ANNUAL REPORT 2020

SFC ENERGY

CONTENT

SFC ENERGY AG – KEY FIGURES

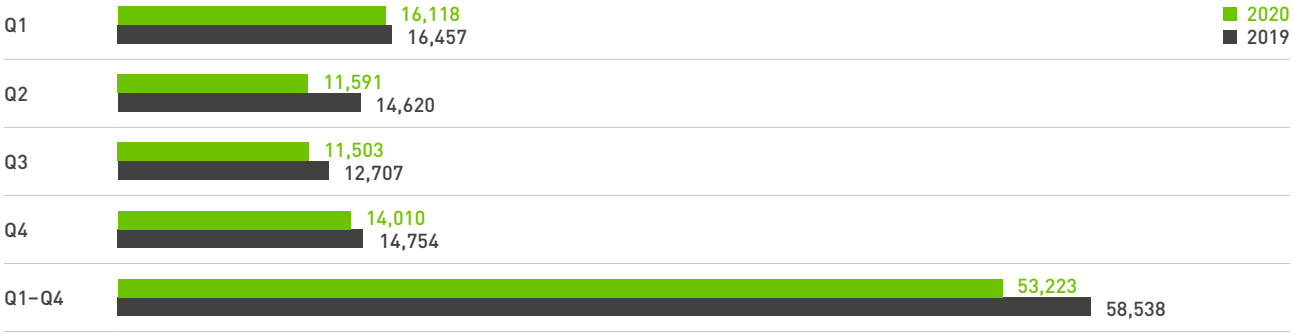
CONSOLIDATED KEY FIGURES

in EURk

	2020 01/01–12/31	2019 01/01–12/31	Change
Sales	53,223	58,538	–5,315
Gross profit	17,915	20,128	–2,213
Gross margin	33.7 %	34.4 %	–0.5 %
EBITDA	–986	2,042	–3,028
EBITDA margin	–1.9 %	3.5 %	–5.4 %
EBITDA underlying	2,936	3,614	–678
EBITDA margin underlying	5.5 %	6.2 %	–0.7 %
EBIT	–4,501	–1,288	–3,213
EBIT margin	–8.5 %	–2.2 %	–6.3 %
EBIT underlying	–579	284	–863
EBIT margin underlying	–1.1 %	0.5 %	–1.6 %
Consolidated net loss	–5,184	–1,927	–3,257
Net loss per share, undiluted	–0.39	–0.17	–0.22
Net loss per share, diluted	–0.39	–0.17	–0.22

SALES BY QUARTER

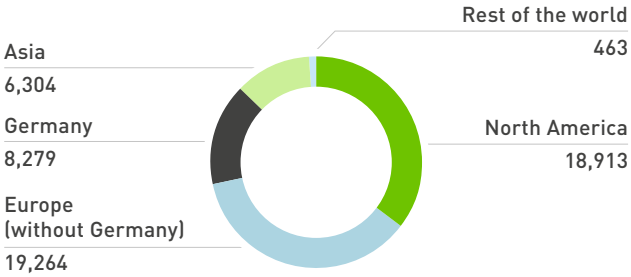
in EURk



SALES BY REGION

01/01 – 12/31/2020

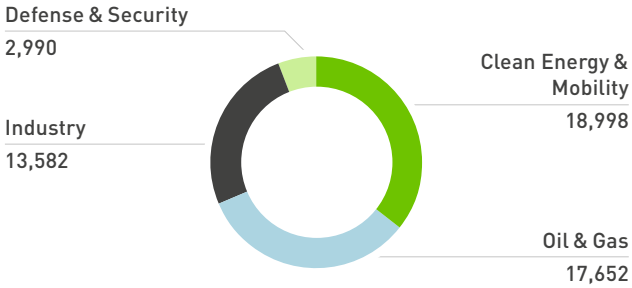
in EURk



SALES BY SEGMENT

01/01 – 12/31/2020

in EURk



Offshore wind measurement system: Wind measurement systems at locations of potential wind farms require a reliable off-grid power supply for twelve months. EFOY fuel cells do not interfere with acoustic measurements like generators do, nor do they need to be replaced at short intervals.

01
TO SHAREHOLDERS

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,
DEAR BUSINESS PARTNERS,
DEAR EMPLOYEES OF SFC,

For over 20 years, we have been focusing all our energies on developing innovative and high-quality fuel cells that allow our customers to generate energy in a sustainable and clean way. But this technology is only now beginning to come to the attention of wider society, politicians and businesses.

Hydrogen and fuel cells are key technologies that are paving the way to a climate-neutral and decentralized energy supply. For many years already, we have been helping numerous user industries to establish a stationary and off-grid power supply through the replacement of conventional (diesel) power generators in an attempt to move toward a sustainable energy supply. SFC Energy is one of the first companies already able to provide its customers with industrially mature products that have been accepted on the market. This puts us in an excellent position to shape the process of transformation toward a clean energy supply over the long term.

Over the past few months, despite the severe impact of the COVID-19 pandemic, we have demonstrated in parts of our business just how important fuel cell technology is and just how much demand there is already. Thanks to the considerable upturn in business in the fourth quarter and the persistently high demand in the Clean Energy & Mobility segment, we managed to end the exceptionally challenging 2020 financial year that was so heavily impacted by the COVID-19 pandemic with a solid sales and earnings performance overall.

A pivotal factor here was a regionally broad, unprecedented dynamic in demand for methanol and hydrogen fuel cells for civilian applications.

Heading toward a green future together

A good illustration of this is the call order from our partner adKor for EFOY Jupiter hydrogen fuel cells as emergency power generators for the digital public authority radio network BOSNet in Germany.

At the same time, we succeeded in taking further steps toward international expansion of our hydrogen and methanol fuel cells business. An important development in this regard is our cooperation and exclusive sales agreement for hydrogen and methanol fuel cells with Toyota Tsusho on the Japanese market. As early as in the first few weeks of this year, we quickly deepened this cooperation on a lasting basis and extended it to key markets such as China and Southeast Asia. Toyota Tsusho is represented across the entire region and SFC Energy is supplying the products. Our two strong partner companies are thereby combining their strengths as we set our sights on high-growth markets. SFC Energy and Toyota Tsusho are currently looking at ways of formalizing the cooperation in the form of a joint venture going forward.

We are joining forces with VINCORION, the mechatronics manufacturer of technology group JENOPTIK, to develop the sustainable and portable P2M2 energy management system. Our cooperation with ePropulsion, a

manufacturer of electric boat engines, also demonstrates the versatility of our EFOY fuel cell series for end customers. In September 2020, we also unveiled the new fifth-generation EFOY fuel cell and the accompanying EFOY lithium battery at the Caravan Salon in Düsseldorf. The EFOY Hybrid Power recently won the European Innovation Award. The beginning of March marked the next product launch for the new generation of the EFOY Pro. The fuel cells for professional users have a number of impressive features including higher efficiency, a smaller size and greater connectivity for even more IoT applications.

Energy policy success factor: Fuel cells from Brunnthal

We already cover a number of applications with our EFOY hydrogen and direct methanol fuel cells – be it high-performance back-up power units for radio tower masts, energy sources for smart city and smart traffic applications, or uses in the caravan and leisure boat industry. We replace conventional power generation technologies, and our activities thus pave the way to a cleaner and more efficient energy supply and a low-CO_2 society. We are systematically expanding our activities to establish hydrogen as the fuel of the future. National and international subsidy programs will help us to accelerate these activities even more. We also have further enriching cooperations with countries beyond our own borders on the agenda.

But all these ambitious targets and projects are worthless if we don't embody them. To underscore our firm belief in green technologies as the right way forward to combat climate change, we will publish an ESG Report in the second quarter 2021 for the first time in which we provide a detailed breakdown of the contribution that SFC Energy specifically is making to a greener future and areas where we can and have to improve. Only by making changes ourselves can we inspire others to make changes – and nothing is more important to us.

High dynamism in the Clean Energy & Mobility segment

The SFC Energy Group generated sales of EUR 53.2 million during the past financial year, which was down 9.1 % on the previous year's figure of EUR 58.5 million. We did not completely escape the impact of the pandemic. That said, the sales and earnings figures are in line with expectations in absolute terms. Underlying EBITDA adjusted for non-recurring effects for the Group amounted to EUR 2.9 million in the reporting year compared with EUR 3.6 million in the previous year, thus achieving the upper range of our expectations. Underlying EBIT was EUR – 579k in the 2020 financial year compared with EUR 284k in the previous year.

Development over the course of the year was heterogeneous across the individual segments of SFC Energy AG.

One area of positivity was the high dynamism in the Clean Energy & Mobility segment, which proved to be exceptionally robust and resistant to the pandemic and exhibited a high growth momentum, achieving growth in sales of 61.6 % year-on-year in 2020 despite the coronavirus crisis. On the other hand, the effects of the COVID-19 pandemic weighed considerably on the sales performance of the Oil & Gas (– 19.6 %), Industry (– 21.2 %) and Defense & Security (–60.6 %) segments. Shutdowns and above all the harsh lockdown measures taken in various countries had the strongest impact on contract awards in the international defense business.

Clean Energy & Mobility

In the 2020 financial year, the **Clean Energy & Mobility** segment achieved particularly strong growth of 61.6 % with growth in sales of EUR 7.2 million (2020: EUR 19.0 million / 2019: EUR 11.8 million) combined with a stable gross profit margin. This positive trend was driven by high demand for fuel cells particularly for industrial applications in Europe, North America and Asia.

Oil & Gas

In the 2020 reporting year, sales in the **Oil & Gas** segment were 19.6 % lower than in the previous year due to the demand situation being heavily impacted by the COVID-19 pandemic (2020: EUR 17.7 million / 2019: EUR 22.0 million). Business with customers in the oil and gas industry is already looking like it will pick up increasingly over the 2021 financial year. In the current financial year, we are strategically focusing on further expanding our business outside the oil & gas industry in Canada and the USA to continue to reduce our dependence on one industry in the long term.

Industry

In the **Industry** segment, reduced call-off orders and postponed investment decisions by customers in the wake of the COVID-19 pandemic resulted in a decline in sales. The pandemic containment measures taken worldwide, including restrictions on travel, social contact and mass gatherings, were a primary factor that made both sales activities and on-site installations of customer applications more difficult. In the 2020 reporting year, sales decreased by 21.2 % to EUR 13.6 million compared with EUR 17.2 million in the previous year. But the fourth quarter of 2020 showed signs of the anticipated significant recovery, and the first quarter of this year matched the strong fourth quarter of last year as customers have adapted to the general conditions of the COVID-19 pandemic.

Defense & Security

Business in the **Defense & Security** segment was significantly impacted by the highly restrictive lockdown measures in international key markets such as Israel and India and by the partial shutdown and significant delays in government procurement triggered by the COVID-19 pandemic. This led to a significant decline in sales of 60.6 %, from EUR 7.6 million in the previous year to EUR 3.0 million in the 2020 reporting year. However, in the early part of the current 2021 financial year there are already signs of strong customer activity in this segment in Europe. The easing of coronavirus measures in key markets is facilitating sales activities and increasing the investment propensity of customers in these countries. Overall, this picture provides for positive growth expectations based on a broad international customer base.

All in all, the fourth quarter of 2020 revealed a return to significant levels of growth across all the segments compared with the second and third quarters of 2020, and this contributed to a solid business performance on the whole in what was an extraordinary 2020. This saw us return to pre-coronavirus levels as early as in the closing quarter of 2020. This momentum toward the end of last year and in the first few weeks of the current financial year makes us optimistic about the further course of business.

As part of the concentration on the two core technologies of fuel cells ("Clean Energy") and energy conversion ("Clean Power Management"), the Management Board of SFC Energy AG has reorganised the responsibilities within the Group. As a result, after the end of the 2020 financial year, the Group's business segments will no longer be based on the respective end-customer markets, but on the technology platforms and the Group's portfolio of products and services. The independent organization and management of two operating segments instead of the previous four also increases efficiency.

Balance sheet

As of December 31, 2020, the equity ratio improved significantly to 63.5 %, essentially as a result of the capital measure implemented in the reporting year (2019 balance sheet date: 55.3 %). Available cash and cash equivalents amounted to EUR 31.5 million at the 2020 balance sheet date, compared with EUR 20.9 million at the end of the 2019 financial year. Despite the current very challenging and dynamic situation, our good capital base and solid overall accounting ratio enable us to remain stable through a turbulent phase and to achieve sustainable growth in the medium term, to press ahead with essential product developments and tap into new market segments.

Shares

The SFC share price made a significant gain of 64 % in the reporting year. The solid business performance and the adjustments made to the Company's cost structures to adapt to a challenging pandemic environment also contributed to the positive share price development. Government initiatives like the National Hydrogen Strategy of the German federal government and that of the European Union are likewise a factor in and product of gradually increasing acceptance in society and growing demand for clean forms of energy generation. Major macro trends are hence boosting demand for fuel cells, which in turn is resulting in increased investor interest in SFC Energy AG.

Guidance for 2021 and strategic medium-term planning for 2025

In a challenging 2020, we posted a completely pandemic-resistant performance in the civilian fuel cells business. In our other segments, we are noticing that our customers have adapted to the changed conditions brought about by the coronavirus pandemic. Even if another strict lockdown were to trigger delays in our business, particularly with government agencies, the macro trends are still going strong.

We currently find ourselves at a decisive stage in the acceptance of sustainable energy generators such as converter and storage technology. Ambitious climate change mitigation targets have been set in both the EU and Germany. There has already been a significant rise in demand for environmentally friendly technologies such as those offered by SFC Energy AG. If we are serious about meeting our targets for society, this momentum will be accelerated faster still.

According to a study by the management consulting company Roland Berger, European companies will generate sales of up to EUR 65 billion in Europe and a further EUR 65 billion worldwide in the hydrogen and fuel cell markets in 2030. Demand for fuel cells will be driven by extensive government investment programs and incentives, such as the National Hydrogen Strategy published by the German Federal Ministry for Economic Affairs and Energy in June 2020 and the wide-ranging European hydrogen initiatives forming part of the Green Deal.

The Group expects to see positive growth contributions from rising demand for the new generation of methanol fuel cells as well as hydrogen fuel cells.

Against this backdrop, in the current 2021 financial year the Management Board is expecting consolidated sales to increase by 15 % to 30 % year-on-year to between EUR 61 million and EUR 70 million (2020 financial year: EUR 53.2 million). The primary driver of this growth will be the Clean Energy segment, which mainly includes sales from the former Clean Energy & Mobility and Defense & Security segments.

The Company expects the gross margin at Group level to increase slightly compared with the previous year. On the back of the expected dynamic development in demand and the stable to rising margin, underlying EBITDA is expected to increase significantly year-on-year to between EUR 3.5 million and EUR 6.0 million in the 2021 financial year.

Based on its forecasts for the Clean Energy and Clean Power Management segments, management expects underlying EBIT for the Group to amount to between EUR -0.9 million and EUR 1.6 million in 2021.

In light of these considerable growth opportunities for hydrogen and fuel cells linked to extensive government investment programs in these technologies worldwide, the Management Board of SFC Energy AG has revised and reformulated its strategic medium-term planning, and published this along with the publication of the preliminary figures on February 15, 2021.

The accelerated growth plan anticipates organic and inorganic growth in sales between now and 2025 to a level of between EUR 350 million and EUR 400 million and an increase in the underlying EBITDA margin to over 15 %. Our assumptions are based on the highly dynamic growth in global demand for hydrogen and methanol fuel cells in stationary applications. SFC Energy AG fuel cells are an integral part of sustainable, decentralized energy solutions as a replacement for conventional (diesel) generators for industry, government agencies and private applications alike. Whether it is used as an emergency power supply in critical infrastructures or for telecommunications, new autonomous mobility concepts or advancing digitalization – the fuel cell is a key technology for generating electrical energy in an efficient and clean way.

The health and safety of our employees, customers and business partners was our top priority at all times during the past financial year. Particularly in these challenging times, our thanks should go to our employees for the considerable commitment they showed in a difficult situation. We would also like to thank the members of the Supervisory Board for their constructive cooperation in a relationship of mutual trust.

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

Remain with us.
Yours,

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (COO)

Daniel Saxena
Board Member (CFO)

WE WANT TO DO WHAT WE CAN FOR FUTURE GENERATIONS

For more than 20 years, SFC has specialized in innovative fuel cell technology. CEO Dr. Peter Podesser and Professor Werner Tillmetz (scientific advisor at SFC) explain in an interview why hydrogen and the fuel cell are key technologies in the energy turnaround, how SFC intends to grow more quickly than the market as a whole, and together look ahead toward a green future.

The EU's climate target plan, presented in September 2020, aims to reduce greenhouse gas emissions by 55 % by 2030 compared to 1990 levels. The original target was 40 %. The industrial sector in Germany is aiming to achieve climate-neutrality by 2050. But for this to happen, electricity production from renewable energies has to be doubled. How can this be achieved?

Dr. Peter Podesser: Much progress is being made in the expansion of capacity, especially here in Germany. In the first half of 2020, as much as 50 % of electricity requirements were covered by renewables. To achieve the climate targets, however, we need to do more than just increase the share of renewables. We also need reliable storage systems and efficient converter technology. Only in this way can we get the electricity to where it's needed: the consumers. Fuel cell technology plays a key role here.

Professor Werner Tillmetz: It's now cheaper to generate electricity from wind and the sun than it is from fossil fuels. This is thanks to annual, global investment in renewables, which for years has hovered around the $ 300 billion mark. This has enabled a capacity expansion of 100 GW of installed power every year – above all in the USA and China. So it's only logical that Europe – with its outstanding potential for green electricity – needs to catch up. The rising price of CO_2 makes a revolution in the energy industry a highly attractive prospect, and the political appetite for this is there.

> "The rising price of CO_2 makes a revolution in the energy industry a highly attractive prospect, and the political appetite for this is there."
> PROF. DR. WERNER TILLMETZ

The German government's National Hydrogen Strategy encompasses not only an investment program of EUR 7 billion for the market launch of green hydrogen as well as the expansion of the infrastructure and associated value chain, but also another EUR 2 billion to support international partnerships and collaborations. To what extent can SFC profit – or has SFC already profited – from this?

Podesser: As fuel cell pioneers, we have more than 20 years of experience in the field of decentralized energy generation. We are capable of delivering essential, market-tested solutions on an industrial scale and initiating the widespread replacement of conventional power sources like diesel generators. We have demonstrated this time and again right from our earliest days and upgraded radio tower masts for digital public authority communications with EFOY JUPITER hydrogen fuel cells as emergency power generators. We strongly believe that the National Hydrogen Strategy is exactly what's need to trigger a massive acceleration in demand on the road toward a greener energy supply.

1 https://ec.europa.eu/germany/news/20201116-konsultationen-klimaneutralitaet_de
https://ec.europa.eu/commission/presscorner/detail/de/ip_20_1599

SFC was very active last year in terms of partnerships and collaborations. In addition to Toyota Tsusho, VINCORION and the mechatronics specialist Jenoptik AG, for example, SFC works with ePropulsion, a manufacturer of electric boat drives. Where else can you see partnerships being formed?

Podesser: Fuel cells offer major potential in a whole range of user industries, as our partnerships impressively demonstrate. But what often gets lost in the hype is that fuel cells offer major potential for not only mobile applications but also stationary ones too. They are already being used as energy sources in smart traffic applications designed to improve the flow of traffic or as emergency power generators for uninterruptible power supplies in critical infrastructures. We are currently in the process of replacing numerous diesel generators with ecofriendly fuel cell technology. As you can see, fuel cells offer major potential in any application where clean, reliable and comparatively low-consumption energy is needed.

> "Fuel cells offer major potential in any application where clean, reliable and comparatively low-consumption energy is needed."
> DR. PETER PODESSER

What is SFC's hydrogen roadmap?

Tillmetz: SFC has secured itself outstanding market access in all areas relating to reliable, off-grid power supplies. The transition to renewables (fluctuation in the power supply, island networks) will see significantly increased demand for suitable products. Building on its current product portfolio, SFC will continue to systematically optimize its product range and increase power capacities.

Professor Tillmetz, after working for Daimler Benz AG, Ballard Power Systems and in the sciences, you were appointed to the position of scientific advisor in the field of hydrogen technology at SFC in October 2020. What motivated you take this job on, and what exactly does it involve?

Tillmetz: In my more than 30 years of experience in industry and research, I have acquired extensive experience with fuel cells, batteries and electrolysis – not only in terms of the technologies themselves and how they can be implemented in industry but also when it comes to political collaboration. On the one hand, this helps to me critically examine SFC's strategy; on the other, I can enrich the future strategy with new ideas and insights.

"The large-scale expansion of the hydrogen infrastructure is of major significance to SFC's markets too."

PROF. DR. WERNER TILLMETZ

In all the positions you've held in the past, fuel cell technology has always been especially dominant in mobile applications. Is drive technology an area that could be interesting for SFC too?

Tillmetz: The vehicle industry invests many billions worldwide in fuel cell drives, which it is increasingly producing on a mass scale. This, in turn, leads to the industrialization of the technology, meaning that many components and assemblies that can also be found in SFC products are becoming ever more powerful and cheaper. And the large-scale expansion of the hydrogen infrastructure is of major significance to SFC's markets too. I consider SFC's strategy of concentrating on stationary and portable applications to be the best and most viable strategy for the future.

SFC last year celebrated its 20th anniversary – so 20 years of hard, pioneering work in the field of fuel cell technology. Do you consider yourself vindicated in your assumption that the fuel cell is one of the key factors in the success of a sustainable and decentralized energy supply?

Podesser: It's obviously great to see that years of persuasion have borne fruit. But the aim isn't simply to be right at all costs. It's about securing long-term financial success and acting for the good of the environment. We want to do what we can for future generations. We are ready.

Prof. Dr. Werner Tillmetz: After working for Daimler Benz AG, Ballard Power Systems and in the fields of science and research, Professor Tillmetz was appointed to the position of scientific advisor at SFC Energy AG in October 2020.

Over the past 20 years, SFC has sold more than 50,000 hydrogen and direct-methanol fuel cells. That's impressive, but success in absolute terms requires increasing volumes and decreasing prices. How do you think the situation will develop?

Tillmetz: This is exactly what we'll see thanks to the aforementioned global industrialization of fuel cells and hydrogen. Hydrogen and fuel cells also enjoy a high degree of acceptance in society – in fact, there's now a real buzz surrounding them.

What areas are you looking to enter when it comes to professional applications, and what kind of specialisms would your partners need in order to support you ?

Podesser: We want to – and will – replace conventional electricity generators in stationary applications with clean technologies on an industrial scale. To support us here, we are seeking partnerships at both a regional and application-specific level. Our long-term partnership with Toyota Tsusho in Japan and its expansion into growth markets in Asia serve as a blueprint for us.

When it comes to applications in the end customer business, SFC is a big name especially among camping enthusiasts. What other application areas do you envisage here for SFC?

Podesser: Our loyal customers in the caravaning market are and will always be important to us. Thanks to partnerships with enterprises like ePropulsion, we are in the process of expanding our fuel cell business in the areas of e-boating and tiny housing. Instead of solar panels (not always reliable) and generators (no longer in keeping with the times), fuel cells cleanly and quietly deliver power for a whole range of applications like refrigerators, coffee machines, TVs and laptops.

Given the myriad potential applications of fuel cells and the fact that SFC wants to continue dominating the energy supply of the future, where do you see SFC in the short to medium term?

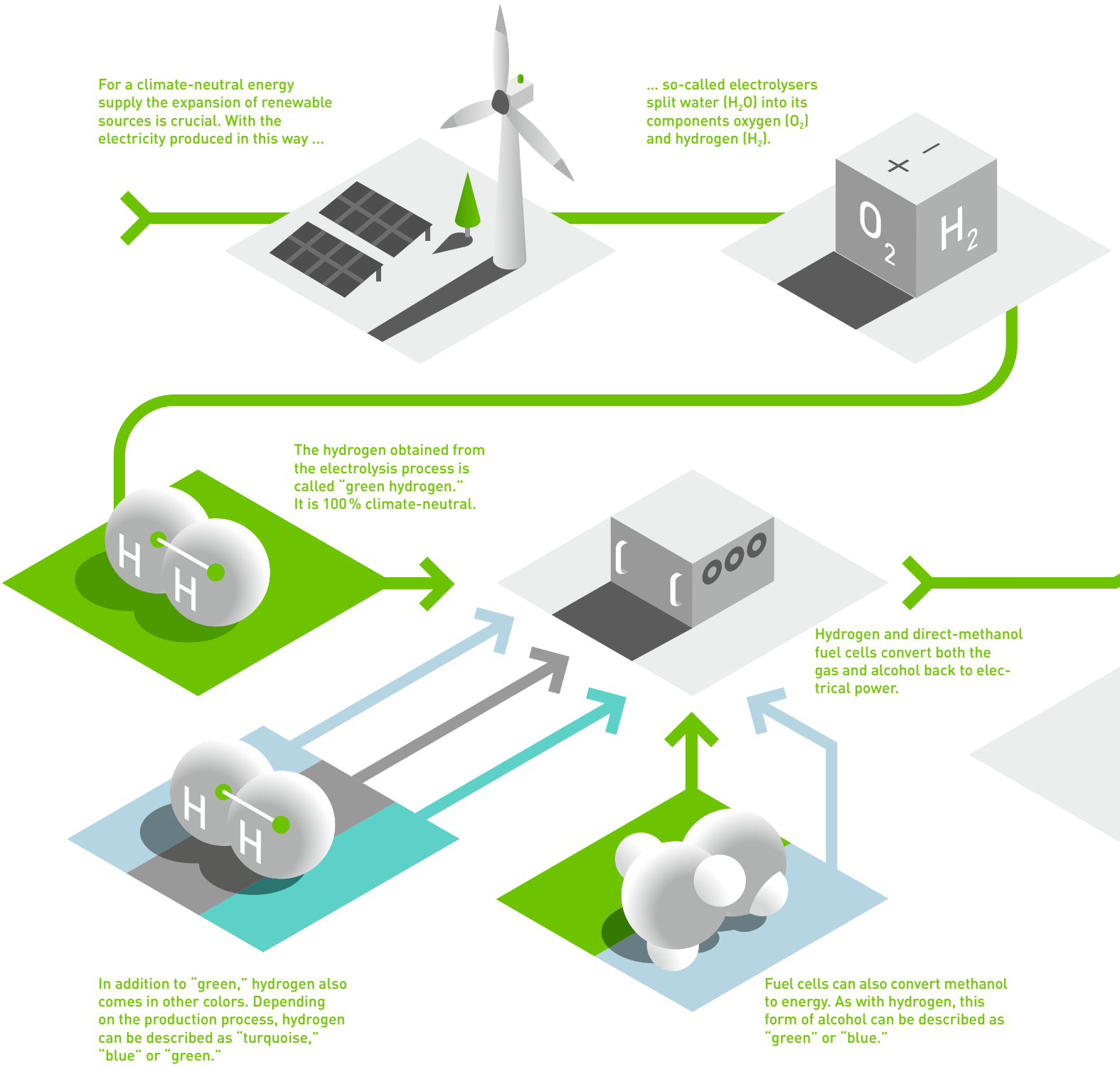
Podesser: It's not only Germany and the EU that have set themselves ambitious targets. By 2025, we want to increase our sales to between EUR 350 and EUR 400 million – with an EBITDA margin of more than 15 %. Our assumptions are based on the extremely dynamic global demand for hydrogen and methanol fuel cells in stationary applications. In addition to strategic acquisitions – especially with fuel cell producers and companies that offer additional market access points in addition to our own, established ones – regional partnerships are also an integral part of our international growth strategy. It's not about "buying" extra sales by making any old acquisition. We have laid the foundations for benefiting immensely from the strong market dynamism and growing faster than the market as a whole. Our focus here is on sustainable, organic growth.

Tillmetz: The global energy and mobility transformation opens up a whole range of new business opportunities. And SFC – with all the strengths that underpin our success – will be a major player here.

"We want to – and will – replace conventional electricity generators in stationary applications with clean technologies on an industrial scale. To support us here, we are seeking partnerships at both a regional and application-specific level.
DR. PETER PODESSER

THE FUEL CELL AS A KEY TECHNOLOGY

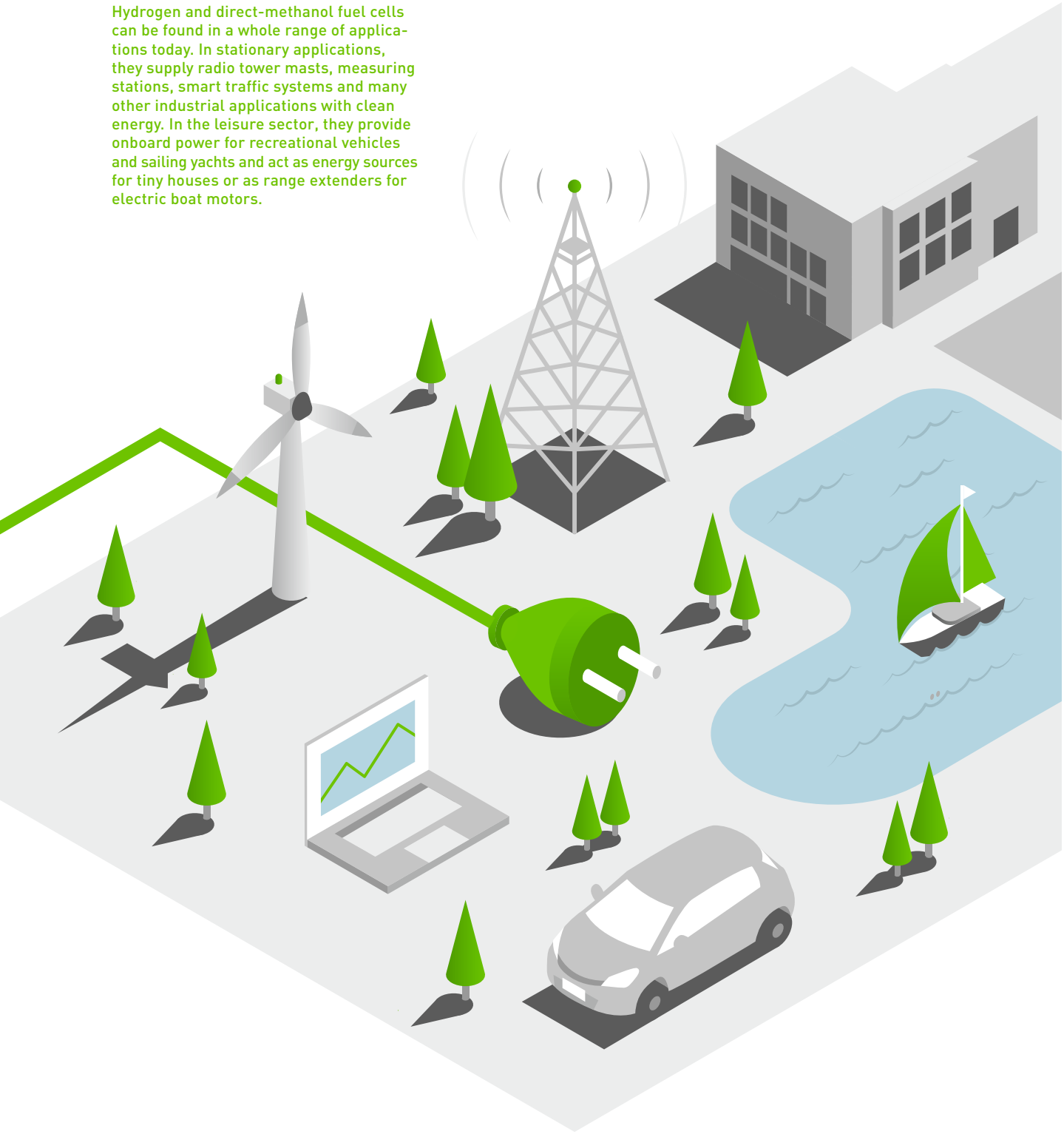
It's the mix that matters: with renewables, hydrogen, methanol and the fuel cell as ecofriendly converter technology on the road toward a more decentralized and greener electricity supply



The process chain behind the decentralized electricity supply

Renewable energy from the wind and sun is the starting point and basis for the climate-neutral energy supply of the future. But the energy needs to get to where it's consumed. Hydrogen or methanol serve as highly ecofriendly fuels in the next stage of the process chain, ensuring that the energy generated can be stored and transported. The fuel cell then converts hydrogen or methanol cleanly, efficiently, reliably and, above all, in decentralized form back to electrical power. And it's doing this in more and more areas and applications.

Hydrogen and direct-methanol fuel cells can be found in a whole range of applications today. In stationary applications, they supply radio tower masts, measuring stations, smart traffic systems and many other industrial applications with clean energy. In the leisure sector, they provide onboard power for recreational vehicles and sailing yachts and act as energy sources for tiny houses or as range extenders for electric boat motors.



NEW SEGMENT REPORTING – TWO STRONG BUSINESS SEGMENTS

The 2021 financial year is bringing many changes and challenges that SFC Energy will face with full commitment. The new common brand identity is already clearly evident. Since January 1, 2021, all the subsidiaries in the SFC Energy Group have been operating under the SFC Energy name.

For business partners, investors and employees at the single entities Simark Controls (Canada), PBF Group (Netherlands) and PBF Power (Romania), nothing is changing apart from the names of the companies. The Company is unifying its image to ensure a clear and precise positioning.

Instead of the previous four business segments, there will now be two business segments: Clean Energy and Clean Power Management.

In parallel with the new brand identity, from January 1, 2021, SFC Energy will have a new segment reporting structure. Instead of the previous four business segments Clean Energy & Mobility, Defense & Security, Industry and Oil & Gas, there will now be two business segments: Clean Energy and Clean Power Management.

The new segment structure offers the Company and its stakeholders numerous advantages. With a clear focus on just two segments, SFC Energy is taking account of a dynamically changing market for environmentally friendly energy. The names Clean Energy and Clean Power Management clearly underscore the stringent product communication along the technology platforms. In the course of the changeover, the Group's internal reporting processes are also becoming simpler.

In 2020, the segments contribute to the Group's total sales in a ratio of roughly 60 to 40. While Clean Energy covers all hydrogen and methanol fuel cell systems and the automation solutions often associated with them, Clean Power Management bundles together power electronics and variable-frequency drives.

