It also centrally manages and coordinates after-sales services for combined heat and power systems. 2G GmbH also maintains two dependent branches in Amerang (near Munich) and Hamburg as well as two liaison offices in Istanbul, Turkey and Beijing, China.

Heek is also home to 2G Drives GmbH (2G Drives). The purpose of this subsidiary company is research and development in relation to the 2G product range. It focuses essentially on optimising gas engines and control electronics in order to offer greater customer benefits and unique features through improved effectiveness and

2G® Energy AG

100 %	90 %	80 %	90 %	100 %	100 %	100 %	100 %	49 %
2G® Energietechnik	2G® Home	2G® Drives	2G® Solutions	2G® Italia	2G® Energy	2G® Polska	2G® Manufacturing	2G® CENERGY
Operating company in Germany, founded in 1995	Decentralised heat and power generation, services for private households, founded in 1999	Development and optimisation of gas engines, founded in 2010	Sales and service company in Spain, founded in 2008 (former 2G Iberica S.L.)	Sales and service company in Italy, founded in 2011	Sales and service company in England, founded in 2011	Sales and service company in Poland, founded in 2011	Manufacturing of 2G modules in the USA, founded in 2012	Participating interest with exclusive distribution and service rights, founded in 2009

2G Energy AG corporate and investment structure

integration capacity. The extremely high efficiency of in-house developed products is key to 2G's success and creates competitive advantages. Moreover, the development of software for the maintenance, integration and controllability of decentralised combined heat and power systems is very important. Many decentralised CHP units have been integrated into intelligent large-scale power plants (Virtual Power Plants) by combining mechanics and software. Two well-known and internationally recognised experts in the field of gas engine development each have a 10 % share in 2G Drives.

2G Home GmbH (2G Home) is also headquartered in Heek. The Company and its technology are also represented in the mid-capacity range of heat-operated combined heat and power systems for supply applications with its core products, the G-Box 20 and G-Box 50, compact combined heat and power modules for small and medium-sized businesses, hospitals, hotels and craft businesses or housing complexes with an electrical output of 20 kW or 50 kW.

The 2G Group continued to strengthen its international presence over the course of the reporting year. 2G opened an in-house production facility in the USA, 2G Manufacturing Inc. based in St. Augustine, Florida. The 100 % owned subsidiary of 2G Energy AG entered into production for the American market during the reporting year. Here, engines and components from Heek are fully assembled into 2G CHP modules for the US market. Container assembly also took place in Florida in accordance with tried and tested 2G methods. This type of production was used for quality assurance reasons and to optimise transport costs.

There are already foreign subsidiary companies in the Group which act as sales and service companies. These include 2G Solutions of Cogeneration S.L of Spain, based in Vic/ Barcelona, which, along with a liaison office in Rennes serves the French market, 2G Italia Srl, based in Verona Italy, 2G Polska Sp. z o.o., based in Bielsko-Biała, Poland and 2G Energy Ltd. based in Runcorn, UK. 2G has a 49 % interest in 2G Cenergy Power Systems Technologies Inc. (2G Cenergy), the sales and service company for the US market.

Moreover, important industrial and raw material markets have been secured in Japan, Russia and Canada through sales collaborations.

B. Economic environment

Macro-economic situation

Global economic trends weakened in 2012 under the influence of the Euro crisis

According to the 2012/2013 annual economic report published by the German Council of Economic Experts, the sovereign debt crisis, banking crisis and macro-economic crisis in the eurozone created a great deal of uncertainty in the global economy. This led to a fall in gross domestic product (GDP) particularly in the eurozone and the United Kingdom. According to experts, economic trends in the USA, Japan and the emerging economies ensured stability even though growth rates were lower than in the previous year. Experts are anticipating an increase in global GDP of 3.3 % (2011: 3.8 %).

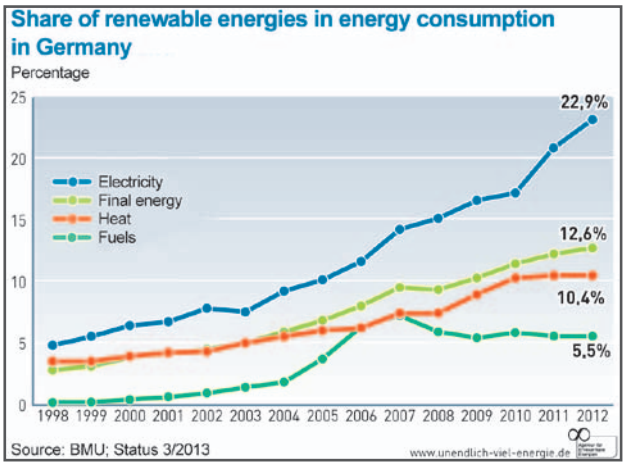
There were some significant differences between the Member States in the eurozone. Whilst Italy and Spain experienced a recession, countries such as Germany, Austria and the Netherlands were able to resist the downward pull. Overall, GDP in the eurozone fell 0.6 % according to the Kiel Institute for the World Economy (IfW) (2011: 1.4 %).

According to the IfW, the German economy was also unable to disconnect itself from the external environment. Domestic demand remained static and foreign trade made a limited contribution to growth. Analysts in Kiel are forecasting GDP growth of 0.7 % for 2012 (2011: 3.0 %).

Industry growth in Germany

Share of renewable energies in total final energy consumption is continually rising

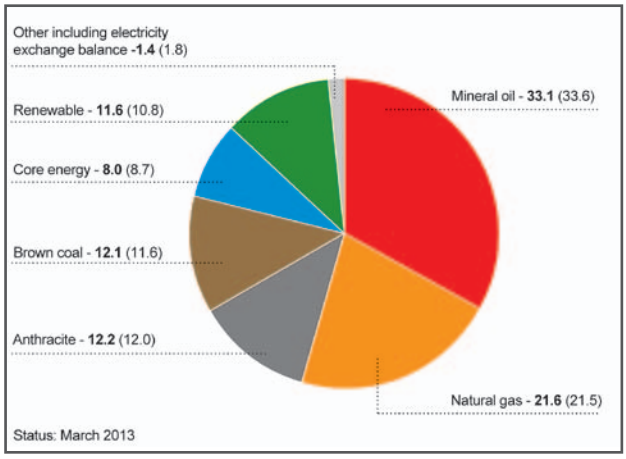
The share of renewable energies in overall demand in Germany rose again in 2012 as in previous years. These energies represented 12.6 % of total final energy consumption in the reporting year. The German government set a target of 18 % renewable energies in the total final energy consumption for 2020 in the Renewable Energies Act (EEG).



Source: Agentur für Erneuerbare Energien

The share of renewable energies in gross German electricity consumption rose to 22.9 % in 2012 (2011: 20.5 %). Heat supply from renewable energies rose to 144 billion kilowatt hours (kWh) (2011: 134 billion kWh). In the heating market, the share of renewable energies remained at the same level as in the previous year at 10.4 %, in spite of higher total energy consumption. Approx. 146 million tons of greenhouse gas emissions were avoided in Germany in 2012 as a result of renewable energies. The largest share of approx. 81 million tons is attributable to electricity generation renumerated under the Renewable Energies Act.

Renewable energies contributed approx. 12 % (previous year approx. 11 %) to energy stocks in 2012. This corresponds to an increase of 8.1 %. Just under four fifths of energy demand was met by fossil fuels. Natural gas constituted 21.6 % of primary energy consumption (previous year 21.5 %), representing an increase of 1.4 % compared with 2011.



Energy mix 2012: Renewable energies continue to increase, structure of primary energy consumption in Germany shares in % (previous year in brackets)

Source: AG Energiebilanz e. V.

Renewable energies have become the future in terms of energy supply. This is because the diverse positive economic benefits have become substantial. The Bundesverband Erneuerbare Energien e. V. (BEE) [German Renewable Energy Federation] lists the most significant effects:

- Avoidance of expensive raw material imports,
- Reduction of external costs for environmental and climate damage,
- Dampening the rise in costs on the electricity market: renewable energies significantly reduce prices on the energy exchange through the merit order effect,
- Job creation.

The BEE states: Overall, the limited financial strain on public and private budgets is accompanied by significantly greater relief for the overall economy by promoting renewable energies. This underlines the economic viability of renewable energies.

Against the backdrop of this successful development of renewable energies, which was politically championed and promoted by the Renewable Energies Act (EEG) and the Combined Heat and Power Generation Act (KWHG), the issues of energy turnaround costs and electricity market design have found their way back to the forefront of public debate. Firstly, the rapid development of photovoltaics between 2009 and 2011 has primarily prompted a big increase in the EEG levy compared with previous years. Many electricity suppliers have considerably increased their prices as a result. Secondly, a widespread debate has broken out regarding how the transformation of the energy supply and marketing system and how the integration of all energy generation types (with priority given to renewable energies) can be redesigned using intelligent power stations, storage and control systems.

Combined heat and power generation systems have taken on an important role in the process in accordance with the Federal government's conviction. The target of increasing their share in electricity production from 10 % currently to 25 % by 2020 has been defined in the Combined Heat and Power Generation Act [KWKG] since 2012.

The arguments supporting the significantly greater role of combined heat and power generation systems in the context of the energy turnaround are obvious, since combined heat and power generation systems:

- operate in a decentralised manner and therefore require no electricity lines,
- can be integrated into existing supply and inspection infrastructures,
- provide a guaranteed and cheap power supply,
- are environment and climate-friendly,
- are efficient, service provision can be controlled and for these reasons,
- they are a core component of virtual power stations.

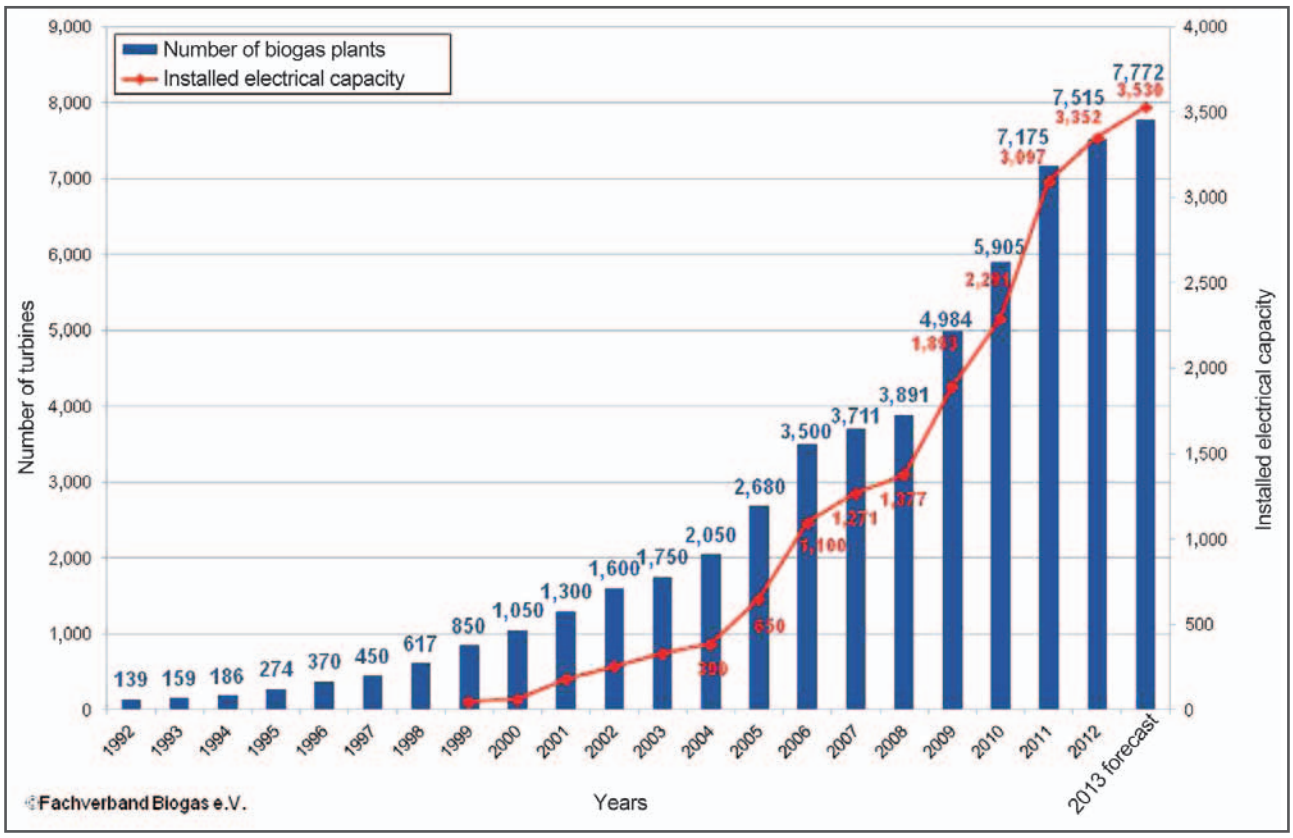
According to BEE estimates, biomass plants are extremely important for offsetting fluctuating energy generation from wind and solar power plants since they are able to generate electricity flexibly in terms of time. Combined heat and power generation systems which can be operated using both natural gas and biogas are also indispensable as an offsetting option in periods where there is little wind or sunshine.

Biogas

The technical specifications of biogas-driven combined heat and power generation systems are designed to achieve as high a level of electrical efficiency as possible. Depending on the available infrastructure, heat is, if anything, a by-product. However, heat, or cold generated via a heat exchanger, can also be emitted as a high-value product with corresponding cost-effectiveness if there is an option for direct use (process heat, cold storage house) or an available local or district heating grid.