Specifically, the activities of the business segments Clean Energy & Mobility and Defense & Security will now be combined in the Clean Energy segment. This business segment is being supplemented by EFOY products and Oil & Gas automation solutions. These include systems that have been accepted on the market such as the EFOY ProCube, the EFOY ProEnergyBox, the EFOY ProCabinet and the EFOY ProTrailer as well as products from partner Schneider Electric for oil and gas customers. The variable-frequency drive business of our partner ABB is being allocated to the new Clean Power Management segment.

The Industry segment, which bundles all the business activities for power electronics with third-party customers, is also being transferred to the Clean Power Management segment. Power electronics as components for hydrogen and methanol fuel cells are being reported in the Clean Energy segment.

SFC Energy will be systematically reporting under a single, uniform brand identity with two clearly differentiated segments that also complement each other technologically and give the customer a broad product offering: Clean Energy and Clean Power Management.

New segment reporting SFC Energy

CLEAN ENERGY

Fuel Cell and integrated Solutions

Business to business
- Telecom, Wind, Infrastructure, Security, Energy

Business to government
- Department of Homeland Security, Defense, Transportation, Traffic

Business to consumer
- Caravanning, Marine, Residential

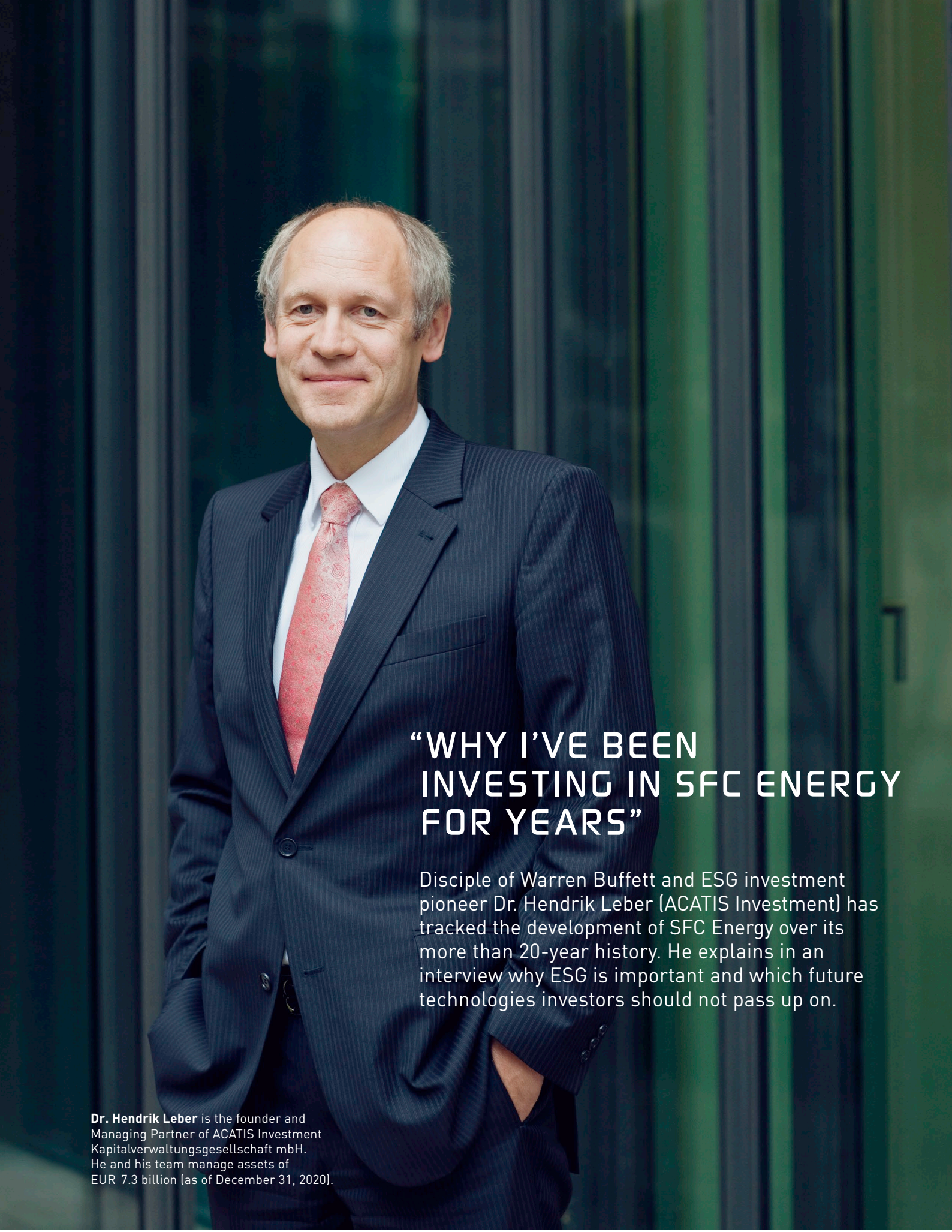
CLEAN POWER MANAGEMENT

Power Products and Electronics

- Analytical equipment and systems

- Laser, semi-conductor and manufacturing equipment

- High-tech industrial systems



"WHY I'VE BEEN INVESTING IN SFC ENERGY FOR YEARS"

Disciple of Warren Buffett and ESG investment pioneer Dr. Hendrik Leber (ACATIS Investment) has tracked the development of SFC Energy over its more than 20-year history. He explains in an interview why ESG is important and which future technologies investors should not pass up on.

Dr. Hendrik Leber is the founder and Managing Partner of ACATIS Investment Kapitalverwaltungsgesellschaft mbH. He and his team manage assets of EUR 7.3 billion (as of December 31, 2020).

Dr. Leber, you are regarded as a pioneer in environment, social, governance (ESG) investments. What are the reasons for your affinity with these investments?

Dr. Hendrik Leber: This area has had a continuous and interesting evolution over the years. There are now four major topic areas:

- (1) normative controversial activities,
- (2) positive ESG criteria,
- (3) greenhouse gas footprint and finally
- (4) UN Sustainable Development Goals.

But you can also break it down into a simple formula if you take the letter "G" for governance from the acronym ESG: Companies with poor governance are bad for shareholders. But if a company has a good governance record, it will actively engage with its social and ecological environment and is likely to have an appropriate product range as well. We have assessed all these factors individually and are increasingly coming to the conclusion that consideration of these criteria has a performance-enhancing effect and combines well with our value approach. The Sustainable Development Goals in particular are an astonishingly clear and detailed set of guidelines, both for the evolution of our planet and for companies' product offerings, and so it is logical that we would invest in precisely this kind of company.

SFC Energy AG is obviously a company that has good governance; otherwise you would not have invested in it with your investment company ACATIS.

Dr. Hendrik Leber: As an investor, part of my job is to invest money where it can be used productively and where there is a future. Otherwise I wouldn't be doing my job properly. Areas that have a future are predominantly those that engage in climate protection and the environment in general. The pivotal question is how the energy supply is going to be structured in an increasingly connected and digital world. SFC Energy has been making an important contribution in this regard for the past 20 years. My first due diligence notes on SFC date back to 1999 when SFC was still a technological concept and not a listed company. I think it's a shame that, compared with other countries, in Germany we tend to hide the light of our technology leaders under a bushel. The phrase "It takes a long time to be an overnight success" is extremely apt. There is no doubt that in Dr. Peter Podesser SFC Energy has a competent, motivated and experienced CEO whose name is already practically synonymous with fuel cell technology in Germany. Reliability is a very important factor for me, and I get an impression of reliability in every conversation I have with the management. These are the factors that have prompted us to invest more and more in SFC Energy as our fund volume has grown.

You describe yourself as a disciple of Warren Buffett; in other words, you are a supporter of value investing. But with your fund, you are largely targeting future areas or high-growth companies. How does that fit together?

Dr. Hendrik Leber: We need to rethink how we perceive value. After all, the Buffett–Graham approach was born in the bygone static era of the 1920s. 100 years later, we are living in an age where entire markets are undergoing change at a rapid pace. Coronavirus has made this time span even shorter. Here's an example: If you were an investor looking to invest in the steel industry, you used to be able to make a sound decision based on the price-to-book ratio, the price-earnings ratio and the dividend yield about whether an investment in a company was worthwhile from a value perspective. This model held true for a long time. What we are experiencing nowadays is the reverse of this logic. I now need to ask myself which of these steel companies will be the most likely to switch to hydrogen technology to reduce its carbon footprint. Any company that does not do this will be crushed by CO_2 costs and forced out of the market – and its physical assets will lose their value. For me as an investor, this means that I'm having to envision the demands of tomorrow so that I can filter out the companies today that are in a position to deliver these technologies. Specifically, these technologies are battery technology, fuel cell technology and hydrogen technology. These are the technologies that no investor should pass up on.

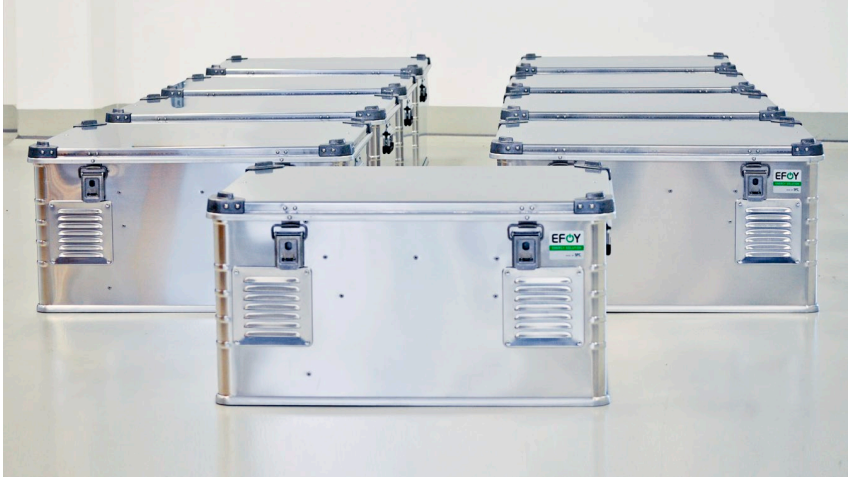
MILESTONES IN 2020

January 14, 2020

SFC Energy and adKor sign component supply contract with Ballard Power Systems

Right at the beginning of 2020 SFC Energy and adKor have secured an important supply contract. Ballard Power will supply fuel cell stacks to adKor and SFC Energy, which will be integrated into the JUPITER hydrogen fuel cell system. The JUPITER hydrogen fuel cell is used, among other things, as an emergency power generator in mobile radio stations.

February 18, 2020



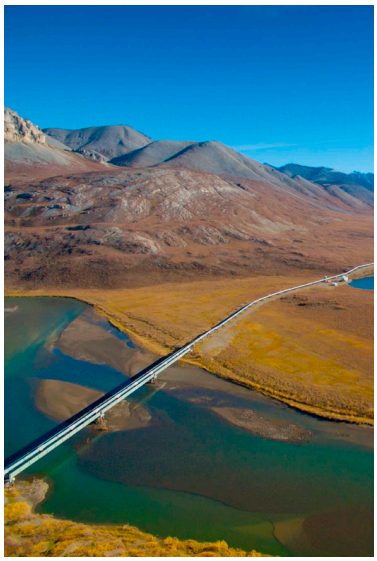
EFOY ProCube fuel cell solution used as a back-up power supply in BOS radio stations

The Meissen administrative district office starts using EFOY ProCube fuel cell systems as a back-up power supply for its BOS radio system. The commissioned back-up solution keeps the radio system operational without interruptions for at least 72 hours in the event of a power outage.

March 2, 2020

SFC Energy[1] receives a follow-up order for fully integrated variable-frequency drives

SFC Energy[1] posts a follow-up order for fully integrated variable-frequency drive systems from an existing customer, an oil company in Alberta, Canada. The order includes VFD systems for a total 68 ESP systems. The systems operate the pumps at pumping sites and generate significant installation and operation savings.



1 Operating under the name Simark Controls at that time.

March 25,2020

1,000th installed EFOY Pro fuel cell supports health and safety in Singapore

In March, SFC Energy installs its 1,000th EFOY Pro fuel cell in Singapore. It is part of a major fuel cell and fuel cartridge shipment to SFC partner Oneberry Technologies based in Singapore. The products ensure reliable operation of the country's early flood warning systems, surveillance systems and numerous other safety systems.

June 8, 2020

SFC Energy receives a call order from adKor GmbH for hydrogen fuel cell modules with a volume of over EUR 2.5 million

Together with its cooperation and licensing partner, adKor GmbH in Wildau, SFC Energy is supplying system-integrated JUPITER hydrogen fuel cell modules to provide back-up power to radio tower masts in another federal state. The order runs until December 2020. SFC Energy is positioning itself early to profit from the German Federal Government's National Hydrogen Strategy.

June 16, 2020

SFC Energy[2] receives follow-up series order for high-performance power supply solutions for security and communication systems

SFC Energy[2] has received a further follow-up order from a major international security system provider to supply power supply solutions for security and communication systems. The order will generate total sales of around EUR 3 million in 2020 and 2021.

2 Operating under the name PBF Group at that time.

June 30, 2020

SFC Energy[1] obtains order for EFOY Pro fuel cells to supply power to video remote surveillance devices in a major pipeline project

SFC Energy[1] has received an order from SiteWatch Safety Inc. to supply EFOY Pro 2400 Duo fuel cells as a hybrid power source for its remote surveillance package SiteWatch SENTRY SKID. The components will be used during the construction phase along the 980-kilometer pipeline that is being created.

August 31, 2020

The fuel cell pioneer celebrates its 20th anniversary

SFC Energy has been developing and distributing fuel cells to countries all around the world for 20 years. Staring out as Smart Fuel Cell GmbH, the Company has now sold over 50,000 fuel cells worldwide. Altogether, the units supplied have provided more than 100 million operating hours and have saved over 3,600 tons of harmful CO_2 emissions.

September 4, 2020

SFC Energy presents fifth-generation EFOY fuel cell with perfectly matched new EFOY lithium battery at the Caravan Salon in Düsseldorf

World premiere at the Caravan Salon Düsseldorf. Visitors to the motor-home and camping trade fair will experience the presentation of the new EFOY 150 and EFOY 80 fuel cells. The world novelty is rounded off by the EFOY Li 105 and EFOY Li 70 lithium batteries. The new EFOY Hybrid Power – consisting of fuel cell and lithium battery – is the intelligent energy package for off-grid power supply.

1 Operating under the name Simark Controls at that time.

September 10, 2020

SFC Energy and VINCORION enter into far-reaching partnership to develop and market the portable energy management system "P2M2"

SFC Energy is expanding its partner network again. The fuel cell pioneer is joining forces with VINCORION, the mechatronics manufacturer of technology group JENOPTIK, to develop and market the "P2M2" portable energy management system. The solution is mainly intended for defense, rescue and disaster control forces.

October 12, 2020

Prof. Werner Tillmetz joins the SFC Energy team as scientific advisor for hydrogen technology

With Prof. Werner Tillmetz on board, SFC Energy is gaining a highly renowned and recognized expert in sustainable energy concepts. For fuel cell pioneer SFC Energy, Prof. Tillmetz will mainly be providing his expertise in the fields of hydrogen fuel cells and electrolysis as a scientific advisor.

September 18, 2020

SFC Energy partnering with ePropulsion in electric boat drive sector – EFOY fuel cells supply power to test-winning outboard engine

SFC Energy announces a further cooperation at the INTERBOOT industry trade show in Friedrichshafen. The Company will be working with ePropulsion, a leading global manufacturer of electric boat engines. All sailors and boat users seeking to increase the life of their engines now have a simple and convenient solution in the form of the EFOY direct methanol fuel cell, which functions as a reliable range extender.

November 12, 2020

SFC Energy AG and Toyota Tsusho Corporation sign exclusive sales and partnership agreement

The agreement will make Toyota Tsusho, the sales company of the Toyota Group, an exclusive partner for the marketing and sale of SFC hydrogen and direct methanol fuel cells in the Japanese market. The deepening of this partnership builds on the successful cooperation the companies have enjoyed since 2015.

November 25, 2020

Capital increase completed successfully, accelerating implementation of hydrogen and growth strategies

SFC Energy receives gross issue proceeds of approximately EUR 19.4 million after successful completion of a 10 % increase of the Company's share capital. The funds are being used to accelerate the growth strategy and the stringent implementation of the hydrogen strategy.

Always up-to-date
With the SFC newsletter you are always up to date. Sign up and know what's new before others do!

November 30, 2020

Chinese wind power industry uses EFOY Pro fuel cell systems

Toward the end of the year, cooperation partner Beijing Green Century Technology Co., Ltd. ordered 48 EFOY Pro direct methanol fuel cell systems to use in offshore measuring stations. The EFOY Pro fuel cell supplies the floating stations with a reliable source of clean power. Alongside the US, China is one of the largest wind power markets in the world.

December 1, 2020

SFC Energy standardizes its brand image

From January 1, 2021, all the subsidiaries in the SFC Energy family will trade under the SFC Energy name. For business partners, investors and employees at the single entities Simark Controls (Canada), PBF Group (Netherlands) and PBF Power (Romania), nothing will change apart from the names of the companies. The Company is unifying its image to ensure a clear and precise positioning.

SUCCESS STORIES

SFC Energy is one of the world's leading fuel cell manufacturers – a success story in six key figures.

50,000

More than 50,000 fuel cells sold worldwide

–3,600 t CO_2

3,600 tons of CO_2 emissions saved – equal to 3,600 flights to New York or 2,400 one-week trips on a Cruise Ship

6.5 Mio. kWh

6.5 million kWh environmentally friendly electricity in total

20 Years

More than 20-year experience in fuel cell technology

100 Mio. Bh

100 million operating hours of fuel cells in total

0

Unlike conventional generators, fuel cells do not emit any nitrogen oxide (NO_x), carbon monoxide (CO) or particulate matter.

SUPERVISORY BOARD REPORT

Supervision of Company Management

The dominant factors in the financial year 2020 were the Company's capital market strategy, in particular the search for potential investors and strategic partners, the Company's financing options in the form of a comprehensive capital measure and the possible acquisition of attractive companies, as well as the business challenges resulting from the COVID-19 pandemic and the general market developments. The Supervisory Board was actively involved in these processes through consultations and discussions with the Management Board. In the year under review, the Supervisory Board performed the duties incumbent on it by law, and under the Company's Articles of Association and its Rules of Procedure. It closely followed the work of the Management Board and regularly advised and carefully monitored the latter's management of the Company. The Supervisory Board also satisfied itself that the Company was properly managed in compliance with applicable laws and regulations. The Supervisory Board was involved early and directly in all decisions of fundamental importance for the Company, as described in more detail below. The Supervisory Board reviewed transactions requiring its approval and discussed each of them with the Management Board.

Composition of the Supervisory Board

Pursuant to Article 10 para. 1 of the Company's Articles of Association, the Supervisory Board of the Company was made up of three members in the financial year 2020. The members of the Supervisory Board in the financial year 2020 were (i) Mr. Tim van Delden, (ii) Mr. Hubertus Krossa, and (iii) Mr. David Morgan (until his resignation from office at the end of May 30, 2020) and Mr. Gerhard Schempp (as from June 1, 2020 after his election by the Annual General Meeting on May 19, 2020). In the financial year 2020, Mr. Tim van Delden served as Chairman of the Supervisory Board of the Company, and Mr. David Morgan (until May 30, 2020) and Mr. Hubertus Krossa (as from July 31, 2020) served as Deputy Chairman of the Supervisory Board of the Company.

Supervisory Board Meetings

In performance of its duties, the Supervisory Board met nine times during the financial year 2020: on March 25 (meeting to review the financial statements for the financial year 2019), April 7, April 29, May 18, July 31, October 28, November 24 (two meetings) and December 16, 2020 (continued on December 18, 2020). Of these, one meeting, on July 31, 2020, was held as a physical meeting. The other eight meetings on March 25, April 7, April 29, May 18, October 28, November 24 (two meetings) and December 16, 2020 (continued on December 18, 2020) were held via video or telephone conference. The meetings of the Supervisory Board were always attended by all members of the Supervisory Board. Mr. Hubertus Krossa participated in the physical meeting on July 31, 2020 via video conference. In addition, the members of the Supervisory Board consulted one another also outside the meetings by telephone, in person or by email, if required.

At the Supervisory Board meetings, the Management Board provided the Supervisory Board with comprehensive and timely information regarding the development of the Company's revenue, result and, in particular, liquidity, the budget planning, the Company's and the Group's current business situation, including the risk position, risk management and group-wide compliance, strategic goals and any significant changes in the Company's organization and personnel. The Supervisory Board discussed the organization of the Company and the business with the Management Board, satisfied itself that the Company's organization and risk manage-

ment were effective, and discussed material issues concerning the Company's strategy and business policy with the Management Board. At various Supervisory Board meetings, the Management Board reported to the Supervisory Board on the status of the individual business units, the economic, financial, technological and strategic situation of the Company and of the Group, the Company's domestic and international growth strategy and material developments and events, for instance cooperations or strategic partnerships. Regular topics at the Supervisory Board meetings also included finance and controlling, sales and marketing, operations, quality management, human resources, and research & development. In addition, the Management Board reported on the strategic situation of the foreign subsidiaries of SFC Energy AG and on key developments related to those subsidiaries.

Moreover, in compliance with the rules of procedure laid down for the Management Board by the Supervisory Board, the Management Board regularly provided information to the Chairman of the Supervisory Board and at the Supervisory Board meetings to the full Supervisory Board by making detailed reports on significant business transactions of the Company and by making available financial data (in each case in comparison with the budget and the prior year). The Chairman of the Supervisory Board also maintained continuous and close contact with the Management Board, and in particular the CEO, who provided to the Chairman comprehensive information about current business affairs.

Other important topics of the Supervisory Board meetings in the financial year 2020 were once again the search for potential investors and strategic partners as well as the discussion of possible capital market measures of the Company aimed at strengthening its equity position and liquidity base in order to be also able to ensure the implementation of its growth strategy in the medium term. The Supervisory Board was informed in detail by the Management Board, using external consultants, about possible measures to gain access to new investors at home and abroad, to finance further growth and to improve the Company's equity story, discussed these measures both internally and with the Management Board, and weighed up their pros and cons. In the financial year 2020, this concerned, in particular, the Company's capital increase against cash contributions, excluding shareholders' subscription rights, in an amount of approximately EUR 19.4 million, which are intended to be used for the acquisition of attractive companies engaged in the field of hydrogen technology and to establish research and development priorities in electrolysis technology for the production of "green hydrogen". The Supervisory Board was also kept regularly informed about the status of implementation and it accompanied and monitored this process.

The financial year 2020 was strongly influenced by the COVID-19 pandemic. In addition to the considerable and immediate economic impacts of the pandemic, the long-term and structural effects can, at present, only be foreseen to a limited extent. In particular, the Supervisory Board was also involved in the decision to withdraw the guidance for the financial year 2020 on March 19, 2020 due to the impacts of the COVID-19 pandemic. The health and safety of the Company's employees and their families, as well as the Company's customers and suppliers, have always been of the utmost priority in all considerations, decisions and measures since the beginning of the unprecedented situation that is COVID-19.

At its meeting of March 25, 2020, which was held via video conference and attended by all members of the Management Board and guests, including representatives of Deloitte GmbH Wirtschaftsprüfungsgesellschaft who attended part of the meeting, the Supervisory Board dealt with the independence of its members and came to the conclusion that its members are independent within the meaning of the German Corporate Governance Code (see also "Corporate Governance"). Furthermore, the Supervisory Board primarily discussed and approved

the annual financial statements prepared in accordance with the German Commercial Code and the management report as well as the consolidated financial statements prepared in accordance with IFRS and the group management report of the Company for the financial year 2019. Representatives of the auditor attended the meeting, reported on the key results of their audit and gave an opportunity for questions to be asked by the Supervisory Board. Furthermore, the Supervisory Board adopted the Supervisory Board report, the corporate governance statement including the corporate governance report – in each case for the financial year 2019 – and the declaration of conformity with the German Corporate Governance Code within the meaning of Section 161 of the German Stock Corporation Act (AktG). The Supervisory Board also dealt with the agenda for the Annual General Meeting 2020, especially in light of the holding of the Annual General Meeting as a virtual general meeting without the physical presence of the shareholders and their authorized representatives, and the proposal for the election of the auditor for the financial year 2020. Furthermore, the Supervisory Board also extensively discussed with the Management Board the latest business operations and developments in the previous quarter and an outlook on the development in the first quarter, as well as the opportunities and risks of the current development of the individual business units and subsidiaries of the Company, especially with a view to the impacts of the COVID-19 pandemic. The Supervisory Board also discussed with the Management Board possible financing options involving potential investors and strategic partnerships. The Supervisory Board confirmed that it shared the view of the Management Board that the pace of a participation by potential investors and strategic partnerships will slow down due to the uncertainties associated with the COVID-19 pandemic. Finally, the Supervisory Board determined the bonuses of the two current members of the Management Board for the past financial year 2019 and instructed the Chairman of the Supervisory Board, Mr. Tim van Delden, to recruit Mr. Daniel Saxena as Chief Financial Officer of the Company and to enter into negotiations with him regarding a management board member's service contract.

At is meeting of April 7, 2020, which was held via video conference and attended by all members of the Management Board and guests, the Supervisory Board resolved to convene the Annual General Meeting. In particular, the Supervisory Board resolved to hold the Annual General Meeting without the physical presence of shareholders or their authorized representatives as a virtual general meeting in accordance with the legal requirements and to stipulate that shareholders' questions must be submitted by electronic communication no later than two days before the meeting. In addition, the Supervisory Board was informed by the Management Board about the impacts of the COVID-19 pandemic on the Company's business activities. It also decided to discuss the conclusion of a consultancy agreement with the resigning member of the Supervisory Board, Mr. David Morgan, for future cooperation.

At its meeting of April 29, 2020, which was held via video conference and attended by all members of the Management Board and guests, the Supervisory Board dealt with the appointment of Mr. Daniel Saxena as Chief Financial Officer (CFO) of the Company with effect as of July 1, 2020. In addition, in view of the uncertainties caused by the impacts of the COVID-19 pandemic, the Supervisory Board was informed by the Management Board about the figures for the first quarter and scenarios for the financial year 2020.

At its meeting of May 18, 2020, which was held via video conference and attended by all members of the Management Board and guests, the Supervisory Board dealt with the current business situation and development in the individual business units and the Company's subsidiaries in the light of the ongoing COVID-19 pandemic, with the sales figures in the first quarter based on the quarterly report to be published, and with scenarios for the financial year 2020. In addition, the Supervisory Board resolved on the division of responsibilities of the Management Board in view of Mr. Daniel Saxena joining the Company as a new member of the Management Board.

At its meeting of July 31, 2020, which was held – as the only meeting in the financial year – as a physical meeting with Mr. Hubertus Krossa participating via video link and attended by all members of the Management Board and guests, the Supervisory Board dealt with the current business situation and development in the individual business units and the Company's subsidiaries, and with sales figures in the second quarter and first half of the financial year 2020. The topics discussed included the development of the individual business units and the presentation of new product families. In this respect, too, the COVID-19 pandemic had a significant impact. Other matters of discussion were the financing and liquidity options for the Company and its subsidiaries as well as the involvement of potential investors and strategic partners. Finally, the Supervisory Board discussed a uniform brand identity for all companies of the SFC Energy Group, a new segment reporting for the business units that better reflects the Group's organizational and reporting structure, and the Company's hydrogen strategy.

At the Supervisory Board meeting of October 28, 2020, which was held via video conference and attended by the members of the Management Board and guests, the Management Board presented an update on the business figures in the third quarter and on a 9-month basis and an outlook on the development in the fourth quarter of the financial year 2020. Finally, the representatives of Deloitte GmbH Wirtschaftsprüfungsgesellschaft who attended the meeting commented on the forthcoming audit of the annual financial statements. In this respect, the COVID-19 pandemic had a significant impact. Against this backdrop, the Supervisory Board, with the participation of the Management Board, dealt with the current financial figures and the liquidity situation of the Company and of its subsidiaries. Another subject of discussion was the Company's hydrogen strategy, which the Supervisory Board, in agreement with the Management Board, has identified as a key technology for a climate-neutral energy supply with great growth prospects. The Supervisory Board also dealt once again with the search for new potential investors and strategic partnerships. Moreover, the Supervisory Board discussed a possible non-organic growth through the potential acquisition of attractive companies. Finally, the Supervisory Board approved the financial calendar for the financial year 2021 and again deliberated on the uniform brand identity of all Group companies. Finally, the Supervisory Board discussed for the first time a capital increase from authorized capital against cash contributions in order to be able to use the proceeds for the acquisition of attractive companies engaged in the field of hydrogen technology and to establish research and development priorities in electrolysis technology for the production of "green hydrogen".

At the Supervisory Board meeting held via telephone conference on November 24, 2020, the Supervisory Board and the Management Board resolved, after intensive discussions, to increase the Company's share capital by up to 10 %, using part of the authorized capital, by issuing new shares against cash contributions, excluding shareholders' subscription rights, and to publish the content of the resolution accordingly. Later on November 24, 2020, the Supervisory Board then approved the Management Board's decisions regarding the implementation of the capital increase and the determination of the number of new shares and the placement price at another Supervisory Board meeting held via telephone conference.

At its meeting of December 16, 2020, which was held via video conference and attended by the members of the Management Board and guests, and which was continued on December 18, 2020, the Supervisory Board dealt, first, with the general business figures in the third quarter and the forecast for the fourth quarter of the financial year 2020. The current situation in the individual business units and subsidiaries of the Company was discussed in particular detail, giving special consideration to the impacts of the COVID-19 pandemic. In addition, the budget planning for the financial year 2021 and the medium-term budget planning for the financial years 2021-2025 in all business units were discussed and approved. The Supervisory Board also deliberated on the Company's debt and financing situation. Furthermore, the options for potential strategic partnerships

and potential acquisitions of attractive companies, as well as the search for potential new investors, were discussed. Finally, the Supervisory Board resolved a stock option program for two selected executives and defined the targets for the Management Board for the payment of the annual bonus for financial year 2021.

Committees

In the financial year 2020, the Supervisory Board did (as in previous years) not form any committees since it holds the view – which is consistent with the legal literature on this subject – that the efficiency of the advisory and controlling activities of a Supervisory Board made up of only three members cannot be increased meaningfully by forming any committees.

Corporate Governance

Information on Supervisory Board-related aspects of the Company's corporate governance can be found in the corporate governance report, which is reproduced as part of the corporate governance statement on pages 39 et seqq. of the annual report.

The remuneration of the members of the Supervisory Board is shown individually and broken down by components in the remuneration report, which is reproduced on pages 110 et seqq. of the annual report.

In the financial year 2020, as in previous years, and in particular in its meeting of March 25, 2020, the Supervisory Board thoroughly dealt with potential conflicts of interest affecting its members and discussed and agreed upon its procedure for handling such conflicts, should they arise. In the year under review, the Supervisory Board did not identify any potential conflicts of interest of members of the Supervisory Board. In addition, the Supervisory Board determined at its meeting of March 25, 2020 that it included an appropriate number of independent members within the meaning of the recommendations C.6 and C.7 of the German Corporate Governance Code. None of the members of the Supervisory Board has any personal or business relationship with the Company, its governing bodies, a controlling shareholder or a company affiliated with the latter, which may cause a substantial and not merely temporary conflict of interest. Conflicts of interest with a controlling shareholder or a company affiliated with the controlling shareholder are not possible for the simple reason that the Company is not controlled by any of its shareholders. This is because there is no control agreement with any shareholder in place, and no shareholder has the absolute majority of the voting rights or at least a sustainable voting majority at the Annual General Meeting.

The Company is committed to complying with the recommendations of the German Corporate Governance Code. The declaration of conformity required to be made by the Management Board and the Supervisory Board on an annual basis and made most recently om March 23, 2021 is available on the Company's website at www.sfc.com/en/investors/corporate-governance/#s2. It is also reproduced in the annual report (on page 39 et seqq.).

Accounting

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, was elected by the Annual General Meeting to audit the Company's financial statements for the financial year 2020 and was engaged for the audit by the Supervisory Board. The Supervisory Board negotiated the audit engagement, specified the focal points of the audit and engaged the auditor. The agreed focal points for the audit were:

Consolidated financial statements in accordance with IFRS

i. Revenue recognition
ii. Impairment testing of goodwill
iii. Impairment testing of capitalized development costs
iv. Valuation of inventory
v. Completeness and valuation of other provisions

Annual financial statements in accordance with the German Commercial Code

i. Revenue recognition
ii. Impairment testing of financial assets (PBF Group, Simark)
iii. Valuation of inventory
iv. Completeness and valuation of other provisions

The auditor audited the annual financial statements of SFC Energy AG as of December 31, 2020 as prepared by the Management Board in accordance with the German Commercial Code and the management report, together with the bookkeeping system, and issued an unqualified audit opinion thereon. The consolidated financial statements of the Company were prepared in accordance with Section 315e of the German Commercial Code (HGB) on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union. The auditor also issued an unqualified audit opinion on these consolidated financial statements and the group management report.

The Supervisory Board meeting to review the financial statements for the financial year 2020 was held on March 23, 2021, with the participation of two members of the Supervisory Board via video conference. The members of the Supervisory Board received documentation on the annual and consolidated financial statements, the audit reports, and all other documents and meeting reports in advance of the meeting, reviewed them carefully, and discussed them in detail during the meeting. As the annual financial statements prepared in accordance with the German Commercial Code for the financial year ended December 31, 2020 did not show a distributable profit, a proposal by the Management Board for the appropriation of the distributable profit was not necessary. The auditor participated in the meeting, reported on the course of the audit and the audit results and was available to answer questions, provide additional information and discuss the documents.

The Supervisory Board reviewed the annual and consolidated financial statements and the respective management reports, being aware of and taking into consideration the auditor's audit reports, and also in discussions and deliberations with the auditor, and agreed with the result of the auditor's audit. Based on its own review of the annual and consolidated financial statements and the respective management reports, the Supervisory Board determined that it had no reservations to make. At this meeting of March 23, 2021, the Supervisory Board approved the annual and consolidated financial statements for the financial year 2020 together with the respective management reports. The annual financial statements for 2020 were thus adopted in accordance with Section 172 sentence 1 of the German Stock Corporation Act (AktG).

The Supervisory Board thanks the members of the Management Board and all of the Company's employees for their deep commitment to, and hard work for, the Company as well as for their achievements in the financial year 2020.

Brunnthal, March 23, 2021

The Supervisory Board

Tim van Delden
Chairman

SFC ENERGY ON THE CAPITAL MARKETS

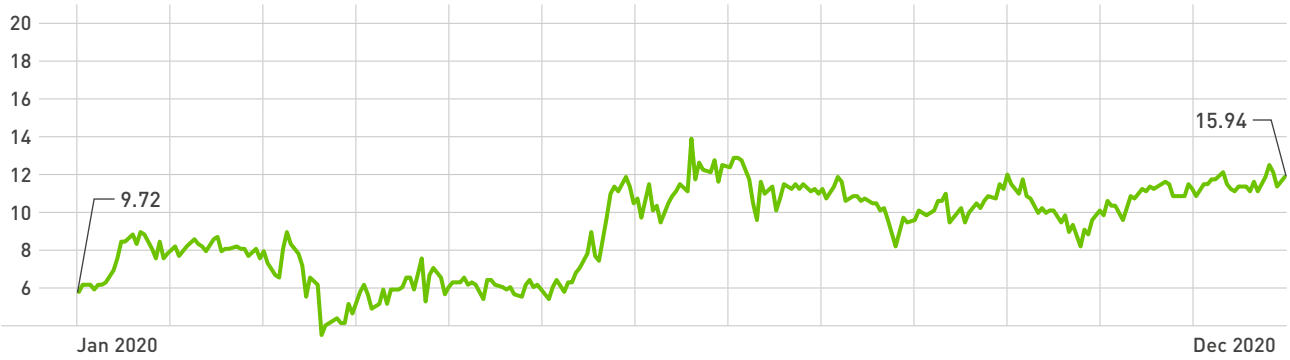
Development of the indices

In 2020, the coronavirus (COVID-19) pandemic was the dominant factor affecting the global financial markets' development and performance. Whereas the share prices plummeted in the first half of the year mainly due to the global expansion of the pandemic and its anticipated negative impact on global economic development, in the course of the year stock markets rebounded strongly.

In 2020, the leading US stock market index, the Dow Jones, recorded an increase of 6.9 % against the previous year's closing figure, and the broader-based S&P 500 even saw an increase of 16.2 %.[1,2] While US stock markets performed well, the biggest European and German companies by market capitalization struggled more with the impact of the pandemic, and the EURO STOXX 50 recorded a decrease of 4.7 %.[3] In Germany, the DAX started the 2020 trading year on January 2 at 13,233 points. From an interim high of 13,795 points on February 17, the COVID-19 pandemic caused the stock market barometer to plunge to as low as 8,256 points on March 16, 2020. An overall decline of 25 % was reported in the first quarter of 2020. While a more positive economic outlook than was expected in the interim, extensive government support and a flood of liquidity provided by central banks aided the leading index's substantial rebound in the second quarter, the anticipated negative economic impact of the second wave of COVID-19 slowed the upward trajectory again from the third quarter. But financial aid programs and the prospect of a COVID-19 vaccine during the fourth quarter of 2020 sent share prices upward again on the whole. The DAX closed the year on December 30, 2020, at 13,719 points, up 3.5 % on the closing figure for 2019.[4] The day before, on December 29, 2020, the leading index achieved a new all-time high of 13,903 points. The German technology index, the TecDAX, gained 6.6 % over the course of 2020 and closed trading on December 30 at 3,212 points.[5]

Performance of the SFC share

SHARE PRICE DEVELOPMENT FROM THE BEGINNING OF JANUARY 2020 TO THE END OF DECEMBER 2020 in EUR



1 https://www.boerse-frankfurt.de/index/dow-jones-industrial
2 https://www.boerse-frankfurt.de/index/s-p-500
3 https://www.boerse-frankfurt.de/index/euro-stoxx-50
4 https://www.boerse-frankfurt.de/index/dax
5 https://www.boerse-frankfurt.de/index/tecdax

The SFC share price made substantial gains of 64 % in the reporting year. Mindful of the impact that COVID-19 was having on companies' profit expectations, investors tended to prefer technology stocks and business models focused on long-term positive effects for society. The Company's solid business performance in combination with adjusted cost structures in response to the challenging pandemic environment also had a positive impact on the share price. Government initiatives like the German Federal Government's National Hydrogen Strategy and the European Union's Hydrogen Strategy are both a factor in and the result of a continued upward trend in acceptance and growing demand for clean energy generation in society. Major macro trends are thereby boosting demand for fuel cells, which in turn is resulting in increased investor interest in SFC Energy AG.

The SFC share began the 2020 trading year on January 2 at an opening price of EUR 9.72. The lowest share price for the reporting period was recorded on March 19, 2020, at EUR 7.00. The SFC share price continued to rise over the further course of the year and reached its peak of EUR 18.00 in the reporting year at the start of the second half of 2020 on July 6. Corrections in technology stocks temporarily impacted the share price toward the end of the third quarter, following the significant gains in previous months. SFC Energy AG shares closed trading on December 30, 2020, at a closing price of EUR 15.94. Increased investor interest sparked a further increase in the average daily trading volume for all German trading venues to 41,343 shares (previous year: 29,424 shares).

On December 30, 2020, SFC Energy AG's market value amounted to EUR 230.65 million based on a total of 14.47 million shares outstanding and a closing price of EUR 15.94. At the 2019 balance sheet date, market capitalization amounted to EUR 125.87 million based on 12.95 million shares outstanding and a closing price of EUR 9.72 (all figures based on Xetra prices).

SHARE PRICE in EUR

Opening price	01/02/2020	9.72
Year high	07/06/2020	18.00
Year low	03/19/2020	7.00
Closing price	12/30/2020	15.94

Exercise of the placed warrant bond

The Harbert European Growth Capital Fund's decision to exercise the warrant bond that was placed in August 2017 gained SFC Energy AG gross issue proceeds of EUR 0.75 million in January 2020. Exercising these warrants increased SFC Energy AG's share capital by EUR 204,700.00 from EUR 12,949,612.00 to EUR 13,154,312.00. This resulted in the total number of Company shares issued rising to 13,154,312.

Capital increase

To accelerate the Company's growth as well as to further roll-out of the hydrogen technology, in November 2020, SFC Energy successfully executed a capital increase of around 10 % against cash contributions through a private placement with institutional investors. For SFC Energy AG the issue of approximately 1.3 million new shares resulted in gross issuing proceeds of around EUR 19.4 million. The increase in the Company's share capital – by EUR 1,315,431.00 to EUR 14,469,743.00 – was entered in the commercial register on November 27, 2020, also increasing the total number of shares issued to 14,469,743. SFC intends to use the issue proceeds to fund strategic acquisitions in hydrogen technology and the scale-up of key research and development work in electrolysis technology to generate "green hydrogen."

Investor relations activities

In addition to participating in roadshows and capital markets conferences, in the 2020 financial year SFC Energy AG's management team also engaged on a regular basis – where the pandemic measures allowed – in personal meetings with the financial and business media representatives and institutional investors in which it presented the Company's strategy and events of significance for the share price development.

While SFC Energy still attended a number of capital markets and analysts' conferences in the first quarter of 2020 and went on a roadshow in the USA in early March, containment measures implemented by many governments in the context of the coronavirus pandemic largely prevented attendance events from taking place for the rest of the year. In the second half of 2020, the Management Board used numerous virtual roadshows and conferences as an opportunity to present the Company to the capital market.

Designated sponsor, mwb fairtrade Wertpapierhandelsbank AG, provided for binding bid/ask prices were for SFC shares, as well as for the required liquidity and tradeability.

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

Analyst research

SFC Energy AG's shares are listed in the Prime Standard of the Frankfurt Stock Exchange, and they are regularly analyzed and evaluated by research analysts working for renowned banks. In July 2020, Metzler Bank initiated coverage of SFC Energy shares with a "Buy" recommendation. Interested investors can find detailed information in the Investor Relations/Share section at www.sfc.com.

RESEARCH VALUATIONS in EUR

Issuer	Date	Recommendation	Price target
First Berlin – Equity Research	02/16/2021	Buy	44.00
M.M. Warburg	02/16/2021	Buy	35.00
Commerzbank	02/16/2021	Hold	34.00
Metzler	12/15/2020	Buy	24.00
ABN Amro	12/23/2020	Hold	16.00

Shareholder structure

The shareholder structure of SFC Energy AG has expanded significantly since the previous year as a result of the capital increase that was undertaken and the warrant bond that was exercised. Institutional investors hold approximately 35.8 % of the shares. Extended management, including the Supervisory Board, holds around 1.7 % of the voting rights. The percentage of SFC Energy AG shares in the free float amounts to roughly 57.5 % as of the end of February 2021.

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

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

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

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

Declaration of conformity pursuant to Section 161 AktG

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

On March 23, 2021, the Management Board and the Supervisory Board of SFC Energy AG made the following declaration of conformity pursuant to Section 161 AktG:

"After due examination, the Management Board and the Supervisory Board of SFC Energy AG declare that, since March 25, 2020 (the date as of which the last declaration of conformity was made), the Company has complied, and will comply, with the recommendations of the German Corporate Governance Code as amended on December 19, 2019 (published in the Federal Gazette on March 20, 2020, "GCGC"), with the following exceptions:

- Contrary to Section B.5 GCGC, the Supervisory Board of SFC Energy AG has not determined fixed age limits for members of the Management Board until the publication of this declaration. Age alone is not decisive for the capabilities, suitability and independence of a current or potential member of the Management Board. However, by setting an age limit for Management Board members by resolution of March 23, 2021, the recommendation under B.5 GCGC is now being followed.

- According to Section C.1 GCGC, the Supervisory Board shall determine concrete objectives regarding its composition, and shall prepare a profile of skills and expertise for the entire Board, while taking diversity into account. Proposals by the Supervisory Board to the General Meeting shall take these objectives into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the Supervisory Board. The implementation status shall be published in the corporate governance statement. This statement shall also provide information about what the shareholder representatives on the Supervisory Board regard as the appropriate number of independent Supervisory Board members representing shareholders, and the names of these members. The Company deviates from the recommendation to determine concrete objectives, to prepare a profile of skills and expertise for the entire Board, and to provide information about what the shareholder representatives on the Supervisory Board regard as the appropriate number of independent Supervisory Board members representing shareholders, and the names of these members. The composition of the Supervisory Board shall ensure that the Management Board is effectively advised and controlled, based on the Company's best interests. To ensure compliance with these statutory requirements the Supervisory Board will continue to base its proposals of candidates primarily on the knowledge, skills and experience of eligible candidates, while taking diversity into account. Setting specific targets or quotas in advance that exceed the legally required target quota of women for the Supervisory Board under Section 111 para. 5 AktG, however, is something which the Supervisory Board considers to be neither necessary nor reasonable due to the fact that to do so would be to impose a sweeping restriction on the selection of suitable candidates particularly for SFC Energy AG, as a small, stock-listed German stock corporation (Aktiengesellschaft) with a supervisory board that is composed of only three members. Accordingly, the corporate governance statement does not mention any such objectives. As a result, the Company deviates from the recommendation set forth in Section C.1 GCGC.

- Contrary to Section C.2 GCGC, the Supervisory Board of SFC Energy AG has not determined fixed age limits for members of the Supervisory Board until the publication of this declaration. Age alone is not decisive for the capabilities, suitability and independence of a current or potential member of the Supervisory Board. However, by setting an age limit for Supervisory Board members by resolution of March 23, 2021, the recommendation under C.2 GCGC is now being followed.

- According to Section D.2 GCGC, the Supervisory Board shall, depending on the specific circumstances of the enterprise and the number of Supervisory Board members, form committees with relevant specialist expertise. In particular, Section D.3 GCGC 2020 recommends that an Audit Committee be established. The respective committee members and the committee chairs shall be provided in the corporate governance statement. The Supervisory Board of SFC Energy AG comprises only three members. The Supervisory Board holds the view – which is consistent with the legal literature on this subject – that the efficiency of the advisory and controlling activities of a Supervisory Board made up of only three members cannot be increased meaningfully by forming any committees. Accordingly, the respective committee members and the committee chairs have not been provided in the corporate governance statement. As a result, the Company deviates from the recommendations set forth in Sections D.2 and D.3 GCGC. The fact that no Supervisory Board committees have been formed results in further deviations in respect of additional recommendations of the GCGC pertaining to Supervisory Board committees and their members (Sections C.10, D.4, D.8, D.11, D.13 and G.17 GCGC). However, on 23 March 2021, the Executive Board and Supervisory Board resolved to propose to the Annual General Meeting that the statutory number of Supervisory Board members be increased to four, also with the aim of forming an Audit Committee in the future.

- According to Section D.5 GCGC, the Supervisory Board shall form a Nomination Committee, composed exclusively of shareholder representatives, which names suitable candidates to the Supervisory Board for its proposals to the General Meeting. The Company's Supervisory Board has not formed a Nomination Committee. Consistent with the legal literature on this subject, the Supervisory Board takes the view that forming a Nomination Committee is irrelevant if there are no employee representatives on the Supervisory Board. As a result, the Company deviates from the recommendation set forth in Section D.5 GCGC.

- According Section G.1 GCGC, the remuneration system shall define, in particular, how the target total remuneration is determined for each Management Board member and the maximum limits for total remuneration (maximum remuneration). The remuneration system adopted on 23 March 2021 complies with this recommendation. From the financial year 2014 onwards, the Supervisory Board of the Company had implemented a virtual stock option program that applied to any Management Board member's employment contract to become effective from January 1, 2014 onward and that provided for the grant of virtual stock options to the members of the Management Board. After the end of a waiting period, the virtual stock options conferred the right to a cash payout depending on the price of the share of SFC Energy AG at the time of exercise. Whereas the total number of stock options to be granted was limited from the beginning, there was no limit to the amount with regard to a potential increase in the share price during the exercise period. The Supervisory Board holds the opinion that a limitation of the potential increase of a share price-based remuneration could contradict the principle behind this form of remuneration and could undermine its major incentive which is to work for and contribute to an increased company value but also recognizes the benefit of a limit to the amount. On May 19, 2020, the Annual General Meeting of SFC Energy AG authorized the Company's Supervisory Board to introduce a stock option program for the members of the Management Board. In this context, the Supervisory Board was also authorized to define a limit of the total amount (cap) of the stock options which was agreed for all stock option programs that were implemented afterwards. Since the Supervisory Board of SFC Energy AG made insofar use of this authorization, there has no longer been a deviation from Section G.1 GCGC with respect to stock option programs that were implemented afterwards. According to Section G.1 GCGC, the remuneration system shall also define,

in particular, the relative share in the target total remuneration of fixed remuneration on the one hand, and short-term variable and long-term variable remuneration components on the other hand. The remuneration system adopted on 23 March 2021 complies with this recommendation. Because no such target total remuneration had been defined before, it was not possible to define the relative share of the individual remuneration components in the target total remuneration. As a result, the Company deviated from Section G.1 GCGC.

Brunnthal, March 23, 2021

SFC Energy AG

The Management Board
The Supervisory Board"

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

Structure and work of the management and supervisory bodies

SFC Energy AG believes that a responsible and transparent management and controlling structure is the foundation for creating value and instilling confidence in the Company. The structure of the Company's management and supervisory bodies is as follows:

Shareholders and Annual General Meeting

The shareholders of SFC Energy AG exercise their co-determination and supervisory rights at the Annual General Meeting, which is held at least once a year. SFC Energy AG regularly informs its shareholders, as well as analysts, shareholders' associations, media representatives and the interested public, through its financial calendar, which is published in the Company's annual report, quarterly communications and on its website. As part of its investor relations activities, the Company further regularly meets with analysts and institutional investors. The Company also holds an analysts' conference each year. The last such conference took place on November 16, 2020.

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

In advance of the Annual General Meeting, shareholders receive in-depth information about the financial year under review and the pending agenda items through the annual report and the invitation notice, both of which make it easier for them to exercise their rights and prepare for the meeting. All of the documents and information pertaining to the Annual General Meeting, including the annual report, are also published on the Company's website. To facilitate the exercise of shareholders' rights, SFC Energy AG offers any shareholder who is unable or chooses not to exercise his or her voting rights at the Annual General Meeting in person the opportunity to have them exercised at the Annual General Meeting through a proxy in accordance with instructions given to such proxy. In 2020, the Annual General Meeting was held as a virtual general meeting without the physical presence of the shareholders or their authorized representatives.

Management Board

The Management Board of SFC Energy AG manages the Company with the goal of creating sustainable value on its own responsibility and in the best interests of the Company, i. e., with the interests of the shareholders, employees and other stakeholders in mind. The Management Board acts without being subject to instructions from any third parties and in keeping with the law, the Company's Articles of Association and the rules of procedure laid down by the Supervisory Board for the Management Board and taking account of the resolutions by the Annual General Meeting. When filling management positions within the Company, the Management Board of SFC Energy AG also takes into consideration the principle of diversity and seeks to ensure appropriate representation of women (see in this regard also the section entitled "Information required by Section 289f para. 2 no. 4 HGB (German Commercial Code)", page 39).

Notwithstanding the principle of overall responsibility according to which all members of the Management Board are jointly responsible for managing the Company, each member of the Management Board has sole responsibility for the area assigned to him or her. The Chief Executive Officer has primary responsibility for the overall management and business policy of the Company. He ensures coordination and consistency of business management within the Management Board and represents the Company in public. Since July 1 of the past financial year, the Management Board of SFC Energy AG comprised three members: Dr. Peter Podesser, who serves as Chief Executive Officer (CEO), Mr. Daniel Saxena, who serves as Chief Financial Officer (CFO), and Mr. Hans Pol as Chief Operating Officer (COO). At the end of February 29, 2020, Mr. Marcus Binder left the Management Board of SFC Energy AG.

The Management Board and the Supervisory Board of SFC Energy AG work closely together to the benefit of the Company. The Management Board reports to the Supervisory Board regularly, without delay and comprehensively all issues of planning, business development, strategy, risk situation and risk management that are relevant to the Company, and all other major events that are of material importance for the management of the Company. It also regularly coordinates the strategy of SFC Energy AG with the Supervisory Board. In accordance with the rules of procedure laid down by the Supervisory Board for the Management Board, material decisions by the Management Board are subject to the approval of the Supervisory Board.

Potential conflicts of interest of members of the Management Board must be disclosed to the Supervisory Board without undue delay. The other members of the Management Board are to be informed thereof. Members of the Management Board shall only assume side activities, especially supervisory board mandates outside the Company, with the approval of the Supervisory Board. The approval of the Supervisory Board is also required for significant transactions between the Group companies on the one hand and the members of the Management Board as well as related persons or enterprises on the other. These transactions must be on arm's length basis. No such agreements existed in the reporting period. Equally, no conflicts of interest have arisen in the year under review. During the past financial year, there were no conflicts of interest involving the members of the Management Board of SFC Energy AG that would have required immediate disclosure to the Supervisory Board. In the past financial year, no member of the Management Board was a member of the supervisory board of any commercial company or partnership not belonging to the group.

According to Section B.2 GCGC, the Supervisory Board, together with the Management Board, shall ensure that there is long-term succession planning. In the past year, the Supervisory Board, together with the Management Board, discussed the replacement of members of the Management Board and long-term personnel planning. When appointing members to the Management Board, the Supervisory Board ensures that the composition of the Management Board is as best as possible for the Company, diverse and complementary and that there is long-term succession planning. When examining candidates for a Management Board position, key suitability criteria are, in the opinion of the Supervisory Board, the candidates' specialist qualifications for the position in question, convincing leadership qualities, previous performance, experience, industry knowledge and knowledge of the Company. The Supervisory Board will not appoint a member of the Management Board who has reached the age of 65 at the time of appointment. The decisive factor in deciding on an appointment to the Management Board is always the interests of the company, taking into account all circumstances of the individual case. As a result of this planning, the Supervisory Board appointed on April 28, 2020 Mr. Daniel Saxena as a member of the Management Board with effect as of July 1, 2020 for a term of office or four years.

Supervisory Board

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

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

Composition of the Supervisory Board

Pursuant to Article 10 para. 1 of the Company's Articles of Association, in the financial year 2020 the Supervisory Board of the Company was made up of three members, who were elected by the General Meeting. The members of the Supervisory Board in the financial year 2020 were (i) Mr. Tim van Delden, (ii) Mr. Hubertus Krossa, and (iii) Mr. David Morgan (until the end of May 31, 2020) and Mr. Gerhard Schempp (as from June 1, 2020). In accordance with the recommendations of the German Corporate Governance Code, Mr. Tim van Delden, Mr. David Morgan and Mr. Hubert Krossa were elected individually in the last elections to the Supervisory Board at the Annual General Meeting on May 17, 2017 and Mr. Gerhard Schempp in the Annual General Meeting on May 19, 2020.

The Chairman of the Supervisory Board, Mr. Tim van Delden, has been a member of the Company's Supervisory Board since May 9, 2012. Mr. David Morgan has been a member of the Supervisory Board since March 8, 2010. Mr. Hubertus Krossa has been a member of the Supervisory Board since March 16, 2014, and Mr. Gerhard Schempp has been a member of the Supervisory Board since June 1, 2020.

Of the Supervisory Board members currently in office, especially Mr. Tim van Delden qualifies as an independent financial expert within the meaning of Section 100 para. 5 AktG. He has the necessary expertise due to his many years of professional experience in corporate finance and development.

The Supervisory Board has not specified any concrete objectives regarding its composition, with the exception of the legally required determination of a target quota for the proportion of women on the Supervisory Board (see in this regard also the section entitled "Information required by Section 289f para. 2 no. 4 HGB (German Commercial Code)"). To ensure compliance with the legal requirements, the Supervisory Board will continue

to base its proposals for candidates to the shareholders primarily on the knowledge, skills and experience of eligible male and female candidates. In this respect, the Supervisory Board will also appropriately take account of the international activities of the Company, potential conflicts of interest, the number of independent members of the Supervisory Board, an age limit laid down in the rules of procedure of the Supervisory Board and diversity. Setting specific targets or gender-specific quotas in advance that exceed the legally required target quota of women for the Supervisory Board under Section 111 para. 5 AktG, however, is something which the Supervisory Board considers to be neither necessary nor reasonable due to the fact that to do so would be to impose a sweeping restriction on the selection of suitable candidates particularly for SFC Energy AG, as a small, stock-listed German stock corporation (Aktiengesellschaft) with a supervisory board that is composed of only three members.

The Supervisory Board will not consider persons for nomination proposals who have reached the age of 75 at the time of election.

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

Potential conflicts of interest of Supervisory Board members

Provisions for avoiding and dealing with potential conflicts of interest are laid down in the rules of procedure of the Supervisory Board. Every member of the Supervisory Board is supposed to disclose conflicts of interest to the Supervisory Board. The Supervisory Board shall provide information on conflicts of interest that arise and how they have been dealt with in its report to the General Meeting. In the financial year 2020, as in previous years, the Supervisory Board thoroughly examined potential conflicts of interest affecting its members and discussed and agreed upon its procedure for handling such conflicts, should they arise. In the year under review, the Supervisory Board did not identify any conflict of interest regarding the members of the Supervisory Board. The term of office for the Supervisory Board is generally five years. Since Mr. Tim van Delden and Mr. Hubertus Krossa were elected at the Annual General Meeting 2017 for a term of office of five years, the current term of office of these two members of the Supervisory Board will end at the close of the Annual General Meeting 2022. The term of office of Mr. Gerhard Schempp, who was newly elected at the Annual General Meeting 2020 for a term of office of one year, will end at the close of the Annual General Meeting 2021.

Supervisory Board Committees

In the financial year 2020, the Supervisory Board did (as in previous years) not form any committees since it holds the view – which is consistent with the legal literature on this subject – that the efficiency of the advisory and controlling activities of a Supervisory Board made up of only three members cannot be increased meaningfully by forming any committees. The Supervisory Board also takes the view that forming a Nomination Committee is irrelevant because there are no employee representatives on the Company's Supervisory Board.

Training and professional development; self-assessment

According to Section D.12 GCGC, the Company shall support Supervisory Board members sufficiently upon their appointment and during training and professional development measures. Mr. Gerhard Schempp, who has been a member of the Supervisory Board of SFC Energy AG since June 1, 2020, was familiarized with his duties by the other members of the Supervisory Board. Mr. Tim van Delden and Mr. Hubertus Krossa have performed their duties since 2010 and 2014, respectively, which means that for them only the sufficient support during training and professional development needs to be disclosed.

According to Section D.12 GCGC, the Supervisory Board shall assess, at regular intervals, how effective the Supervisory Board fulfils its tasks. The Supervisory Board of SFC Energy AG regularly assesses how effective it fulfils its tasks and decides on measures for improvement. In 2017, the Supervisory Board conducted a self-assessment (efficiency review) using a questionnaire. The Supervisory Board discussed the material results and, with the involvement of the Management Board, measures for improvement. Due to the additional burdens caused by the COVID-19 pandemic, the Supervisory Board did not conduct its self-assessment again in 2020 but plans to conduct a self-assessment using a questionnaire in the financial year 2021, possibly with the involvement of an external expert.

Disclosures regarding relevant corporate governance standards

There are no relevant corporate governance standards applied at SFC Energy AG above and beyond the legal requirements.

Risk management and compliance

One of the tasks of any system of good corporate governance is to deal with risks responsibly. The Management Board of SFC Energy AG ensures that an appropriate risk management and risk controlling are in place in the Company (Compliance Management System). Doing so guarantees that risks are identified in time and potential risks are minimized. More detailed information about the Company's risk management can be found in the Report on Risks and Opportunities of the Group Management Report, on pages 89 et seqq.

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

Transparency

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

Pursuant to Art. 19 of the Market Abuse Regulation (Regulation (EU) No. 596/2014, MAR), the members of the Management Board and of the Supervisory Board of SFC Energy AG and certain employees discharging managerial responsibilities, as well as persons closely associated with them, are required to report purchases and sales of shares in the Company and of any financial instruments linked thereto if the value of the transactions within one calendar year reaches or exceeds the amount of EUR 5,000.

All directors' dealings pursuant to Art. 19 MAR are published via the DGAP (Deutsche Gesellschaft für Ad-hoc Publizität) and can be viewed on the Company's website at https://www.sfc.com/en/investors/corporate-governance/directors-dealings. The total percentage of shares in SFC Energy AG held by Management Board members as of December 31, 2020, was 1.63 %, of which 0.74 % were held by the CEO Dr. Peter Podesser, and 0.87 % by Management Board member Hans Pol and 0.02 % by Management Board member Daniel Saxena. As of this date, among the members of the Supervisory Board, Hubertus Krossa held 0.05% of the shares issued by the Company.

Accounting and Auditing

The consolidated financial statements of SFC Energy AG as well as the Company's interim reports are prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to the guidelines of the International Accounting Standards Board. Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, was elected by the Annual General Meeting to audit the Company's financial statements for the financial year 2020 and was engaged for the audit by the Supervisory Board. The auditor participated in the Supervisory Board's discussions concerning the consolidated financial statements and reported on the material results of its audit. Shareholders and other interested parties can access the consolidated financial statements and interim reports on the Company's website.

Information required by Section 289f para. 2 no. 4 HGB

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

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

Female target quota for the Supervisory Board

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

By the close of December 31, 2020, no changes were made in the composition of the Supervisory Board, meaning that the target quota of 0 % that had been set was then also achieved.

Female target quota for the Management Board

At its meeting on March 6, 2017, the Supervisory Board of the Company decided to again set a target quota of 0% for the proportion of women on the Management Board for the period up to the close of December 31, 2021, following the initial setting of such target quota for the period up to December 31, 2016. In doing so, the main consideration here, too, was that, whilst staffing the Management Board should consider gender-specific diversity, it was recognized to be in the Company's interests to be guided primarily by the knowledge, capabilities and experience of the candidates, both male and female. Setting a higher target quota would impose a sweeping restriction on the selection of suitable candidates from the outset. When setting the female target quota, the Supervisory Board took account of, on the one hand, its decision of September 16, 2016, to increase the size of the Management Board by one member to three members. Currently, there are no plans to increase the size of the Management Board again.

By the close of December 31, 2020, no changes were made in the composition of the Management Board with regard to gender-specific diversity, meaning that the target quota of 0% that had been set was achieved.

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

With regard to the target quotas for the proportion of women on the two management levels below the Management Board, the Management Board, first, again reviewed the definition of the two management levels used to date and considered it as appropriate to continue to define the criteria set in the resolution of September 10, 2015 on the initial determination of the target quotas as follows: The Management Board determines the Company's management levels based on the direct reporting lines to the Management Board and disciplinary authority. All executives are members of the management team and have authority over other employees qua direction and guidance rights. Only persons employed by the company have been taken into consideration. On the basis of these criteria, the Company continues to have only one management level below the Management Board; it comprises twelve persons, of whom six are female and six male. The proportion of women on the first management level below the Management Board therefore currently amounts to 50 %. It is not possible to determine the proportion of women on the second management level as the Company does not have a second management level.

The diversity of the persons discharging managerial responsibilities is an integral component of the Company's corporate culture, and for the Management Board, an important but non-binding aspect regarding the appointment of executives on the management levels. In order to grant the Company the greatest possible discretion regarding the appointment of executives, the Management Board set at its meeting on March 6, 2017 again a target quota of 30 % for the proportion of women on the management level below the Management Board for the period up to the end of December 31, 2021.

By the close of December 31, 2020, the proportion of women on the first management level was 50 %, meaning that the target quota of 30 % that had been set was achieved.

Remuneration report

The remuneration report summarizes the principles applied in determining the remuneration of the Management Board of SFC Energy AG and explains the amount and structure of the Management Board's income. The remuneration report also describes the principles and amount of the remuneration of the Supervisory Board.

Remuneration system of the Management Board

The remuneration of the Management Board members should serve as a vehicle to further the SFC AG business strategy and secure its implementation. In addition, by defining performance criteria that are linked to the long-term and sustainable success of the Company and supplementing them with demanding annual and multi-year targets, a contribution is also being made to the Company's long-term and sustainable development. Outstanding performance should be rewarded by appropriate remuneration. And performance that falls short of targets set should result in a noticeable reduction in remuneration. The remuneration system sets incentives that are in line with, and promote, this Company strategy.

Pursuant to the German Stock Corporation Act, the Supervisory Board determines the remuneration of the Management Board. The remuneration of the members of the Management Board consists of the following components:

Base remuneration

The members of the Management Board receive a fixed annual salary paid in twelve equal monthly installments. The level of base remuneration is determined according to the responsibility and experience of the relevant member of the Management Board.

The members of the Management Board also receive certain fringe benefits. The Company provides a company car to each member of the Management Board. The Company also pays the premiums for accident, pension, and life insurance for the members of the Management Board up to a maximum cap and pays the annual premium for directors' and officers' (D&O) liability insurance taken out for them with a deductible equal to at least 10 % of the loss and up to a minimum level of one and a half times the fixed annual salary.

Short-term variable remuneration (bonus)

The members of the Management Board also receive a variable remuneration (performance-based bonus) if specific performance targets are met, which serves to reward their contribution to the implementation of the business strategy during a given financial year. The short-term variable compensation is made up of four equally weighted components: three components with fixed financial performance criteria that reflect the Company's revenue targets or profitability, and one component placed at the discretion of the Supervisory Board that may specify financial or non-financial performance criteria or a combination of both. In relation to the financial performance criteria, equally weighted targets were set for the financial year 2020 with respect to the amounts budgeted for consolidated sales (based on the budgeted exchange rate for the Canadian dollar to the euro), gross margin, and underlying EBITDA.

Long-term variable remuneration

A significant portion of the Management Board's remuneration is linked to the long-term performance of SFC shares. Virtual or physical stock options are granted as long-term variable share-based remuneration.

Virtual stock option program (SAR Program)

At the beginning of the financial year 2014, the Supervisory Board of the Company implemented a virtual stock option program (SAR Program 2014–2016) for the first time with the aim to align the interests of the shareholders with those of the members of the Management Board. The SAR Program 2014–2016, which provides for the issuance of virtual stock options to the members of the Management Board, applies to any new Management Board member's employment contract to become effective from January 1, 2014 onward and replaces the previously existing LTIP. A tranche of the fourth SAR Program (SARP 2018-2021) was granted to Mr. Hans Pol in connection with the extension of his employment contract.

Mr. Hans Pol received virtual stock options in 2014 (Hans Pol Program 1), 2015 (Hans Pol Program 2) and 2018 as part of the extension of his employment contract (Hans Pol Program 4).

Dr. Peter Podesser received virtual stock options in 2014 (Dr. Peter Podesser Program 1), 2017 (Dr. Peter Podesser Program 3) and 2020 (Dr. Peter Podesser Program 5), in each case as part of the extension of his employment contract. In the interest of preserving the Company's liquidity, the Annual General Meeting 2020 authorized the Company's Supervisory Board to convert the existing Dr. Peter Posseder Program 5 from a cash-settled to a share-based program (share-based compensation). The Supervisory Board has made use of this authorization and agreed with Dr. Peter Podesser on a conversion of the (virtual) Dr. Peter Posseder Program 5 to a stock option program (Stock Option Program 2020-2024) as of July 9, 2020. The Dr. Peter Podesser Program 5 is therefore not mentioned below.

Mr. Daniel Saxena received virtual stock options upon his appointment in July 2020 (Daniel Saxena Program 5).

After the end of a fixed waiting period, the virtual stock options confer the right to a cash payout depending on the stock exchange price of the shares of SFC Energy AG at the time of exercise. An upper limit to the number of SARs to be allocated is set in advance and is reduced at predetermined dates if the Company's stock price falls below certain thresholds. The virtual stock option program has a term of seven years. The SARs are first eligible for exercise after a four-year waiting period, at which point a portion of the SARs issued can be exercised against payment of an exercise price of EUR 1.00 per SAR, provided certain pre-defined performance targets have been met.