In Germany, biogas or, respectively, power generation, are promoted through the EEG. Following the boom in biogas plants in 2011 and on account of the pull-in effects resulting from the announced change in the EEG on 1 January 2012, demand for biogas plants fell significantly in Germany in the reporting year as expected. The Biogas Association is anticipating 268 new plants in 2012. Together with plant upgrades (repowering) this would represent an increase in installed electrical output of 183 megawatts. Compared with 2011, improvement in performance would fall by approx. 70 % and new power plant construction by approx. 80 %.

The association gave the less favourable subsidy terms and conditions in the EEG 2012, high substrate prices and problems with the general public's acceptance of biogas plants as reasons for this setback. Similarly to biogas plants, demand for biogas-operated combined heat and power generation systems in Germany has fallen significantly in recent years. However, combined heat and power generation systems have increasingly replaced biogas plants at the end of their useful life (after approx. eight to twelve years). Upgrades to combined heat and power generation systems have been forecast in view of the change to subsidy terms and conditions in the EEG 2012. These market trends outlined in the case of Germany have not happened in the



Development of biogas plants and of total installed power (MW)
Source: Fachverband Biogas e. V., adjusted forecast figures 2013

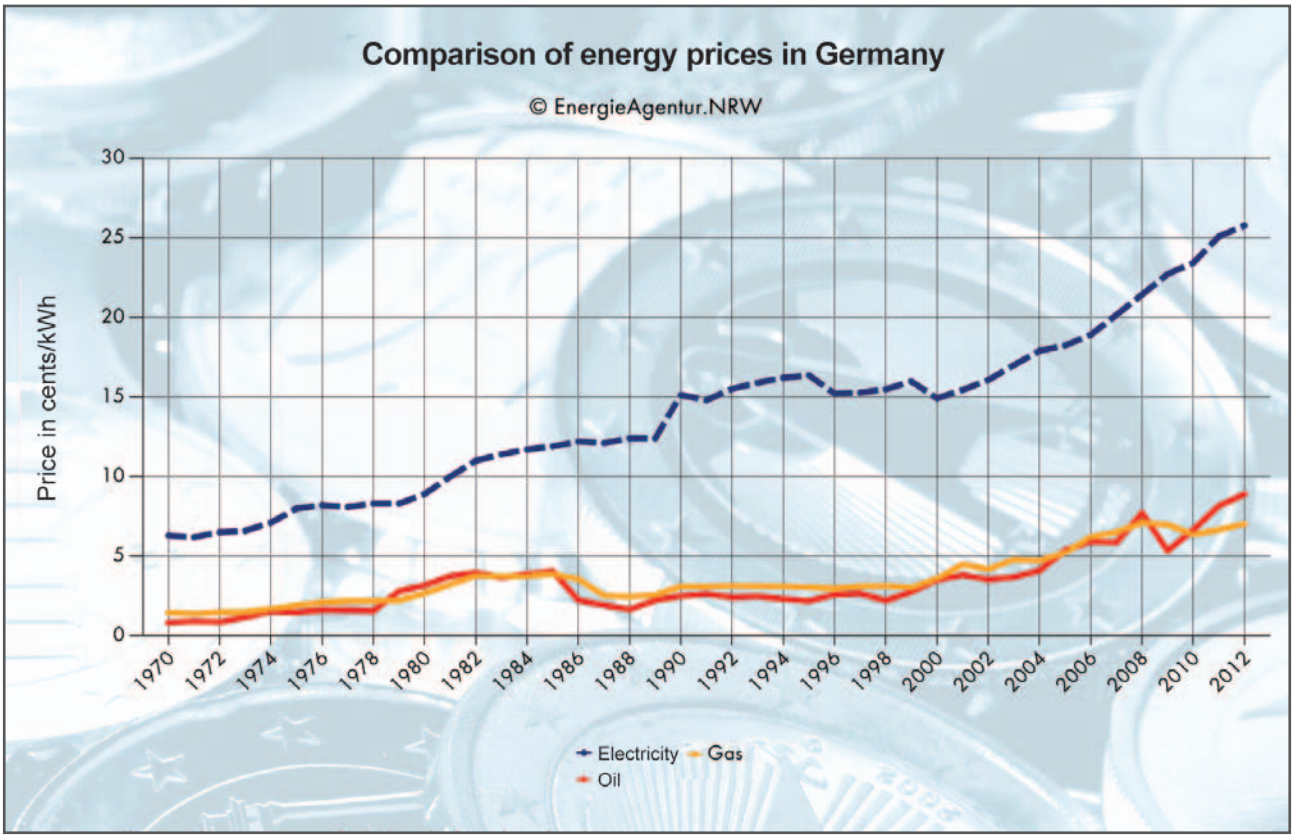
same way in other markets. Biogas continues to be an important fuel for combined heat and power generation systems in other countries.

Natural gas

Demand for natural gas operated combined heat and power generation systems increased significantly in the reporting year. Natural gas is one of the low-emission fossil fuels. Natural-gas-operated combined heat and power generation systems primarily supply heat (heat-operated). They also accumulate electricity and are predominantly used by the operator for internal consumption. The operator also receives a CHP allowance for electricity from combined heat and power generation systems, which is used in the supply premises itself (swimming pool, apartment building etc.).

Natural-gas-powered CHP systems can be operated with a high degree of efficiency and are flexible in use. Whilst the price of electricity has increased significantly in recent years, the increase in the price of natural gas has been moderate. This situation is supported by favourable market trends and high reliability of supply. The overall improvement in market trends has kept the price level relatively low. The gap between trends in the price of electricity and the price of natural gas is also referred to as the ‚spark spread'.

In addition to the price level and market trends in natural gas, the advantage of decentralised energy supply also speaks in favour of this fossil fuel for the operation of combined heat and power generation systems. On the basis of generally existing supply logistics for natural gas supply and feeding in excess heat into local and district heating grids, natural gas operated combined heat and power generation systems can also relieve pressure on electricity grids to be reconfigured as part of the energy turnaround and in this context make an important contribution as virtual power



Gap between oil, gas and electricity prices
Source: Federal Ministry for Economy and Technology, EnergieAgentur.NRW

plants towards offsetting the volatilities of wind and solar plants. This has been acknowledged politically in many countries such as Germany and the USA and was confirmed in 2012 through improved subsidy regulations.

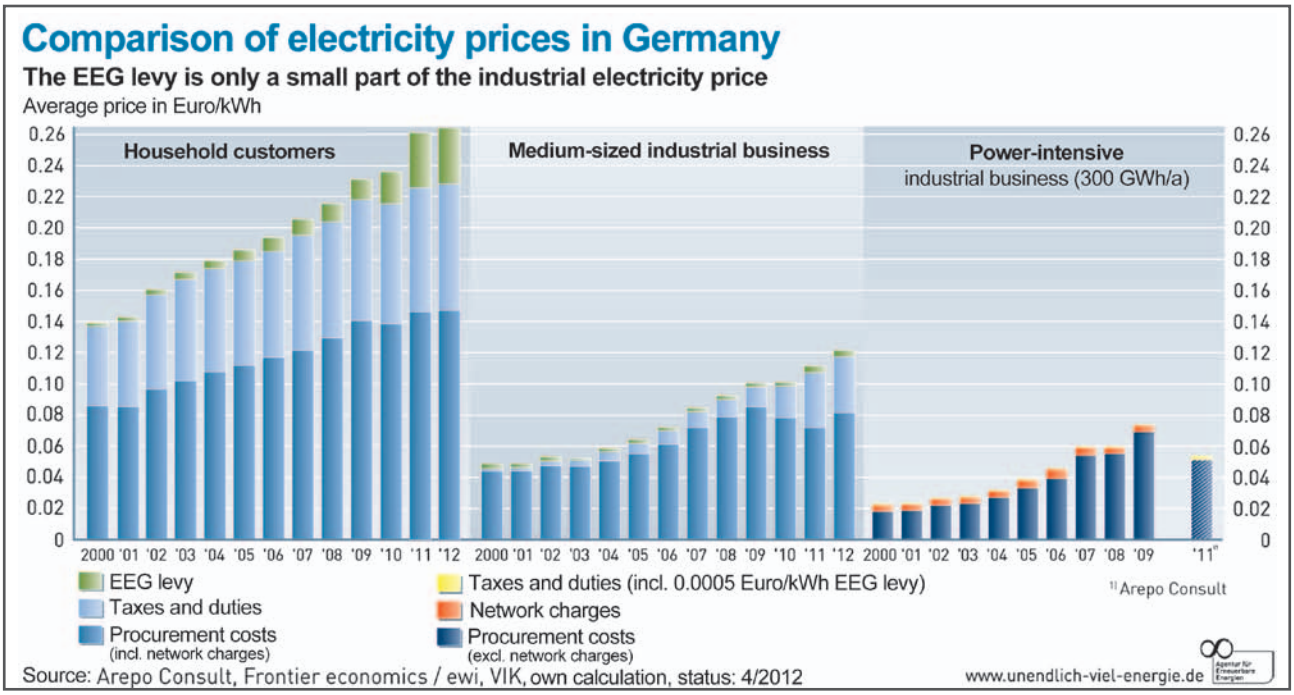
Price of electricity continues to rise

Two significant effects are hallmarks of the trends in the price of electricity. Firstly, electricity prices have been falling for several years on the Leipzig electricity exchange, EEX. According to BEE, a primary cause of this is the increasing supply of electricity from renewable energies which pushes expensive fossil power stations out of the market. This is known as the merit order effect. This does not lead, however, to lower electricity prices for end consumers.

However, according to BEE, the fall in the exchange price has become a problem for the EEG levy and consequently for companies and consumers due to the defined calculation method. This is because at the point when renewable energies reduce prices on the exchange, the difference between the remuneration paid for renewable electricity increases on the one hand and the income generated by this electricity on the stock exchange increases on the other. This, in turn, automatically increases the levy, which has to close the gap between expenditure in the forms of compensation for electricity fed into the grid and the revenue generated from the sale of EEG power.

The lower the prices of electricity on the exchange based on the supply of regenerative electricity, the higher the EEG levy.

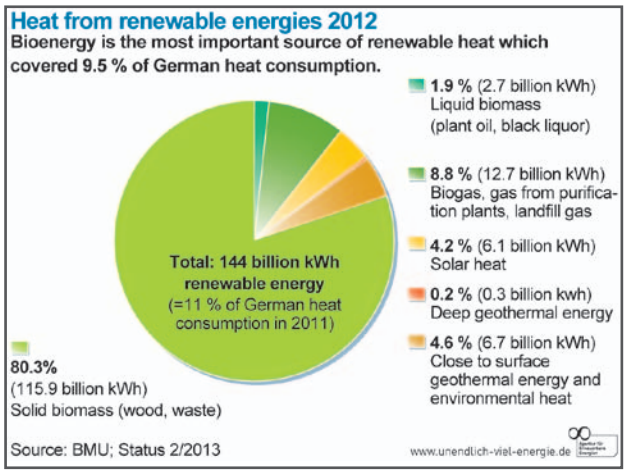
On the other hand, however, gross electricity tariffs are continually increasing both for average-sized industrial consumers and private households. Depending on the customer group, there is a distinct difference between the costs per kilowatt hour (kWh) used.



Trends in electricity tariffs
Source: Agentur für Erneuerbare Energien

Heat

Approx. 50 % of total energy consumption flows into heat generation. There is great potential for the use of renewable energies here and consequently also for environmental and climate protection. The share of renewable energies in the heating market is still relatively small. Their share was 10.4 % in 2012.



Heat from renewable energies 2012
Source: Agentur für Erneuerbare Energien

Primarily bioenergy in the form of wood, biogenic waste material and biogas plays a key role in decentralised heat generation.

The German government‘s integrated energy and climate programme envisages increasing the share of renewable energies in the heating market to 14 % by 2020. The complex decentralised use of heat for energy supply directly by private households, companies or by regional energy providers (such as public utility companies/local authorities) is particularly important for combined heat and power generation systems.

Regulatory environment

The amended EEG which entered into force on 1 January 2012 defined the integration of electricity from renewable energies into the electricity supply grid as an explicit target for the first time.

The political desire to increase the share of combined heat and power generation systems in electricity production from approx. 15 % currently to 25 % by 2020 was expressed in the amendment to the Combined Heat and Power Generation Act (KWKG) passed in 2012. In the 50 to 250 kW performance class, the subsidy rates have virtually doubled from 2.1 cents to 4.0 cents per kWh. There have also been significant increases in other performance classes.

The amendments to the EEG 2012 which concerned biogas have tended to result in lower remuneration than was awarded with EEG 2009 for systems commissioned after 1 January 2012. The system specifications for operators now also state that 60 % of heat must be used in compliance with the EEG (such as kiln drying, digestate drying, feed-in to the heating grid, electricity from waste heat). This kind of heat concept is a basic prerequisite for receiving standard remuneration. Overall, the legislators have consequently introduced a paradigm shift away from the previous dogma of basic load towards flexibilisation and production tailored to requirements.

The Renewable Energies Heat Act (EEWärmeG) amended on 1 May 2011 provides for a mandatory share of renewable energies in new builds and also for existing public buildings. This can also happen through combined heat and power generation if at least 50 % of the heat requirement is met in this way. The German government has made subsidies available for the installation or conversion of heat generation systems through its market incentive scheme irrespective of the current budgetary position.