The terms of the SAR Program 2014 – 2016 (program 1), 2015 – 2018 (program 2), 2018 – 2021 (program 3), 2018 – 2021 (program 4) and 2020 – 2024 (program 5) are as follows:

THE TERMS FOR THE SAR PLAN 2014–2016, 2015–2018, 2017–2020, 2018–2021 AND 2020–2024

Date of issuance	January 1, 2014 (Hans Pol Plan 1) April 1, 2014 (Dr. Peter Podesser Plan 1) July 1, 2015 (Hans Pol Plan 2) April 1, 2017 (Dr. Peter Podesser Plan 3) July 1, 2018 (Hans Pol Plan 4) July 1, 2020 (Daniel Saxena Plan 5)
Term	Plans 1–4: 7 years Plan 5: 8 years
Waiting period	4 years (Hans Pol Plan 1) 4 to 6 years (Dr. Peter Podesser Plan 1 and Plan 3) 4 to 6 years (Hans Pol Plan 2) 4 to 6 (Hans Pol Plan 4) 4 to 7 years (Daniel Saxena Plan 5)
Cut-off dates	January 1, 2015 (Hans Pol Plan 1) April 1, 2015, April 1, 2016 and April 1, 2017 (Dr. Peter Podesser Plan 1) September 1, 2015, July 1, 2016, July 1, 2017 and July 1, 2018 (Hans Pol Plan 2) April 1, 2018, April 1, 2019 and April 1, 2020 (Dr. Peter Podesser Plan 3) July 1, 2019, July 1, 2020 and July 1, 2021 (Hans Pol Plan 4) July 1, 2021, July 1, 2022, July 1, 2023 and July 1, 2024 (Daniel Saxena Plan 5)
Strike price	EUR 1,00
Performance targets for tranches until 2016	Share price increase compared with share price on day of issuance and better development than benchmark (ÖkoDAX)
Performance targets for tranches from 2017 onward	Share price increase compared with share price on day of issuance

Stock Option Program

The SFC AG Annual General Meeting 2020 authorized the Supervisory Board to convert the existing Dr. Peter Posseder Program 5 from a cash-settled to a share-based program (share-based compensation).

The Stock Option Program has a maximum term of eight years. The option rights can be exercised in accordance with the option terms and conditions within one year after the expiry of a waiting period. The waiting period for the exercise of the option rights is staggered according to the tranches issued, meaning that, in each case, one quarter of the option rights of the relevant tranche (sub-tranche) can be exercised. The waiting period for exercising the sub-tranches is four, five or six years, starting with the issue date of the tranche in each case. The exercise price is EUR 1.00. Each option right conveys the right to subscribe for one SFC AG share. Subscription rights granted may only be exercised provided that an average stock market price of SFC AG shares specified in more detail by the General Meeting has achieved a certain stock price target at certain points in time over the course of the four-year waiting period and that, due to this, the subscription rights have not expired (in whole or in part).

The exercise of option rights in respect of each sub-tranche is also dependent on an average stock market price of SFC AG shares that has been specified in more detail by the General Meeting reaching or exceeding thresholds laid down by the General Meeting at the time of exercise.

The Stock Option Program ensures that, upon expiry of the waiting period, option rights may only be exercised for the relevant drawing period if the sum of the number of option rights exercised multiplied by the closing price on the exercise date of these option rights less the exercise price and the number of option rights to be exercised multiplied by the closing price on the trading day preceding the intended date of exercise of the option rights less the exercise price does not exceed the amount of EUR 1 million (cap).

The key terms of the Stock Option Program 2020-2024 (Dr. Peter Podesser stock option program 1) are as follows:

THE TERMS FOR THE 2020–2024 SHARE OPTION PROGRAM

Date of issuance	July 9, 2020
Term	8 years
Waiting period	Between 4 and 7 years
Cut-off dates	July 9, 2021, July 9, 2022, July 9, 2023 and July 9, 2024
Strike price	EUR 1,00
Cap	The exercise of warrant rights for the respective subscription period is only permitted to the extent that the sum of the number of warrant rights already exercised multiplied by the closing price in XETRA trading on the exercise date of these warrant rights less the strike price of EUR 1.00 and the number of warrant rights to be exercised multiplied by the XETRA closing price on the trading date prior to the intended exercise date of the warrant rights less the strike price of EUR 1.00 does not exceed EUR 1 million.
Performance target	Share price increase compared with share price on the last 30 trading days before the day on which a subscription declaration is issued in respect of warrant rights granted and not yet expired.

Remuneration of the Management Board in 2020

Members of the Management Board received EUR 4,456,914 in total compensation in the financial year 2020. The remuneration for the financial year 2020 includes the fixed income, fringe benefits, short-term variable remuneration (bonus) as well as the long-term variable remuneration in the form of expenses for the SAR Program or Stock Option Program. The above total includes all amounts that were laid out in 2020 or set aside as provisions in the consolidated financial statements for 2020, less the amounts that had been set aside as of December 31, 2019.

The individual disclosure of the compensation of each member of the Management Board is made according to the tables set out below. Table 1 shows the benefits granted in the financial year 2020, while Table 2 shows the amounts paid. Because the LTIP and the SARP do not provide for any maximum amounts of compensation, no maximum amounts are shown, notwithstanding the recommendation in the German Corporate Governance Code.

TABLE 1 – BENEFITS GRANTED TO MEMBERS OF THE MANAGEMENT BOARD 2020[1]

in EUR

	Dr. Peter Podesser CEO/Chairman since 11/01/2006			Hans Pol COO since 01/01/2014			Marcus Binder CSO from 03/01/2017 – 02/29/2020			Daniel Saxena CFO since 07/01/2020	
Benefits	2020	2020 (Min)	2019	2020	2020 (Min)	2019	2020	2020 (Min)	2019	2020	2020 (Min)
Fixed income	365,000	365,000	350,000	199,767	199,767	199,898	29,483	29,483	180,000	120,000	120,000
Fringe Benefits	21,073	21,073	19,597	18,996	18,996	18,568	3,644	3,644	21,859	12,000	12,000
Total	**386,073**	**386,073**	**369,597**	**218,763**	**218,763**	**218,466**	**33,126**	**33,126**	**201,859**	**132,000**	**132,000**
One-year variable compensation	138,396	–	290,821	50,062	–	81,398	3,500	–	53,724	–	–
Multi-year variable compensation	2,193,912	–	955,526	735,252	–	286,044	398,718	–	207,817	167,112	–
SAR Programm	2,193,912	–	955,526	735,252	–	286,044	398,718	–	207,817	167,112	–
Total	**2,718,380**	**386,073**	**1,615,944**	**1,004,078**	**218,763**	**585,908**	**435,344**	**33,126**	**463,400**	**299,112**	**132,000**
Service costs	–	–	–	–	–	–	–	–	–	–	–
Total	**2,718,380**	**386,073**	**1,615,944**	**1,004,078**	**218,763**	**585,908**	**435,344**	**33,126**	**463,400**	**299,112**	**132,000**

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

TABLE 2 – ALLOCATION OF MANAGEMENT BOARD COMPENSATION 2020 (AMOUNTS DISBURSED)

in EUR

	Dr. Peter Podesser CEO/Chairman since 11/01/2006		Hans Pol COO since 01/01/2014		Marcus Binder CSO from 03/01/2017 – 02/29/2020		Daniel Saxena CFO since 07/01/2020	
Allocation	2020	2019	2020	2019	2020	2019	2020	2019
Fixed income	365,000	350,000	199,767	199,898	29,483	180,000	120,000	–
Fringe Benefits	21,073	19,597	18,996	18,568	3,644	21,859	132,000	–
Total	**386,073**	**369,597**	**218,763**	**218,466**	**33,126**	**201,859**	**132,000**	**–**
One-year variable compensation	137,896	326,957	58,062	96,613	–	67,037	–	–
Multi-year variable compensation	–	–	–	53,625	–	–	–	–
SAR Programm	–	–	–	53,625	–	–	–	–
Total	**523,969**	**696,554**	**276,825**	**368,704**	**33,126**	**268,896**	**132,000**	**–**
Service costs	–	–	–	–	–	–	–	–
Total	**523,969**	**696,554**	**276,825**	**368,704**	**33,126**	**268,896**	**132,000**	**–**

Remuneration of the Supervisory Board

The members of the Supervisory Board receive a fixed annual remuneration in the amount of EUR 25,000.00, with the Chairman of the Supervisory Board and his deputy receiving twice and one and a half times this amount, respectively. In the event of changes in the composition of the Supervisory Board during a year, the remuneration is granted pro rata temporis on a monthly basis.

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

The remuneration of the individual Supervisory Board members in the financial year 2020 was as follows:

FINANCIAL YEAR 2020	in EUR
Tim van Delden, Chairman	50,000
Hubertus Krossa, Vice Chairman (since June 1, 2020; previously: member of the Supervisory Board)	32,292
Gerhard Schempp, member of the Supervisory Board (since June 1, 2020)	15,625
David Morgan, Vice Chairman (until May 31, 2020)	14,583

Telecommunications mast in northern Italy:
To connect two valleys in northern Italy via radio stations, the masts were equipped with the EFOY Pro 12000 Duo. The fuel cell functions as a generator in case the solar panels are not able to generate sufficient electricity during dark periods.

02

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2020

Basis of the Group

The Group's business model

Organizational structure of the Group and locations

The Group (SFC or the Group) consists of SFC Energy AG (SFC AG), Brunnthal, Germany; PBF Group B.V., Almelo, Netherlands, and its subsidiary (PBF); and Simark Controls Ltd., Calgary, Canada (Simark).

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

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

SFC AG's German location is in Brunnthal, Germany. PBF is headquartered in Almelo, Netherlands, and Cluj, Romania. Simark is headquartered in Calgary, Canada, and has additional Canadian offices in Edmonton and Grand Prairie.

Segments, sales markets, products and services

In the 2020 financial year, the Management Board managed the Group based on the Clean Energy & Mobility, Oil & Gas, Industry and Defense & Security segments. These segments represent the Group's most significant sales markets.

The corporate purpose of SFC AG is the development, production and distribution of power generation systems and their components for off-grid and on-grid applications based on fuel cells and other technologies, investment in the equipment and facilities required for these activities and transaction of all other related business. The Company's product portfolio also includes accessories and spare parts, particularly fuel cartridges, solutions for combining fuel cell products with other power sources, power storage units and electrical devices, as well as mechanical, electronic and electrical instruments to monitor and control production and logistics processes. SFC AG is the first company in the world with series commercial products in the area of direct methanol fuel cells (DMFC) for multiple target markets. SFC AG also has series commercial products in the area of hydrogen fuel cells.

The Clean Energy & Mobility segment is highly diversified in terms of its sales markets. Firstly, it includes any area of industry where professional users generally run electrical equipment off the grid and use the EFOY Pro methanol fuel cell or the EFOY Jupiter hydrogen fuel cell, both from SFC AG. This includes applications in security and surveillance, telecommunication network infrastructure, traffic management and the wind power industry. Secondly, SFC AG sells compact fuel cell generators through established commercial channels (wholesalers, retailers and OEMs) in the consumer market under the EFOY COMFORT brand to generate electricity for mobile homes, sailboats and cabins.

The Oil & Gas segment specializes in the distribution, system integration and servicing of power supply, instrumentation and automation products for the oil and gas and mining industries. The segment comprises Simark's product and service portfolio of instrumentation and measurement systems, power supply components and drives, as well as security and surveillance technology including fuel cells for diverse industry applications. Simark mainly sells its products directly to customers.

In the Defense & Security segment, SFC AG generates sales in the defense and security market. The defense and security market includes defense and security applications from military organizations and government agencies. The product portfolio for this market also includes the portable JENNY, the vehicle-based EMILY, the SFC Power Manager and network solutions. Alongside this product share, an additional proportion of sales is generated through services.

The Industry segment comprises the High Power platforms supplied by PBF, which allow grid power to be prepared reliably and to high quality standards, exactly in keeping with the specific requirements of systems and devices. The power supply units adapt the electrical performance to the energy required by the systems or devices in question, doing so in modular form. PBF meets demanding customer requirements on the basis of technology that it has developed in house. The compact, scalable power supply technology offers maximum flexibility in the development and manufacture of standardized and semi-standardized high-performance and high-precision power supply units for demanding applications such as laser technology and other high-tech industrial sectors. Most of its products are sold directly to customers and some through distribution partners.

New segment structure from the 2021 financial year

As part of the strategic roadmap "Fit for the Future" aimed at long-term value creation and strengthening the two core business areas of fuel cells and energy conversion, the Management Board of SFC Energy AG has realigned responsibilities within the Group. In this context, after the end of the 2020 financial year the Group's business segments are no longer based around the respective end customer markets, but around the Group's technology platforms and product and service portfolio. Bringing together the segments into two rather than the previous four also increases efficiency.

In line with the Company's internal reporting structure for management purposes and in accordance with the definition given in IFRS 8 Operating Segments, from January 1, 2021, SFC Energy AG will have a new segment reporting structure. Instead of the previous four segments Clean Energy & Mobility, Oil & Gas, Defense & Security and Industry, there will now be two operating segments: Clean Energy and Clean Power Management. The two operating segments are organized and managed independently based on the kind of technology or solutions supplied and their different risk and earnings structures. Management measures the success of the segments using the segment performance indicators sales, gross profit margin, underlying EBITDA and underlying EBIT.

Within the new segment structure for 2021, the Group entities Clean Energy & Mobility and Defense & Security are combined in the new Clean Energy segment. The Group entity Industry is allocated to the new Clean Power Management segment. The Oil & Gas segment is split up and the respective sections allocated to the new Clean Energy and Clean Power Management segments.

The core business of the Clean Energy segment includes the development, manufacture including complete system assembly, sale and supply of mobile and off-grid fuel-cell-based energy solutions for diverse end customer markets. In the course of its business, the segment uses both the Group's fuel cells based on hydrogen technology (PEMFC) and fuel cells based on DMFC (direct methanol fuel cell) technology.

The core business of the Clean Power Management segment encompasses the development, manufacture and sale of highly specialized, standardized and semi-standardized power management and electronics solutions such as voltage converters, coils and frequency converters for operating high-tech devices. Parts of the product portfolio of the Clean Power Management segment are used in the Clean Energy segment as well.

Objectives and strategies

Over the last few years, SFC has systematically expanded its business model to include a comprehensive range of off-grid energy solutions based on direct methanol and hydrogen fuel cells for various stationary and mobile applications. The strategic focus is on providing comprehensive product solutions and tailoring the product portfolio toward integrated complete solutions featuring the fuel cell as the core technology and core component. The objective is to expand market leadership as a commercial supplier of direct methanol fuel cell systems for the targeted applications and to establish global market leadership for hydrogen fuel cells in the medium term.

The Group's strategic orientation was unchanged in the 2020 financial year. The Group continued to make targeted efforts to increase penetration of existing end customer markets and regional markets and to develop new end customer markets and regional markets. It will realize its strategy through both organic and acquisition-based growth.

Since the 2019 financial year, SFC AG has been supplying hydrogen fuel cells via a cooperation agreement with adKor GmbH, which includes a license agreement for the existing EFOY Jupiter fuel cells and a development partnership agreement for a new generation of hydrogen fuel cells including energy management. This has given SFC AG access to an existing product portfolio and, with the new fuel cell, it will expand its own range of services up to 100 kW over the medium term.

Steering system

The most significant financial performance indicators that the Management Board uses to steer the operating business include sales, gross profit margin, underlying EBITDA (underlying earnings before interest, taxes, depreciation and amortization) and underlying EBIT (underlying earnings before interest and taxes) for the Group and the segments.

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

Research and development

The Group continues to make considerable investments in development. In the 2020 financial year, total research and development (R&D) expenditure – i.e. R&D costs on the income statement plus capitalized development costs, costs related to joint development agreements and grants received – amounted to EUR 6,718k, which was on a par with the previous year's figure of EUR 6,760k.

in TEUR

	2020	2019
R&D costs on the income statement	**2,843**	**3,104**
Capitalized development costs	3,104	2,456
Costs related to joint development agreements	577	1,038
Grants received	195	163
R&D expenditure	**6,718**	**6,760**

The Company capitalized EUR 3,104k in development costs in the 2020 financial year versus EUR 2,456k the year before. The reason for the increase compared with the previous year was the capitalized development costs for the EFOY 3.0, a remote monitoring solution for the EFOY fuel cell, and the EFOY Jupiter hydrogen fuel cell at SFC AG. This put the share of capitalized development costs in total R&D expenditure (capitalization rate) at 46.2 % (previous year: 36.3 %).

Capitalized development costs at PBF mainly include development costs for new power supply product platforms.

Amortization of capitalized development costs is reported as production costs of work performed to generate sales. Impairment charges of EUR 294k were incurred on capitalized development costs in the financial year (previous year: EUR 0k), of which EUR 287k was due to cancellation of a development and first series order by a customer at PBF.

As of the reporting date, 65 employees (previous year: 61) or around 23 % (previous year: 22 %) of the people employed by the Group primarily worked on developing fuel cell technology or voltage converters and power supply systems and incorporating them into Group products. The SFC Group pursues an active patent strategy to expand the barriers to entry in its markets and to safeguard its own competitive edge and marketing options.

Going forward, the Group plans to keep R&D expenditure high in order to build on the Group's strong position in technology and marketing. The Group's R&D activities received assistance from government funding during the 2020 financial year to a limited extent and are likely to continue to receive such funding in the future; for example, through the National Organization for Hydrogen and Fuel Cell Technology (NOW).

SFC AG currently holds a portfolio of 19 granted patents (prior year: 20).

The areas of focus of SFC AG's research and development activities were as follows in the 2020 financial year:

- Development of the new EFOY 3.0 product generation
- Development of a smart fuel management device (FMD) for prolonging autonomy for new product generations
- Development of a battery that is tailored to the EFYO fuel cell, including a battery management system (BMS) for lithium batteries for optimized connection of new product generations
- Development of a remote monitoring solution for new product generations in off-grid applications
- Analysis, design and ongoing development of hydrogen fuel cell systems based on the EFOY Jupiter system
- Continuation of quality improvements to series products
- Ongoing improvement, further development and portfolio expansion of energy solutions for industrial use
- Further research to increase the performance and reduce the cost of coming EFOY generations

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

- Development of a 2.5 kW power supply for a customer in the semiconductor market
- Development of a 3.8 kW power supply for a customer in the semiconductor market
- Development of a 900W power supply for telecommunications applications
- Ongoing development of a 21 kW power supply platform for applications in the laser industry

Economic Report

Macroeconomic and sector-based background conditions

Coronavirus pandemic negatively impacting global economy

The global economy was significantly affected by the coronavirus pandemic in 2020. According to the International Monetary Fund (IMF) in its January 2021 economic outlook, global gross domestic product fell by 3.5 % in 2020 as a whole.[1] The IMF thus revised its previous October outlook, which still assumed a 4.4 % decline in the global economy.[2] A look at the individual countries reveals a heterogeneous trend. Industrialized countries responded with extensive aid packages, while the respective central banks lowered their key interest rates. Accordingly, the IMF expects the USA and Japan, for example, to reach pre-coronavirus levels earlier (second half of 2021) than the eurozone and the UK. The IMF observes a similar trend in emerging and developing countries. While China is showing strong signs of recovery thanks to restrictive coronavirus containment measures flanked by high central bank liquidity, the coronavirus pandemic hit oil-exporting countries and countries largely dependent on tourism hard. After sharp declines at the beginning of 2020 and lows in key indicators such as global industrial production or the Purchasing Managers' Index in the summer months, these showed clear signs of recovery toward the end of the year.[3]

Lockdown equally affecting production and service industries in Germany

In the fall of 2020, the infection figures in Germany rose noticeably again, causing a renewed lockdown to be imposed in November. The second wave of infections dampened private consumption in particular. At the end of December, 2.7 million people were registered as unemployed and 666,000 were on short-time work.[4] According to the German Federal Statistical Office (Destatis), in 2020 the German economy shrank by 5.0 % overall in terms of gross domestic product (GDP).[5] After ten years of growth, the German economy fell into a deep recession due to the coronavirus. Destatis previously recorded a similarly sharp decline of 5.7 % at the time of the financial and economic crisis in 2008/2009. Both production and service industries were equally affected by the recession in 2020. Compared with 2019, the trade, transport and hospitality sector, for example, contracted by 6.3 % on a price-adjusted basis. According to Destatis estimates, the production industry (excluding construction) declined by 9.7 % and the manufacturing industry by 10.4 %.[6]

Global economy has recovery potential in 2021

In its January publication of the World Economic Outlook, the International Monetary Fund expects the global economy to expand by 5.5% in 2021. The outlook is subject primarily to many uncertainties surrounding the further development of the coronavirus pandemic and the associated containment measures in the individual countries. Nevertheless, the IMF economists revised their outlook upward by 0.3 percentage points. The vaccination measures that have been launched play a particular role in this. The IMF assumes that the economic

1 https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update
2 https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update
3 https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update
4 https://www.arbeitsagentur.de/news/arbeitsmarkt-2020
5 https://www.destatis.de/EN/Press/2021/01/PE21_020_811.html
6 https://www.destatis.de/EN/Press/2021/01/PE21_020_811.html

recovery will vary at individual country level. The main factors here include the countries' access to the vaccines, the efficiency of the measures taken by the respective national governments, and structural and geographical characteristics. According to the IMF, uncertainties and potential burdens continue to arise from ongoing or possibly new lockdown measures and logistical problems in the distribution of the vaccine.

For 2021, the ifo Institute is forecasting a 4.2 % increase in price-adjusted gross domestic product for the German economy.[7] In this context, the Munich-based institute assumes that the infection protection measures in effect since November will remain unchanged until March 2021, after which they will be gradually relaxed. The German Economic Institute (IW) also expects the German economy to regain momentum in the course of the spring, as a sustained reduction in infection risks and a progressive normalization of economic conditions are to be expected as more and more of the population becomes vaccinated. According to IW Director Michael Hüther, this should have a positive impact on consumption as well as investment, meaning that the German economy may return to its pre-crisis level as early as the end of the current year.[8] Nevertheless, the IW also points out that economic development is closely linked to the further measures being taken by the German federal government to contain the pandemic. Further lockdown scenarios would significantly slow down the economy. According to IW calculations, the economic costs per lockdown week are between EUR 3.5 billion and EUR 5.0 billion.[9] The costs of a hard lockdown, which would also affect industrial companies, amount to as much as EUR 10 billion per week, according to IW estimates.[10]

Oil & Gas segment

To present the economic trends in the markets in which SFC Energy operates in this segment (instrumentation and measurement systems, power supply components and drives, and security and surveillance technology), the Company draws on international oil and gas market data. Development of the price of oil in general and the economic prosperity of Canada in particular are key factors for SFC Energy and its Canadian subsidiary Simark. Via its Canadian subsidiary, SFC Energy sells energy supply solutions based on fuel cell technology to customers in the oil and gas industry. Canada is not only one of the world's largest oil markets; it is also an essential market for sustainable technology. The Canadian oil industry alone invests around $1.4 billion a year in sustainable technology, which is more than all the other Canadian industrial sectors combined.[11]

In 2020, the global energy market was exposed to historically unprecedented turbulence in the wake of the coronavirus crisis. As a result of the global containment measures of the pandemic, global mobility, which accounts for 57% of global oil demand, plummeted dramatically in the first half of the year. Air traffic fell by more than 90% in some European countries. At times, road transport was only between 50 % and 75 % of what it was in 2019 in the first half of the year.[12] The OPEC responded to the slump in demand in April 2020

7 https://www.ifo.de/en/ifo-forecast/20201216
8 https://www.iwkoeln.de/presse/pressemitteilungen/beitrag/michael-groemling-ende-2021-ist-das-vorkrisenniveau-erreicht.html
9 https://www.iwkoeln.de/presse/iw-nachrichten/beitrag/michael-huether-unternehmen-in-existenznot.html
10 https://www.iwkoeln.de/presse/iw-nachrichten/beitrag/hubertus-bardt-harter-lockdown-koennte-zehn-milliarden-euro-pro-woche-kosten.html
11 https://aimlandservices.com/canadian-oil-and-gas-is-canadas-largest-cleantech-industry/
12 https://www.iea.org/reports/global-energy-review-2020/oil#abstract

with a historically unprecedented production cut of 9.7 million barrels per day. Nevertheless, the price of WTI fell to its low for the year in April 2020, with a monthly average price of $16.55 per barrel, but recovered in the second half of the year to reach an average price of $47.02 per barrel again in December 2020.[13] UK Brent averaged $18.38 per barrel in April 2020 and $49.99 per barrel in December 2020.[14] For 2020 as a whole, global demand was 91.2 million barrels per day (million bpd), down 8.8 million bpd from 2019. In the fourth quarter of 2020, demand remained 6.2 million bpd lower compared with the fourth quarter of 2019 due to the pandemic containment measures. The recovery in the second half of 2020 was due almost entirely to the lockdown being lifted in China. Demand in the OECD countries remained low. In Europe, demand in the fourth quarter of 2020 was lower than in the third quarter.[15] The expanded alliance of oil-producing countries OPEC+ has decided to cut oil production by at least 1.425 million barrels per day in February and March 2021 due to weak demand, high inventories and economic uncertainties.

The International Energy Agency (IEA) considers two scenarios conceivable for the long-term development of oil demand, and thus implicitly of oil production and price. In a baseline scenario, demand increases by an average of 0.1 million bpd per year until 2030. By contrast, in the other scenario of progressive concentration on sustainable energy sources, decisive political intervention would lead to a peak in global oil demand as early as in the next few years. The International Energy Agency expects demand in industrialized countries to fall by more than 50% between 2018 and 2040, and by 10% in developing countries.[16] The OPEC forecasts that oil will continue to retain the largest share of the global energy mix through 2045. According to the OPEC's forecast, natural gas is expected to be the fastest-growing fossil fuel between 2019 and 2045, and to take the second-largest share of the global energy mix in 2045, at 25 %.[17]

Canada

The GTAI (German Trade and Invest) estimates that the economy in Canada, the world's second-largest country by area and the core market of Simark, shrank by 6 % in 2020 as a whole. Export prospects remain subdued due to persistently low energy prices.[18] Canada has the world's third-largest oil reserves with almost 170 billion barrels. Proven oil reserves include the quantities that can be produced from the currently known reserves and under the current economic and technical conditions.[19] Oil is Canada's largest export commodity, along with natural gas. Together, they accounted for around 19% of Canada's total exports in 2019 at $ 112 billion. According to data from the Canadian Association of Petroleum Producers (CAPP), Canadian oil producers reduced oil production by 740,000 barrels per day (bpd) in 2020 due to the coronavirus pandemic. In addition, the industry announced $ 8.7 billion in capital spending cuts, a 32 % decrease from 2019 levels.[20]

13 https://www.mwv.de/statistiken/rohoelpreise/
14 https://de.statista.com/statistik/daten/studie/1331/umfrage/preisentwicklung-der-rohoelsorte-uk-brent-monatsdurchschnittswerte/
15 https://www.iea.org/reports/oil-market-report-december-2020
16 https://www.iea.org/fuels-and-technologies/oil
17 https://de.statista.com/statistik/daten/studie/246114/umfrage/anteile-ausgewaehlter-energietraeger-am-weltweiten-primaerenergieangebot/
18 https://www.gtai.de/gtai-de/trade/wirtschaftsumfeld/wirtschaftsausblick/kanada/kanadas-wirtschaft-kommt-nach-starker-rezession-wieder-zu-kraeften-272204
19 https://de.statista.com/statistik/daten/studie/36452/umfrage/oelreserven-wichtiger-laender-seit-1990/
20 https://www.capp.ca/wp-content/uploads/2020/09/A-Vision-for-Canadas-Recovery-375388-1.pdf

Before the economic crisis caused by the pandemic, Canada's natural gas and oil industry was already characterized by declining capital investment and low production growth. In particular, the association complains about regulatory restrictions. As a result, CAPP gives only a constrained positive outlook for Canadian oil production from 2019 to 2035. Although production is expected to increase by 1.27 million bpd by 2035, that growth rate is around 6% less than CAPP's 2018 forecast.[21]

With the Brent oil price approaching $60 again in January 2021, this could have a positive impact on the propensity to invest in pipeline equipment. However, there are uncertainties regarding the speed and sustainability of the recovery. SFC is countering the uncertain outlook in this segment with ongoing optimizations in the product mix and the strategic orientation of the overall Group. The increasing share of fuel cells has a positive effect on sales as well as on the gross margin.

Starting from January 1, 2021, sales and expenses for EFOY products and automation solutions in the Oil & Gas segment are allocated to the new Clean Energy segment. Sales and expenses for variable-frequency drives are allocated to the new Clean Power Management segment from the same date.

Clean Energy & Mobility segment

A key consideration for the Clean Energy & Mobility segment (in the future, part of the Clean Energy segment) is the development of the fuel cell industry.

Fuel cells

The reduction of global CO_2 emissions is one of the main challenges of the 21st century. Limiting global warming to 1.5 °C and mitigating the impact of climate change are going to require drastic changes to the way in which energy is produced, distributed and stored. The importance of this objective is reflected in particular in the European Climate Act, which stipulates that a climate-neutral economy and society be established in Europe by 2050.[22] To achieve this goal, reductions in emissions, investments in green technologies and protection of the natural environment must ensure that net zero emissions are achieved in the EU member states as a whole. Hydrogen and methanol fuel cells play a central role as key technologies in this context, as they make clean energy storable and transportable and allow customers to be supplied in a decentralized way.

Governments around the world, as well as industry leaders from various sectors (automotive, chemical, oil, gas), are increasingly recognizing hydrogen's ability to decarbonize sectors, make a critical contribution to achieving sustainability goals and help improve energy security. To this end, there are numerous government and sector-specific investment programs in place. The German federal government emphasized the importance of the technology by adopting the National Hydrogen Strategy in June 2020. The objective of the strategy is to drive forward the market launch of this technology – particularly green hydrogen – by 2023, enable a national supply of CO_2-free hydrogen and boost the competitiveness of German companies in this market.

21 https://www.capp.ca/resources/crude-oil-forecast/
22 https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12108-Climate-Law

SFC is likely to benefit from this in the coming years. According to estimates by the Hydrogen Council, as hydrogen production, distribution, equipment and component manufacturing continues to expand, rising investments are projected to reduce costs for a wide range of applications by up to 50 % by 2030.[23] As a result, hydrogen is expected to meet 18 % of global energy demand, reduce CO_2 emissions by 6 gigatons per year and create approximately 30 million jobs by 2050.[24]

For SFC Energy, these industry developments will provide positive impetus for the Clean Energy segment. The dynamically growing market has significant economic potential. Forecasts by management consulting company Roland Berger suggest that in 2030 European companies will generate sales in the hydrogen and fuel cell markets of up to EUR 65 billion in Europe and a further EUR 65 billion worldwide.[25] For SFC Energy, the objective is to further develop the entire value chain for the production of clean energy using hydrogen and fuel cell technology. As a source of clean and reliable energy, hydrogen combined with hydrogen fuel cells is one of the means of the future. SFC Energy's technologies and products act as storage solutions and converter technologies that can store large amounts of energy, but at the same time function flexibly and decentrally. Fuel cells are regarded as a suitable power source, particularly for industrial applications such as in railway and traffic monitoring, in data centers and substations, and in telecommunications technology. The introduction of 5G technology to the telecoms market, for instance, will mean that considerably more radio tower and repeater stations will need to be in operation in the future.[26] SFC Energy is extremely well positioned here with its EFOY Jupiter fuel cell systems. With the widespread rollout of the 5G mobile communications standard, which also lays the foundation for autonomous driving, demand for emergency power generators and backup power systems is also likely to rise.

Caravaning

SFC Energy produces fuel cells for the consumer market in general and for mobile homes, sailboats and cabins that are far away from the conventional power grid in particular. According to figures from the German Caravaning Industry Association (CIVD), new registrations of caravans and motor homes in Germany reached a record level. For the first time, there were new registrations of more than 100,000 leisure vehicles within one calendar year. The caravaning sector surpassed this historic mark at the end of November. New registrations of leisure vehicles thus rose by 28.8 % since the beginning of the year. The figure is divided between 73,070 caravans and 27,780 mobile homes.[27] In November, new registrations of mobile homes doubled compared with the same month last year (up 116.1 %). A figure of 4,523 vehicles registered for the first time is a new record for the month of November. The impact of the coronavirus pandemic is likely to have played a significant role in the positive trend, as did the reduction in sales tax in the second half of the year. A study by the Gesellschaft für Konsumforschung (GfK) shows how great the potential is in the coming years. According to Germany's largest market research institute, 14.2 million Germans over the age of 18 can imagine taking a caravaning vacation in the next five years. That is almost a quarter of adults in Germany. In the current year, 5.3 million Germans are considering going on vacation with a caravan or mobile home. 23 % of Germans interested in

23 https://hydrogencouncil.com/wp-content/uploads/2020/06/Hydrogen-Cost-Competitiveness_ONE-PAGER.pdf
24 https://hydrogencouncil.com/en/invest-in-hydrogen-for-a-robust-resilient-and-sustainable-growth-as-a-response-to-the-covid-19-pandemic/
25 https://www.baden-wuerttemberg.de/fileadmin/redaktion/m-um/intern/Dateien/Dokumente/6_Wirtschaft/Ressourceneffizienz_und_Umwelttechnik/Wasserstoff/200724-Potentialstudie-H2-Baden-Wuerttemberg-bf.pdf
26 https://www.quarks.de/gesundheit/handystrahlung-wie-gefaehrlich-ist-das-neue-mobilfunknetz-5g/
27 https://www.civd.de/en/artikel/monthly-registrations/

a caravaning vacation in the next five years fall into the age group of between 25 and 34. A quarter of those with an affinity for caravaning have a net household income of between EUR 2,000 and EUR 3,000 a month.[28]

Starting from January 1, 2021, the sales and expenses in the Clean Energy & Mobility segment are fully allocated to the new Clean Energy segment.

Industry segment

Power electronics and switched mode network components

SFC Energy provides highly efficient and attractively priced solutions for the complex power supply requirements of semiconductor manufacturing equipment. The Company develops, manufactures and markets extremely reliable, standardized and semi-standardized power platform solutions to cater to the highly dynamic requirements of semiconductor manufacturing equipment, analytical applications and other high-tech industrial systems. SFC Energy's power supply and power management systems ensure that devices are reliably supplied with accurate power within a narrow range and without fluctuations. Data from the trade associations "Electronic Components & Systems" and "PCB & Electronic Systems" of the German Electrical and Electronic Manufacturers' Association (ZVEI) is used to evaluate the economic performance of the markets in which SFC Energy operates in this segment (power electronics and switched mode network components).

The ZVEI global market outlook for the electrical industry covers a total of 53 countries, which together account for around 98 % of the global market. In its publication from August 2020, the association projects that coronavirus will lead to a decline in the European electrical market of 7 % in 2020. For 2021, the ZVEI expects growth of 5 %. For the emerging markets, the ZVEI forecast assumes a reduction of 1 % for 2020 and an increase of 7 % for the current year. Electronic components as a sub-segment of the overall sector are expected to show only a comparatively small market decline of 2 % in 2020 and to grow by 7 % to EUR 1,105.8 billion in 2021.[29] With the German electrical industry receiving a total of 14 % more new orders in November 2020 than in November 2019 incoming orders are now up for the third month in a row. The business climate in the German electronics industry grew for the eighth consecutive month in December 2020. Both the assessment of the current situation and general business expectations improved, with the latter in particular significantly picking up. In December, 23 % of industry companies assessed their current economic situation as good, 58 % as stable and 19 % as poor. At the same time, 34 % of the companies expected business to pick up in the coming six months. 53 % expected activity to remain the same, and 13 % to decline.[30]

28 https://www.civd.de/en/artikel/studies/
29 https://www.zvei.org/fileadmin/user_upload/Presse_und_Medien/Pressebereich/2020-065_ZVEI-Umfrage_Unternehmen-sehen-leichten-Aufwaertstrend/ZVEI_Welt-Elektromarkt_Ausblick_bis_2021.pdf
30 https://www.zvei.org/fileadmin/user_upload/Presse_und_Medien/Publikationen/2021/Januar/ZVEI-Konjunkturbarometer_Januar_2021/ZVEI-Konjunkturbarometer-Januar-2021.pdf

The "Printed Circuit Boards and Electronic Systems" association of the ZVEI reported an overall 15 % year-on-year decline in sales for PCB manufacturers in the third quarter of 2020, with July being the weakest month in terms of sales. Sales remained at the same level as in the preceding second quarter (+ 0.3 %). PCB manufacturers recorded a 47 % increase in incoming orders in the third quarter compared with the second quarter of 2020, which was still marked by a decline of 37 %. The business climate also improved in the third quarter, although the expectations of PCB companies were only cautiously optimistic.[31]

The medium- to long-term prospects for electronic components and systems are positive given they make a substantial contribution to technical progress in the context of Industry 4.0 and continuing digitalization trends in various sectors. Worldwide, the semiconductor market grew by 4 % to $ 428 billion in 2020. According to the ZVEI, global sales are expected to increase by 8 % to $ 463 billion and Europe-wide sales by 5 % to $ 38 billion in 2021.[32] The industry outlook remains positive in the medium term. For instance, the ZVEI is forecasting global sales of $532 billion on the semiconductor market for 2024 and average annual growth for the sector of 5.2 % between now and then, with America and Asia (excluding China) exhibiting strong growth rates of 7.1 % and 6.3 % respectively.[33]

Starting from January 1, 2021, the sales and expenses in the Industry segment are fully allocated to the new Clean Power Management segment.

Defense & Security segment

The defense and security market is considered in assessing the performance of the Defense & Security segment (in the future, the Clean Energy segment).

In the 28th edition of the Conflict Barometer, the Heidelberg Institute for International Conflict Research (HIIK) documented a total of 358 conflicts worldwide for 2019. Documentation is not yet available for 2020. Compared with 2018, the number of wars decreased slightly from 16 to 15, with the most common conflict type being domestic conflict. The most common subject of conflict is disputes over the political orientation or ideological orientation of the political system.[34] According to the IISS think tank, the coronavirus pandemic has had a significant impact on international efforts to ensure stability and peace. The health crisis has the potential to exacerbate latent conflicts and create additional instability. However, data on international operations available in the IISS Military Balance database suggests that many peacekeeping missions have maintained their presence on the ground. Given these increasingly challenging circumstances, it is important for contributing countries and international organizations to find ways of implementing stabilization efficiently and effectively where needed.[35] However, in 2020, the coronavirus pandemic resulted in significant delays in numerous contract awards.

31 https://www.zvei.org/verband/fachverbaende/fachverband-pcb-and-electronic-systems?showPage=3207687&cHash=79ef74493c850eaad26feb3f9067ff49
32 https://www.zvei.org/presse-medien/pressebereich/halbleitermarkt-schafft-weltweit-moderates-wachstum
33 https://www.zvei.org/fileadmin/user_upload/Presse_und_Medien/Publikationen/2020/Juni/Mikroelektronik-Trendanalyse_bis_2024/2020-06_Mikroelektronik_-_Trendanalyse_bis_2024.pdf
34 https://hiik.de/tag/conflict-barometer-2019/
35 https://www.iiss.org/blogs/research-paper/2020/12/promoting-and-projecting-stability

Fundamentally, however, there is still a trend toward rising spending in the military sector. According to the Stockholm International Peace Research Institute (SIPRI), global military spending in 2019 reached its highest level since 1988. The total was 3.6% higher in real terms than in 2018 and 7.2 % higher than in 2010.[36] At 38 %, the USA has the largest share of global military spending. China has the second-largest share at 14 %, achieving the largest increase since 2010 at 85 %. Germany's defense spending was EUR 45.2 billion in 2020. The budget for 2021 will rise to EUR 46.81 billion. The biggest increases in spending are expected to be in military procurement and in accommodation for soldiers. The increasing demands on the armed forces is the reason behind the rise. In addition to national and alliance defense, their range of tasks also includes international military operations and mission-related obligations.[37]

Starting from January 1, 2021, the sales and expenses in the Defense & Security segment are fully allocated to the new Clean Energy segment.

Earnings and Financial Position

Results of operations

In the 2020 financial year, the Group generated sales of EUR 53,223k (previous year: EUR 58,538k) and reported a 9.1 % decline in sales year-on-year, primarily as a result of the COVID-19 pandemic. On the one hand, in the individual segments global measures taken to contain the COVID-19 pandemic in particular, such as travel and access restrictions, led to significant limitations on technical sales activities and the on-site installation and commissioning of systems in which our fuel cell solutions are integrated. On the other hand, particularly in the second and third quarters, the uncertainty surrounding the medium- and long-term impact of the COVID-19 pandemic on macroeconomic development led to subdued demand in the individual segments.

SFC AG, whose sales are allocated solely to the Clean Energy & Mobility and Defense & Security segments, achieved sales of EUR 20,761k (previous year: EUR 19,346k), a 7.3 % increase on the previous year. The growth was driven by the positive sales performance in the Clean Energy & Mobility segment, where sales were up 61.6 % on the previous year. This can be explained in particular by the especially sharp rise in demand for fuel cells for professional applications. The Defense & Security segment, on the other hand, reported a particularly sharp decline of 60.6 % year-on-year. The decline can be attributed in particular to an extensive shutdown in government procurement in international and national key markets mainly on account of the COVID-19 pandemic.

36 https://www.sipri.org/sites/default/files/2020-04/fs_2020_04_milex_0.pdf
37 https://www.bundestag.de/dokumente/textarchiv/2020/kw40-de-verteidigung-793448

PBF, whose sales are allocated solely to the Industry segment, posted sales of EUR 13,582k (previous year: EUR 17,238k), which were 21.2 % lower than in the previous year. The main reasons for the decline in sales were reduced call-off orders and postponed investment decisions by customers predominantly as a result of the overall economic uncertainty surrounding the COVID-19 pandemic in the second and third quarter of the 2020 financial year.

Simark's sales, a small percentage of which were also allocated to the Clean Energy & Mobility segment alongside the Oil & Gas segment for the first time in the 2020 financial year, amounted to EUR 18,879k (previous year: EUR 21,954k) and were a considerable 14.0 % lower than in the previous year. The share of sales allocated to the Clean Energy & Mobility segment was EUR 1,227k, accounting for 6.5 % of Simark's sales. This relates to Simark's revenue from fuel cell solutions in the non-oil and gas sector. The main factor that contributed to Simark's decline in sales was restrained investment activity in the oil and gas sector, which was due on the one hand to the COVID-19 pandemic and on the other to the drop in oil prices. Simark executes its transactions almost exclusively in CAD. Sales decreased from CAD 32,615k to CAD 28,885k.

Group EBIT fell over the course of the current financial year to EUR – 4,501k (previous year: EUR – 1,288k). The main reasons for this were the lower gross profit primarily as a result of the EUR 5,315k reduction in consolidated sales combined with higher general administration costs triggered by the higher expenses in connection with the non-recurring effects listed below.

Group EBITDA totaled EUR – 986k for the 2020 financial year (previous year: EUR 2,042k), which was EUR 3,028k lower than in the previous year mainly for the same reasons stated above for EBIT.
Non-recurring effects in the form of expenses relating to the Stock Appreciation Rights (SAR) Plan for the SFC AG Management Board, acquisition-related expenses and restructuring expenses totaling EUR 3,922k (previous year: EUR 1,572k) for the 2020 financial year are included in both EBIT and EBITDA. In this context, the expenses for the SAR Plan were allocated to both sales costs and general administration costs, while the acquisition-related expenses were allocated to general administration costs. The non-recurring effects break down as follows:

- Expenses of EUR 3,447k (previous year: EUR 1,446k) from the recognition of provisions in connection with the SAR Plan
- Acquisition-related expenses of EUR 281k (previous year: EUR 126k)
- Restructuring expenses of EUR 193k (previous year: EUR 0k)

These non-recurring effects are eliminated in the 2020 financial year within the scope of reconciliation to underlying EBIT and underlying EBITDA. Accordingly, the reconciliation to underlying EBIT and the distribution of the nonrecurring effects among items on the income statement were as follows:

in TEUR

	2020	2019
Earnings according to income statement or segment reporting (EBIT)	**– 4,501**	**– 1,288**
Sales costs		
Expenses for the SAR Plan (personnel expenses)	2,012	872
General administration costs:		
Expenses for the SAR Plan (personnel expenses)	1,436	573
General administration costs		
Acquisition-related expenses	281	126
Restructuring costs	193	0
EBIT underlying	**– 579**	**284**
EBITDA	**– 986**	**2,042**
Sales costs		
Expenses for the SAR Plan (personnel expenses)	2,012	872
General administration costs:		
Expenses for the SAR Plan (personnel expenses)	1,436	573
General administration costs		
Acquisition-related expenses	281	126
Restructuring costs	193	0
EBIT underlying	**2,936**	**3,614**

Consolidated sales of EUR 64,000k to EUR 71,000k, underlying EBITDA of EUR 3,600k to EUR 6,600k and underlying EBIT of EUR 100k to EUR 3,100k had originally been forecast for the 2020 financial year on February 11, 2020. The guidance was withdrawn on March 19, 2020, due to the unforeseen impact of the COVID-19 pandemic on the Company's business from March 2020. A stable and sufficiently reliable guidance for the 2020 financial year in the form of the previous guidance ranges was now only possible to a limited extent. On the whole, the Management Board expected sales revenues and profitability to be significantly lower than in the previous year given that background and given the high level of uncertainty at the time, subject to a recession.

The sales figure of EUR 53,223k achieved by the Group was considerably lower than the previous year's figure in 2020. Despite the EUR 678k decline in underlying EBITDA in the 2020 reporting year and the significant disparity with the withdrawn guidance, the figure of EUR 2,936k was still in the upper range of management's expectations. The main explanation for this was the particularly strong sales growth in the Clean Energy & Mobility segment, which partly offset the sharp decline in sales in some of the other segments, combined with a relatively stable Group gross profit margin. Underlying EBIT was also well below the withdrawn guidance figure at EUR – 579k.

Sales by segment

The following table shows a comparison of segment sales for the 2020 financial year with the previous year:

SALES BY SEGMENT in TEUR

Segment	2020	2019	Change	Change in %
Clean Energy & Mobility	18,998	11,758	7,240	61.6 %
Oil & Gas	17,652	21,954	– 4,302	– 19.6 %
Industry	13,582	17,238	– 3,656	– 21.2 %
Defense & Security	2,990	7,588	– 4,598	– 60.6 %
Total	**53,223**	**58,538**	**– 5,315**	**– 9.1 %**

The Clean Energy & Mobility segment, which comprises fuel cells business for professional and private end customer applications, proved to be relatively crisis-resilient. The segment sales of EUR 18,998k generated in the 2020 financial year (previous year: EUR 11,758k) increased at an exceptionally strong rate of 61.6 % mainly due to sales of fuel cells for professional applications. Sales of fuel cells for professional applications improved by 71.8 % year-on-year for a number of reasons including growth in existing customer demand, expansion of the customer base and the supply of EFOY Jupiter hydrogen fuel cells. Sales of EFOY Jupiter hydrogen fuel cells amounted to EUR 2,038k in the 2020 financial year compared with EUR 203k in the previous year.

In a challenging environment, the Oil & Gas segment reported a significant decline in sales of 19.6% to EUR 17,652k in the 2020 financial year (previous year: EUR 21,954k). In this segment, the financial year was marked by considerable reluctance to invest in the oil and gas industry for the reasons mentioned above.

In the Industry segment, reduced call-off orders and postponed investment decisions by customers – including in the wake of the COVID-19 pandemic – resulted in a decline in sales of 21.2% and a segment sales figure of EUR 13,582k (previous year: EUR 17,238k).

The Defense & Security segment was particularly affected by the impact of the COVID-19 pandemic. The segment's sales were well below the previous year's level with a figure of EUR 2,990k for the 2020 financial year (previous year: EUR 7,588k) and a decline of 60.6 %. Sales contributions were lacking in this segment, especially from international key markets, due to the highly restrictive lockdown measures and the significant delays in government procurement as a result and also, conversely, to restricted sales activity.

Sales by region

Sales by region developed as follows:

SALES BY REGION in TEUR

Region	2020	2019	Change	Change in %
North America	18,913	22,668	– 3,756	– 16.6 %
Europe (not including Germany)	19,264	21,458	– 2,194	– 10.2 %
Germany	8,279	7,909	370	4.7 %
Asia	6,304	4,825	1,480	30.7 %
Rest of the world	463	1,679	– 1,215	– 72.4 %
Total	**53,223**	**58,538**	**– 5,315**	**– 9.1 %**

There were changes to the distribution of sales by region in the 2020 financial year compared with the previous year.

Europe (not including Germany) and North America made an almost equal contribution to consolidated sales with respective shares of 36.2 % (previous year: 36.7 %) and 35.5 % (previous year: 38.7 %). While the sales revenues in Europe (not including Germany) are generated exclusively by the Group companies SFC AG and PBF, North America's share of sales largely contains the sales revenues of Simark and the Oil & Gas segment.

Germany's share of consolidated sales increased by 2.1 percentage points to 15.6 % (previous year: 13.5 %). The main contribution of 83.9% was from SFC AG and the Clean Energy & Mobility and Defense & Security segments.

The Asia region posted the biggest increase in both absolute (EUR 1,480k) and relative figures (30.7 %), accounting for a share of 11.8 % of consolidated sales (previous year: 8.2 %). 86.9 % of sales were attributable to SFC AG and 13.1 % to PBF.

The share of sales for the rest of the world was 0.9 % (previous year 2.9 %). This trend was also linked primarily to the lack of international defense business.

Gross profit

Gross profit was EUR 17,915k in the 2020 financial year (previous year: EUR 20,128k), which was EUR 2,213k lower than in the previous year.

The Group's gross profit margin resulting from sales development (gross profit on sales as a percentage of sales revenues) remained slightly lower than in the previous year at 33.7% in the 2020 financial year (previous year: 34.4 %). The main contributing factor to the Group's gross profit margin was the considerably higher sales contribution of the highest-margin Clean Energy & Mobility segment, which achieved a gross margin of 42.8 % (previous year: 43.2 %).

The gross profit margin of the Oil & Gas segment was 25.1 % in the 2020 financial year (previous year: 29.2 %). The reduction of 4.1 percentage points year-on-year was primarily the result of a much higher share of lower-margin products in segment sales combined with slightly lower average gross profit margins of the product families.

The gross profit margin of the Industry segment was slightly higher than in the previous year at 32.0 % (previous year: 30.4 %). The main explanation for this was the EUR 193k (previous year: EUR 0k) in government support payments in connection with the COVID-19 pandemic, which reduced personnel costs within the segment's production costs. The focus continues to be on improving margins on the purchasing and sales side while at the same time scaling sales based on the High Power Standard Platform technology.

The margin of the Defense & Security segment was well below the previous year's figure at 33.4 % (previous year: 44.7 %). The main reason for the reduced margin was the product mix.

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

GROSS PROFIT in TEUR

Segment	2020	2019	Change	Change in %
Clean Energy & Mobility	8,133	5,085	3,047	59.9 %
Oil & Gas	4,439	6,413	– 1,974	– 30.8 %
Industry	4,345	5,241	– 896	– 17.1 %
Defense & Security	998	3,388	– 2,390	– 70.5 %
Total	**17,915**	**20,128**	**– 2,213**	**– 11.0 %**

Sales costs

Sales costs declined by EUR 316k during the 2020 financial year to EUR 12,122k (previous year: EUR 12,438k).

Sales costs adjusted for the non-recurring effects of EUR 2,012k mentioned above (previous year: EUR 872k) fell by 12.6 % year-on-year to EUR 10,111k (previous year: EUR 11,566k). This was especially due to the lower marketing and travel costs as a result of the pandemic and the government support payments in Canada and the Netherlands.

Across the Group, the adjusted sales cost ratio decreased to 19.0 % (previous year: 19.8 %).

Research and development costs

Research and development costs reported in the income statement decreased by 8.4 % during the 2020 financial year to EUR 2,843k (previous year: EUR 3,104k).

Including the capitalized development costs of EUR 3,104k in the 2020 financial year (previous year: EUR 2,456k), costs related to joint development agreements and grants received, the Group's total research and development expenditure amounted to EUR 6,718k (previous year: EUR 6,760k). This produced an overall Group development ratio (research and development costs including capitalized development costs and joint development agreements as a percentage of sales) of 12.6 % (previous year: 11.5 %). The almost unchanged development ratio year-on-year underlines the Group's commitment to its strategy of developing new product generations and platforms.

For SFC AG, significantly higher capitalization of EUR 2,818k in the 2020 financial year (previous year: EUR 1,943k) resulted in lower research and development costs of EUR 672k overall (previous year: EUR 776k). Research and development costs at PBF amounted to EUR 2,009k (previous year: EUR 2,107k), and were moderately lower than in the previous year. PBF's capitalized development costs totaled EUR 286k (previous year: EUR 512k) and were also lower than in the previous year. Simark had research and development costs of EUR 162k (previous year: EUR 221k).

General administration costs

General administration costs totaled EUR 7,125k in the 2020 financial year, up 18.9 % on the previous year's figure of EUR 5,994k. General administration costs adjusted for the non-recurring effects of EUR 1,717k mentioned above (previous year: EUR 699k) amounted to EUR 5,408k, up slightly on the previous year's figure of EUR 5,295k.

The Group's general administration cost ratio (general administration costs as a percentage of sales) climbed to 13.4 % in the 2020 financial year (previous year: 10.2 %). The increase in the ratio is primarily the result of higher non-recurring effects in connection with lower consolidated sales. The adjusted ratio increased slightly to 10.2 % (previous year: 9.0 %).

Other operating income

Other operating income of EUR 157k (previous year: EUR 178k) contains income from exchange rate differences of EUR 119k (previous year: EUR 157k) as the largest item.

Other operating expenses

Other operating expenses amounted to EUR 290k in the 2020 financial year (previous year: EUR 57k) and resulted from expenses from exchange rate differences.

Restructuring costs

Restructuring costs totaled EUR 193k in the 2020 financial year (previous year: EUR 0k). These costs relate to severance payments for four employees at PBF in connection with the continued transfer of production capacities to Cluj, Romania.

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

The Group's EBITDA fell to EUR – 986k in the 2020 financial year (previous year: EUR 2,042k), producing a negative EBITDA margin (EBITDA in relation to sales) of – 1.9 % (previous year: 3.5 %). Reasons for this include the lower gross profit primarily as a result of the lower consolidated sales figure of EUR 5,315k combined with higher general administration costs mainly triggered by the higher expenses in connection with the non-recurring effects listed above.

Underlying EBITDA adjusted for non-recurring effects, which is a key financial performance indicator used to steer the operating business, amounted to EUR 2,936k in the financial year and was EUR 678k lower than the previous year's figure of EUR 3,614k. The underlying EBITDA margin was slightly lower than the previous year's margin at 5.5 % (previous year: 6.2 %).

Operating result (EBIT)

The Group's earnings before interest and taxes (EBIT) declined to EUR – 4,501k in the 2020 financial year (previous year: EUR – 1,288k). The EBIT margin (EBIT in relation to sales) contracted very sharply from – 2.2 % to – 8.5 %.

Underlying EBIT adjusted for the non-recurring effects mentioned above was EUR – 579k (previous year: EUR 284k), which was EUR 863k lower than in the previous year. This resulted in an underlying EBIT margin of – 1.1 % (previous year: 0.5 %).

Interest and similar income

Interest and similar income amounted to EUR 0k (previous year: EUR 1k) due to the low interest rates.

Interest and similar expenses

Interest and similar expenses of EUR 443k (previous year: EUR 752k) include interest paid to lenders and expenses from the interest cost added back on discounted liabilities and provisions.

INTEREST AND SIMILAR EXPENSES in TEUR

	2020	2019
Lease liabilities (IFRS 16)	238	293
Banks	186	262
Financing costs Harbert	5	178
Interest costs on provisions and others	14	19
Total	**443**	**752**

Consolidated net result

The consolidated net result deteriorated to EUR – 5,184k in the 2020 financial year (previous year: EUR – 1,927k). This includes the non-recurring effects listed above of EUR 3,922k in the 2020 financial year (previous year: EUR 1,572k).

Earnings per share

Due to the consolidated net result for the year, IFRS basic and diluted earnings per share deteriorated to EUR – 0.39 (previous year: EUR – 0.17) and EUR – 0.39 (previous year: EUR – 0.17) respectively.

New orders and order backlog

order backlog as of the reporting date dropped accordingly to EUR 11,122k as of December 31, 2020 (previous year: EUR 15,489k). Of this amount, EUR 3,412k was attributable to SFC AG (previous year: EUR 3,412k), EUR 5,886k to PBF (previous year: EUR 6,209k) and EUR 1,825k to Simark (previous year: EUR 5,868k).

Financial position

Principles and objectives of financial management

The aim of financial management is to ensure SFC's financial strength in the long term. This centers around the task of sufficiently covering the financial requirements of the operating business and the financial requirements for investors. SFC's financial management includes the areas of capital structure management, liquidity management, management of market price risks (currency, interest rates) and management of credit default risks.

Capital structure management involves shaping the capital structure of the Group and its subsidiaries. The allocation of capital resources to the Group companies is based on the principles of cost- and risk-optimized funding and capitalization.

Liquidity management involves recording the cash flows from operating business and from financial transactions in a rolling budget process. SFC covers the resulting liquidity requirements using suitable liquidity management instruments such as internal Group financing through borrowing or through loan financing with local banks. SFC has a carefully considered financing policy that is geared towards a comfortable liquidity buffer and a balanced financing portfolio with diversified maturities.

Management of market price risks involves limiting the impact of fluctuations in currencies and interest rates on the Group's earnings.

Management of credit default risks entails monitoring the risk volume of the Group's creditor positions with banks and customers. Credit risk to banks arises from the investment of cash and cash equivalents within the scope of liquidity management. Management of these credit risks is generally based on analyzing the credit rating of the bank or the corresponding deposit insurance systems. Credit risk to customers from supply and

service transactions results from relationships with retailers, corporate customers and private customers. Important elements in managing credit risks include performing proper credit assessment based on risk classification procedures as well as structured portfolio analysis and monitoring.

Capital structure

As of December 31, 2020, equity totaled EUR 54,838k (previous year: EUR 40,260k), an increase of EUR 14,578k.

The net financial position (available cash and cash equivalents less liabilities to banks) improved by EUR 12,521k to EUR 26,915k in the financial year (previous year: EUR 14,394k). The main factor here was the cash capital increase in November 2020.

SFC's strategic orientation, and especially its chosen strategy, will require further investments that will have to be financed to ensure future business success – particularly in product development, the tapping of further market segments and new regions, and expanding the business in existing market segments. The funds received by the Group, in particular for capital measures, most recently in November 2020, were raised for these investments. Until used, excess liquidity is invested with various banks in lowrisk securities (e.g. call and time deposits).

SFC's Articles of Association do not define any capital requirements.

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

Capital measure and Harbert financing

On August 3, 2017, the Management Board of SFC AG, with the approval of the Supervisory Board on the same day, concluded an overall financing concept with Harbert European Growth Capital Fund (Harbert) consisting of the issue of a secured, fixed-interest bond and the issue of a warrant bond. While the bond was withdrawn completely in the 2019 financial year, the warrant bond was exercised in January 2020. SFC AG received gross issue proceeds of EUR 0.75 million as a result.

Cash capital increase

SFC AG resolved a capital increase on November 24, 2020, and successfully placed 1,315,431 no-par-value ordinary bearer shares in the Company with institutional investors in the context of accelerated bookbuilding. The placement price was set at EUR 14.77 per new share. This capital increase provided the Company with gross issue proceeds of EUR 19,429k.

Cash and cash equivalents

Available cash and cash equivalents amounted to EUR 31,464k as of December 31, 2020 (previous year: EUR 20,906k).

During the 2020 financial year, total liabilities to banks decreased by EUR 1,964k from their level at the end of 2019 to EUR 4,549k (previous year: EUR 6,513k). Of the loan repayments, EUR 1,012k are attributable to current liabilities to banks totaling EUR 4,340k at the end of the financial year (previous year: EUR 5,352k) and EUR 952k are attributable to non-current liabilities to banks totaling EUR 209k at the end of the financial year (previous year: EUR 1,161k).

SFC AG

Due to the available liquidity and the short terms to maturity, SFC AG did not extend the two operating lines of credit as of December 31, 2020.

Simark

In connection with financing for the subsidiary Simark, a medium-term, variable-interest loan agreement with a maturity to July 2022 (Canadian variable rate plus margin grid depending on senior funded debt to equity) and an operating loan agreement with no fixed maturity and also with a variable interest rate (Canadian prime lending rate plus fixed margin) were concluded with banks.

Extensive financial covenants (compliance with various financial ratios) apply to both of the loans (working capital ratio, debt service coverage ratio and senior funded debt to EBITDA ratio) under which the lenders can call for the loans to be repaid if the covenants are breached. The financial covenants for both 2020 and 2021 were renegotiated in the 2020 financial year. The threshold values of the renegotiated financial covenants (amendment) were met as of December 31, 2020.

SFC AG extended a subordination agreement to Simark's banks for an existing shareholder loan in the amount of CAD 1,956k until January 1, 2022, and issued a subordination agreement for trade accounts receivable in the amount of CAD 750k until January 1, 2021. SFC AG additionally came to an agreement with the banks to extend the payment term of trade accounts receivable to Simark of CAD 753k up to January 1, 2022.

The shareholder loan has no fixed maturity and bears interest at 5.6% p.a. As of the reporting date, this loan was valued at CAD 1,956k including interest.

PBF

In connection with financing for the subsidiary PBF Almelo, Netherlands, an operating loan agreement was concluded with a volume of up to EUR 2,000k and a variable interest rate (EURIBOR plus fixed margin).
No financial covenant was agreed with the financing bank. The agreement has a term of 12 months with an annual extension option.

In connection with financing for the direct subsidiary PBF Cluj, Romania, an operating loan agreement was concluded with a bank with a volume of up to EUR 1,000k, a variable interest rate (reference rate plus fixed margin) and a term of 12 months plus an extension option. The financial covenants (debt and solvency ratio) agreed in the agreement were met as of the reporting date of December 31, 2020.

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

GROUP EQUITY RATIO in EUR

	31.12.2020	31.12.2019
Equity	**54,837,964**	**40,260,269**
As a percentage of total equity and liabilities	63.5 %	55.3 %
Non-current liabilities	12,711,252	12,084,529
Current liabilities	18,780,475	20,514,044
Liabilities	**31,491,727**	**32,598,573**
As a percentage of total equity and liabilities	36.5 %	44.7 %
Total equity and liabilities	**86,329,691**	**72,858,842**

The Group's capital structure improved markedly in the 2020 financial year due to the capital measures implemented. The Group therefore has an equity ratio of 63.5 % (previous year: 55.3 %).

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

Capital expenditure

Capital expenditure on property, plant and equipment and intangible assets came to EUR 7,352k in the 2020 financial year and was considerably higher than the previous year's figure of EUR 4,330k. A total of EUR 4,016k (previous year: EUR 1,748k) was invested in property, plant and equipment and an amount of EUR 3,336k (previous year: EUR 2,582k) in intangible assets. However, it should be noted that capital expenditure on intangible assets contains EUR 3,104k in capitalized development costs (previous year: EUR 2,456k) for the further development of SFC AG and PBF products.

Capital expenditure was financed with the Company's own funds or under existing loan agreements.

Capital expenditure by segment, including additions (during the year), for the 2020 financial year excluding IFRS 16 is as follows:

CAPITAL EXPENDITURES in EUR

	2020	2019
Clean Energy & Mobility	1,685	1,341
Oil & Gas	246	132
Industry	673	753
Defense & Security	1,760	1,401
Total	**4,364**	**3,628**

Liquidity

There was a net cash inflow of EUR 10,558k in the 2020 financial year (previous year: EUR 13,387k).

Available cash and cash equivalents went up to EUR 31,464k at the end of December 2020 (end of December 2019: EUR 20,906k). In addition, cash of EUR 286k (previous year: EUR 286k) was restricted in favor of a landlord.

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

There were no outstanding currency or commodity futures as of December 31, 2020.

There were current liabilities to banks of EUR 4,340k as of the reporting date (previous year: EUR 5,352k). Non-current liabilities to banks amounted to EUR 209k (previous year: EUR 1,161k). None of the renegotiated financial covenants had been breached.

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

Simark:	Operating line of credit of CAD 4,000k;	of which drawn: CAD 2,154k
PBF, Cluj, Romania:	Operating line of credit of EUR 1,000k;	of which drawn: EUR 611k
PBF, Almelo, Netherlands:	Operating line of credit of EUR 2,000k;	of which drawn: EUR 1,729k

The options for utilizing the operating lines of credit for Simark and PBF (NL) are tied to the level of trade accounts receivable and inventories respectively.

The credit lines for SFC AG with Deutsche Bank AG and Commerzbank AG expired as of December 31, 2020.

Cash flow from operating activities

Including the changes in net working capital and cash-effective income tax payments of EUR 158k (previous year: EUR 672k), cash flow from operating activities amounted to EUR – 595k (previous year: EUR – 1,261k).

The operating result before changes in net working capital was EUR 3,456k for the 2020 financial year (previous year: EUR 3,896k).

In terms of significant changes to net working capital, the cash effect from the change in trade accounts receivable was EUR 663k in the 2020 financial year and the cash effect from the change in trade accounts payable was EUR 3,152k in the same period. The cash effect from inventories was EUR 1,237k in the financial year. These changes together with other working capital items led to an increase in net working capital of EUR 3,893k (previous year: EUR 4,485k).

Cash flow from investing activities

Cash flow from investing activities was significantly higher than in the previous year at EUR – 4,279k (previous year: EUR – 3,628k). However, it should be noted that this figure includes EUR – 3,104k (previous year: EUR – 2,456k) in capitalized development costs.

Cash flow from financing activities

The cash inflow from financing activities of EUR 15,432k (previous year: EUR 18,275k) was accounted for primarily by issue proceeds from capital increases of EUR 20,179k (previous year: EUR 27,000k). This was offset by a cash outflow from capital increase costs of EUR 514k (previous year: EUR 3,381k). The change in funds from additions to and repayment of financial debt and changes in current account liabilities was lower than the previous year's figure at EUR – 1,751k (previous year: EUR – 2,631k). In 2020, interest of EUR – 429k was also paid (previous year: EUR – 705k).

Assets

Total assets increased by 18.5 % or EUR 13,471k year-on-year to EUR 86,330k as of December 31, 2020 (previous year: EUR 72,859k). This was due mainly to the cash capital increases implemented, which raised total equity to EUR 54,838k (previous year: EUR 40,260k). The total issue proceeds from capital increases came to EUR 19,762k.

Inventories increased by around 4.9 % to EUR 12,617k (previous year: EUR 12,032k) primarily due to increased stockpiling of raw materials and supplies at SFC AG to prevent potential disruptions to supply chains because of the COVID-19 pandemic.

There was a significant reduction in trade accounts receivable of 9.7% to EUR 12,363k (previous year: EUR 13,694k). Simark in particular reduced its trade accounts receivable considerably by the end of the year through a policy of systematic receivables management.

In the 2020 financial year, the share of non-current assets in total assets went down by 2.1 percentage points to 32.3% (previous year: 34.4 %).

As of December 31, 2020, intangible assets went up to EUR 15,999k (previous year: EUR 13,921k) mainly as a result of capitalized development costs. Intangible assets mainly include EUR 6,675k in goodwill relating to Simark (previous year: EUR 7,134k), EUR 1,179k in goodwill relating to PBF (previous year: also EUR 1,179k) and capitalized development costs of EUR 7,733k (previous year: EUR 5,292k). Capitalized development costs of EUR 368k were amortized in the 2020 financial year (previous year: EUR 354k). Impairment charges of EUR 294k were incurred on capitalized development costs (previous year: EUR 0k) and related to development of orders at PBF.

There was a slight increase in property, plant and equipment to EUR 9,985k (previous year: EUR 9,869k). Capitalization in connection with IFRS 16 amounted to EUR 3,073k (previous year: EUR 358k), most of which related to a new commercial building for Simark.

Current and non-current liabilities went down slightly by 3.4% to EUR 31,492k (previous year: EUR 32,599k). Altogether, liabilities made up 36.6% of total equity and liabilities (previous year: 44.7 %).

Liabilities to banks decreased by EUR 1,963k in the 2020 financial year to EUR 4,549k (previous year: EUR 6,513k) due primarily to lower loan liabilities at Simark.

Trade accounts payable were EUR 3,348k lower than in the previous year at EUR 4,742k (previous year: EUR 8,090k) primarily as a result of SFC AG making use of discount deduction options.

Other current liabilities increased by EUR 3,481k in the 2020 financial year to EUR 6,670k (previous year: EUR 3,189k) mainly due to the reclassification of EUR 2,931k to SAR liabilities from other non-current liabilities.

Current lease liabilities fell by EUR 925k to EUR 1,353k (previous year: EUR 2,278k) due in particular to new lease agreements at Simark.

Business and background conditions

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

Financial and non-financial performance indicators

The sustainable development of the Group is a particular focal area for the Management Board. The financial performance indicators used to steer the Group and their development in the 2020 financial year are described above under "Steering system".

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

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

Unlike the aforementioned financial performance indicators, however, these metrics and indicators are not used to directly manage the Company.

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

Supplier quality was previously determined by reference to the number of complaints concerning incoming goods as a proportion of total incoming goods. In the period under review, the method for calculating supplier quality was modified. It now refers to the number of parts subject to complaints as a proportion of the total number of parts supplied by the nine most important suppliers, as this figure is more informative. The nine most important suppliers are determined annually by Quality Control and Procurement on the basis of various criteria. At 1.41 %, the supplier quality ratio in terms of the number of faulty parts was lower than the previous year's figure of 1.79 %.