US market

President Obama passed a decree in the USA in August 2012 to increase investment in industrial energy efficiency (“Accelerating Investment in Industrial Energy Efficiency”). A key aim of this initiative is to expand combined heat and power generation systems in order to increase installed combined heat and power generation output to 40 GW by 2020. However, this is not associated with government subsidies comparable with the EEG. Overall, the conditions for biogas and natural gas operated combined heat and power generation

systems are favourable in the US market. Operators of biogas plants for the marketing of energy (electricity and heating) receive renumeration of USD 30 per ton in the USA for recycling food waste. Shale gas deposits, which are tapped, exhausted and fed into existing natural gas grids with great panache in the USA ensure relatively favourable natural gas prices in the USA. At the same time, electricity prices are constantly increasing. The broad spark spread, the difference between the price of natural gas and electricity, makes the operation of combined heat and power generation systems profitable in the USA too and attractive in terms of an individual decentralised energy supply.

Overview of the 2012 financial year

2G becomes an international player in the combined heat and power generation market

Following the resolution passed by the German Bundestag to amend the EEG with effect from 1 January 2012, the pull-in effects in the German biogas market were obvious in 2012. The drop in sales and setbacks in the German biogas industry itself actually exceeded the pessimistic forecasts. 2G had already set a course for independence from the dominant domestic biogas market in 2009/2010 through a strategy of consistent internationalisation. 2G became an international player in the combined heat and power generation market in 2012 by diversifying into foreign markets, maintaining a broad customer spread, using other weak gases (such as landfill gas, gas from purification plants, blast furnace gas, synthetic gas) as well as conducting research and development activities in natural gas operated combined heat and power generation systems. Dependence upon subsidy-driven markets is a thing of the past.

The commissioning of an in-house production facility in the USA also represented a trend-setting step into the highly lucrative and prospering North American market.

With over 3,500 combined heat and power generation modules in 25 countries across the world, 2G has become a well-known and important technology and system provider in CHP technology and in the performance class from 20 kW_{el} to above 2,000 kW_{el}.

C. Profitability

Turnover and profit stabilise at a high level

Turnover

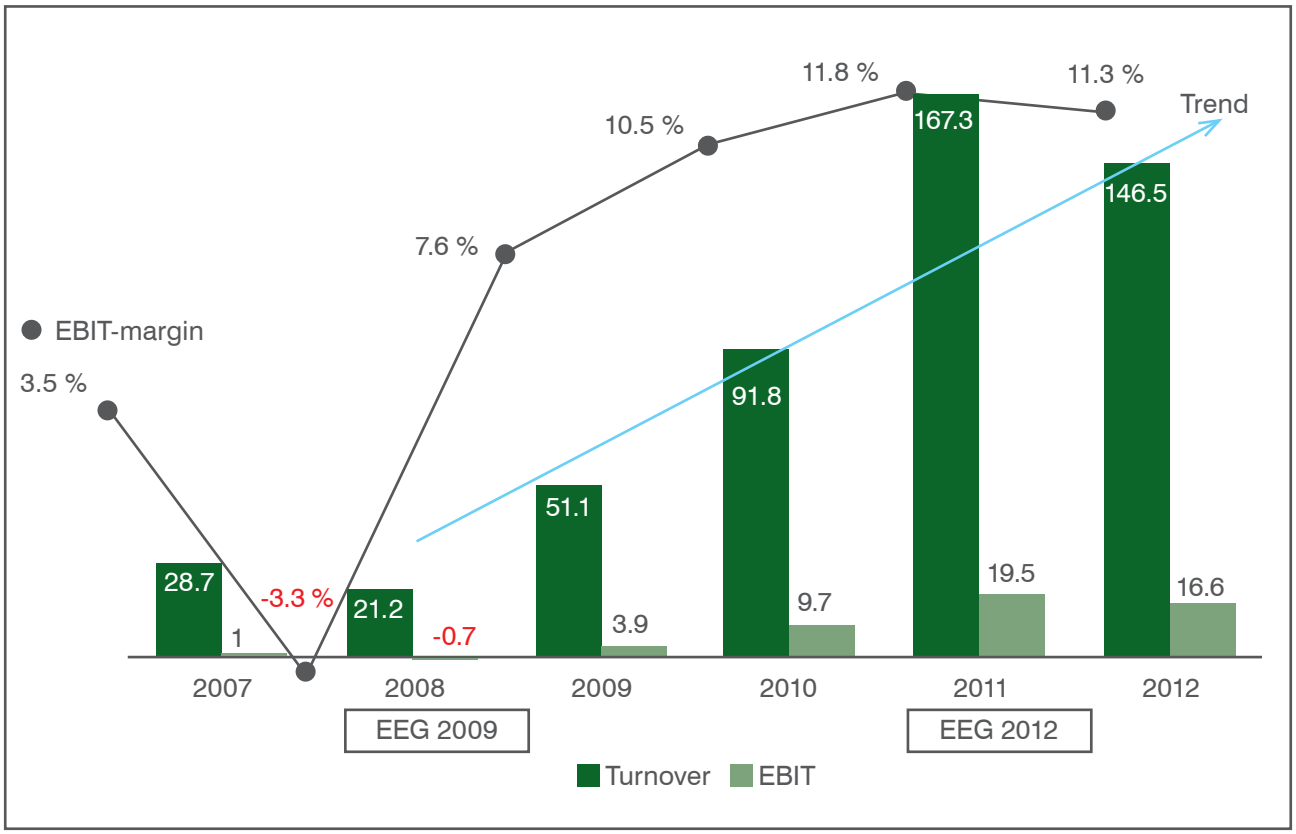
Turnover in 2012 right in the middle of the growth trend in years 2009 to 2012

In 2012, 2G essentially continued the growth trend that began in 2009. Turnover growth from EUR 51.1 million (2009) to EUR 91.8 million (2010) and EUR 146.5 million (2012) illustrates the stable growth trend. The pull-in effect and boom in 2011 with turnover of EUR 167.3 million must be considered a respectable interim result. Due to these pull-in effects and the setback in the German biogas industry, a 13 % fall in turnover had to be accepted compared with 2011. The tense year-end rally so well-known in previous years was missing at the end of the 2012 financial year due to regulatory circumstances. In this respect, the commissioning of combined heat and power generation systems was not under any particular time pressure and the holiday situation at the turn of the year 2012/2013 contributed the rest. Orders in hand of approx. EUR 11 million were processed in part and delivery was carried forward to the following financial year.

Distribution of turnover

Export quota increases from 10 % to 40 %

The share of foreign turnover increased according to plan to approx. 40 % (previous year 10 %) as business activity became increasingly internationalised. The strongest foreign market was Italy, with a consolidated turnover of approx. EUR 11 million. 2G Cenergy Inc. generated turnover of approx. EUR 9 million in the US market. At the same time, turnover was divided between approx. 70 % biogas operated and approx. 30 % natural gas operated 2G power plant modules. A total of



Trends in turnover and EBIT since 2007
Source: 2G Energy AG

485 units (previous year 688 units) were sold in the 2012 financial year. Consequently, the average price per unit increased from approx. EUR 237,000 in 2011 to EUR 274,000 in 2012.

Orders in hand at the end of April 2013 amounted to EUR 53 million (previous year EUR 54 million) with a foreign share of approx. 35 % and a biogas to natural gas project ratio of 55 % / 45 %. Although the so-called repowering (replacement investment) of biogas plants constituted less than EUR 0.5 million of turnover in the financial year, increased demand is already apparent for the next few years.

Consolidated profit

EBIT margin constant and higher than expected

In 2012, the 2G Group generated earnings before interest and tax (EBIT) of EUR 16.6 million (previous year EUR 19.5 million). In view of the changes in the markets described, the regulatory framework conditions as well as the activities and costs in this transformation process, 2G initially assumed just less than a double-digit EBIT margin. This success must be regarded as all the more positive since, at 11.3 %, the Company almost managed to reach the record EBIT margin of 11.8 % achieved in the previous year. The reduction in the material costs quota from 75.3 % to 65.4 % of total turnover and operating revenue in the reporting year made a crucial contribution to this favourable result. The staff costs ratio must be considered in direct correlation to this, which increased from 6.7 % to 11.5 % of total turnover and operating revenue. The consistent training of young employees and the permanent employment of skilled workers led to a significant reduction in contracted services and consequently to an increase in production depth. Sales, operating and administrative costs increased in the course of internationalisation of the business. Sales costs amounted to EUR 4.0 million (previous year EUR 3.4 million), operating costs EUR 4.1 million (previous year EUR 2.3 million) and administrative costs increased to EUR 1.9 million (previous year EUR 1.4 million). The cause of the absolute and percentage increase in operating and administrative costs was the extension and consolidation of the international service network and the service centre (24/7), as well as the organisational and technical adjustment measures based on strong company growth.

Consolidated annual profit was EUR 11.3 million (previous year EUR 13.6 million) after an adjusted financial result and income taxes of EUR 5.1 million (previous year EUR 5.9 million).

Proposal for appropriation of profit

Sharing successes

2G Energy AG showed a balance sheet profit of EUR 32,544,212.98 in 2012 in accordance with commercial law provisions. The Board of Directors and the Supervisory Board made a proposal to the Annual General Meeting to pay a dividend of EUR 0.37 per share as in the previous year. Based on the shares entitled to a dividend on 31 December 2012, the cash dividend corresponded to an appropriation amount of EUR 1,639,100.00.

The Board of Directors and the Supervisory Board will suggest to the Annual General Meeting that the remaining amount is carried forward to a new account. The 2G Group has therefore secured its financial stability and independence and is in a solid position to achieve the disproportionally high growth it is striving for over the next few years.

D. Financial position

The financial management of the 2G Group is focused on ensuring the fluidity of all companies in the Group and the possibility of exploiting strategic purchase and acquisition opportunities.

The financial position of the 2G Group can be seen from the following abbreviated cash flow statement:

	31 Dec. 2012	31 Dec. 2011
	TEUR	TEUR
Income for the period	11,334	13,602
Depreciation of fixed assets	1,859	1,344
Change in provisions	-5,263	9,784
Other non-cash income	-38	-89
Loss/Profit from the disposal of assets	55	9
Changes in stocks	-12,538	-4,716
Change in trade debtors and other assets not attributable to investment or financing activity	-3,449	-6,421
Change in trade creditors and other liabilities not attributable to investment or financing activity	-822	11,135
Cash flow from current business activities	**-8,862**	**24,648**
Cash flow from investment activities	**-7,951**	**-4,244**
Cash flow from financing activities	**5,147**	**473**
Cash and cash equivalents as of 31.12.*)	**13,680**	**25,344**

*) disclosure minus short-term current account drawings at banks

Operating cash flow changed significantly during the reporting year by EUR -8.9 million (previous year EUR -24.6 million) and is essentially linked to the development of stocks and accounts receivable. Investments were made of EUR 8.0 million (previous year EUR 4.2 million) essentially in land/buildings (EUR 4.4 million), machinery/technical equipment (EUR 0.5 million), vehicles/factory and office equipment (EUR 2.7 million) and software (EUR 0.3 million).

Overall, there was a change affecting net income arising from business activity during the 2012 financial year of EUR -11.7 million (previous year EUR 20.9 million). Cash and cash equivalents on the balance sheet date amounted to EUR 13.7 million (previous year EUR 25.3 million) after taking other changes in payment instruments into consideration.

Net current assets in the form of cash at banks amounted to EUR 14.1 million as of 31 December 2012 (previous year EUR 25.6 million) and secured the financial solvency of the 2G Group at any time. The cash flow position at the end of 2011 was unusual due to the situation on the balance sheet date and the economic boom. Moreover, potential cash funds were available at banks for long-term investments in production capacity and to conduct special acquisition transactions.

E. Net asset position

Overview of the net asset position of the 2G Group:

Assets	31 Dec. 2012	31 Dec. 2011
	TEUR	TEUR
A. Fixed assets	20,837	14,791
B. Current assets	72,807	68,770
C. Deferred items	352	343
D. Deferred taxes	746	302
Balance sheet total	**94,742**	**84,206**

Liabilities	31 Dec. 2012	31 Dec. 2011
	TEUR	TEUR
A. Equity and liabilities	47,754	38,177
B. Provisions	9,879	15,142
C. Liabilities		
I. Banks loans and overdrafts	10,344	3,301
II. Other liabilities	26,765	27,586
Balance sheet total	**94,742**	**84,206**

As of the balance sheet date, 31 December 2012, the 2G Group's balance sheet total was EUR 94.7 million, which represents an increase of 12.5 % compared with the previous year. Fixed assets of EUR 20.8 million (previous year EUR 14.8 million) included intangible assets of EUR 5.9 million (EUR 6.1 million), which were defined as 2G Energietechnik GmbH goodwill, lessscheduled depreciation and amortisation.

Fixed assets included land and buildings of EUR 8.1 million (previous year EUR 4.4 million), which served the purpose of the business and capacity reserves for the extension, consolidation and optimisation of production. Machinery, technical equipment and other assets to the value of EUR 6.0 million (previous year EUR 3.9 million) included in particular crane systems, special tools and equipment, the vehicle fleet and the required factory and office equipment which were depreciated as scheduled. Moreover, payments on account of EUR 0.5 million (previous year 0) were made on assets in the course of construction, which related to building work at the headquarters in Heek that had not yet been finished as of the balance sheet date.

Financial assets of EUR 0.4 million (previous year EUR 0.4 million) essentially include the holding in 2G Cenergy Inc. Florida, USA which were shown on the balance sheet in accordance with the equity method.

The value of raw materials and supplies of EUR 25.0 million (previous year EUR 15.7 million) generally corresponds to the inventory and supplies required by an operational production and service business. Stocks expanded temporarily as a result of a special purchase transaction involving engines and will fall significantly again as a result of on-going production and sales activity. Since standard goods are involved, the inventory risk is low. Work in progress assessed with due diligence amounted to EUR 12.7 million as of the balance sheet date (previous year EUR 20.5 million). Payments received on account of EUR 9.2 million (previous year EUR 19.8 million) were offset against orders in progress.