Product quality is determined by reference to the mean time to failure of SFC AG's industrial equipment, which remained essentially unchanged year-on-year at 2,798 hours (previous year: 2,800 hours).

As sustainability is a key factor in the Group's long-term business success, the Management Board seeks to maximize the environmental efficiency of all its activities. This approach is at the heart of product development as well as production processes. The Group also acknowledges its social responsibility towards employees.

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

Superior quality that keeps rejection rates in the manufacturing process as low as possible is the key to being a top green business. To this end, all of the SFC Group's production sites have an independent quality management system that is also DIN ISO 9001-certified. SFC applies the approach of an integrated quality management system that bundles responsibility for the monitoring and controlling of the entire process chain in a single specialist function. SFC AG and PBF have also had an environmental management system certified in accordance with ISO 14001 since 2014. Simark is audited and certified in accordance with the COR (Certificate of Recognition).

With respect to sustainable corporate governance, SFC offers its employees a motivating, socially equitable work environment. It is important to SFC to have satisfied employees who want to work for the Company for a long time. Professional development at SFC is tailored to employees' individual circumstances. In addition to providing field-specific training, SFC offers individual continuing education opportunities. These measures are defined as part of the annual employee appraisals. In the area of occupational health and safety, we conduct an annual training program at all SFC Energy locations worldwide. SFC also gives its employees an appropriate stake in the Company's success in the form of a variable compensation component.

Employees at year-end

The number of permanent employees was as follows as of December 31, 2020:

EMPLOYEES

	12/31/2020	12/31/2019
Management Board	3	3
Research and development	65	61
Production, logistics, quality management	96	105
Sales & marketing	82	85
Administration	34	28
Permanent employees	**280**	**282**

The Group employed 15 trainees, graduates and student trainees as of December 31, 2020 (previous year: 17).

With 105 permanent employees as of December 31, 2020, SFC AG had slightly more employees than the previous year's headcount of 100.

The number of employees at PBF remained virtually unchanged at 112 (previous year: 113).

Simark had 63 employees as of the reporting date and thus employed fewer people than in the previous year (69).

All in all, this meant there were two fewer employees at the end of the 2020 financial year than at the end of the previous year.

Risk and Opportunities Report

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

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

Evaluation of probability of occurrence/potential significance

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

Low	EUR 0k – EUR 500k significance
Moderate	EUR 500k – EUR 1.000k significance
High	> EUR 1.000k significance

Description of risks and opportunities

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

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

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

Internal Control System and Risk Management System

Accounting-related internal control system

SFC has an internal control and risk management system for the (Group) accounting process. This system defines appropriate structures and processes and implements them in the organization.

It is designed to ensure timely, uniform and accurate bookkeeping for all business processes and transactions. This also ensures compliance with the laws and accounting rules.

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

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

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

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

Consolidation and certain coordination work are performed by the accounting department at the parent company on the basis of information received from the consolidated companies. Because of the size of the Group, there is no separate Group accounting department.

Computerized controls are monitored by the employees in the accounting department and supplemented with manual tests. As a rule, at least two people review everything at every level.

Certain approval processes must be complied with throughout the entire accounting process.

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

The Management Board of SFC AG has reviewed the accounting-based internal control system and believes that it was fully functional in the 2020 financial year. The effectiveness of the internal control system is monitored by the Supervisory Board of SFC AG. It is important to note that an internal control system does not provide absolute certainty that material misstatements in the financial statements will be avoided or discovered, regardless of how it is designed.

Risk management system

As part of a systematic and organizational approach to risk, the Management Board has implemented a comprehensive risk management system that defines, systematically uses and continues to develop suitable instruments for identifying, analyzing and measuring risks, and for determining the appropriate course of action.

The risks that are identified are assessed on the basis of the estimated probability of occurrence and the significance of the risk. The risk management system exclusively reflects the risks of the Group. Opportunities are not included.

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

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

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

Risk Reporting with regard to the use of Financial Instruments

The Supervisory Board receives a financial report every month, and the CEO typically informs the Chairman of the Supervisory Board about key topics verbally on a weekly basis, with the entire Supervisory Board being additionally informed about current developments as necessary. This ensures that the Supervisory Board is involved in risk management as a result of reports by the Management Board on transactions that could be of particular importance for profitability or liquidity.

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

Non-derivative financial instruments on the assets side of the balance sheet include cash and cash equivalents, trade accounts receivable, other financial assets. For reasons of materiality, the reader is referred to the explanations of this in the notes to the consolidated financial statements. If a default is likely, the credit risk associated with these instruments is addressed with impairments. The financial instruments carried on the liabilities side of the balance sheet are liabilities to banks, trade accounts payable, other liabilities and lease liabilities.

The aim of risk management with respect to the use of financial instruments is to minimize the risks listed above. The following methods are employed in pursuit of this goal:

RISKS WITH REGARD TO FINANCIAL INSTRUMENTS

	Probability of occurrence	Significance
Default risk	Possible	High
Liquidity risk	Unlikely	High
Interest rate risk	Possible	Low
Exchange rate risk	Possible	Low
Credit risk	Possible	Moderate

Default risk

Default risk derives primarily from trade accounts receivable and the risk of the potential default of a contractual partner. The customer structure at SFC AG is characterized by different large customers. To prevent default risk, creditworthiness is checked by reviewing the credit reports for selected customers, and regular status reports with an early warning function are obtained. Deliveries to new customers are generally subject to advance payment. In addition, all overdue receivables are discussed on a weekly basis as part of receivables management and measures are initiated with the respective sales employees. For PBF and Simark, default

risk is primarily prevented by the fact that past-due accounts are first handled by employees in the accounting department and then turned over to the appropriate sales employee for discussion with the customer.

The amounts shown on the balance sheet are net of the write-downs for receivables expected to be uncollectible, as estimated by management on the basis of past experience and the current economic environment. Individual value adjustments are applied as soon as an indication exists that receivables could be uncollectible.

The indications are based on close contact with the respective customers as part of receivables management.

The maximum default amount corresponds to the net carrying amount of the receivables. In the reporting period, as in the previous year, no collateral from defaulted receivables was acquired and recognized. Receivables from the sale of products are secured for SFC AG through a reservation of ownership.

The outstanding receivables that are neither past due nor impaired are of high credit quality thanks to the structure of the current customer base. Despite the consequences of the COVID-19 pandemic, no indication existed as of the reporting date that any defaults were to be expected on these receivables.

Furthermore, no default risks exist in relation to cash and cash equivalents. These cash and cash equivalents mainly comprise shortterm time and call deposits and immediately available deposits at banks. SFC is exposed to credit risks associated with the investment of cash and cash equivalents to the extent that banks fail to meet their obligations. To minimize such risk, the banks in which the deposits are made are selected with care, and the deposits are distributed among several banks. In particular, it is ensured that cash and cash equivalents are mainly invested with banks in Germany that are members of the Deposit Protection Fund of the Association of German Banks and the Compensation Scheme of German Private Banks. Moreover, only short-term time deposits are agreed with a maximum term of three months. The maximum risk position corresponds to the carrying amount of the cash as of the reporting date.

The significance of the risk increases in line with the increase in sales with major customers, and hence the sales volume per customer. Accordingly, the significance of the risk was raised from "moderate" to "high" in 2020.

Liquidity risk

Liquidity risk describes the possibility that the SFC Group may not be able to adequately meet its payment obligations. In the past, this risk has been countered by various capital increases, most recently in November 2020. Liquidity reserves increased significantly as a result of the capital increase in 2020 in particular. Due to the available liquidity and the short terms to maturity, SFC AG did not extend the two existing lines of credit for equipment as of December 31, 2020.

In the final instance, responsibility for liquidity risk management lies with the Management Board, which has established an appropriate concept to manage short-, medium- and long-term financing and liquidity requirements. SFC manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

If the aforementioned financial covenants are breached, there is also the risk that the loan will be accelerated.

At the reporting date, SFC had cash and cash equivalents without limitations on disposal in the amount of EUR 31,464k (previous year: EUR 21,192k).

Interest rate risk

Interest rate risk results primarily from the investment of cash. As investments are currently made with a maximum term of three months, SFC's net interest income is significantly influenced by short-term capital market interest rates.

On the other hand, the Group is exposed to interest rate risks from short-term and medium-term variable-interest liabilities. There is also an interest rate risk due to the credit rating. In addition, the Group is not exposed to any material interest rate risks from variable-rate instruments.

If the financial covenants are breached, there is also the risk that a higher interest rate will have to be paid. Interest rate risk is measured during the year in the context of the rolling year-end forecast.

Exchange rate risk

Due to Simark's volume of business, SFC generates a substantial portion of its sales in Canadian dollars. This is offset by expenses and payments in Canadian dollars. In addition, SFC AG and Simark generate sales in North America in US dollars, which will are offset, in particular, by expenses and payments in US dollars by SFC AG and Simark.

To limit exchange rate risk, surplus holdings of Canadian dollars and US dollars are avoided and exchange rate losses are minimized in comparison with the budget assumptions as part of foreign currency management.

The planned foreign currency position is not hedged. In the case of larger open positions or a significant increase in foreign currency risk, the planned foreign currency position is also hedged by means of forward exchange transactions.

No open forward exchange transactions exist as of the reporting date. We did not use any derivative financial instruments during the year to hedge currency risks.

Credit risk

The loan agreements entered into by Simark and PBF in Cluj, Romania, also include financial covenants (compliance with various financial ratios). If the covenants are breached there is the risk that a higher interest rate will have to be paid or that the loan will be accelerated. In addition to the earnings situation, an increased need for financing can lead to an increased covenant risk.

The systematic monitoring of credit risk is aimed at identifying potential non-compliance with financial covenants at an early stage and ensuring that any negative consequences are countered in good time and taken into account in liquidity planning.

Risk Report

The material risks listed below result from the Group's business activity. The risks apply to all segments if individual segments are not mentioned.

The risks relating to the affiliates Simark and PBF concern the Oil & Gas segment and the Industry segment in equal measure. The Oil & Gas segment is broken up as follows from January 1, 2021: EFOY products and automation solutions are becoming part of the Clean Energy segment, while variable-frequency drives are becoming part of the Clean Power Management segment. The Industry segment is becoming part of the Clean Power Management segment from January 1, 2021.

Business risks

BUSINESS RISKS

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

Market risks

Macroeconomic developments

According to the ifo Institute's winter economic forecast, global economic development depends to a large extent on the course of the pandemic and the associated containment measures. Accordingly, there remains a risk that the number of new infections will not be sufficiently reduced in many countries and/or that supply

bottlenecks in the necessary vaccines will occur, thus requiring more extensive shutdowns of the economy to be imposed again. There is also a risk that take-up of the vaccine among the population will be low. Conversely, if new infections can be reduced more quickly than expected, there is a possibility that the containment measures could be reversed or removed earlier than anticipated. The continuation of trade relations – particularly between the USA and China, but also between the USA and Europe – remains uncertain. Although the new US administration is in favor of deescalating the trade conflicts, there is still a risk that trade restrictions will be lifted only partially and with some delay. As the pandemic continues, rising corporate debt, particularly in the advanced economies due to the issue of bonds and in China, represents a devaluation risk that could impact prices in other asset categories.[38]

In Germany, the duration of the measures imposed to contain the pandemic constitute a significant risk to the subsequent economic recovery. A prolonged shutdown can be expected to go hand in hand with a growing number of insolvencies in sectors that were extensively impacted by government restrictions or that fail to recover due to changes in consumer preferences. Insolvencies could reduce the available production options and curb production potential. On the other hand, the support provided by the German federal government could limit the extent of a wave of insolvencies and help economic activity to recover more quickly than expected following the end of the shutdown.[39]

Strategic risks

With regard to hydrogen fuel cell technology in particular, there is a risk that customers will be unwilling to switch from existing technologies or change their procurement strategies. Further risks to sales include the dependence of our customer project business and sector business (e.g. oil and gas industry) on the business success of individual customers in their markets and the economic development of the markets and market segments in which the customers operate. We mitigate these risks through close customer relationships, in-house development activity and ensuring our proximity to the market, including precise market analyses.

The Group's corporate strategy is primarily oriented toward growth and internationalization in the fuel cell market. Our strategic assumptions concerning growth are based on our assumptions and estimates that could prove to be inaccurate in the longer term. This includes operational and regulatory developments as well as future economic developments and changes in the market, as the performance of the end markets and regional markets on which the Group's strategy is focused could differ from our expectations. The Group reduces these risks through careful analysis. Irrespective of this, the possibility that each of the aforementioned risk factors will result in a failure to achieve the expected results in individual markets cannot be ruled out. All in all, the Group attempts to counter these risks by ensuring broad diversification in the markets and regions it serves.

38 https://www.ifo.de/sites/default/files/secure/prognosen/sd-2020-sonderausgabe-dezember-wollmershaeuser-etal-konjunkturprognose-winter-2020.pdf
39 https://www.ifo.de/sites/default/files/secure/prognosen/sd-2020-sonderausgabe-dezember-wollmershaeuser-etal-konjunkturprognose-winter-2020.pdf

Oil & Gas segment

The Canadian Association of Petroleum Producers (CAPP) is forecasting an increase in upstream natural gas and oil investment of 14% in 2021.[40] Meanwhile, the Canadian Petroleum Services Association (PSAC) has raised its drilling forecast by 29% and now expects a total of 3,350 new wells to be drilled in 2021.[41] Market access to the forecast growth in Canadian production appears to be sufficient for the foreseeable future as the Enbridge Line 3 and Trans Mountain pipelines are continuing even following the recent cancellation of the Keystone XL pipeline by the Biden administration.[42] The Trans Mountain will offer additional offshore market access for Canadian crude oil.

The focus of the Canadian government and the new US government on combating climate change will further increase the market potential for SFC AG's fuel cell technology in the North American oil and gas industry.

Fuel cells can help to lower greenhouse gas emissions along the value chain, thereby reducing the environmental footprint of the sector. The Group's integrated management and power supply systems also enable the reliable and cost-optimized operation of offgrid equipment in any season of the year, even in remote locations. The focus on the decarbonization of the sector and the sustained concentration on increasing the efficiency of conventional production facilities offers opportunities for the Group's products.

The plans for new investments in the oil and gas industry and their financing also depend on factors including the oil price. In a study, Goldman Sachs expects global oil demand to return to the pre-pandemic level of 100 million barrels a day (bpd) by August 2021. According to Goldman Sachs, the oil market had a supply deficit of 2.3 million bpd in the fourth quarter of 2020.[43] As supply remained low at the start of 2021, the oil price is expected to rise in the future despite the slow recovery in demand.

Although we are observing a growing trend toward sustainable energy solutions that appears to be gathering pace irrespective of cyclical fluctuations, the risk of economic downturns in North America cannot be ruled out, especially in the wake of the pandemic. In particular, restrictions on public life could delay and slow any economic upturn. Regulatory and political challenges and negative oil price development could negatively impact the exploration of new projects and the expansion and automation of existing projects. These factors also have an influence on the business opportunities available to SFC's products.

Clean Energy & Mobility segment

Society and politicians expect fuel cells to play a key role in the future when it comes to limiting climate change through the reduction of global CO_2 emissions and decarbonization.[44] In 2020, numerous government and supranational institutions declared their support for leveraging the potential of hydrogen and fuel cells in the

40 Canadian Association of Petroleum Producers, "Natural Gas and Oil Industry Investing in Canada's Economic Recovery", January 13, 2021
41 Petroleum Services Association of Canada (PSAC), 2021 Canadian Oilfield Services Activity Forecast, January 28, 2021
42 Enbridge Pipelines Inc., February 2021; Trans Mountain Corp. February 2021
43 OPC Markets, press release dated February 1, 2021
44 German Federal Ministry for Economic Affairs and Energy, "The National Hydrogen Strategy", June 10, 2020, European Commission, press release dated July 8, 2020

form of investment, regulation, the creation of markets, and research and development. According to a study by the management consulting company Roland Berger, European companies will generate sales of up to EUR 65 billion in Europe and a further EUR 65 billion worldwide in the hydrogen and fuel cell markets in 2030.[45]

With regard to the caravaning market, the vast majority of member companies of the industry association expect to see a further rise in domestic demand in 2021 even though this reached a new record in 2020. 87 % of manufacturers expect sales of motor homes to increase.[46]

Realizing the economic and other potential of the technology will require further targeted measures at a national and international level over the coming years. In this respect, political and regulatory conditions that provide long-term support for the continued expansion of the use of the technology are important. There are risks with regard to the speed with which these measures are implemented and the dependence of many projects, particularly in the public sector, on the overall economic situation and government support programs. Although we analyze the scenarios and potential responses in this complex risk environment, there is a possibility that these developments could negatively influence our business development and results of operations.

The COVID-19 pandemic involves considerable risks to supply chains and the sale of our fuel cells. For example, consequences of this nature with a negative impact on our business activity could result from sustained travel restrictions affecting our sales employees, restrictions imposed by authorities on the basis of regional, national or international requirements, or the non-availability of critical components. Due to this risk in particular, we have raised the probability of occurrence from "Unlikely" to "Possible".

Industry segment

Power electronics and switched mode network components: Power electronic components and systems are needed anywhere power is used. The electronics industry usually develops in sync with the overall economy. New opportunities are arising for SFC thanks, in particular, to the PBF product platform developed by its subsidiary PBF, which can be configured differently depending on the needs of the respective customer. It enables rapid, attractively-priced, extremely efficient and highly dynamic power generation solutions for demanding applications such as laser and plasma technologies as well as other high-tech industrial fields. This platform gives SFC a key competitive advantage in the market. Two international manufacturers have now included the platform in their mass-produced products, while another manufacturer is in the process of testing the platform. This is expected to result in follow-up orders over the coming years.

45 Roland Berger, "Potential of the hydrogen and fuel cell industry in Baden-Württemberg", 02/2020
46 Caravaning Industrie Verband e.V., press release dated January 28, 2021
47 International Institute for Strategic Studies (IISS); "The Military Balance 2021", February 25, 2021

As the electronics market is dependent on global economic growth and hence subject to fluctuations, there is the risk of short-term market fluctuations in the markets we serve. In addition, our products depend to a large extent on the business success of individual customers in their respective markets, and projects can have long lead times until a design win is achieved. The ordering behavior of our customers remains difficult to assess. As a result, our forecasts for our own business development are subject to uncertainty.

The restrictions in connection with COVID-19 could lead to delays in supply chains and adversely affect our customers' ordering behavior.

In light of our sales with major customers, we have raised the significance of business risks in this segment from "Medium" to "High".

Defense & Security segment

Defense budgets worldwide are increasing to protect against threats of all kinds.[47] The trend here is toward connectivity, digitalization and mobility. Traditional, modern and unconventional equipment, technologies, strategies and ways of working are being integrated and used to increase agility and mobility in classic and modern defense scenarios. In addition to the introduction of new and innovative technologies, there is a visible trend toward the modernization of existing technologies to increase and maintain the efficiency and protection of soldiers and equipment. Governments and defense organizations are looking specifically for alternative and environmentally friendly off-grid and backup solutions for an uninterrupted power supply. This is resulting in international potential for the Company's reliable and sustainable fuel cell solutions. Several SFC products are already being used successfully in defense applications with a NATO Stock Number.

The slow bureaucratic processes and cycles themselves pose a significant risk, however, as they prevent solutions required by users from being ordered for long periods of time. Lockdown measures in connection with the pandemic constitute an additional risk, as they are significantly impairing sales activities in our international markets in particular and leading to delays in order procurement.

As the end of the global pandemic is not yet in sight, we have set the probability of occurrence of business risk for this segment as "Possible".

Operational risks

OPERATIONAL RISKS

	Probability of occurrence	Significance
Technological risks	Possible	Moderate
Patent-related risks	Unlikely	Low
Competition	Possible	Moderate
Product risks	Possible	High
Procurement- and production-related risks	Possible	High
Commodity price risks	Possible	Low
Risks in connection with the COVID-19 pandemic	Possible	High

Technological risks

The products manufactured by SFC must meet high quality standards if they are to be authorized on the market and accepted by customers on a lasting basis. In addition to enhancing the Group's own technology for new applications, SFC pays great attention to quality assurance while simultaneously reducing production costs. In this respect, SFC cooperates intensively with key suppliers and places a particular focus on cost reduction when it comes to the technological enhancement of its products.

The resulting know-how represents a major competitive edge for SFC. As for all highly innovative companies, however, we are generally exposed to risks from new product and technology features.

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

Changes in the budget situation in Germany could lead to restrictions in the award of subsidies. However, it should be noted that no additional subsidy projects were launched in 2020 and funding for existing projects had almost run out. This means that the opportunities outweigh the risks, particularly in light of the recently enacted National Hydrogen Strategy as well as the German Research Allowance Act (Forschungszulagengesetz) to an extent.

Patent-related risks

As the intellectual property situation becomes more complicated and products become more complex, there remains a risk that some of our processes or products could infringe patents that we are unaware of.

As a result of its unique position as a supplier of commercial direct methanol fuel cell systems, SFC has acquired patents or filed patent applications (currently: 20 patent families), which puts us in a strong competitive

position. However, is it entirely possible that we may incur legal expenses to defend these patents. Due to SFC's orientation as a provider of energy supply solutions, there is also a risk that integration solutions are covered by patents that have already been granted. SFC works continuously with experienced patent attorneys to ensure that it is operating in full compliance with the law by staying abreast of patents that may be relevant to the Company, including those granted in other countries.

There are no longer any patent law risks with regard to the hydrogen cell patents of the University of Southern California and the California Institute of Technology.

Competition

SFC AG currently enjoys a unique position thanks to its leadership and marketing edge in direct methanol fuel cell (DMFC) systems technology. In the area of hydrogen-powered PEM fuel cells, SFC enjoys a competitive edge (time lead) as one of the first companies with an industrially mature product for stationary applications with an output of up to 50 KW. Some of the ways in which we protect this advantage include intellectual property rights, swift action and a resolute focus on the technological concepts. The massive change in the demand situation, extensive government subsidy programs and the inflow of private capital means that this area is expected to see greater competitive intensity as well as the improved availability of capital for the Company's development programs. Some competitors, including potential future competitors, have better or at least comparable regional market access in China and the USA, which means there is a fundamental risk of losing our leadership position. In the Clean Energy segment, there are also risks from announcement effects and actual substitutes that could provoke uncertainty among market participants and lead to a loss of sales for SFC. SFC AG counters these risks by focusing its product development on standard products, attractive guarantees and system solutions.

The Group is subject to the usual competitive risks in the Clean Power Management segment. It counters these risks with a modular basic concept and customer-specific "design-in" concepts that create barriers to competitors. In addition, intensively fostering well-established customer relationships with a clear emphasis on customer service and a focus on product and system integration serves to confer a competitive edge and further minimize risk.

Product risks

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

Procurement- and production-related risks

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

In terms of supply, there is a risk for certain components that supply chains could be slowed or even broken owing to circumstances such as the coronavirus outbreak, which could lead to a loss of sales.

SFC counters this risk through increased tracing in its supply chain and, in certain cases, by maintaining larger inventories of components.

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

The products of two suppliers accounted for around 55 % of Simark's sales in 2020 (previous year: 57 %). Simark's result is therefore strongly dependent on the stability of those supplier relationships.

Commodity price risks

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

The precious metals are shown in the balance sheet as inventory assets until they are used in SFC products. A write-down of the precious metals would be in order only if the product manufactured from them could not be sold on the market at a price that covered its costs. The carrying amount of the stockpiled platinum and ruthenium was EUR 430k on the balance sheet date.

In general, rising commodity and energy costs continue to pose a risk to our product margins. At an assumed 5 % volatility in the platinum price, the effect would be around EUR 21k p.a.

Risks in connection with the COVID-19 pandemic

Although the COVID-19 pandemic has affected the Group's operating activities, the impact has not been material to date. The global countermeasures to contain the virus have led to a recession, and it is currently uncertain as to when the expected period of economic recovery will begin and how long it will last. The recession could have further negative consequences in terms of demand for the SFC Group's energy solutions and, if it lasts for some time, could result in lower income and the need to recognize write-downs. Supply chain disruption resulting from contractual claims due to force majeure, travel restrictions or shortages of materials, for example, could lead to delays in production.

In the past financial year, the rapid spread of the COVID-19 pandemic and the illness it causes saw the imposition of extensive government and official orders to prevent the transmission of the virus. Although comprehensive protective measures have been introduced in the workplace, there is a risk that one or more employees at the Group's affiliates could become infected, thereby leading to the temporary suspension of production. The coronavirus pandemic and all other forms of pandemic, epidemic or infectious outbreak could have a significant adverse effect on the Group's business situation and results of operations. These effects could intensify the longer the coronavirus pandemic continues.

Financial risks

FINANCIAL RISKS

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

Foreign exchange rate risks

Due to Simark's volume of business, SFC generates a substantial portion of its sales in Canadian dollars. This is offset by expenses and payments in Canadian dollars. In addition, SFC AG and Simark generate sales in North America in US dollars which are offset, in particular, by expenses and payments in US dollars to purchase products in the United States.

Generally speaking, volatility of the US dollar and the Canadian dollar could cause book losses if forward exchange transactions were remeasured. As in the previous year, no forward exchange contracts were concluded in the 2020 financial year. No open forward exchange transactions exist as of the reporting date. In that respect, a lower level of foreign exchange risk exists for the unhedged portion of sales.

There would have been a negative effect of EUR –802k (previous year: EUR –850k) on the Group's equity if the exchange rate had fluctuated by –5% when translating the assets and liabilities of Simark as of December 31, 2020, and a positive effect of EUR 802k (previous year: EUR 850k) if the rate had fluctuated by +5%.

A 5% change in the exchange rate of the Canadian dollar versus the euro compared with the assumptions used for corporate planning would have an effect of around 2% on consolidated revenue and around 1% on underlying EBITDA for the Group.

Financial and liquidity risks

SFC's strategic orientation requires continued capital expenditure, which must be financed to ensure future business success, particularly in the areas of product solutions, the penetration of existing end customer markets and regional markets, and the development of new end customer markets and regional markets. The funds generated by the Group from the capital increases implemented in 2019 and 2020 were also used in a targeted manner for these investments.

Cash is deposited with various banks in low-risk investments (such as call and time deposits) until it is used within the framework of our growth strategy. The capital increase in 2020 led to a marked rise in cash on hand.

Thanks to our customer structure (high percentage of industrial customers, security officials and wholesalers, low percentage of private end customers), there were no significant payment defaults in 2020 not addressed through write-downs. As of the reporting date, specific write-downs totaling EUR 456k were recognized at SFC AG for at-risk receivables. There were specific write-downs of EUR 18k at PBF and EUR 249k at Simark. In addition, a write-down of EUR 68k was recognized in accordance with IFRS 9.

As a matter of principle, additional liquidity risks could result from the postponement of expected major projects or if these projects fail to materialize. If the future sales of inventory on hand do not generate the expected liquidity, this would lead to a lower level of liquidity. However, the Group's current liquidity reserves mean that this would not jeopardize its continued existence.

SFC manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

In the medium term, the continued existence of SFC's business activities depend on the realization of the current business plan. A significant failure to achieve the material assumptions underlying this business plan, particularly the higher level of sales, gross profit, EBIT and net cash from operating activities, could impair the Group's ability to meet its financial obligations and hence cast doubt on its continued existence in the medium term and beyond.

Interest rate risks

INTEREST RATE RISKS

	Probability of occurence	Significance
Existence risk	Unlikely (previous year: probably)	High

Interest rate risk primarily results from the aforementioned external financing at the subsidiaries Simark and PBF, which are subject to variable interest rates, as well as from the short-term investment of cash and cash equivalents.

The interest rate risk from the investment of cash and cash equivalents relates in particular to positive and negative interest on short-term deposits.

Personnel risks

Qualified, dedicated and, in some cases, specialized employees remain a key factor in the Group's business success in light of its planned growth. If the Group is unable to recruit employees to the required extent, this could have a significant negative impact on its future development. There is also the risk that existing key personnel will leave the Group.

In addition, specific knowledge of the industry is a major factor for success in the Oil & Gas industry in particular.

Key elements of the Group's human resources policy include competitive compensation including the increased use of performance-based components, flat hierarchies, and extensive opportunities for training and professional development with a view to remaining competitive on the labor market. A focus on diversity in the workforce also enables the Group to leverage the full potential of the labor market. The Group has implemented a long-term incentive program for key employees, which should mitigate personnel risks to some extent compared with the previous year.

Nevertheless, there is still a risk with respect to recruiting qualified employees, especially in the technical field.

However, the Group's fuel cell technology places it in a highly promising and socially relevant technology field and industry that is extremely appealing to people of different ages and with different levels of education and specializations.

IT risks

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

Regulatory risks

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

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

Summary of the risk report

Based on the information known to us today, we believe that there are no risks that could threaten the continued existence of the Group or its material companies in the 2020 financial year owing to the Group's liquidity reserves.

Report on Opportunities

The following section describes the most significant opportunities but does not constitute an exhaustive list of the opportunities available to the Group. Furthermore, the assessment of these opportunities is subject to permanent change as our Company, our markets and the technology are all developing continuously. This can give rise to new opportunities, render existing opportunities less relevant, or lead to changes in the importance of the respective opportunities for us. Management engages in a regular dialog with key customers and industry and technology experts in order to identify new opportunities and technological trends at an early stage.

Market opportunities

With more than 20 years of experience in fuel cell technology, SFC is a leading provider of fuel cell solutions for stationary and mobile applications. After many years of success in marketing direct methanol fuel cells, the Company's hydrogen fuel cell has also attracted a great deal of attention among customers. In the 2020 financial year, the Group delivered EFOY Jupiter hydrogen fuel cells as an emergency power generator for the digital public authority radio network BOSNet in Germany.

Key opportunities to improve and accelerate the future development of the Group relate in particular to measures to leverage the potential for sales growth. In particular, this includes the increased penetration of existing end customer markets and regional markets and the development of new end customer markets and regional markets through a continued focus on the delivery of system solutions.

Supporting the energy turnaround and combating climate change

The growth in the world population and rising industrialization and digitalization are also leading to an increase in global energy requirements. Renewable energies will play a decisive role in limiting CO_2 emissions, achieving the decarbonization of the world by the end of this century that was resolved as part of the Paris Agreement in 2015 and implementing climate neutrality in the European Union by 2050 as set out in the Green Deal concept. To date, hydrogen has been chosen as the element to successfully finalize the energy turnaround by numerous nations and the EU at a supranational level. The expansion of renewable energy production capacity requires the ability to store and transport the energy generated. This is to be achieved using hydrogen. By contrast, SFC Energy AG's fuel cells enable the clean and efficient conversion of hydrogen into electrical energy on a decentralized basis near to the end user. Fuel cells are becoming increasingly more popular as a substitute for conventional generators (diesel gensets), for example in off-grid industrial applications and as emergency power generators for telecommunication infrastructure. The Group sees additional sales potential in the large number of potential new customers and the substitution of existing technologies (replacement of environmentally damaging diesel generators).

Market access and activities in Asia and North America

Asia and North America are both regions with high sales potential for SFC. Accordingly, the developments and growth opportunities in these regions are extremely important for us and relate to the industrial markets we serve, the defense market and the oil and gas market. If we succeed in strengthening our international sales activities and improving our positioning in the various markets, this could lead to a range of new and additional opportunities and have a positive impact on the growth and profitability of our business.

Other opportunities

"System solutions" strategic approach

Our "system solutions" strategic approach aims to identify additional customer benefit at the system level from our broad portfolio of technologies and products in the Clean Energy and Clean Power Management segments. This will allow us to increase the degree of vertical integration and hence our product sales with a

view to realizing our growth and margin targets. This approach will also reduce the complexity of integration for customers, thereby reducing the time to market for our products.

Enhancement of the existing product portfolio

SFC Energy AG continuously enhances its product portfolio in response to the impetus provided by its customers and target markets, with a particular focus on products in higher power classes, additional functions and projects to reduce material costs. In this way, the Company ensures that it is always prepared for its customers' requirements while actively creating new demand on the market with its innovative and economical solutions. Close integration between the development departments and the market research, sales and service teams as well as the provision of a suitable R&D budget serve to ensure SFC Energy's innovative strength for the future. The continuous enhancement of the product portfolio can lead to changes in the product mix.

Development and sales partnerships with companies with strategically relevant expertise

SFC Energy AG has a broad product range and extensive ideas for enhancing its products and generating new market opportunities. Although its strategy is focused on internal growth, the Company also pursues opportunities for external growth resulting from acquisitions of or partnerships with companies that offer complementary technology and/or strategically relevant expertise.

External factors

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

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

Forecast report

In January 2021, experts from the International Monetary Fund (IMF) forecast a resumption in global economic growth at a rate of 5.5 % in 2021.[48] The main risks to the expected economic recovery relate to uncertainty concerning the development of the coronavirus pandemic as well as the unresolved geopolitical conflicts.

Although the development of the world economy is subject to uncertainty, market analysts expect the global market for fuel cells to reach a volume of $ 33 billion in 2027 on the back of extremely positive development and very strong growth.[49] Demand for fuel cells will be driven by extensive government investment programs and incentives, such as the National Hydrogen Strategy published by the German Federal Ministry for Economic Affairs and Energy in June 2020 and the wide-ranging European hydrogen initiatives forming part of the Green Deal.

48 IMF World Economic Outlook, January 27, 2021
49 Grand View Research, press release dated 02/2020

The Group expects to see positive growth contributions from rising demand for the new generation of methanol fuel cells as well as hydrogen fuel cells.

Sales

In light of the aforementioned growth expectations for the world economy and the fuel cell market that is relevant for SFC, the Company expects consolidated sales to increase by 15 % to 30 % year-on-year to between EUR 61,000k and EUR 70,000k (2020 financial year: EUR 53,223k). This development will be driven in particular by the Clean Energy segment, which primarily includes the sales of the former Clean Energy & Mobility and Defense & Security segments.

Gross profit margin

We expect the gross margin at Group level to increase slightly compared with the previous year.

EBITDA underlying

On the back of the expected dynamic development in demand and the stable to rising margin, EBITDA underlying is expected to increase significantly year-on-year to between EUR 3,500k and EUR 6,000k in the 2021 financial year.

EBIT underlying

Based on its forecasts for the Clean Energy and Clean Power Management segments, management expects EBIT underlying for the Group to amount to between EUR – 900k and EUR 1,600k in 2021.

It expects capitalization of research and development costs to maintain a similar rate to the previous financial year.