Customer payments rose to EUR 23.3 million, against EUR 20.5 million in the previous year. Prior to that Associated Companies figures rose from EUR 0.2 million to EUR 2.2 million. Amounts due from overall solvent customers are intact. The internationalisation of business activity resulted in a change in the previously extremely convenient payment terms and general payment history. By way of precaution, 2G increased credit rating monitoring and debtor management. Other assets of EUR 1.5 million (previous year EUR 3.3 million) are tax rebate claims from current sales activity. Whilst working capital, the balance from current assets less short-term liabilities, has remained constant at EUR 30.1 million (previous year EUR 25.3 million), the capital commitment structure, compared with the balance sheet date in the previous year, has shifted significantly as a result of the transformation of the 2G group into an international player in the combined heat and power generation market.

The equity of the 2G Group as of 31 December 2012 was EUR 47.8 million (previous year EUR 38.2 million) and the equity ratio improved to 50.4 % as of the closing date (previous year 45.3 %).

Obligations and potential risks established on their merits, in respect of warranties, for example, were considered in accordance with the principle of due diligence when creating tax provisions (EUR 1.4 million) and other provisions (EUR 8.5 million). Due to the rally at the end of 2011, project-related provisions were unusually high in the previous year (rectification work and outstanding invoices).

Liabilities and payments received on account totalling EUR 20.4 million were at the same level as in the previous year and resulted in particular from the delivery and service process. Bank loans and overdrafts of EUR 10.3 million constituted loans for co-financing the expansion of business operations at the headquarters in Heek and vehicle financing and were backed by standard bank collateral security. Sufficient lines exist at banks for standard bank sureties, guarantees and credit terms and as a potential cash reserve. Other liabilities of EUR 6.3 million result essentially from current wages and tax liabilities.

Overall statement on the economic situation

Economic uncertainties, flagging country ratings and difficulties due to weak public finances in some EU countries barely affected the economic and financial development of the 2G Group. The international market potential of combined heat and power generation from biogas and natural gas is huge and the significance of combined heat and power generation in the energy mix is becoming increasingly important as a result of decentralisation, ability to regulate, control and plan as well as efficiency and profitability of energy supply.

In summary, business trends, the position and results of the 2G Group have been positively influenced by the macro-economic situation and trends in the global energy markets. International energy policy characterised by reductions in subsidies emphasised the profitability of combined heat and power generation compared with other forms of energy production. The economic growth and financial position were assessed as satisfactory by the Board of Directors.

F. Non-financial performance indicators

Investments

The 2G invested a total of EUR 7.6 million in fixed assets in 2012 which corresponds to double the amount in the previous year. Consequently, the 2012 investment ratio based on total revenue was 5.2 % compared to 2.2 % in the previous year.

Investments were made particularly in expanding production capacities in St. Augustine, Florida, USA and at the company‘s headquarters in Heek. These proactive measures are already taking account of the expected future global growth and the standardisation and optimisation processes introduced. The commissioning of the modern production facilities at the turn of the year 2012/2013 will provide capacities that will be enough to double Group turnover (basis 2012).

Research and development

Open up future prospects through innovation

2G has developed a leading technological position in the market for combined heat and power generation systems in the output class from 20 kW to 2,000 kW in recent years through consistent and intensive research and development efforts. This is ultimately embodied in the thermal and electrical efficiency of the combined heat and power generation systems, which are among the highest in the international field of competition. Customer benefits lie in the efficiency, availability and useful life of the combined heat and power generation systems, which guarantee high profits and thus short investment amortisation periods. For 2G, the highest levels of efficiency, fewer maintenance costs and a long service life of combined heat and power generation systems mean greater value creation and important specialist know-how. With the latter, 2G is now in a position to direct its biogas and natural gas combined heat and power generation systems towards future requirements, such as

controllability for production, in accordance with the needs and the capacity for integration of combined heating and power generation systems into virtual power stations via control options. In addition to optimising the mechanics of combined heat and power generation systems, control electronics and software development are also particular focuses of R&D work at 2G. The factory-owned test benches are unique in terms of their size, equipment and functionality. Mechanics, electronics and peripheral system components are rigorously tested here and optimally configured before they are ready to be marketed for sale following final field tests.

The competent in-house development company, 2G Drives GmbH, continued to push research into 2G Group in-house developments in the preceding financial year and the further development of bought-in standard components. 2G sets itself apart from all other competitors through its technology and IT-driven research work into CHP systems that are optimised in terms of performance and integration.

In 2012, following a development period of two and a half years, 2G introduced the agenitor 406, a CHP system in the 250 kW class for operation using natural gas or biogas. Electrical efficiency of 42.5 % makes it one of the most efficient CHP systems in its class. At the end of the financial year, 2G presented a CHP module with an electrical output of 20 kW. The newly developed CHP G-Box 20 is a highly efficient provider of power and heat with an overall efficiency of 105 %. Natural gas in groups H and L or biomethane and liquid gas can be used as fuels.

2G Drives was involved as an associated undertaking with a CHP with an electrical output of up to 120 kW in a project piloting the use of hydrogen. ‚Green‘ hydrogen was used as a fuel for the first time. The 2G module achieved electrical efficiency of 41 %. By adapting the highly-developed engine technology to the hydrogen fuel, 2G gathered important experiential data in this still young area of technology and positioned itself as a qualified technology provider. However, development in this field is still in the early stages. In the search for storage options for fluctuating renewable energies, power to gas technology using hydrogen may be a profitable market in the future.

The management of 2G Drives GmbH secured the services of two well-known experts for the development of gas engines at the headquarters in Heek. As minority shareholders, they are a permanent part of the company‘s structure. 2G invested approx. EUR 1.6 million in research and development across the Group in 2012.

Protection of the environment and health and safety at work

2G is committed to environmental and climate protection

The 2G Group has committed to comply with the most stringent health, safety and environmental standards over and above statutory requirements. Great emphasis is placed on all employees and companies working for the 2G Group being aware of and complying with standards, legislation and formalities in respect of health and safety and protection of the environment. This also applies to development and production as well as to the life cycle of CHP units along with service and maintenance. The management, information and safety system implemented by the Board of Directors of 2G Energy AG guarantees that these targets will be reached.

The bases for day-to-day conduct are:

- the Protection of Health and Safety document and Accident Prevention Regulations in accordance with the corresponding European Union legal requirements and guidelines,
- 2G Energy AG internal guidelines on Human Resources Management and Development, employee suggestion scheme, addiction prevention, maintenance and repair and waste management.

With the key points: Risk identification (optimisation of procedures) documentation and communication, if a course of action that leads to consistent improvement of activities is established.

High quality standards across all areas of 2G Energy AG are a decisive factor in guaranteeing success and customer satisfaction.

Order position and trends in costs and prices

Consistent orders in hand

2G orders in hand represented approx. EUR 53 million as of 30 April 2013, the same level as in the previous year. The foreign share of orders was 30 % on the closing date indicated. Natural gas operated CHP (91) systems had a 45 % share of orders in hand and biogas operated CHP systems (103) a 55 % share. In terms of the quality of orders in hand, it should be noted that more system/complete solutions were in demand, which generate a higher average order volume and consequently 2G was clearly able to demonstrate its unique selling features and competitive advantages.

Customers' sensitivity to the prices of service packages offered by 2G tended to disappear. The profitability of investments in CHP can clearly be calculated and 2G as a quality manager, system supplier and service provider guarantees customers a high level of investment, installation and operational reliability.

Prices dipped slightly on the procurement side; firstly as a result of relaxed raw material markets, secondly as a result of greater purchasing advantages in the wake of a central purchasing structure and a more substantial negotiating position in the case of larger order quantities.

Employees

Attractive employer

We are convinced that committed, competent and loyal employees are one of 2G's key strengths. The high level of identification on the part of our employees with our products and services are key elements of the Company's success. The training and further training of our workforce both in technical and commercial areas of the company is therefore valued highly. Early responsibility and varied career opportunities, also internationally, mean that the 2G Group offers its employees attractive career development opportunities. The Company will therefore be able to satisfy most of its future requirements in terms of qualified, well-trained employees and managers from within its own ranks. Furthermore, 2G is committed to canvassing schools and colleges for the best people. 2G offers young academics the option of anchoring their dissertation to work experience in the area of research and development and software. Consequently, 2G positions itself on the market as an attractive employer interested in technology and the environment with a successful international business model by offering a large number of initiatives. And this approach has proven successful: 2G employs over 60 engineers, most of them young.

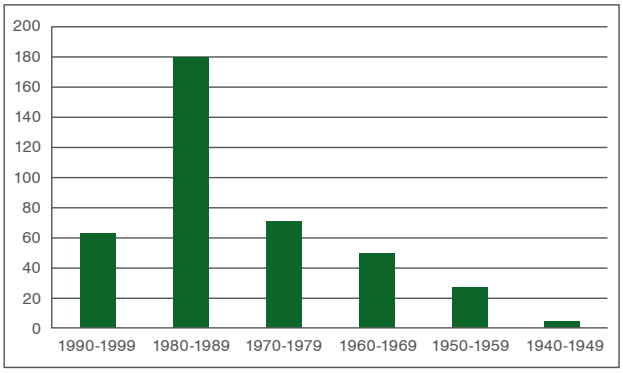
As of 31 December 2012, the Group had 425 employees (previous year 303 employees) of which 31 were part-time (previous year 30 employees). Due to the expansion of production and the enlargement of the service units associated with CHP systems, 2G appointed 132 new employees in production and management to strengthen the structures in order to meet further growth targets.

The distribution over the individual Group companies can be seen from the table below:

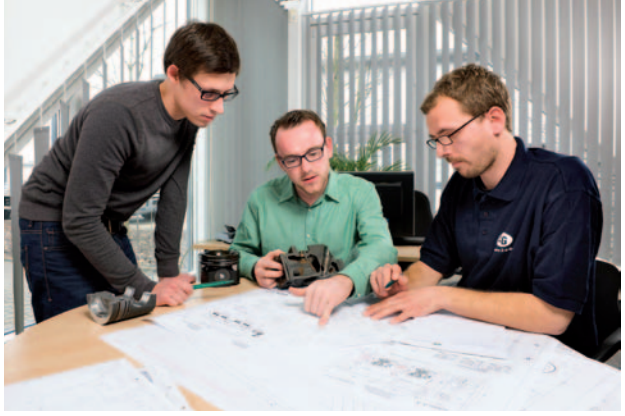
	Number of employees	of which trainees	of which part-time workers
2G Energietechnik GmbH	361	25	28
2G Home GmbH	8	1	1
2G Drives GmbH	28	0	2
2G Solutions GmbH	5	0	0
2G Italia Srl	12	0	0
2G Polska Sp. Z o.o.	2	0	0
2G Energy Ltd.	2	0	0
2G Energy AG	4	0	0
2G Manufacturing	13	0	0
TOTAL	**435**	**26**	**31**

Investment in the employees of tomorrow

Every year 2G trains young employees in technical and commercial trainee positions as junior staff. Consequently, it fulfils its regional and social responsibility to offer young people good job prospects. 2G trained 26 young employees in 4 different job profiles during the reporting year. Also for the first time in 2012, a trainee was offered a dual course of study in the electrical engineering department. All the trainees who completed their training were also offered an employment contract.



Age structure of 2G Group companies (Germany)/number per year



G. Events after the reporting period

Events after the balance sheet date

2G reached a strategic cooperation agreement with De Dietrich Remeha GmbH as a member of the BDR Thermea Group, which is represented in over 70 countries as a specialist in gas boiler technology and technology leader in this segment, for natural gas operated, heat-operated useful heat/CHP systems. The aim of this agreement is the sale and distribution of CHP units in the mid thermal output range from 20 to 100 kW to customers in Germany, the United Kingdom and the Benelux countries. Customers will be offered an energy-efficient solution for natural gas operated combined systems through a tailored full system. 2G will supply the technological components and Remeha will bring its market know-how and sales potential to the cooperation table. In this respect, the partners, whilst continuing to act independently, will each benefit from the wealth of know-how of the other.

In April 2013, 2G introduced its newly developed CHP unit, avus 500 plus, with an electrical output of 550 kW and efficiency of 42.6 % for the first time at the Hanover Trade Fair. The avus 500 plus' water-cooled, turbo-charged 12-cylinder spark-ignition petrol engine was developed in-house and is configured for natural gas and biogas applications, but can also be operated using synthetic gas containing hydrogen. The avus 500 plus represents a milestone in the consistent implementation of the development strategy and is impressive thanks to its electrical efficiency, overall efficiency and not least due to the fact that it is maintenance-friendly and compact.

H. Corporate responsibility

Risk report

Risks are inherent in any action a company may take. The aim of 2G risk management is to identify risks at an early stage and minimise them by taking appropriate steps. At the time of producing this report, the management was not aware of any risks that could jeopardise the continued existence of the 2G Group.

Management of risk and opportunities

2G is involved in business across the world and is therefore exposed to a number of external and internal influences. Consequently, every corporate decision is made against the background of the respective associated risks and opportunities. Risk management activities are designed to help with the early identification, assessment and control of risks and to minimise them by taking appropriate counter-measures.

The Board of Directors, the managing directors of all 2G companies and the competent heads of department are all defined as risk managers in the company-wide risk management process. These risk managers reassess the areas they are responsible for at regular intervals and their risk situation and report any risks identified to central risk management. All risks are assessed on the basis of how likely they are to occur and their potential financial impact. Building on this information, the current risk portfolio of the Group and the individual companies is determined and made available to management. Significant changes in the assessment of known risks as well as new significant risks are reported immediately. Deliberate and controlled handling of opportunities and risks is therefore a central management element in the 2G Group. 2G has recognised and accepted new challenges and opportunities resulting from internationalisation and through the expansion of its production depth. The consistent saving of resources and the increase in efficiency of 2G modules has led to improved profitability and greater customer benefits. Consequently, the consistent orientation of development and production towards environmental and climate interests can provide and open up new attractive market opportunities worldwide for the 2G Group.

Business-related risks

Total revenue and profit of the 2G Group is based on a large number of markets across the world and the different 2G products in various output classes and areas of application. This diversification should contribute towards minimising risks since the international markets are different in terms of their structure and economic cycles. It is also

an expression of the 2G strategy to be an internationally acting company that is independent from national legislation. 2G also integrates its risk management into the processes involved in sustainable business planning. Potential negative developments, such as changes in customer demand or changes in political and legal framework conditions, are described and assessed in the risk report. This means that counter measures can be taken early in the event of events that deviate from plans. This analysis also influences investment and expansion projects.

Political and regulatory risks

As an internationally active company, 2G is exposed to political and regulatory changes in many countries and markets. A trend towards actively promoting alternative and renewable energies began in 2011 after Fukushima, with the commitment to phase out nuclear power in many countries. However, this trend stalled in some countries due to the euro crisis and the associated ailing economy. Uncertainties in the statutory provisions for promoting CHP systems may have a negative influence on the profitability of 2G products as well as delay or even jeopardise the success of market developments and the sale of new systems. Close communication with decision-makers in the world of politics and active measures to explain the advantages of CHP technology serve as steps towards preventative risk control. The destabilisation of political systems and the potential setting up of trade barriers as well as changes to currency policy may also lead to sales problems in certain countries and regions. It should be possible to reduce the potential negative impact by diversifying the regional sales markets.

Research and development risks

Innovation has been a key element of the 2G corporate strategy from the outset with a view to setting it apart from its competitors. This is associated with the hidden risk that research and development projects may be delayed, anticipated budgets exceeded or targets not met. On-going research and development projects are monitored permanently for this very reason, discussed regularly and reorganised where appropriate. Decisions regarding investment in new technologies, for example, are made such that the risks are kept as low as possible.

Risks in terms of the quality and availability of products

As a producer of complex technical systems, 2G is exposed to greater product liability risks. On-going quality controls along the entire value creation chain minimise these risks. This starts with the qualification of our suppliers and continues with comprehensive quality requirements for the materials and semi-finished products used, as well as long-term strategic cooperation in the case of preliminary products and an HR policy which is strongly geared towards quality awareness.

Financial risks

As an internationally active company, 2G is exposed to various financial risks. These are primarily liquidity, default risks, currency and market price risks.

In order to ensure its continued existence, a company must be able to fulfil its commitments from operational and financial activities at all times. 2G therefore manages its net current assets across the whole Group centrally through 2G Energietechnik GmbH in Heek.

Default risks may arise both in connection with financial investments, borrowings and financing commitments as well as with receivables in business operations. The impact of the financial crisis in the eurozone continues to entail an increased risk of non-payment. 2G therefore carefully checks all positions of customers and trade partners in the individual companies and, where required, takes precautions against the risks of non-payment. 2G minimises these risks through its active advance payment policy. Only a few significant financial transactions involving credit risk are concluded and only with banks with a good credit rating. Moreover, the 2G Group has extremely good liquidity which significantly reduces its dependency on lenders. Nevertheless,

non-payment on the part of individual trading partners cannot be fundamentally excluded, even if they have an excellent credit rating.

The euro has been the definitive currency in the 2G Group to date. With a few minor exceptions, invoicing and goods procurement have not been associated with any noteworthy currency risks. The Company will inevitably be subject to currency and interest risks in the future as it increases its international presence and business activities in various currency and interest regions. As a result of its global group structure and the associated financial transactions and receivables and payables from business operations as well as future expected payment streams from sales and costs in foreign currencies, 2G will also be affected by these market price risks. 2G plans to minimise any currency risks or financing costs caused by fluctuations in exchange or interest rates. Financial transactions, outstanding debts and payables from operations should essentially be conservatively covered.

Legal risks

2G is also exposed to litigation risks. These include risks in the areas of product liability, competition and antitrust law, patent law and environmental protection. As a research-based technology company, 2G has a growing portfolio of industrial property rights, such as patents and brand names. These can become the target of attacks and infringements. 2G generally strives to minimise and manage all legal risks.

Insofar as possible and practical, the company limits liability and damage risks through insurance coverage, the type and scope of which are continually adjusted to current requirements.

Human resources risks

The future success and growth of all 2G companies is highly dependent on its employees. Therefore the competence and commitment of employees in all areas of the company in which 2G operates are crucial to its success.

The regional talent markets relevant to 2G are characterised by intensive competition. Competition is additionally intensified by the scarcity of qualified specialists in the sectors in which 2G operates and by demographic challenges in the global markets. Therefore sourcing, recruiting and retaining key specialists and talents within 2G is one of the key priorities for the Company. 2G is extremely committed to training its own staff and recruiting qualified specialists to oversee training.

Information technology risks

IT risks with an impact on the business result occur when information is unavailable or incorrect, unintentionally disclosed or when mapped processes have been implemented in IT systems in a way that is too inflexible, too complex or illegal. Security gaps and insufficient emergency planning measures can quickly become incidents that affect the entire company.

Data protection violations owing to incorrect authorisations create a negative external impression. The increasing dependency on IT as well as the growing interconnectivity of IT landscapes make it necessary for companies to invest heavily in maintenance and enhancement. As the complexity of the IT landscape increases, so do the potential risks in spite of efficient processing and mapping. Significant risk scenarios for 2G include the failure of central IT systems, the publication of confidential research and development and business development data as well as the manipulation of IT systems.

2G ensures the required availability of business-critical systems and access to business-relevant data through redundant configurations of technical components, networks and sites, as well as suitable, tested contingency measures. Appropriate organisational and technical precautions for access control, access rights, virus protection and data protection further limit these risks. A dedicated process ensures that IT risks are evaluated and appropriate measures taken. Based on the measures taken, we can assume that the likelihood of a serious IT risk occurring is low.

Environmental and safety risks

2G is a company with production operations and is exposed to risks of possible damage to people, goods and its image. We minimise the risks to people and the environment by auditing, advising and training in matters of environmental protection as well as occupational health and safety. Safety officers manage these risks both at individual sites and on our customers building sites to protect the Company‘s interests. 2G ensures the preservation of its goods and assets by adhering to high technical standards, strict codes of conduct, and all legal requirements for environmental protection and occupational health and safety.

Overall statement on risk situation

The management is geared towards organisational and primarily financial stability with a deliberate risk strategy and an eye out for opportunities, quick action and readiness for deviations from plans. There are currently no risks jeopardising existence and none have been identified for the future.

The Company has the capacity to withstand risks on account of the available and potential financial reserves, good balance sheet ratios and a sophisticated insurance concept. The corporate opportunities outweigh the potential risks.

I. Forecasting report

The German Council of Economic Experts has been rather sceptical about the economic outlook in its annual report. The future prospects for the global economy depend centrally on the development of the crisis in the eurozone and the resulting impact on demand and the financial markets. Economic risks also remain in the USA. The IfW is assuming that the expansion rate of the global economy will increase again in 2013 and achieve GDP growth of 3.4 %. The economic experts are predicting slightly improved growth in the global economy of 4.0 % in 2014.

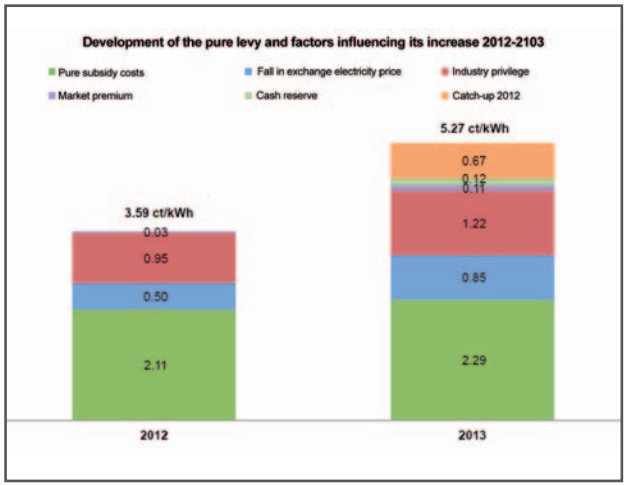
The IfW is predicting only a moderate recovery in the eurozone since the structural adjustment processes in the crisis countries and the sustained consolidation of public budget have continued to slow down the economy. Assuming that the uncertainties surrounding the stability of the European banking sector and the progress of the sovereign debt crisis diminish, the IfW is anticipating a fall in GDP of 0.2 % in 2013. The economic experts are forecasting consolidated recovery and GDP growth of 1.0 % in 2014.

The IfW is anticipating that the Germany economy will swing towards a consolidated path to expansion in 2013, characterised by the recovery of investment activity. Following an increase in GDP of 0.6 % in the current year, the IfW is anticipating the consolidation of economic growth in 2014. The German economy could profit from the favourable monetary framework conditions and relenting recessionary trends in the rest of the eurozone. The economic experts are assuming GDP growth of 1.5 % in 2014.

Future energy supply

The corporate consensus concerning the required change of direction towards a reliable, affordable and environmentally compatible energy supply based on renewable energies remains unchanged. However, the discussion surrounding the costs of the energy turnaround shows, that we need an integrative concept involving conventional power stations, but with priorities for the characteristics of renewable energy for a transitional period. In its current version, the EEG is not suited to this, but instead leads to significant distortions.

The actual subsidisation costs for developing renewable energies rose from 2.11 cents in the previous year to 2.29 per kilowatt hour in 2013. However, the total EEG levy increased from 3.59 cents per kWh to 5.27 cents per kWh, of which pure subsidisation costs only carried a share of 11 %. Considered in absolute terms, their share in the levy dropped from 58.8 % in the previous year to 43.5 % in the current financial year. The EEG levy is therefore no longer an indicator of the development of renewable energies. Factors, which, if at all, are only indirectly connected to the development of renewable energies, such as industrial development, are essentially responsible for the big increase in the EEG levy.



Development of the pure levy and factors influencing its increase 2012-2103
Source: BEE background to the EEG levy, 26 October 2012

The EEG has fulfilled its role as legislation promoting technology. We need a new approach. Renewable energies now constitute almost a quarter of the market. They have become part of this market and should therefore no longer be considered separately from the market. This also means, however, that they must produce for the market and not beyond the market. This requires market-aimed management and the steadying of the energy output from renewable energies. We need flexible power stations and storage for this – an enhancement of the EEG must focus on this.

The proposals made by the Federal Minister for the Environment to the Federal government in mid-February regarding the dampening of the costs of renewable energies were just as unsuitable for this as the new provisions of the EEG 2012 for biogas plants were. Even more important, however, is the argument that renewable energies have shown in recent years that their contribution leads to lower electricity prices on the stock exchange. This is because fossil fuels are expensive, harmful to the climate and finite. The efficiency of such fossil power stations is low and operations are only configured for basic load and are less flexible.

Combined heat and power generation (CHP) in particular will then play a noticeably bigger role in the course of the global energy turnaround if it can secure a larger share of power supply through greater efficiency. CHP therefore represents an ideal supplementation to or even an efficient replacement of the previously dominant large-scale power stations within the energy supply industry. We are noticing moves towards decentralised CHP systems not just in Germany. We are also seeing dynamic growth in the North American CHP market, for example. 2G is prepared for this expected change in the market thanks to its successful R&D work involving a successful track record in engine development and an increase in efficiency.

Biogas forecast

We anticipate that the boom in biogas systems is finally over due to modified subsidy terms and conditions, high substrate prices and declining public acceptance in Germany. CHP system heating concepts will move into focus in the case of both and existing new biogas systems. Most modern biogas systems now have a heating concept. The decentralised and regional structure presents a series of economic opportunities for system operators among suitable consumers which have a high heating requirement all year round. Swimming pools, saunas, gyms and schools, hospitals, wood drying plants and greenhouses, for example, are potential heating customers. Although the biogas systems are often not directly adjacent to the heating consumers, so-called ‚satellite CHPs,‘ which are connected to the system via a biogas pipeline, can be installed on or in the consumer property.

A breakthrough into the heating sector by renewable energies is imminent. Since we use approx. half our energy consumption on heating, there is great potential here for renewable energies. In spite of the amendment to the German Renewable Energies Heat Act (EEWärmeG) 2011, the roll-out of renewable energies into existing buildings, which include 85 % of all residential and commercial properties in Germany, is not happening quickly enough. A large market for CHP systems would open up as result of their flexibility in terms of raw material, their size and their profitability. In the light of the current framework conditions, however, it appears

doubtful whether it will be possible to achieve the Federal government's target of a share of 14 % of renewable energy in heat consumption by 2020.

Attractive US market

Natural gas prices remain relatively cheap due to large shale gas deposits. At the same time, we are assuming that electricity prices will continue to rise. The spread between natural gas and electricity prices should continue to develop favourably for the profitability of 2G products in the USA. According to US subsidiary company estimates, the market will develop from a market characterised by biogas into a market that relies more heavily on natural gas over the next two years. In 2014, the ratio may shift to 65 % biogas and 35 % natural gas. Relatively cheap natural gas opens up the market for natural gas operated combined heat and power generation systems. 2G is anticipating growth in line with market growth in the USA. 2G is also able to respond quickly to increased demand as a system supplier with German technology which is assembled in St. Augustine, Florida (‚plug and play').