On the reporting date, the Group had available cash and cash equivalents in the amount of EUR 31,464k. With a trend for its operating result in the 2021 financial year in line with forecasts for sales and earnings, the Company will have sufficient liquidity to meet its financial obligations.

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

Remuneration report

The remuneration report summarizes the principles applied in determining the remuneration of the Management Board of SFC Energy AG and explains the amount and structure of the Management Board's income. The remuneration report also describes the principles and amount of the remuneration of the Supervisory Board.

Remuneration system of the Management Board

The remuneration of the Management Board members should serve as a vehicle to further the SFC AG business strategy and secure its implementation. In addition, by defining performance criteria that are linked to the long-term and sustainable success of the Company and supplementing them with demanding annual and multi-year targets, a contribution is also being made to the Company's long-term and sustainable development. Outstanding performance should be rewarded by appropriate remuneration. And performance that falls short of targets set should result in a noticeable reduction in remuneration. The remuneration system sets incentives that are in line with, and promote, this Company strategy.

Pursuant to the German Stock Corporation Act, the Supervisory Board determines the remuneration of the Management Board. The remuneration of the members of the Management Board consists of the following components:

Base remuneration

The members of the Management Board receive a fixed annual salary paid in twelve equal monthly installments. The level of base remuneration is determined according to the responsibility and experience of the relevant member of the Management Board.

The members of the Management Board also receive certain fringe benefits. The Company provides a company car to each member of the Management Board. The Company also pays the premiums for accident, pension, and life insurance for the members of the Management Board up to a maximum cap and pays the annual premium for directors' and officers' (D&O) liability insurance taken out for them with a deductible equal to at least 10 % of the loss and up to a minimum level of one and a half times the fixed annual salary.

Short-term variable remuneration (bonus)

The members of the Management Board also receive a variable remuneration (performance-based bonus) if specific performance targets are met, which serves to reward their contribution to the implementation of the business strategy during a given financial year. The short-term variable compensation is made up of four equally weighted components: three components with fixed financial performance criteria that reflect the Company's revenue targets or profitability, and one component placed at the discretion of the Supervisory Board that may specify financial or non-financial performance criteria or a combination of both. In relation to the financial performance criteria, equally weighted targets were set for the financial year 2020 with respect to the amounts budgeted for consolidated sales (based on the budgeted exchange rate for the Canadian dollar to the euro), gross margin, and underlying EBITDA.

Long-term variable remuneration

A significant portion of the Management Board's remuneration is linked to the long-term performance of SFC shares. Virtual or physical stock options are granted as long-term variable share-based remuneration.

Virtual stock option program (SAR Program)

At the beginning of the financial year 2014, the Supervisory Board of the Company implemented a virtual stock option program (SAR Program 2014–2016) for the first time with the aim to align the interests of the shareholders with those of the members of the Management Board. The SAR Program 2014–2016, which provides for the issuance of virtual stock options to the members of the Management Board, applies to any new Management Board member's employment contract to become effective from January 1, 2014 onward and replaces the previously existing LTIP. A tranche of the fourth SAR Program (SARP 2018-2021) was granted to Mr. Hans Pol in connection with the extension of his employment contract.

Mr. Hans Pol received virtual stock options in 2014 (Hans Pol Program 1), 2015 (Hans Pol Program 2) and 2018 as part of the extension of his employment contract (Hans Pol Program 4).

Dr. Peter Podesser received virtual stock options in 2014 (Dr. Peter Podesser Program 1), 2017 (Dr. Peter Podesser Program 3) and 2020 (Dr. Peter Podesser Program 5), in each case as part of the extension of his employment contract. In the interest of preserving the Company's liquidity, the Annual General Meeting 2020 authorized the Company's Supervisory Board to convert the existing Dr. Peter Posseder Program 5 from a cash-settled to a share-based program (share-based compensation). The Supervisory Board has made use of this authorization and agreed with Dr. Peter Podesser on a conversion of the (virtual) Dr. Peter Posseder Program 5 to a stock option program (Stock Option Program 2020-2024) as of July 9, 2020. The Dr. Peter Podesser Program 5 is therefore not mentioned below.

Mr. Daniel Saxena received virtual stock options upon his appointment in July 2020 (Daniel Saxena Program 5).

After the end of a fixed waiting period, the virtual stock options confer the right to a cash payout depending on the stock exchange price of the shares of SFC Energy AG at the time of exercise. An upper limit to the number of SARs to be allocated is set in advance and is reduced at predetermined dates if the Company's stock price falls below certain thresholds. The virtual stock option program has a term of seven years. The SARs are first eligible for exercise after a four-year waiting period, at which point a portion of the SARs issued can be exercised against payment of an exercise price of EUR 1.00 per SAR, provided certain pre-defined performance targets have been met.

The terms of the SAR Program 2014 – 2016 (program 1), 2015 – 2018 (program 2), 2018 – 2021 (program 3), 2018 – 2021 (program 4) and 2020 – 2024 (program 5) are as follows:

THE TERMS FOR THE SAR PLAN 2014–2016, 2015–2018, 2017–2020, 2018–2021 AND 2020–2024

Date of issuance	January 1, 2014 (Hans Pol Plan 1) April 1, 2014 (Dr. Peter Podesser Plan 1) July 1, 2015 (Hans Pol Plan 2) April 1, 2017 (Dr. Peter Podesser Plan 3) July 1, 2018 (Hans Pol Plan 4) July 1, 2020 (Daniel Saxena Plan 5)
Term	Plans 1–4: 7 years Plan 5: 8 years
Waiting period	4 years (Hans Pol Plan 1) 4 to 6 years (Dr. Peter Podesser Plan 1 and Plan 3) 4 to 6 years (Hans Pol Plan 2) 4 to 6 (Hans Pol Plan 4) 4 to 7 years (Daniel Saxena Plan 5)
Cut-off dates	January 1, 2015 (Hans Pol Plan 1) April 1, 2015, April 1, 2016 and April 1, 2017 (Dr. Peter Podesser Plan 1) September 1, 2015, July 1, 2016, July 1, 2017 and July 1, 2018 (Hans Pol Plan 2) April 1, 2018, April 1, 2019 and April 1, 2020 (Dr. Peter Podesser Plan 3) July 1, 2019, July 1, 2020 and July 1, 2021 (Hans Pol Plan 4) July 1, 2021, July 1, 2022, July 1, 2023 and July 1, 2024 (Daniel Saxena Plan 5)
Strike price	EUR 1,00
Performance targets for tranches until 2016	Share price increase compared with share price on day of issuance and better development than benchmark (ÖkoDAX)
Performance targets for tranches from 2017 onward	Share price increase compared with share price on day of issuance

Stock Option Program

The SFC AG Annual General Meeting 2020 authorized the Supervisory Board to convert the existing Dr. Peter Podesser Program 5 from a cash-settled to a share-based program (share-based compensation).

The Stock Option Program has a maximum term of eight years. The option rights can be exercised in accordance with the option terms and conditions within one year after the expiry of a waiting period. The waiting period for the exercise of the option rights is staggered according to the tranches issued, meaning that, in each case, one quarter of the option rights of the relevant tranche (sub-tranche) can be exercised. The waiting period for exercising the sub-tranches is four, five or six years, starting with the issue date of the tranche in each case. The exercise price is EUR 1.00. Each option right conveys the right to subscribe for one SFC AG share. Subscription rights granted may only be exercised provided that an average stock market price of SFC AG shares specified in more detail by the General Meeting has achieved a certain stock price target at certain points in time over the course of the four-year waiting period and that, due to this, the subscription rights have not expired (in whole or in part).

The exercise of option rights in respect of each sub-tranche is also dependent on an average stock market price of SFC AG shares that has been specified in more detail by the General Meeting reaching or exceeding thresholds laid down by the General Meeting at the time of exercise.

The Stock Option Program ensures that, upon expiry of the waiting period, option rights may only be exercised for the relevant drawing period if the sum of the number of option rights exercised multiplied by the closing price on the exercise date of these option rights less the exercise price and the number of option rights to be exercised multiplied by the closing price on the trading day preceding the intended date of exercise of the option rights less the exercise price does not exceed the amount of EUR 1 million (cap). The key terms of the Stock Option Program 2020-2024 (Dr. Peter Podesser stock option program 1) are as follows:

THE TERMS FOR THE 2020–2024 SHARE OPTION PROGRAM

Date of issuance	July 9, 2020
Term	8 years
Waiting period	Between 4 and 7 years
Cut-off dates	July 9, 2021, July 9, 2022, July 9, 2023 and July 9, 2024
Strike price	EUR 1,00
Cap	The exercise of warrant rights for the respective subscription period is only permitted to the extent that the sum of the number of warrant rights already exercised multiplied by the closing price in XETRA trading on the exercise date of these warrant rights less the strike price of EUR 1.00 and the number of warrant rights to be exercised multiplied by the XETRA closing price on the trading date prior to the intended exercise date of the warrant rights less the strike price of EUR 1.00 does not exceed EUR 1 million.
Performance target	Share price increase compared with share price on the last 30 trading days before the day on which a subscription declaration is issued in respect of warrant rights granted and not yet expired.

Remuneration of the Management Board in 2020

Members of the Management Board received EUR 4,456,914 in total compensation in the financial year 2020. The remuneration for the financial year 2020 includes the fixed income, fringe benefits, short-term variable remuneration (bonus) as well as the long-term variable remuneration in the form of expenses for the SAR Program or Stock Option Program. The above total includes all amounts that were laid out in 2020 or set aside as provisions in the consolidated financial statements for 2020, less the amounts that had been set aside as of December 31, 2019.

The individual disclosure of the compensation of each member of the Management Board is made according to the tables set out below. Table 1 shows the benefits granted in the financial year 2020, while Table 2 shows the amounts paid. Because the LTIP and the SARP do not provide for any maximum amounts of compensation, no maximum amounts are shown, notwithstanding the recommendation in the German Corporate Governance Code.

TABLE 1 – BENEFITS GRANTED TO MEMBERS OF THE MANAGEMENT BOARD 2020[1]

in EUR

	Dr. Peter Podesser CEO/Chairman since 11/01/2006			Hans Pol COO since 01/01/2014			Marcus Binder CSO from 03/01/2017 – 02/29/2020			Daniel Saxena CFO since 07/01/2020	
Benefits	2020	2020 (Min)	2019	2020	2020 (Min)	2019	2020	2020 (Min)	2019	2020	2020 (Min)
Fixed income	365,000	365,000	350,000	199,767	199,767	199,898	29,483	29,483	180,000	120,000	120,000
Fringe Benefits	21,073	21,073	19,597	18,996	18,996	18,568	3,644	3,644	21,859	12,000	12,000
Total	**386,073**	**386,073**	**369,597**	**218,763**	**218,763**	**218,466**	**33,126**	**33,126**	**201,859**	**132,000**	**132,000**
One-year variable compensation	138,396	–	290,821	50,062	–	81,398	3,500	–	53,724	–	–
Multi-year variable compensation	2,193,912	–	955,526	735,252	–	286,044	398,718	–	207,817	167,112	–
SAR Programm	2,193,912	–	955,526	735,252	–	286,044	398,718	–	207,817	167,112	–
Total	**2,718,380**	**386,073**	**1,615,944**	**1,004,078**	**218,763**	**585,908**	**435,344**	**33,126**	**463,400**	**299,112**	**132,000**
Service costs	–	–	–	–	–	–	–	–	–	–	–
Total	**2,718,380**	**386,073**	**1,615,944**	**1,004,078**	**218,763**	**585,908**	**435,344**	**33,126**	**463,400**	**299,112**	**132,000**

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

TABLE 2 – ALLOCATION OF MANAGEMENT BOARD COMPENSATION 2020 (AMOUNTS DISBURSED)

in EUR

	Dr. Peter Podesser CEO/Chairman since 11/01/2006		Hans Pol COO since 01/01/2014		Marcus Binder CSO from 03/01/2017 – 02/29/2020		Daniel Saxena CFO since 07/01/2020	
Allocation	2020	2019	2020	2019	2020	2019	2020	2019
Fixed income	365,000	350,000	199,767	199,898	29,483	180,000	120,000	–
Fringe Benefits	21,073	19,597	18,996	18,568	3,644	21,859	132,000	–
Total	**386,073**	**369,597**	**218,763**	**218,466**	**33,126**	**201,859**	**132,000**	**–**
One-year variable compensation	137,896	326,957	58,062	96,613	–	67,037	–	–
Multi-year variable compensation	–	–	–	53,625	–	–	–	–
SAR Programm	–	–	–	53,625	–	–	–	–
Total	**523,969**	**696,554**	**276,825**	**368,704**	**33,126**	**268,896**	**132,000**	**–**
Service costs	–	–	–	–	–	–	–	–
Total	**523,969**	**696,554**	**276,825**	**368,704**	**33,126**	**268,896**	**132,000**	**–**

Remuneration of the Supervisory Board

The members of the Supervisory Board receive a fixed annual remuneration in the amount of EUR 25,000.00, with the Chairman of the Supervisory Board and his deputy receiving twice and one and a half times this amount, respectively. In the event of changes in the composition of the Supervisory Board during a year, the remuneration is granted pro rata temporis on a monthly basis.

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

The remuneration of the individual Supervisory Board members in the financial year 2020 was as follows:

FINANCIAL YEAR 2020	in EUR
Tim van Delden, Chairman	50,000
Hubertus Krossa, Vice Chairman (since June 1, 2020; previously: member of the Supervisory Board)	32,292
Gerhard Schempp, member of the Supervisory Board (since June 1, 2020)	15,625
David Morgan, Vice Chairman (until May 31, 2020)	14,583

Other related parties

Please see Note (35) "Related-party transactions" in the notes to the consolidated financial statements.

Takeover-related disclosures (pursuant to § 315a HGB)

The share capital of SFC Energy AG totals EUR 14,469,743.00 on the balance sheet date and is divided into 14,469,743 no-par value bearer shares each with a notional interest in the share capital of EUR 1.00. The share capital is fully paid-up. Each share confers one vote. For additional information, see Note (36) "Earnings per share" in the notes to the consolidated financial statements. The change in the number of shares by 1,520,131 shares in comparison with the previous year is composed as follows:

CHANGE IN NUMBER OF SHARES	Share capital in EUR
Ordinary shares 12/31/2019	**12,949,612**
Capital increase from conditional capital in January 2020	204,700
Capital increase from authorized capital in November 2020	1,315,431
Ordinary shares 12/31/2020	**14,469,743**

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

Based on the voting rights notifications received in accordance with section 40 in conjunction with 33 of the German Securities Trading Act (WpHG), as of December 31, 2020, the Company was not aware of any parties directly or indirectly holding capital exceeding 10% of the voting rights. Shareholders have no special rights that confer control.

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

In accordance with section 179 (2) AktG in conjunction with Article 20 (2) sentence 1 of the Articles of Association of the Company, amendments to the Articles of Association require a majority of the votes cast as required by law and, where a capital majority is required, a simple majority of the share capital represented at the passing of the resolution, unless otherwise required by law or the Articles of Association. The revocation or amendment of Article 20 (2) sentence 1 of the Articles of Association and the amendment of this majority requirement (Article 20 (2) sentence 2 of the Articles of Association) require a majority of at least three-quarters of the share capital represented at the passing of the resolution. Amendments to Article 15a of the Articles of Association require a qualified majority of at least 90 % of the share capital represented at the passing of the resolution. The amendment of this majority requirement itself also requires a majority of at least 90 % of the share capital represented at the passing of the resolution (Article 20 (2) sentence 3 of the Articles of Association). In accordance with Article 22 of the Articles of Association, a resolution by the Annual General Meeting on the liquidation of the Company requires a majority of 80 % of the total voting share capital of the Company.

Authorized capital

Following the cash capital increase in the 2020 financial year pursuant to Article 5 (6) of the Articles of Association, which is outlined below, SFC Energy AG still has authorized capital of EUR 3,809,375.00 on the balance sheet date (Authorized Capital 2019).

Conditional capital

The 2020 Annual General Meeting resolved the creation of new conditional capital (Conditional Capital 2020) and the corresponding amendment of Article 5 of the Articles of Association to add a new paragraph (7).

By resolution of the Annual General Meeting of SFC Energy AG on May 19, 2020, the share capital of the Company is conditionally increased by up to EUR 1,300,000.00 through the issue of up to 1,300,000 new no-par bearer shares each with an interest in the share capital of EUR 1.00 (Conditional Capital 2020). Conditional Capital 2020 serves solely to grant new shares to holders of warrant rights, which may be issued by the Company in accordance with the authorization resolution of the Annual General Meeting on May 19, 2020, under agenda item 7 a).

On August 3, 2017, the Management Board of SFC Energy AG had issued a warrant bond based on the authorization granted by the Annual General Meeting of SFC Energy AG on June 14, 2016. This warrant bond comprises a warrant right to 204,700 SFC Energy AG shares with a notional value of EUR 1.00 per share of the Company's share capital at an option price of EUR 3.6639 each. In January 2020, this option was exercised by Harbert European Growth Capital Fund. Exercising the warrant bond increased SFC Energy AG's share capital from EUR 12,949,612.00 to EUR 13,154,312.00. This was entered in the commercial register on April 21, 2020. Following the conversion of a warrant bond, Conditional Capital 2016 decreased by EUR 204,700.00 in January 2020 due to the issue of 204,700 new no-par value shares each with an interest in the share capital of EUR 1.00. The remaining amount of Conditional Capital 2016 is EUR 295,300.00.

SFC Energy AG also has additional conditional capital of EUR 2,824,503.00 (Conditional Capital 2019) and EUR 278,736.00 (Conditional Capital 2011) to secure the issuance of no-par-value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, participation rights and/or participation bonds (or combinations of such instruments).

Cash capital increase

SFC Energy AG resolved and placed a cash capital increase on November 24, 2020. As part of a private placement, 1,315,431 no-par value bearer shares of the Company were successfully placed with institutional investors. The placement price was set at EUR 14.77 per new share in accelerated bookbuilding. This capital increase provided the Company with gross issue proceeds of approximately EUR 19.4 million. The share capital of SFC Energy AG increased to EUR 14,469,743.00 as a result of the capital increase. This was entered in the commercial register on November 26, 2020.

Agreements with Management Board members

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

Pursuant to his Management Board employment agreement dated April 1, 2014, Dr. Peter Podesser was granted 360,000 stock appreciation rights (SARs) under the 2014–2016 SAR Plan with a strike price of EUR 1.00 each. A specified portion of the SARs may expire on three predefined dates depending on SFC AG's stock price. Following a four- to six-year vesting period, one-third of the non-expired SARs may be exercised at a defined reference price when certain performance targets have been reached. In the event another entity acquires control of SFC AG, the SARs that have not yet expired at the time the takeover offer is made must be disbursed according to specified ranges based on the reference price. The reference price corresponds to the offer price as defined in section 31 (1) of the German Securities Acquisition and Takeover Act (WpÜG). Dr. Peter Podesser's Management Board employment agreement was extended from April 1, 2017, to March 31, 2020. In connection with that agreement, Dr. Peter Podesser was granted an additional 360,000 SARs (2017–2020 SAR Plan) on December 14, 2016. In addition, Dr. Peter Podesser's Management Board employment agreement was extended from April 1, 2020, to March 31, 2024. Dr. Peter Podesser was accordingly granted an additional 420,000 SARs (2020–2024 SAR Plan) on May 15, 2019. As described in the "Management Board compensation system" and "Share option plan" sections, this SAR Plan has been transformed into the 2020–2024 share option plan.

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

Daniel Saxena was appointed to the Management Board from July 1, 2020, to June 30, 2024. His Management Board employment agreement contains an agreement regarding the 2020–2024 SAR Plan with a term until June 30, 2027. Mr. Saxena was granted 228,000 SARs.

Marcus Binder was appointed to the Management Board from March 1, 2017, to February 28, 2020. His Management Board agreement was not extended beyond February 28, 2020.

Corporate governance statement

The SFC AG Management Board published the corporate governance statement pursuant to sections 289f and 315d of the German Commercial Code (HGB) on March 23, 2021. It can be accessed any time at www.sfc.com/en/investors/corporate-governance.

Subsequent Events after the Balance Sheet Date

Since January 1, 2021, all of SFC AG's subsidiaries have been operating under the SFC Energy name. The subsidiary PBF now operates under the name SFC Energy B.V., while Simark operates under the name SFC Energy Ltd.

A pending legal action with the Munich District Court I between the former Management Board member Marcus Binder and SFC Energy AG was amicably resolved by way of a settlement agreed after the balance sheet date on February 4, 2021. The settlement amount covers all obligations for short-term compensation (bonus) and long-term variable compensation (SAR Plan) and for consulting services, for which adequate provisions were recognized at the balance sheet date.

On February 23, 2021, the Supervisory Board of SFC Energy AG unanimously resolved in agreement with Mr. Hans Pol to cancel his appointment and his Management Board employment agreement of March 6/22, 2018, effective February 28, 2021. By way of a further resolution on February 23, 2021, the Supervisory Board appointed Mr. Hans Pol to the Management Board effective March 1, 2021, for a term of four years until February 28, 2025, and concluded a new Management Board employment agreement to this extent.

Up until the date of preparation of this Annual Report, no other events of particular significance occurred that are expected to have a material effect on the net assets, financial position and results of operations of SFC Energy AG.

Brunnthal, March 23, 2021

The Management Board

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (COO)

Daniel Saxena
Board Member (CFO)

MOSAiC Arctic Expedition: Over more than 389 days more than 600 people explored the climatic conditions in the Arctic. To measure the energy transfer between the atmosphere and the ice the Atmospheric Surface Flux Stations (ASFS) had to collect data continuously for up to two months. In the harsh weather conditions the measuring stations needed a reliable and low-maintenance energy source. The EFOY Pro fuel cell was the solution.

03

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS 2020

Consolidated Income Statement

FROM JANUARY 1 TO DECEMBER 31, 2020

in EUR

	Notes	2020 01/01 – 12/31	2019 01/01 – 12/31
Sales	(1)	53,222,770	58,538,144
Production costs of work performed to generate sales	(2)	– 35,307,390	– 38,409,809
Gross profit		**17,915,380**	**20,128,335**
Sales costs	(3)	– 12,122,424	– 12,438,244
Research and development costs	(4)	– 2,842,861	– 3,103,601
General administration costs	(5)	– 7,125,004	– 5,994,437
Other operating income	(6)	156,686	177,543
Other operating expenses	(7)	– 289,858	– 57,481
Restructuring costs	(8)	– 193,361	0
Operating result		**– 4,501,442**	**– 1,287,885**
Interest and similar expenses	(9)	– 443,258	– 751,855
Result before taxes		**– 4,944,700**	**– 2,039,740**
Income taxes	(10)	– 239,354	112,626
Consolidated net result		**– 5,184,054**	**– 1,927,114**
Net loss per share			
undiluted	(36)	– 0,39	– 0,17
diluted		– 0,39	– 0,17

Consolidated Statement of Comprehensive Income

FROM JANUARY 1 TO DECEMBER 31, 2020

in EUR

	Notes	2020 01/01 – 12/31	2019 01/01 – 12/31
Consolidated net result		**– 5,184,054**	**– 1,927,114**
OCI items that may be recycled to profit or loss in the future:			
Result from currency translations		– 459,813	364,091
Total other result	(30)	**– 459,813**	**364,091**
Derecognition financial instrument		0	– 71
Total comprehensive income		**– 5,643,867**	**– 1,563,095**

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

Consolidated Balance Sheet

ASSETS AS OF DECEMBER 31, 2020

in EUR

	Notes	12/31/2020	12/31/2019
Current assets		**58,447,329**	**47,818,345**
Inventories	(14)	12,617,145	12,031,984
Trade accounts receivable	(15)	12,362,867	13,693,778
Receivables from contracts with customers	(16)	668,212	79,096
Income tax receivables	(17)	0	2
Other short-term assets and receivables	(18)	1,049,387	821,485
Cash and cash equivalents	(19)	31,464,099	20,906,380
Cash and cash equivalents with limitation on disposal	(20)	285,620	285,620
Non-current assets		**27,882,362**	**25,040,497**
Intangible assets	(21)	15,999,278	13,921,284
Property, plant and equipment	(22)	9,985,098	9,869,180
Financial assets	(33)	0	0
Deferred tax assets	(10)	1,897,987	1,250,033
Assets		**86,329,691**	**72,858,842**

Consolidated Balance Sheet

LIABILITIES AND SHAREHOLDERS' EQUITY AS OF DECEMBER 31, 2020

in EUR

	Notes	12/31/2020	12/31/2019
Current liabilities		**18,780,475**	**20,514,044**
Provisions for taxes	(23)	7,476	34,252
Other provisions	(23)	1,575,879	1,228,689
Liabilities to banks	(24)	4,339,954	5,351,805
Liabilities from prepayments	(25)	39,531	62,184
Trade accounts payable	(26)	4,742,006	8,090,427
Liabilities under finance leases	(27)	1,353,289	2,278,193
Liabilities from contracts with customers	(16)	51,928	279,503
Liabilities from financing		0	0
Other short-term liabilities	(28)	6,670,413	3,188,993
Non-current liabilities		**12,711,252**	**12,084,529**
Other long-term provisions	(23)	1,407,402	1,334,420
Liabilities to banks	(24)	209,446	1,160,830
Liabilities under finance leases	(27)	6,547,750	5,755,073
Other long-term liabilities	(28)	0	4,639
Other liabilities from financing	(28)	2,752,773	2,792,231
Deferred tax liabilities	(10)	1,793,881	1,037,336
Equity		**54,837,963**	**40,260,269**
Subscribed capital	(30)	14,469,743	12,949,612
Capital surplus	(30)	119,118,339	100,416,909
Other changes in equity non affecting profit or loss	(30)	– 1,118,708	– 658,895
Result brought forward	(30)	– 72.447.357	– 70.520.243
Net loss for the year	(30)	– 5.184.054	– 1.927.114
Liabilities and shareholders' equity		**86,329,691**	**72,858,842**

Consolidated Cash Flow Statement

FROM JANUARY 1 TO DECEMBER 31, 2020

in EUR

		Notes	2020 01/01–12/31	2019 01/01–12/31
	Cash flow from ordinary operations			
	Result before taxes		**–4,944,700**	**–2,039,740**
+	Net interest income	(9), (37)	443,258	751,855
+	Depreciation/amortization of intangible assets and property, plant and equipment	(12), (21), (22)	3,515,663	3,329,916
–/+	Income/expenses from SAR Plan/ Long Term Incentive Plan	(32)	3,447,474	1,445,762
+	Changes in allowances	(14), (15)	866,530	4,399
+/–	Gain/losses from disposal of non-current assets	(21), (22)	24,624	0
+/–	Other non-cash expenses/income		102,817	403,796
	Changes to operating result before working capital		**3,455,667**	**3,895,988**
+/–	Changes to provisions	(23)	407,200	541,212
+	Changes to trade account receivables	(15)	662,970	–3,722,318
–/+	Changes to inventories	(14)	–1,237,248	–2,109,988
+	Changes to other receivables and assets	(16(, (17), (18)	–844,656	199,757
–	Changes to trade accounts payable	(26)	–3,151,584	809,888
–	Changes to other liabilities	(25), (28)	270,251	–203,154
	Cash flow from ordinary operations before taxes		**–437,400**	**–588,615**
+/–	Income tax refund/payment	(10), (37)	–157,978	–672,158
	Cash flow from ordinary operations		**–595,377**	**–1,260,773**

Consolidated Cash Flow Statement

FROM JANUARY 1 TO DECEMBER 31, 2020

in EUR

		Notes	2020 01/01–12/31	2019 01/01–12/31
	Cash flow from investment activity			
–	Investments in intangible assets from development projects	(21)	–3,103,523	–2,455,877
–	Investments in other intangible assets	(21)	–232,572	–125,763
–	Investments in property, plant and equipment	(22), (27)	–942,691	–1,109,574
+	Proceeds from disposal of property, plant and equipment		0	63,630
	Cash flow from investment activity	(21), (22)	**–4,278,785**	**–3,627,584**
	Cash flow from financial activity			
+	Payments from capital increase	(30)	20,178,917	27,000,000
–	Cash outflows for costs from capital increase	(30)	–513,597	–3,380,796
–	Repayment of financial debt	(24)	–899,953	–3,249,560
+/–	Changes to current account liabilities	(24)	–851,033	618,606
–	Repayment of liabilities under finance lease	(27)	–2,053,150	–2,008,287
–	Interest paid and other expenses	(9), (37)	–429,302	–704,915
	Cash flow from financial activity		**15,431,881**	**18,275,048**
	Net change in cash and cash equivalents		**10,557,719**	**13,386,691**
	Net change in cash and cash equivalents			
	Cash and cash equivalents at beginning of period	(19)	20,906,380	7,519,689
	Cash and cash equivalents at end of period	(19)	31,464,099	20,906,380
	Cash on the balance sheet		**10,557,719**	**13,386,691**

Consolidated Statement of Changes in Equity

FROM JANUARY 1 TO DECEMBER 31, 2020

in EUR

	Notes	Subscribed capital	Capital surplus	Other changes in equity not effecting profit or loss	Net accumulated loss	Total
As of 01/01/2019		**10,249,612**	**79,497,706**	**– 1,022,986**	**– 70,520,171**	**18,204,161**
Consolidated net loss						
Consolidated net result					– 1,927,114	– 1,927,114
Result from currency translations recognized in equity	(30)			364,091		364,091
Derecognition FVOCI financial instrument					– 71	– 71
Capital increase						
Capital increase	(30)	2,700,000	24,300,000			27,000,000
Less costs from capital increase	(30)		– 3,380,797			– 3,380,797
As of 31/12/2019		**12,949,612**	**100,416,909**	**– 658,895**	**– 72,447,357**	**40,260,269**
Consolidated net loss						
Consolidated net loss					– 5,184,054	– 5,184,054
Result from currency translations recognized in equity	(30)			– 459,813		– 459,813
Share-based payments with compensations through equity instruments	(34)		556,241			556,241
Capital increase						
Warrant exercise	(30)	204,700	545,300			750,000
Capital increase	(30)	1,315,431	18,113,485			19,428,916
Less costs from capital increase	(30)		– 513,597			– 513,597
As of 12/31/2020		**14,469,743**	**119,118,339**	**– 1,118,708**	**– 77,631,411**	**54,837,963**

Consolidated Segment Reporting (Part of Notes)

FROM JANUARY 1 TO DECEMBER 31, 2020

in EUR

	Clean Energy & Mobility		Industry		Oil & Gas		Defense & Security		Consolidated financial statements	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Sales	18,998,286	11,757,856	13,582,136	17,238,171	17,652,193	21,953,932	2,990,155	7,588,185	53,222,770	58,538,144
Production costs of work performed to generate sales	–10,865,663	–6,672,593	–9,236,935	–11,996,749	–13,212,965	–15,540,445	–1,991,827	–4,200,022	–35,307,390	–38,409,809
Gross profit	8,132,623	5,085,263	4,345,201	5,241,422	4,439,228	6,413,487	998,328	3,388,163	17,915,380	20,128,335
Sales costs	–3,466,330	–3,478,408	–873,070	–1,265,223	–4,375,893	–4,894,393	–3,407,131	–2,800,220	–12,122,424	–12,438,244
Research and development costs	–424,450	–375,416	–2,008,880	–2,106,995	–150,145	–220,832	–259,386	–400,358	–2,842,861	–3,103,601
General administration costs	–2,642,370	–1,717,812	–1,048,241	–1,299,684	–1,136,464	–904,142	–2,297,929	–2,072,801	–7,125,004	–5,994,437
Other operating income	16,193	25,276	0	0	100,407	126,998	40,087	25,269	156,686	177,543
Other operating expenses	–28,918	–9,468	0	0	–245,218	–38,548	–15,722	–9,465	–289,858	–57,481
Other expenses/ income (balance)	–12,726	15,808	0	0	–144,811	88,453	24,364	15,804	–133,173	120,065
Restructuring costs	0	0	–193,360	0	0	0	0	0	–193,360	0
Operating result (EBIT)	1,586,747	–470,565	221,650	569,520	–1,368,085	482,572	–4,941,755	–1,869,412	–4,501,442	–1,287,885
Adjustments EBIT	800,936	431,298	193,361	0	842,610	199,476	2,085,366	940,988	3,922,273	1,571,762
EBIT underlying	2,387,683	–39,267	415,011	569,520	–525,475	682,048	–2,856,389	–928,424	–579,169	283,877
Depreciation/ amortization	–999,017	–871,177	–1,016,517	–880,226	–731,365	–786,159	–768,764	–792,355	–3,515,663	–3,329,917
EBITDA	2,585,764	400,612	1,238,167	1,449,746	–636,720	1,268,731	–4,172,991	–1,077,057	–985,780	2,042,032
Adjustments EBITDA	800,936	431,298	193,361	0	842,610	199,476	2,085,366	940,988	3,922,273	1,571,762
EBITDA underlying	3,386,700	831,910	1,431,528	1,449,746	205,891	1,468,207	–2,087,625	–136,069	2,936,493	3,613,794
Operating result (EBIT)									–4,501,442	–1,287,885
Financial result									–443,258	–751,855
Result before tax									–4,944,700	–2,039,740
Income taxes									–239,354	112,626
Consolidated net result									–5,184,054	–1,927,114

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

Houseboat igloo: Experience nature sustainably – the EFOY fuel cell makes it possible. In the Aurora Huts, the unit supplies the electrical on board and the engine. This is gentle tourism in harmony with the environment.

04

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General Policies and Scope of Consolidation

SFC Energy AG (the "Company" or "SFC") is a stock corporation domiciled in Germany. The Company's headquarters are located at Eugen-Sänger-Ring 7, 85649 Brunnthal. The Company is registered in the Commercial Register of the Munich District Court under commercial register sheet number 144296. The principal activities of the Company and its subsidiaries (the Group) include the development, production and distribution of power generation systems and their components for off-grid and on-grid applications based on fuel cell and other technologies, as well as investment in the equipment and facilities required for such activities, and the transaction of all other related business. The Company's product portfolio also includes accessories and spare parts, particularly fuel cartridges, solutions for combining fuel cell products with other power sources, power storage units and electrical devices, as well as mechanical, electronic and electrical instruments to monitor and control production and logistics processes. As a provider of off-grid and grid-based power supplies, the Group serves the following segments: Clean Energy & Mobility, Industry, Oil & Gas and Defense & Security.