Sales and profit forecast for the 2G Group

As an internationally aligned and diversified CHP manufacturer and system supplier, 2G will use and develop its market strengths particularly in the output range between 20 kWe and over 2,000 kWe. All forecasts for 2G are made by weighing up the risks and opportunities in the individual Group areas according to operational planning and medium term assumptions. Special effects, such as far-reaching changes to individual national legislation, are only taken into account if reliable information on the likely occurrence of these positive or negative effects is available. The 2G Group does not take speculation into account in its forecasts. The forecasts assume moderate growth in energy and raw material prices as well as rising staff costs. Although 2G is globally active, the Group as a whole was only exposed to minor exchange rate risks in the preceding financial year. In many cases, the invoicing of purchases and sales is accepted in euro. Forex trading lines are available at banks for exchange rate hedging if needed.

The conversion process for 2G that has already been described will continue in 2013. In addition to the stabilisation and development of existing market shares, the first noteworthy successes will be registered with acquisitions in individual customer business. Primarily decentralised, climate-friendly and highly efficient local heating concepts will be implemented through the use of modern natural gas operated CHP systems. Business with the large number of district and regional energy providers, but also with the four major energy providers will characterise the national business of 2G in the future. In our opinion, the blueprint of the German energy turnaround will be used as a model for future implementation in other countries. At the same time, the structures and processes in the 2G Group will be adjusted for further international growth, the optimisation of production and the expansion of production depth as well as the permanently changing market conditions and customer requirements.

Stable growth will continue during the current financial year

2G orders in hand represented approx. EUR 53 million as of the end of April, the same level as in the previous year. Approx. 25 % of turnover is set to be generated through the further international development of customer service. 2G will develop the US market in the current business year into the strongest international sales market outside Germany. Further market impulses are expected in Germany following the Bundestag elections in September 2013. The Board of Directors is assuming Group turnover of EUR 160 million and an EBIT margin in the low double digit range. Targets for 2013 are the above-average development of 2G international market shares in the fossil and regenerative energy market for CHP systems, R&D expansion and consolidation of the unique selling features.

2G has an optimistic outlook for the future. With the expansion of capacity completed in April 2013 at the company headquarters in Heek (factory workshops 5 and 6) and the current optimisation and standardisation processes, 2G will be in a

position to double turnover on this 2012 basis over the next decade and further increase the EBIT margin by reducing the cost of materials quota in particular.

There are grounds for optimism since CHP will be a crucial building block in future international energy supply through biogas and increasingly through natural gas operated CHP systems. The German energy turnaround is complete and will serve as a blueprint for other countries, the role of biogas in the energy mix of the future will move in the direction of electricity feed-in/ marketing tailored to requirements and a more significant contribution to heat supply. The highly efficient CHP technology is ready to cope with the increased requirements of supply reliability in compliance with the market and decentrally (CHP mechanics and software). New-generation CHP systems as developed and produced by 2G are predestined for integration in the installation and development of virtual power stations. They are an integral part of the energy turnaround.

Heek, 16 May 2013

Christian Grotholt
Chairman of the Board of Directors

Ludger Holtkamp
Member of the Board of Directors

Consolidated balance sheet of 2G Energy AG

Assets	31 Dec. 2012	31 Dec. 2011
	EUR	EUR
A. Fixed assets		
I. Intangible assets		
1.) Concessions acquired against payment, industrial property rights and similar rights and assets, and licences in such rights and assets	586,162.16	451,885.11
2.) Goodwill	5,273,132.85	5,636,598.02
3.) Advance payments	1,219.50	0.00
	5,860,514.51	**6,088,483.13**
II. Fixed assets		
1.) Land, similar rights and buildings including buildings on land owned by others	8,114,593.37	4,415,720.79
2.) Plant and machinery	941,909.28	444,715.95
3.) Other factory and office equipment	5,028,211.90	3,481,684.08
4.) Payments on account and assets in the course of construction	499,495.53	0.00
	14,584,210.08	**8,342,120.82**
III. Financial assets		
1.) Participating interests in associated undertakings	381,309.33	343,161.16
2.) Other participating interests	10,000.00	14,000.00
3.) Securities held as long-term investments	1,286.00	3,632.00
	392,595.33	**360,793.16**
Total fixed assets	**20.837,319.92**	**14,791,397.11**
B. Current assets		
I. Stocks		
1.) Raw materials and supplies	24,987,293.93	15,734,212.00
2.) Work in progress: goods and services	12,710,164.10	20,516,720.09
3.) Finished goods and goods purchased for resale	1,859,530.66	629,018.26
4.) Payments on account	1,007,684.29	1,745,073.22
5.) Advance payments received from customers	-9,185,784.75	-19,784,481.74
	31,378,888.23	**18,840,541.83**
II. Debtors and other assets		
1.) Trade debtors	23,285,176.14	20,503,172.93
2.) Amounts owed by associated undertakings	2,244,702.24	234,754.97
3.) Other assets	1,479,498.97	3,275,686.09
	27,009,377.35	**24,013,613.99**
III. Short-term investments		
Other short-term investments	**325,247.77**	**295,247.77**
IV. Cash in hand and bank balances	**14,093,219.84**	**25,620,313.28**
Total current assets	**72,806,733.19**	**68,769,716.87**
C. Prepaid expenses	352,380.49	343,815.27
D. Deferred taxes	745,785.13	301,516.69
Total	**94,742,218.73**	**84,206,445.94**

Equity and liabilities	31 Dec. 2012	31 Dec. 2011
	EUR	EUR
A. Equity		
I. Subscribed capital	**4,430,000.00**	**4,430,000.00**
II. Capital reserve	**11,235,300.00**	**11,235,300.00**
III. Difference in equity arising from currency conversion	**2,430.06**	**220.59**
IV. Consolidated net earnings	**31,836,975.49**	**22,050,839.79**
V. Adjustment items for shares held by other partners	**249,595.68**	**460,217.66**
Total equity	**47,754,301.23**	**38,176,578.04**
B. Provisions		
1.) Tax provisions	1,419,135.21	3,243,519.40
2.) Other provisions	8,459,712.99	11,898,749.78
	9,878,848.20	**15,142,269.18**
C. Liabilities		
1.) Bank loans and overdrafts	10,344,462.20	3,301,397.54
2.) Advance payments received from customers	9,634,692.87	8,948,942.97
3.) Trade creditors	10,754,282.30	13,393,057.57
4.) Amounts owed to associated undertakings	61,437.62	8,566.82
5.) Other liabilities	6,314,194.31	5,235,633.82
	37,109,069.30	**30,887,598.72**
Total	**94,742,218.73**	**84,206,445.94**

Consolidated profit and loss account of 2G Energy AG

	01 Jan. to 31 Dec. 2012	01 Jan. to 31 Dec. 2011
	EUR	EUR
Net sales	**146,484,870.91**	**167,321,218.16**
+ Decrease (previous year increase) in finished goods and work in progress	7,329,932.42	9,071,335.42
+ Other own work capitalised	10,303.76	20,000.00
+ Other operating income	1,522,238.11	415,478.64
	140,687,480.36	**176,828,032.22**
– Cost of materials		
a) Cost of raw materials, consumables and goods for resale	74,731,653.11	110,677,219.96
b) Cost of purchased services	16,337,331.24	22,173,529.28
	91,068,984.35	**132,850.749,24**
– Staff costs		
a) Wages and salaries	14,014,929.94	9,755,954.08
b) Social security, pension and other benefits	2,958,430.17	1,989,564.78
	16,973,360.11	**11,745,518.86**
– Amortization and depreciation of fixed intangible and tangible assets	1,858,660.80	1,338,402.64
– Other operating expenses	14,233,566.00	11,444,401.92
	16,552,909.10	**19,448,959.56**
+ Income from participating interests in associated undertakings	38,148.17	89,300.87
+ Income from other participating interests	600.00	1,000.00
+ Other interest and similar income	192,654.32	238,008.79
– Amounts written off long-term financial assets and current securities	0.00	5,408.00
– Interest payable and other similar charges	278,467.54	257,548.80
	47,065.05	65,352.86
Profit on ordinary activities	**16,505,844.05**	**19,514,312.42**
– Tax on profit, of which deferred taxes: EUR -152, 964.66 (previous year EUR -136,057.52)	5,080,697.13	5,877,649.70
– Other taxes	90,533.20	34,563.98
	5,171,230.33	5,912,213.68
Consolidated profit for the financial year	**11,334,613.72**	**13,602,098.74**
± Share of profit applicable to other shareholders	90,621.98	407,958.33
Consolidated profit	**11,425,235.70**	**13,194,140.41**
Consolidated profit earned	22,050,839.79	8,856,699.38
Dividend payment	1,639,100.00	0.00
Consolidated net earnings	**31,836,975.49**	**22,050,839.79**

Notes to the consolidated financial statements of 2G Energy AG

A. General information about the consolidated financial statements

1. Basic information

2G Energy AG is a public limited company under German law. The Company‘s shares are traded unofficially at entry standard on the Frankfurt Stock Exchange (FWB) operated by Deutsche Börse AG and consequently not on an organised market.

The Company is entered in the register of companies held by the Coesfeld District Court (HRB No. 11081) and has its headquarters at Benzstraße 3, 48619 Heek.

2. Line of business

The Company and its subsidiaries essentially plan and install combined heat and power systems and other systems for the recovery or efficient use of electrical energy, and provide after-sales services associated with CHP systems. One subsidiary is responsible for optimising gas engines and manufacturing and marketing petrol spark-ignition engines.

3. Accounting principles

The consolidated financial statements of 2G Energy AG as of 31 December 2012 were prepared in accordance with Article 290 et seq. of the German Commercial Code, the supplementary regulations in the German Companies Act and the supplementary provisions in the Articles of Association.

The regulations for public limited companies within the meaning of Article 264 et seq. of the German Commercial Code, the relevant provisions in the German Companies Act and the provisions pursuant to Article 290 et seq. of the German Commercial Code in respect of consolidated financial statements apply to the Group‘s accounting.

The functional currency of the Group is the Euro. All amounts are therefore shown in Euro or TEuro. Balance sheet items from foreign companies are converted at the respective exchange rates on the balance sheet date. Equity items are translated at historical rates. Cost and income items are translated at average rates for the year.

B. Consolidation methods

1. Scope of consolidation and details of share ownership

The following financial statements are included in the consolidated financial statements of 2G Energy AG (parent company):

Subsidiary	Share in %	Registered capital in EUR	Equity capital in EUR	Result for the year in EUR	First-time consolidation	Closing date
2G Energietechnik GmbH, Heek, Germany	100.00	1,000,000	2,832,297	0	30 June 2007	31 Dec. 2012
2G Italia Srl Via Niccolò Machiavelli 10 37030 Lavagno (Verona), Italy	100.00	10,000	179,819	54,089	15 March 2011	31 Dec. 2012
2G Energy Ltd. Evan House Sutton Quays Business Park Runcorn WA7 3 HD Cheshire, England	100.00	116	./. 122,533	./. 81,584	19 Sep. 2011	31 Dec. 2012
2G Polska Sp z o.o. 43-300 Bielsko-Biała ul. Piekarska 86/18, Poland	100.00	1,146	./. 86,943	./. 63,472	7 Nov. 2011	31 Dec. 2012
2G Manufacturing Inc. 205 Commercial Drive St. Augustine, FL 32092/USA	100.00	75	./. 243,171	./. 237,063	27 Feb. 2012	31 Dec. 2012
2G Home GmbH, Heek, Germany	90.00	125,000	./. 330,771	./. 401,887	31 Dec. 2007	31 Dec. 2012
2G Solutions of Cogeneration S.L., Anselm Clavé 2 4-3 08500 Vic Barcelona, Spain	90.00	3,006	92,100	7,127	31 Jan. 2008	31 Dec. 2012
2G Drives GmbH, Heek, Germany	80.00	25,000	1,249,549	./. 373,485	24 March 2010	31 Dec. 2012
CENERGY Power Systems Technologies Inc. 205 Commercial Drive St. Augustine, FL 32092/USA	49.00	268,120	654,890	336,940	18 Nov. 2009	31 Dec. 2012

The purpose of the subsidiary companies 2G Energietechnik GmbH, 2G Italia Srl, 2G Energy Ltd., 2G Polska Sp z o.o., 2G Manufacturing Inc., 2G Home GmbH and 2G Solutions of Cogeneration S.L., is the planning and installation of combined heat and power systems, trade in components for CHP systems and after-sales services associated with CHP systems.

The purpose of subsidiary company, 2G Drives GmbH, is the optimisation of gas engines and the manufacture and marketing of petrol spark-ignition engines.

All the companies apart from 2G CENERGY Power Systems Technologies Inc. have to be included in the consolidated financial statements due to the majority of voting rights being held by the parent company rather than the subsidiary companies.

2G CENERGY Power Systems Technologies Inc. is included in the parent company‘s consolidated financial statements ‚at equity‘.

2. Consolidation methods used

Closing date for the consolidated financial statements and companies included

The consolidated financial statements are based on the individual financial statements of 2G Energy AG and the subsidiary companies included. The financial statements are compiled on the closing date, 31 December.

Capital consolidation

Capital is consolidated according to the revaluation method pursuant to Article 301 (1) of the German Commercial Code (HGB). All balance sheet items are shown at fair value on the date of first-time consolidation at subsidiary level. Share acquisition costs are offset subsequently against revalued pro rata equity. The differential amount then remaining from capital consolidation (goodwill) is shown under Assets and, pursuant to Article 309 (1) of the German Commercial Code, is depreciated on a straight line basis over its anticipated useful life of 20 years. The length of depreciation periods depends on the life cycle of the products from acquired companies.

Shares held by subsidiary companies included in the consolidated financial statements which do not belong to the Company are shown under Equity as ‚Adjusting items for shares held by other partners‘.

Consolidation of debts

Debts are consolidated pursuant to Article 303 (1) of the German Commercial Code. In accordance with this legislation, loans, payments on account and other receivables, provisions and liabilities between the companies included in the consolidated financial statements must be eliminated. Offsetting differences arising in connection with the consolidation of debts have been taken into account as affecting net income, if these involve a change in relation to the previous year, otherwise as not affecting income. Minor offsetting differences were recorded in the reporting year.

Handling of interim results

Interim results are eliminated pursuant to Article 304 (1) of the German Commercial Code. In accordance with this legislation, assets which relate fully or in part to deliveries or services between the companies included in the consolidated financial statements, must be shown at an amount at which they could be recognised in the annual balance sheet for the respective company prepared on the closing date of the consolidated financial statements, if the companies included in the consolidated financial statement were to legally form a single company.

The consolidated profit and loss account is adjusted by positive or negative profit contributions from internal group transactions in the context of consolidating income and expenses in accordance with Article 305 of the German Commercial Code.

Consolidation of income and expenses

Income and expenses are consolidated in accordance with Article 305 (1) of the German Commercial Code. The purpose of this is to only show income and expenses in the consolidated profit and loss account according to type and amount which result from business relationships with third parties outside the Group. Consolidation measures only include eliminations.

Equity valuation

This valuation must be performed according to the equity method if a company is interpreted as an associated undertaking. This means that the parent company is able to exercise a significant influence on the commercial and financial policy of the subsidiary company. According to Article 311 of the German Commercial Code, such significant influence should be presumed in the case of participating interests in undertakings and consequently an ‚at equity‘ valuation performed.

Shares in associated undertakings are carried proportionately in accordance with Article 312 of the German Commercial Code. The equity valuation was performed for the consolidated financial statements according to the book value method at the time of acquisition.

C. Details of accounting practices and basic valuation principles

1. Accounting practices

The individual financial statements of 2G Energy AG, the subsidiary companies and the associated undertakings are prepared in accordance with standard accounting practices and basic valuation principles.

The annual financial statements included are prepared in accordance with the regulations set out in the German Commercial Code (HGB) and the German Companies Act.

2. Intangible fixed assets

Acquired intangible fixed assets are shown at acquisition cost and, if they are subject to wear and tear, less scheduled straight-line depreciation.

3. Tangible fixed assets

Tangible fixed assets are shown at acquisition cost, and, if they are subject to wear and tear, less scheduled depreciation. Scheduled depreciation is performed according to the anticipated useful life of the asset and on a straight-line and sliding scale basis. The transition from straight-line to sliding scale depreciation takes place as soon as straight-line depreciation leads to higher depreciation charges.

4. Financial assets

Financial assets are shown at acquisition cost or the fair value on the closing date. If the value of financial assets calculated in accordance with the principles referred to above is higher than the fair value on the balance sheet date, then the value resulting from unscheduled depreciation is taken into account. If the grounds for a lower valuation no longer exist, a value adjustment must be made in accordance with Article 253 (5)(1) of the German Commercial Code.

Shares in associated undertakings are carried proportionately in accordance with Article 312 of the German Commercial Code.

5. Stocks

Raw materials and supplies are shown at acquisition and manufacturing costs or at the lower fair value.

Work in progress: goods and services are shown on the balance sheet at original cost or the lower fair value. In addition to directly attributable individual material and production costs, original costs also include production overheads and general administrative costs provided they can be attributable to production. Interest on outside capital has not been included in the original costs.

Finished goods and goods purchased for resale are shown on the balance sheet at acquisition cost or the lower fair value.

Payments on account are shown at the nominal amount.

Provided **Payments received on account do not** exceed the value of Work in progress: goods and services, they are charged against Work in progress: goods and services on a project-related basis at the repayment amount.

6. Debtors and other assets

Debtors and other assets are shown at nominal value. Account is taken of all risk-entailing items through the formation of appropriate provisions for losses on individual accounts; account is taken of the general default and credit risk through general bad debt provisions.

7. Current-asset securities

Other assets are shown at acquisition cost. If required, the lower fair value on the balance sheet date has been shown in compliance with the strict lowest value principle.

8. Cash in hand, cheques and bank balances

Cheques and bank balances are shown at nominal value.

9. Prepaid expenses

Prepaid expenses are shown at acquisition cost.

10. Tax provisions

Tax provisions include taxes relating to the financial year that have not yet been assessed.

11. Provisions

Other provisions are created for contingent liabilities at their settlement value in accordance with a reasonable assessment and take account of all identifiable risks and contingent liabilities.

12. Liabilities

Bank loans and overdrafts, advance payments received from customers, trade creditors, amounts owed to undertakings with which a holding relationship exists and other liabilities are shown at settlement amounts.

13. Deferred taxes

Deferred tax claims and liabilities have not been offset against each other. An average consolidated tax rate of 30 % has been used to calculate deferred tax assets.

A difference arises as a result of offsetting in the context of capital consolidation which is shown as goodwill. Deferred taxes are not charged on this differential amount (DRS 18 TZ 25).

14. Currency conversion

Items in the annual and consolidated financial statements, which are based on amounts in a foreign currency, are translated at the respective exchange rate on the business transaction date or on the closing date in compliance with the lowest value principle.

D. Notes to the consolidated balance sheet

1. Fixed assets

With respect to trends in assets during the 2012 financial year, please see the corresponding information in the statement of asset additions and disposals. Depreciation per item in the balance sheet for the financial year can also be seen in the statement of asset additions and disposals.

Immediate depreciation of low value assets is included directly under Other operating expenses.

2. Financial assets

Financial assets include participating interests in associated undertakings (TEUR 381), other participating interests (TEUR 10) and securities held as long-term investments (TEUR 1).

The increase in participating interests in associated undertaking, 2G CENERGY Power Systems Technologies Inc., valued ‚at equity‘ is the result of the depletion of the undisclosed reserves arising from the acquisition in the 2011 financial year and the goodwill accrued as well as the pro rata current year‘s result. The goodwill included in the book value of the participating interest was EUR 60,413.38 on the balance sheet date.

3. Stock in hand

Stock in hand amounted to TEUR 31,379 as of the balance sheet date. It includes Raw materials and supplies (TEUR 24,987), Work in progress: goods (TEUR 12,710), Finished goods and goods purchased for resale (TEUR 1,860) and Payments on account (TEUR 1,008).

Advance payments received from customers (./. TEUR 9,186) were deducted from the Stocks item in accordance with Article 268 (5) of the German Commercial Code (HGB).

4. Debtors and other assets

Provisions for losses on individual accounts of TEUR 1,607 and general bad debt provisions of TEUR 148 were formed for trade debtors. The residual term of outstanding amounts and other assets does not exceed one year.

5. Deferred taxes

Deferred tax accruals of EUR 746 are the result of tax losses carried forward (TEUR 320) at 2G Energy Ltd., 2G Polska Sp z.o.o., 2G Manufacturing Inc., 2G Home GmbH and

2G Drives GmbH and eliminated interim profits in stock in hand arising from internal Group deliveries and services as of 31 December 2012 (TEUR 291) and temporary differences in the parent company (TEUR 135). These temporary differences originate essentially from stock in hand and provisions.

It is assumed that it will be possible to realise the tax benefits associated with the losses carried forward over the next two financial years.

Deferred tax liabilities were not posted as of 31 December 2012.

6. Consolidated equity

With reference to trends in consolidated equity during the period 1 January 2012 to 31 December 2012, please see the corresponding information in the statement of asset additions and disposals.

TEUR 31,091 was available to the shareholders for distribution in the reporting year. There were notional dividend payout restrictions in respect of deferred taxes of TEUR 746.

There were no restricted amounts in the individual financial statements of 2G Energy AG.

7. Subscribed capital

Subscribed capital was EUR 4,430,000 at the end of the financial year.

The Company‘s subscribed capital was increased to EUR 3,530,000 prior to the extraordinary shareholders‘ meeting on 9 July 2007 and was divided into 3,530,000 shares each with an arithmetical nominal value of EUR 1.00.

During the course of the extraordinary shareholders‘ meeting on 9 July 2007 a capital increase of EUR 500,000 was agreed in return for a non-cash contribution through the issue of 500,000 new bearer shares.

In a resolution passed at the Annual General Meeting on 2 September 2010, the Board of Directors was authorised to increase the Company‘s subscribed capital during the period until 1 September 2015 with the approval of the Supervisory Board on one or more occasions by up to a total of EUR 2,215,000.00 by issuing new bearer shares in return for cash and/or non-cash contributions.

In a resolution passed by the Board of Directors on 4 May 2010 and the instruction of the Supervisory Board, the Company‘s subscribed capital was increased by EUR 400,000 to EUR 4,430.000 by issuing 400,000 new shares each with a value of EUR 1.00 at the starting price of EUR 9.15 per share.

8. Capital reserve

Capital reserves of EUR 11,240,901 were essentially the result of share premiums from the capital increases in 2G Energy AG made in 2007 and 2010.

9. Other provisions

Other provisions relate essentially to:

	TEUR
Warranty obligations	3,778
Residual work on completed plants/ outstanding invoices	3,248
Obligations to staff	890
Work on financial statements	162
Professional association contributions	319
Annual General Meeting/Annual Report	35
Archiving of business documents	27

10. Liabilities

Bank loans and overdrafts shown are secured in accordance with collateral agreements through collateral assignment on the respective fixed asset and land register entries. Advance payments received from customers are secured through corresponding prepayment guarantees and Trade creditors are secured through reservation of title by suppliers. Liabilities consist of the following:

Residual periods, in EUR (previous year‘s figures in brackets)	Total	Up to 1 year	1 to 5 years	Over 5 years
Bank loans and overdrafts	10,344,462.20 (3,301,397.54)	6,018,132.97 (884,144.50)	4,050,911.41 (1,860,053.54)	275,417.82 (557,199.50)
Advance payments received from customers	9,634,692.87 (8,948,942.97)	9,634,692.87 (8,948,942.97)	0.00	0.00
Trade creditors	10,754,282.30 (13,393,057.57)	10,754,282.30 (13,393,057.57)	0.00	0.00
Amounts owed to undertakings with which a holding relationship exists	61,437.62 (8,566.82)	61,437.62 (8,566.82)	0.00	0.00
Other liabilities	6,314,194.31 (5,235,633.82)	6,314,194.31 (5,085,633.82)	0.00 (150,000.00)	0.00
of which taxes	4,054,474.98 (3,991,701.37)			
of which social security	47,460.41 (49,136.64)			
Total liabilities	**37,109,069.30**	**32,782,740.07**	**4,050,911.41**	**275,417.82**

E. Notes on the consolidated profit and loss account

1. Other information about the profit and loss account

The profit and loss account has been prepared in accordance with the total costs method and organised in accordance with Article 275 (2) of the German Commercial Code (HGB).

2. Net sales

Breakdown of net sales

in TEUR	Domestic	Foreign	Total
CHP	67,003	45,652	112,655
Service + replacement parts	20,640	2,440	23,080
After sales + miscellaneous	10,488	261	10,749
Total	**98,131**	**48,353**	**146,484**

3. Income and expenses not relating to the period

The profit and loss account includes income of TEUR 905 not relating to the period. This income has been posted under Other operating income. Essentially, it includes releases from reserves (TEUR 309), income from the write-off of liabilities (TEUR 195), rebates from previous years (TEUR 211) and insurance compensation (TEUR 113).

The profit and loss account includes expenses of TEUR 947 not relating to the period. These expenses have been included under Other operating expenses. Essentially, they include discounts on accounts receivable (TEUR 369), losses on bad debts (TEUR 244), losses on the disposal of assets (TEUR 71), sales discounts (TEUR 60), consultancy fees (TEUR 40) and sub-contracted supplies and services (TEUR 35).

4. Income and expenses arising from currency conversion

Other operating income includes gains arising from currency conversion of EUR 79,424.47 and Other operating expenses include losses arising from currency conversion of EUR 71,643.55.

5. Deferred taxes

The following items are posted in the profit and loss account:

	EUR
Deferred tax expenses	148,846.16
Deferred tax income	301,810.82
Of which applicable to Losses carried forward (balance)	301,810.82

Due to the loss situations of 2G Energy Ltd., 2G Polska Sp z o.o., 2G Manufacturing Inc., 2G Home GmbH and 2G Drives GmbH, deferred tax income of EUR 301,810.82 was posted in the 2012 financial year based on deferred tax assets on losses carried forward.

The elimination of interim profits from internal group deliveries and services as of 31 December 2012 rendered the capitalisation of deferred taxes of EUR 290,839.21 necessary. At the same time, deferred tax assets of EUR 157,721.82 created in the previous year were released.

Deferred tax expenses of EUR 15,728.77 arose due to the reduction in temporary differences in the parent company.

F. Other information

1. Cash flow statement

Cash and cash equivalents shown in the cash flow statement include cash at banks and in hand less short-term liabilities of EUR 413,223.36.

Cash flow from operating activities was TEUR -8,862 in the reporting year (previous year TEUR 24,648). In addition to profit for the period, it includes depreciation and changes in provisions and working capital.

Cash flow from investment activities was TEUR -7,951 in the reporting year (previous year TEUR -4,244). In addition to payouts for investments in assets of TEUR 7,990, it also includes payments received from the disposal of assets of TEUR 38.

Cash flow from financing activities was TEUR 5,147 in the reporting year (previous year TEUR 473). In addition to payouts to shareholders of TEUR -1,759, it also includes payments received from borrowings of TEUR 7,860 and loan repayments of TEUR -954.

2. Notifications in accordance with Article 20 of the German Companies Act (AktG)

Christian Grotholt and Ludger Gausling notified the Company in accordance with Article 20 of the German Companies Act that they owned over a quarter of 2G Energy AG shares.

Both notifications were sent to the Electronic Federal Gazette on 30 July 2007.

3. Contingent liabilities

There were no contingent liabilities within the meaning of Article 251 of the German Commercial Code (HGB) for third-party liabilities as of 31 December 2012.

4. Other financial commitments

There were other financial commitments in relation to agreements as follows:

In EUR	2013	2014-2016	2017ff.
Servicing agreements	31,300	-	-
Rental agreements	37,200	111,600	37,200
Leasing agreements	86,797	29,848	-
Total	**155,297**	**141,448**	**37,200**

5. Average number of employees during the financial year

The average number of employees according to Article 267 of the German Commercial Code is broken down as follows:

	2012	Previous year
Manual workers	222	124
White collar workers	180	85
Part-time workers	28	28
Total employees	**402**	**237**

This relates to employees of the subsidiary companies.

6. Board of Directors

The Board of Directors is currently composed as follows:

	Period
Dipl.-Ing. Christian Grotholt Businessman, Heek	since 17 June 2007
Ludger Holtkamp Businessman, Heek	since 17 June 2007
Peter J. Bergsteiner Business economist, Heek *	until 31 Dec. 2012

* 2G Energy AG was entered in the Companies Register on 4 January 2013

7. Supervisory Board

The following individuals were appointed as members of the Supervisory Board during the reporting year

	Period
Dr. Lukas Lenz (Chairman) Solicitor, Hamburg	since 17 July 2007
Heinrich Bertling (Vice Chairman) Tax Inspector, Gronau	since 28 Aug. 2012
Gerhard Temminghoff (Vice Chairman) Agriculture Graduate, Vreden	until 28 Aug. 2012
Wiebe Hofstra Senior Manager van der Wiel Holding BV, Drachten/NL	since 17 July 2007

8. Appropriation of profits

The Board of Directors will recommend to the Supervisory Board that it presents the following proposal for the appropriation of profits to the Annual General Meeting for approval.

EUR 1,639,100.00 of the balance sheet profit of EUR 32,544,212.98 shown in the annual financial statements of 2G Energy AG prepared according to the German Commercial Code consisting of profit of EUR 13,267,496.57 and profit carried

forward of EUR 19,276,716.41 will be distributed and EUR 30,905,112.98 will be carried forward to a new account.

9. Remuneration to boards

Remuneration of TEUR 647 was paid to the Board of Directors in the reporting year and TEUR 20 to the Supervisory Board.

10. Auditor‘s fee

Other operating expenses include the fee paid to the auditor posted as expenditure. The auditor‘s fee totalled TEUR 111 and relates exclusively to audit services.

11. Exemption rules

Recourse was made to the exemption in Article 264 (3) of the German Commercial Code (HGB) with regard to the obligation to prepare a management report and publish the annual financial statements for the subsidiary company, 2G Energietechnik GmbH, Heek.

Heek, 16 May 2013
2G Energy AG

Christian Grotholt
Chairman of the Board of Directors

Ludger Holtkamp
Member of the Board of Directors

Statement of asset additions and disposals	Gross book value	Changes arising from currency conversion	Additions	Disposals	Gross book value
	01 Jan. 2012	01 Jan. - 31 Dec. 2012	01 Jan. - 31 Dec. 2012	01 Jan. - 31 Dec. 2012	31 Dec. 2012
I. Intangible fixed assets					
1.) Concessions, industrial property rights and similar rights and assets, including rights in such rights and assets	666,453.56	0.50	329,557.49	21,757.51	974,254.04
2.) Goodwill	7,269,303.32	0.00	0.00	0.00	7,269,303.32
3.) Payments on account	0.00	0.00	1,219.50	0.00	1,219.50
	7,935,756.88	**0.50**	**330,776.99**	**21,757.51**	**8,244,776.86**
II. Fixed assets					
1.) Land, land rights and buildings, including buildings on land owned by others	4,660,373.45	0.00	3,919,125.10	33,078.31	8,546,420.24
2.) Plant and machinery	622,338.47	0.00	542,480.79	0.00	1,164,819.26
3.) Other factory and office equipment	4,648,906.71	-1,758.80	2,667,693.75	197,976.36	7,116,865.30
4.) Payments on account and assets in the course of construction	0.00	0.00	499,495.53	0.00	499,495.53
	9,931,618.63	**-1,758.80**	**7,628,795.17**	**231,054.67**	**17,327,600.33**
III. Financial assets					
1.) Participating interests in associated undertakings	301,538.10	0.00	0.00	0.00	301,538.10
2.) Participating interests	14,000.00	0.00	0.00	4,000,00	10,000.00
3.) Securities held as long-term investments	28,496.00	0.00	1,286.00	28,496.00	1,286.00
	344,034.10	**0.00**	**1,286.00**	**32,496.00**	**312,824.10**
	18,211,409.61	**-1,758.30**	**7,960,858.16**	**285,308.18**	**25,885,201.29**

Depreciation allowance Total	Changes arising from currency conversion	Depreciation allowance	Revaluations	Depreciation allowance - Disposals	Total Depreciation allowance	Net book value	Net book value
01 Jan. 2012	01 Jan. - 31 Dec. 2012	01 Jan. - 31 Dec. 2012	01 Jan. - 31 Dec. 2012	01 Jan. - 31 Dec. 2012	31 Dec. 2012	01 Jan. 2012	31 Dec. 2012
214,568.45	0.00	182,356.43	498.00	8,335.00	388,091.88	451,885.11	586,162.16
1,632,705.30	0.00	363,465.17	0.00	0.00	1,996,170.47	5,636,598.02	5,273,132.85
0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,219.50
1,847,273.75	**0.00**	**545,821.59**	**498.00**	**8,335.00**	**2,384,262.34**	**6,088,483.13**	**5,860,514.51**
244,652.66	0.00	189,641.52	0.00	2,467.31	431,826.87	4,415,720.79	8,114,593.37
177,622.52	0.00	45,287.46	0.00	0.00	222,909.98	444,715.95	941,909.28
1,167,222.63	25.78	1,077,910.21	0.00	156,505.22	2,088,653.40	3,481,684.08	5,028,211.90
0.00	0.00	0.00	0.00	0.00	0.00	0.00	499,495.53
1,589,497.81	**25.78**	**1,312,839.19**	**0.00**	**158,972.53**	**2,743,390.25**	**8,342,120.82**	**14,584,210.08**
-41,623.06	0.00	0.00	38,148.17	0.00	-79,771.23	343,161.16	381,309.33
0.00	0.00	0.00	0.00	0.00	0.00	14,000.00	10,000.00
24,864.00	0.00	0.00	0,00	24,864.00	0.00	3,632.00	1,286.00
-16,759.06	**0.00**	**0.00**	**38,148.17**	**24,864.00**	**-79,771.23**	**360,793.16**	**392,595.33**
3,420,012.50	**25.78**	**1,858,660.80**	**38,646.17**	**192,171.53**	**5,047,881.37**	**14,791,397.11**	**20,837,319.91**

Cash Flow Statement	31 Dec. 2012	31 Dec. 2011
	EUR	EUR
1. Income for the period	**11,334,613.72**	**13,602,098.74**
2. ± Depreciation of fixed assets	1,858,660.80	1,343,810.64
3. ± Change in provisions	-5,263,420.97	9,783,896.33
4. ± Other non-cash income	-38,148.17	-89,300.87
5. ± Loss/Profit from the disposal of assets	54,500.43	9,433.17
6. ± Changes in stocks	-12,538,346.40	-4,716,409.81
7. ± Change in trade debts and other assets not attributable to investment or financing activity	-3,448,597.03	-6,420,822.74
8. ± Change in trade credits and other liabilities not attributable to investment or financing activity	-821,594.08	11,135,266.94
9. = Cash flow from current business activities	**-8,862,331.69**	**24,647,972.40**
10. Proceeds from disposals of fixed assets	29,196.22	47,894.79
11. Proceeds from disposals of financial assets	9,440.00	0.00
12. – Payments for investments in intangible assets	-330,776.99	-224,901.32
13. – Payments for investments in fixed assets	-7,628,795.11	-3,829,319.88
14. – Payments for investments in financial assets	0.00	-4,000.00
15. – Payments for the acquisition of associated undertakings	0.00	-233,658.65
16. – Payments based on capital assets in the context of short-term cash management	-30,000.00	0.00
17. = Cash flow from investment activities	**-7,950,935.88**	**-4,243,985.06**
18. – Payments to business owners and minority shareholders	-1,759,100.00	0.00
19. + Proceeds from the raising of loans	7,859,731.47	2,763,284.74
20. – Loan repayments	-953,537.63	-2,290,775.22
21. = Cash flow from financing activities	**5,147,093.84**	**472,509.52**
22. Changes in cash funds (total of 9, 17 and 21)	-11,666,173.73	20,876,496.85
23. + Currency-related changes in cash funds	2,209.47	220.57
24. + Cash at start of the period	25,343,960.74	4,467,243.33
25. = Cash at end of the period	**13,679,996.48**	**25,343,960.74**

Consolidated statement of changes in equity

Changes in equity				**Parent company**
2G Energy AG in EUR	Subscribed capital	Capital reserves	Adjustment items from foreign currency conversion	Other cumulative consolidated profit
Status as at 01 Jan. 2011	**4,430,000.00**	**11,235,300.00**	**0.00**	**6,375.40**
Consolidation-related currency differences			220.59	
Consolidated profit for the financial year as at 31Dec. 2011				
Status as at 31 Dec. 2011	**4,430,000.00**	**11,235,300.00**	**220.59**	**6,375.40**
Status as at 01 Jan. 2012	**4,430,000.00**	**11,235,300.00**	**220.59**	**6,375.40**
Consolidation-related currency differences			2,209.47	
Payments to business owners				
Consolidated profit for the financial year as at 31 Dec. 2012				
Status as at 31 Dec. 2012	**4,430,000.00**	**11,235,300.00**	**2,430.06**	**6,375.40**

		Minority shareholders			Group equity
Consolidated profit earned	**Total**	Minority capital	Consolidated profit earned applicable to minorities	**Total**	
8,850,323.98	**24,521,999.38**	**4,991.42**	**47,267.91**	**52,259.33**	**24,574,258.71**
	220.59			**0.00**	**220.59**
13,194,140.41	**13,194,140.41**		407,958.33	**407,958.33**	**13,602,098.74**
22,044,464.39	**37,716,360.38**	**4,991.42**	**455,226.24**	**460,217.66**	**38,176,578.04**
22,044,464.39	**37,716,360.38**	**4,991.42**	**455,226.24**	**460,217.66**	**38,176,578.04**
	2,209.47			**0.00**	**2,209.47**
-1,639,100.00	**-1,639,100.00**		-120,000.00	**-120,000.00**	**-1,759,100.00**
11,425,235.70	**11,425,235.70**		-90,621.98	**-90,621.98**	**11,334,613.72**
31,830,600.09	**47,504,705.55**	**4,991.42**	**244,604.26**	**249,595.68**	**47,754,301.23**

Independent auditor's report

We have audited the consolidated financial statements – consisting of the balance sheet, the income statement, the notes to the financial statements, the cash flow statement, and the statement of changes in shareholders' equity – as well as the Group Management Report for the financial year ended 31 December 2012 that 2G energy AG, Heek, compiled. The Company's Management Board is responsible for compiling the consolidated financial statements and the Group Management Report in accordance with German commercial laws and the supplementary provisions of the Company's Articles of Association. It is our responsibility to render an opinion to the consolidated financial statements and the Group Management Report based on our audit.

We audited the consolidated financial statements in accordance with Sec. 317 (HGB), taking into account the standards for the proper audit of financial statements set forth by the Institut der Wirtschaftsprüfer (IDW) [German Institute of Public Accountants]. These provisions stipulate that the audit must be organized and carried out in such a manner that it is possible to assess with adequate certainty whether the consolidated financial statements are free of any faults materially affecting the view of the Group's net assets, financial position and earnings situation conveyed by the consolidated financial statements and the group management report in the light of generally accepted accounting principles. When planning the audit, we take our knowledge of the Group's business activity, the business and legal environment, as well as expectations on possible incorrect statements into consideration. During the audit we assess the effectiveness of the internal control system and we sample evidential matter to substantiate the representations in the consolidated financial statements and the group management's report. The audit includes a judgment of the financial statements of all companies included in the consolidated financial statements, the composition of consolidated companies, the recognition and consolidation principles and material estimates made by the directors as well as the presentation of the consolidated financial statements and the Group Management Report as a whole. We believe that our audit provides sufficient evidence for our audit opinion.

Our audit did not lead to any objections.

In our opinion – based on the findings of our audits – the consolidated financial statements are in compliance with the legal regulations and present a true and fair view of the net worth, financial position and earnings situation of the Group in compliance with Generally Accepted Accounting Principles. The Group Management Report corresponds to the consolidated financial statements, presents a true and fair view of the Group's situation, and accurately outlines the risks and rewards of future trends.

Regensburg, 16 May 2013

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Leupold
German Public Auditor

Schmid
German Public Auditor

RÖDL & PARTNER GMBH
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft
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