Accounting principles

The consolidated financial statements for 2020 were prepared in accordance with the International Financial Reporting Standards (IFRSs) and the related interpretations of the International Accounting Standards Board (IASB) as they are to be applied in the European Union pursuant to Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. As of December 31, 2020, no standards or interpretations required application that were effective, but had not yet been adopted by the EU and had an effect on the consolidated financial statements. Accordingly, the consolidated financial statements also comply with the IFRSs as published by the IASB.

The notes also contain the disclosures required under section 315e (1) of the German Commercial Code (HGB) ("Consolidated Financial Statements under International Accounting Standards").

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

The consolidated financial statements are stated in euros (EUR). Unless otherwise indicated, amounts stated in these notes are rounded to the nearest whole euro (EUR). Minor differences can arise in rounded amounts and percentages due to commercial rounding of figures.

The consolidated financial statements of SFC AG were prepared on the basis of historical cost with the exception of financial instruments, which were carried at fair value on the reporting date.

The consolidated income statement was prepared applying the cost of sales method. The additional disclosures of costs of materials and personnel costs are presented separately in the notes to the consolidated financial statements.

In preparing the consolidated financial statements, the executive directors of SFC AG are responsible for assessing the Group's ability to continue as a going concern. The executive directors also have the responsibility for disclosing, where applicable, matters related to going concern. In addition, the executive directors are responsible for financial reporting based on the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease Group operations or there is no realistic alternative to the going concern basis.

The 2020 consolidated financial statements of SFC AG were prepared on a going concern basis and business operations were accounted for accordingly.

The Management Board of SFC Energy AG approved the consolidated financial statements for release to the Supervisory Board on March 23, 2021. The Supervisory Board is tasked with reviewing the consolidated financial statements and deciding whether to adopt them.

New accounting standards applied

This section describes the standards and interpretations published by the IASB and adopted by the European Commission that became effective on January 1, 2020, and were applied to the consolidated financial statements for the first time in the 2020 financial year:

Amendments to References to the Conceptual Framework in IFRS Standards

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

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

The amendments to the revised standard must be applied for the first time from January 1, 2020, and have no effects at all, or no material effects, on the consolidated financial statements.

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

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

The amendments to the revised standard must be applied for the first time from January 1, 2020, and have no effect at all, or no material effect, on the consolidated financial statements.

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

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

The amendments to the revised standards must be applied for the first time from January 1, 2020, and have no material effects on the consolidated financial statements.

Amendments to IFRS 3 – "Business Combinations: Definition of a Business"

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

The amendments:

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

The amendments should be applied for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period, beginning on or after January 1, 2020, and to acquisitions of assets that take place on or after the beginning of this period. The amendments did not produce any material effects on the consolidated financial statements in the past financial year.

Amendment to IFRS 16 – "COVID-19-Related Rent Concessions"

In May 2020, the IASB published the amendment to IFRS 16 to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the COVID-19 pandemic.

The practical expedient provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.
A lessee that applies this expedient must account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions that were agreed or granted as a direct consequence of COVID-19 and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before June 30, 2021, and increased lease payments that extend beyond June 30, 2021).
- There is no substantive change to other terms and conditions of the lease.

SFC applied the amendments to IFRS 16 early during the year. This had no material effects on the consolidated financial statements as SFC did not utilize any rent concessions.

New accounting standards not yet applied

Below is a summary of the new and revised standards, some of which have been endorsed by the European Commission, that were released by the IASB prior to this report's publication, but that SFC did not adopt early for 2020:

Application of IFRS 17 – "Insurance Contracts"

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

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

Subject to adoption into EU law by the European Union, IFRS 17 must be applied for reporting periods beginning on or after January 1, 2023. No significant effects on the consolidated financial statements are expected.

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

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

The amendments:

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

Subject to adoption into EU law by the European Union, the amendments should be applied for annual reporting periods beginning on or after January 1, 2023. No significant effects on the consolidated financial statements are expected.

Amendments to IFRS 3, IAS 16 and IAS 37

In the period from 2018 to 2020, Annual Improvements to IFRS Standards amended IFRS 3, IAS 36 and IAS 37.

Amendments to IFRS 3 – "Business Combinations" update a reference in IFRS 3 to the conceptual framework for financial reporting without changing the accounting requirements for business combinations.

Amendments to IAS 16 – "Property, Plant and Equipment" prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

Amendments to IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets" specify which costs a company includes when assessing whether a contract will be loss-making.

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

Annual Improvements to IFRS Standards 2018–2020 Cycle

Annual Improvements introduce minor amendments to IFRS 1 – "First-time Adoption of International Financial Reporting Standards", IFRS 9 – "Financial Instruments", IAS 41 – "Agriculture" and the illustrative examples for IFRS 16 – "Leases".

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – "Interest Rate Benchmark Reform – Phase 2"

The IASB has issued "Interest Rate Benchmark Reform – Phase 2" with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates.

The amendments in Phase 2 of the project relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting.

The amendments should be applied for annual reporting periods beginning on or after January 1, 2021. No significant effects on the consolidated financial statements are expected.

Amendments to IFRS 4 and Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

The IASB has issued "Amendments to IFRS 17" to address concerns and implementation challenges that were identified in connection with "IFRS 17 Insurance Contracts".

Subject to adoption into EU law by the European Union, the amendments should be applied for annual reporting periods beginning on or after January 1, 2023. No significant effects on the consolidated financial statements are expected.

The IASB has also published "Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)" to defer the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 also to annual periods beginning on or after January 1, 2023. No significant effects on the consolidated financial statements are expected.

Amendments to IAS 1 and IFRS Practice Statement 2 – "Disclosure of Accounting Policies"

To assist entities in determining which accounting policies to disclose, it was noted that the application of materiality is key to deciding which accounting policies to disclose. The amendment now requires an entity to disclose its material accounting policy information instead of its significant accounting policies.

Subject to adoption by the EU, the amendments should be applied for annual reporting periods beginning on or after January 1, 2023. No significant effects on the consolidated financial statements are expected.

Amendments to IAS 8 – "Definition of Accounting Estimates"

The requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors make a distinction between how an entity should present and disclose different types of accounting changes in its financial statements. Changes in accounting policies must be applied retrospectively while changes in accounting estimates are accounted for prospectively. To help entities distinguish between changes in accounting policies and changes in accounting estimates, the definition of accounting estimates was amended and clarifications were introduced with respect to the treatment and presentation of changes in accounting estimates.

Subject to adoption by the EU, the amendments should be applied for annual reporting periods beginning on or after January 1, 2023. No significant effects on the consolidated financial statements are expected.

Estimation uncertainty and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make certain assumptions that have an effect on the measurement of assets and liabilities, the disclosure of contingent assets and contingent liabilities on the reporting date, and the income and expenses disclosed. Actual future amounts may vary from estimates. Furthermore, the carrying amounts of such assets and liabilities at the reporting date are disclosed. Variances are recognized in profit or loss at the time more knowledge is gained. Assumptions and estimates relate mainly to:

Measurement of provisions

Management estimates are applied to measure provisions. The carrying amount of warranty provisions, for example, is based on the historical development of warranties and on an assessment of all future, potential warranty cases, weighted by probability of occurrence. The long-term portion of the provisions determined on the basis of such assumptions is discounted. Previously applied discount rates were adjusted in the year under review to reflect current market developments. Note 23 contains information about the discount rates applied, the change in present value and the effect of the rate adjustments.

Determination of useful lives for property, plant and equipment and intangible assets

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

Mandatory capitalization of self-developed intangible assets

Based on management's planning and estimates, development costs are capitalized to the extent that IFRS criteria are met. Please see note (21) Intangible assets for additional information about the development costs capitalized in the financial year.

Recognition of deferred tax assets, particularly for losses carried forward

Deferred tax assets are recognized on the Company's tax loss carryforwards based on tax profit planning. Please see note (10) Income taxes for additional information.

Measurement of share-based compensation

The Company's Supervisory Board has set up a virtual stock option program (SAR Plan) and a stock option program to align the interests of the shareholders with those of the members of the Management Board. This provides for the allocation of virtual stock options to the members of the Management Board. Note 34) Share-based compensation contains information about the measurement model and inputs applied to determine the resultant expenses.

Recognition of sales from development assignments

SFC performs development assignments under joint development agreements (JDAs). Simark also has long-term customer contracts for which revenue is recognized over time pursuant to the related IFRS 15 method.

Leases – estimating the incremental borrowing rate and taking into account renewal and termination options

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

A number of the Group's leases, particularly real estate leases, also contain renewal and termination options. Judgments are involved in assessing whether there is reasonable certainty that the option to renew or terminate the lease will be exercised or not. All facts and circumstances that offer an economic incentive to exercise renewal options or not to exercise termination options are taken into account when determining the term of the lease. Such options are only taken into account in determining the term when they are reasonably certain.

Impairment of non-financial assets

The Group evaluates all non-financial assets at each reporting date to determine whether indications of impairment exist. Goodwill is tested for impairment at least once per year, irrespective of whether indications of potential impairment exist. The determination of the recoverable amount of the assets and of the cash-generating units requires estimates from management.

Impairment of receivables

Management estimates allowances for receivables expected to be uncollectible based on the expected credit loss model and the current economic environment. See note (33) Financial instruments for more information.

Scope of the consolidated financial statements

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

If the Company does not have a majority of voting rights, it still controls the investee if it has the practical ability through its voting rights to unilaterally direct relevant activities of the investee. In determining whether its voting rights are sufficient for control, the Company takes all facts and circumstances into consideration, including:

- the relative size and dispersion of other holders of voting rights;
- potential voting rights held by the Company, other holders of voting rights and other parties;
- rights arising from other contractual arrangements; and
- additional facts and circumstances indicating that the Company has or does not have the current ability to direct the relevant activities at the time when decisions must be made, taking into consideration the voting patterns at earlier shareholder meetings.

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

In the 2016 financial year, the US subsidiary SFC Energy Inc. was deconsolidated as of December 31, 2016, and has since been recognized as an investment on the consolidated balance sheet. In 2019, the asset recognized at fair value through other comprehensive income was eliminated against the consolidated net loss. The investment value of EUR 71 was thus reduced to EUR 0. See note (33) Financial instruments for more information.

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

The table below shows the direct and indirect interests held by the Company in each of its subsidiaries as of December 31, 2020.

FULLY CONSOLIDATED SUBSIDIARIES in %

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

In the 2020 financial year, no changes occurred to the ownership interests in the Group that would have resulted in a loss of control. No material limitations exist to the ability of the Group or its subsidiaries to gain access to, or to utilize, the Group's assets or to meet the Group's liabilities.

Accounting Policies

Revenue recognition

SFC AG generates its revenue from the sale of fuel cell systems. The EFOY COMFORT product is used, among others, in the consumer market sub-segment within the Clean Energy & Mobility segment, in mobile homes and on boats in particular. In the industrial applications sub-segment, the EFOY Pro is sold for off-grid industrial applications. In the Defense & Security segment, the Company also generates revenue from the sale of fuel cell systems specifically developed for the defense & security market (EMILY) and from the sale of portable fuel cells (JENNY). The Power Manager is also sold in this market. The Power Manager is a versatile electronic converter that enables and facilitates charging and operation of various types of electronic equipment and batteries with different power sources. Revenue is also generated from the sale of fuel cartridges and other products for network solutions and the sale of services and consulting in the military sector.

PBF develops, manufactures and sells customer-specific high-tech power generation solutions – from power supply units right the way up to complete power systems – for manufacturers of industrial facilities and equipment. Using platform solutions in some cases, PBF turns these solutions into marketable products featuring the integrated High Power platform from PBF Group B. V., SFC's company in the Netherlands and Romania. This allows grid power to be prepared reliably and to high quality standards, exactly in keeping with the system's specific requirements. The power supplies adapt the electrical performance to the energy required by the system in question, doing so in modular form. PBF Group meets demanding customer requirements on the basis of the PBF technology that it has developed in house. This compact, scalable power supply technology offers maximum flexibility in the development and manufacture of standardized and semi-standardized high-performance and high-precision power supplies for demanding industrial applications such as laser technology and other high-tech industrial sectors.

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

The recognition of this revenue is generally based on the time (or period) at which the respective performance obligation is fulfilled, i.e. control over the goods or services in question has been transferred to the customer. This is fulfilled if the customer has the opportunity to utilize the asset and essentially receives all of the remaining economic benefits from the asset.

Revenue is recognized when the amount of the expected consideration can be reliably measured, it is probable that the economic benefits associated with the sale will flow to the entity and the entity's own costs can be estimated. For this reason, SFC recognizes revenue from the sale of products when control transfers to the buyer. The majority of revenue is realized through the sale of products at specific points in time upon transfer of control of the assets. Customer discounts and rebates as well as the return of goods are generally deducted from sales. Provisions for customer discounts and rebates as well as the return of goods are recognized on an accrual basis in accordance with the underlying sales. Management utilizes the best possible estimates in this context. Contracts with customers are also reviewed for separate performance obligations. This is particularly relevant for sales of additional warranties extending beyond the statutory warranty period. SFC recognizes payments for long-term maintenance agreements for the portion that extends beyond the statutory minimum of the first year and collects this revenue on a pro rata basis during the contractual warranty period.

The determination of the transaction price depends on the consideration expected from the customer for the service to be rendered. To the extent that SFC's contracts are based on only one performance obligation, the transaction price attributable to the respective performance obligation is recognized as revenue, net of estimated customer discounts and rebates, as soon as the respective performance obligation is fulfilled. Once payment has been received, revenue is adjusted for the actual payment. Because performance obligations are usually much shorter than one year, outstanding obligations as of the reporting date are not presented in the notes. SFC utilizes the option under IFRS 15, whereby financing components do not need to be included for short-term provision of services.

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

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

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

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

Expense recognition

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

Fair value measurement

Assets, equity and debt instruments that are measured at fair value in accordance with IFRS 9 are measured consistently based on IFRS 13 rules, except for share-based payment transactions within the scope of IFRS 2 and leases within the scope of IFRS 16.

Fair value is the price that was received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The ability of the market participant to generate economic benefits by finding the most economically reasonable and best use of the asset or selling it to another market participant who will find the most economically reasonable and best use of the asset is taken into account in measuring the fair value of a non-financial asset.

The Group applies measurement methods that are appropriate in the circumstances and for which there is sufficient data to measure fair value. In doing so, the use of relevant, observable inputs is maximized and that of unobservable inputs is minimized.

All assets and liabilities for which the fair value has been calculated or disclosed are assigned to the following levels of the IFRS 13 hierarchy based on the lowest input factor that is material overall for fair value measurement:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Methods whose input factors can be observed directly or indirectly on the market.
- Level 3: Methods whose lowest input factor cannot be observed on the market.

Intangible assets

Separately purchased intangible assets, i.e. not acquired as part of a business combination, with a finite useful life are carried at cost less straight-line amortization. Intangible assets are generally amortized on a straight-line basis over their useful economic lives. The amortization periods are:

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

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

Development costs are capitalized in accordance with IAS 38 "Intangible Assets" if a newly developed asset can be clearly defined, is technically feasible and is intended to be completed either for the Company's own utilization or to be sold. There must also be adequate technical, financial and other resources available to complete the development. Capitalization also presumes that it is likely that the development costs will be covered by future cash flows, i.e. an appropriate future economic benefit will be provided, and the development expenses can be reliably measured. Capitalized development costs are amortized on a straight-line basis over the expected useful life of the asset. The useful life of the development costs to be amortized is 5 years at SFC and at PBF. Where requirements for capitalization are not met, expenses are recognized through profit or loss in the year in which they arise. Research costs are presented as current expenses under IAS 38.

In subsequent periods, self-developed intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses.

The goodwill resulting from business combinations is recognized at cost less any necessary impairment.

For the purposes of impairment testing, the goodwill acquired from the business combination is allocated, as of the acquisition date, to the Group's cash-generating units that are expected to benefit from the business combination.

Goodwill should be tested for impairment at least once a year. If there are indications that a unit is impaired, it may be necessary to perform impairment testing more frequently. If the recoverable amount of a cash-generating unit is less than its carrying amount, the impairment loss should initially be allocated to the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amounts of each asset in relation to the total carrying amount of the assets within the unit. The recoverable amount is the higher of the value in use and the fair value.

Any impairment loss on goodwill is recognized directly in the income statement. An impairment loss recognized for goodwill shall not be reversed in future periods.

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

- PBF customer relationships 8 years
- PBF technology 5 years

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

During the last financial year in 2019, the residual other intangible assets identified in the PBF Group (customer relationships) were completely written off to EUR 0.

Property, plant and equipment

Property, plant and equipment is carried at cost less depreciation in accordance with its estimated useful life. Cost includes individual costs as well as all direct costs associated with bringing an asset to the site where it is to be utilized and made ready for operation.

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

The amortization periods are:

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

Cost of borrowing

If the production phase of an item of plant or equipment extends over a longer period, any borrowing costs incurred until completion of the asset are capitalized as part of acquisition or manufacturing costs in accordance with the provisions of IAS 23. As in the previous year, no such borrowing costs were incurred during the 2020 financial year. All borrowing costs were thus recognized through profit or loss in the period in which they were incurred.

Impairment of non-financial assets

Intangible assets and non-current assets are tested for impairment on the basis of the cash flows expected from the use of the asset (which are discounted at a rate that reflects the relative risk and timing of those cash flows) and on the basis of the net realizable value (impairment testing), if events or market developments suggest a possible correction of the estimated useful life or a possible reduction in value. Furthermore, intangible assets that cannot yet be utilized must be tested for impairment annually. If the net carrying amount of an asset is higher than its recoverable amount (greater of value in use or net realizable value), an impairment loss is recognized. In calculating expected cash flows, account is taken of actual and predicted income levels and sector-specific, technological, economic and general developments. If it is not possible to determine an asset's recoverable amount, the recoverable amount of the cash-generating unit to which that asset can be allocated is determined.

If the reasons for impairment cease to apply, the impairment loss is reversed and the carrying amount of the asset (or cash-generating unit) is increased to the new estimate of the asset's recoverable amount. The asset's recovery is limited to the carrying amount that would have been reported for the asset (or cash-generating unit) had no impairment loss been recognized in previous years. Impairment reversals are recognized in profit or loss immediately.

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

Leases

A lease is a contract that transfers the right to use an asset (right-of-use assets) for an agreed period in return for a fee.

Since January 1, 2019, SFC as a lessee has accounted for right-of-use assets obtained and liabilities for payment obligations assumed under leases. This does not include short-term leases (defined as leases with a term of 12 months or less) and leases of low-value assets (e.g. low-value IT equipment). The right of use is initially calculated as the present value of the future lease payments plus initial direct costs and is subsequently written down on a straight-line basis over the duration of the lease or adjusted for impairment. The lease liability is initially recognized as the present value of the lease payments that are to be paid over the duration of the lease. Subsequently, the carrying amount is accrued at the level of the interest rate used and the lease payments made. The incremental borrowing rate is applied to the SFC Group's lease payments.

The following lease payments are accounted for under lease liabilities:

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

In the following cases, the Group remeasures the lease liability and makes an appropriate adjustment to the corresponding right of use:

- The term of the lease has changed or there is a significant event or a significant change in circumstances that results in a change to the assessment regarding the exercise of a purchase option. In this case, the lease liability is remeasured by discounting the adjusted lease payments using an updated interest rate.
- There is change in the lease payments due to index or exchange rate changes or due to a change in the expected payment as a result of a residual value guarantee. In these cases, the lease liability is remeasured by discounting the adjusted lease payments using an unchanged discount rate (unless the change in lease payments is due to a change in a variable interest rate; an updated interest rate should be used in this case).
- There is a change to a lease and the lease modification is not recognized as a separate lease. In this case, the lease liability is remeasured based on the term of the modified lease by discounting the modified lease payments using an updated interest rate at the effective date of the modification.

The Group did not perform any such adjustments in the periods presented.

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

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

The Group uses IAS 36 to assess whether write-downs of right-of-use assets are necessary. For more detailed explanations, please see "Impairment of non-financial assets".

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

- Right-of-use assets 3 – 7 years

Inventories

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

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

Financial assets

As defined in IFRS 9, the classification and measurement approach for financial assets applies, which reflects the business model under which the assets are held and the characteristics of their cash flows. The following categories of financial instruments are possible under IFRS 9:

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

A normal market purchase or sale of financial assets must be recognized or derecognized either on the trade date or on the settlement date. The method selected must be applied consistently to all purchases and sales of financial assets that are classified in the same way in accordance with IFRS 9. According to IFRS 9, all financial assets are initially recognized at fair value, regardless of the valuation category to which a financial instrument is assigned. Transaction costs must also be included in the valuation if financial instruments are subsequently measured at amortized cost.

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

As of December 31, 2020, financial assets were not allocated or designated to the "at fair value through profit or loss" category in the Group.

Financial assets measured at amortized cost applying the effective interest method especially include trade receivables, other financial assets and receivables as well as cash and cash equivalents.

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

Compound financial instruments

Compound financial instruments issued by the Group may include convertible bonds that can be converted into equity shares at the holder's option, as long as the number of shares to be issued has been determined and does not change through changes in fair value, and there is a special termination right connected with the convertible bonds. The components of a compound instrument issued by the Company (convertible bond) are recognized separately as financial liabilities and equity instruments in accordance with the substance of the transaction and IAS 32 rules.

The borrowed capital component of the combined financial instrument is initially recognized at the fair value of a similar liability that does not include an option to convert into equity.

The equity component is initially recognized as the difference between the fair value of the combined financial instrument and the fair value of the borrowed capital component.

The call component of the convertible bond is determined on initial recognition at fair value applying a two-stage option pricing model.

Directly attributable transaction costs are attributable to the carrying amounts of the debt and equity components of the financial instrument at the time of initial recognition.

In subsequent measurement, the borrowed capital component of the compound financial instrument is measured at amortized cost applying the effective interest method. The equity component of the compound financial instrument is carried forward at the value recognized upon initial recognition.

The call component of the convertible bond, which is classified as an embedded derivative, is subsequently measured at fair value.

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

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

The issuer's obligation to make scheduled payments of interest and principal represents a financial liability. On initial recognition, the fair value of the debt component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit quality and generating essentially the same cash flows on the same terms, albeit without any equity warrant existing.

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

The bond with warrants categorized as FLAC and the loan categorized as FLAC are subsequently measured at amortized cost applying the effective interest method. The loan transaction costs are subsequently expensed over the loan term. The equity component is subsequently not remeasured, so that its carrying amount remains unchanged. The loan was paid back in full in 2019 and the option component was exercised at the start of the 2020 financial year. For more information, please see notes (30) Equity and (33) Financial instruments.

Impairment of financial assets

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

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

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

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

If a financial asset's creditworthiness is impaired or a default has occurred, it is assigned to stage 3. The expected credit losses over the entire term of the financial asset are recognized as an impairment loss. Objective evidence that the creditworthiness of a financial asset is impaired includes a past due date of 91 days or more and further information about significant financial difficulties of the debtor.

The determination of whether a financial asset has experienced a significant increase in credit risk is based on a continuous assessment of the probabilities of default, taking into account both external rating information and internal information on the credit quality of the financial asset.

A financial asset is transferred to stage 2 if its credit risk has increased significantly since its initial recognition. SFC estimates the credit risk on the basis of the probability of default. In stages 1 and 2, the effective interest income is determined on the basis of the gross carrying amount. As soon as the rating of a financial asset is impaired and assigned to stage 3, the effective interest income is calculated on the basis of the net carrying amount (gross carrying amount less risk provisioning).

Expected credit losses are calculated on the basis of the following factors:

- Neutral and probability-weighted amount;
- time value of money; and
- reasonable and supportable information (providing this is available without undue cost or effort) at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are calculated as the probability-weighted present value of all defaults over the expected lifetime of the financial asset. The assessment of these risk parameters includes all relevant available information. In addition to historical and current information on losses, reasonable and supportable forward-looking information is included.

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

Offsetting and derecognition

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

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

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

Government grants

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

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

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

Investment grants are deducted directly from acquisition costs.

In the past financial year, government support payments in connection with the COVID-19 pandemic were deducted directly from personnel expenses included in the relevant functional costs.

Deferred and actual taxes

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

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

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

Short-term and other long-term employee benefits

For short-term employee benefits, the undiscounted amount of the benefit that is expected to be paid in exchange for the service rendered should be recognized in the period in which the service is provided by the employee.

The expected costs for short-term employee benefits in the form of paid absences should be recognized in the case of accumulating paid absences when services are rendered that increase the employees' entitlement to future paid absences. In the case of non-accumulating paid absences, on the other hand, they are recognized when the absences occur.

Liabilities from other long-term employee benefits are measured at the present value of the estimated future cash outflows that the Group expects for services rendered by employees up to the reporting date.

Provisions

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

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

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

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

No provisions for contingent losses were recognized in either the past financial year or the previous financial year.

An asset retirement obligation for leasehold improvements at SFC AG is reported under other provisions. Other provisions include provisions for waste management and recycling obligations.

Financial liabilities

Financial liabilities are classified either as measured at amortized cost (FLAC) or at fair value through profit or loss (FVTPL). FVTPLs are categorized if the financial liability is classified as held for trading, if it is a contingent consideration of an acquirer in a business combination, or if the liabilities are designated as at fair value through profit or loss at the time of acquisition.

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

A financial liability is derecognized when the underlying obligation has been discharged or canceled or has expired. The difference between the carrying amount of the derecognized financial liability and the consideration received or to be received is recognized in the consolidated income statement.

Consolidation

Capital consolidation (consolidation of the investment account) is performed in compliance with IFRS 10 "Consolidated Financial Statements" by netting the carrying amount of the equity interest and the subsidiary's equity as of the date of initial consolidation.

The effects of all material intragroup transactions are eliminated. Receivables and liabilities between consolidated companies are mutually offset. Equally, all income and expenses from intragroup transactions are eliminated.

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

Foreign currency translation

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

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

Non-monetary items measured in a foreign currency at historical cost should be translated using the exchange rate on the transaction date. Non-monetary items measured in a foreign currency at fair value should be translated using the exchange rate on the measurement date.

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

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

EXCHANGE RATES in EUR

	Average rate		Rate on reporting date	
	2020	2019	12/31/2020	12/31/2019
US-Dollar (USD)	1.1423	1.1196	1.2273	1.1227
Canadian Dollar (CAD)	1.5300	1.4856	1.5627	1.4620

2. Notes to the Consolidated Income Statement

(1) Sales

The following table presents an overview of sales:

		in EUR
	2020	2019
Sales	**53,222,770**	**58,538,144**
thereof from period-related revenue recognition	5,495,281	3,524,807

Sales in the Oil & Gas segment declined by 19.6 % year-on-year based on restrained investment activity in the oil and gas sector, which was due on the one hand to the COVID-19 pandemic and on the other to the drop in oil prices. The Industry segment saw its sales decrease by 21.2 %. The main reasons for the decrease in sales were reduced call-off orders and postponed investment decisions by customers predominantly as a result of the overall economic uncertainty surrounding the COVID-19 pandemic. The Clean Energy & Mobility segment reported a significant increase in sales of 61.6 %. The main driver of the strong rate of growth was the especially sharp rise in demand for fuel cells for professional applications. Sales in the Defense & Security segment were 60.6 % lower than in the previous year. The decline can be attributed in particular to an extensive shutdown in government procurement in international and national key markets mainly on account of the COVID-19 pandemic.

Sales are composed as follows:

SALES BY SEGMENT in EUR

	Clean Energy & Mobility		Industry		Oil & Gas		Defense & Security		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Region										
North America	1,227,151	0	28,568	383,816	17,652,193	21,953,932	4,840	330,546	18,912,752	22,668,294
Europe (without Germany)	7,221,228	6,470,288	11,200,663	13,392,376	0	0	841,855	1,595,506	19,263,746	21,458,170
Germany	5,400,038	2,787,761	1,336,337	2,888,546	0	0	1,542,237	2,232,263	8,278,612	7,908,570
Asia	4,907,745	2,351,110	825,623	362,115	0	0	570,939	2,111,287	6,304,307	4,824,512
Rest of the world	242,124	148,697	190,945	211,318	0	0	30,284	1,318,583	463,353	1,678,598
Total	**18,998,286**	**11,757,856**	**13,582,136**	**17,238,171**	**17,652,193**	**21,953,932**	**2,990,155**	**7,588,185**	**53,222,770**	**58,538,144**
Product										
Fuel cells	18,998,286	11,757,856	0	0	1,714,462	3,467,286	2,990,155	7,588,185	23,702,903	22,813,327
Instrumentation and Automation products in Oil & Gas Industry	0	0	0	0	15,937,731	18,486,646	0	0	15,937,731	18,486,646
Power Supplies	0	0	13,582,136	17,238,171	0	0	0	0	13,582,136	17,238,171
Total	**18,998,286**	**11,757,856**	**13,582,136**	**17,238,171**	**17,652,193**	**21,953,932**	**2,990,155**	**7,588,185**	**53,222,770**	**58,538,144**
Revenue recognition										
Revenue recognition refer to a certain point in time	18,998,286	11,757,856	13,582,136	17,238,171	12,730,977	19,665,542	2,416,090	6,351,768	47,727,489	55,013,337
Revenue recognition refer to a certain period	0	0	0	0	4,921,216	2,288,390	574,065	1,236,417	5,495,281	3,523,807
Total	**18,998,286**	**11,757,856**	**13,582,136**	**17,238,171**	**17,652,193**	**21,953,932**	**2,990,155**	**7,588,185**	**53,222,770**	**58,538,144**

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

(2) Production costs of work performed to generate sales

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

PRODUCTION COSTS in EUR

	2020	2019
Cost of materials	27,576,651	30,138,786
Personnel costs	3,977,213	4,351,597
Cost of premises	293,724	144,564
Transport costs	731,406	796,748
Depreciation on capitalized development costs	368,269	350,574
Other depreciation and amortization	1,337,631	1,366,874
Consultancy	99,788	116,968
Capitalization of amortized development costs	0	– 64,815
Other	922,708	1,208,513
Total	**35,307,390**	**38,409,809**

(3) Sales costs

Sales costs were as follows:

SALES COSTS in EUR

	2020	2019
Personnel costs	8,310,822	8,246,168
Depreciation and amortization	641,392	809,638
Advertising and travel costs	1,054,978	1,718,046
Consultancy/commissions	764,690	519,534
Cost of materials	557,054	199,960
Additions to allowances for receivables	534,630	25,661
Other	258,858	919,237
Total	**12,122,424**	**12,438,244**

(4) Research and development costs

Research and development costs were as follows:

RESEARCH AND DEVELOPMENT COSTS		in EUR
	2020	2019
Personnel costs	3,113,518	3,320,724
Consultancy and patents	821,311	861,663
Cost of premises	67,847	47,803
Cost of materials	1,276,727	612,648
Other depreciation and amortization	732,007	440,194
Capitalization of self developed intangible assets	– 3,103,523	– 2,455,878
Set-off against grants	– 195,183	– 6,543
Other	130,157	282,990
Total	**2,842,861**	**3,103,601**

Amortization of self-developed intangible assets includes impairment charges on capitalized development costs of EUR 294,392 (previous year: EUR 0).

(5) General administration costs

General administration costs were as follows:

GENERAL ADMINISTRATION COSTS		in EUR
	2020	2019
Personnel costs	3,888,154	3,193,482
Audit and consultancy costs	1,170,271	815,833
Investor relations/annual meeting	362,633	233,944
Insurance	239,135	225,688
Depreciation and amortization	436,363	427,451
Recruiting costs	55,821	114,673
Car-operating costs	31,505	67,594
Travel costs	71,633	161,633
Supervisory Board compensation	112,500	112,500
Costs of hardware and software maintenance	168,443	43,903
Set-off against grants	– 6,003	– 2,257
Other	594,549	599,993
Total	**7,125,004**	**5,994,437**

(6) Other operating income

Other operating income reports the following changes:

OTHER OPERATING INCOME in EUR

	2020	2019
Foreign exchange transaction gains	118,989	156,845
Other	37,697	20,698
Total	**156,686**	**177,543**

(7) Other operating expenses

Other operating expenses are composed as follows:

OTHER OPERATING EXPENSES in EUR

	2020	2019
Foreign exchange transaction losses	289,858	57,481
Total	**289,858**	**57,481**

(8) Restructuring costs

There were restructuring costs of EUR 193,361 in the 2020 financial year (previous year: EUR 0).

(9) Financial result

No interest and similar income was generated in the financial year just ended (previous year: EUR 0).

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

FINANCIAL RESULT		in EUR
	2020	2019
Interest expense on option bond/loan	1,181	177,999
Other interest and similar expense	190,341	262,146
Interest costs on finance lease	237,780	292,860
Compounding other provisions	13,956	18,850
Total	**443,258**	**751,855**

(10) Income taxes

The following table presents the composition of taxes on income:

INCOME TAXES		in EUR
	2020	2019
Actual income taxes on the result for the current year	192,642	206,611
Deferred tax income (-)/expense (+) from:	46,712	– 319,237
Total	**239,354**	**– 112,626**

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

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

Deferred tax assets and liabilities were as follows:

DEFERRED TAX ASSETS AND LIABILITIES in EUR

	12/31/2020	12/31/2019
Deferred tax assets		
Loss carryforwards	1,665,542	940,389
Provisions	46,249	43,262
Inventories	130,706	124,086
Accounts receivables	45,670	66,824
Lease liabilities	655,366	62,559
Other	12,913	12,913
Offsetting deferred tax assets	– 658,459	0
Total	**1,897,987**	**1,250,033**
Deferred tax liabilities		
Self developed intangible assets	1,691,879	998,552
Non-current assets	625,347	0
Accounts receivables	21,463	0
Other assets	113,651	38,784
Offsetting deferred tax liabilities	– 658,459	0
Total	**1,793,881**	**1,037,336**

Subject to the tax audit, as of the reporting date there were tax loss carryforwards in Germany and the Netherlands of approximately EUR 68,834,664 (previous year: EUR 60,056,227) for corporation tax and approximately EUR 62,394,270 (previous year: EUR 57,014,524) for trade tax. Deferred tax assets of EUR 1,675,206 (previous year: EUR 940,389) have been recognized on these tax loss carryforwards of SFC AG and its Dutch subsidiary. As of December 31, 2020, no deferred tax assets had been recognized for EUR 115,502,367 (previous year: EUR 104,459,563) of tax loss carryforwards within the Group. In the Netherlands, the entire amount of EUR 3,232,493 (previous year EUR 2,800,000) can be carried forward indefinitely. Of these tax loss carryforwards, an amount of EUR 115,502,367 (previous year: EUR 104,459,563) can be carried forward indefinitely in Germany. The previous year's figures for loss carryforwards were adjusted to reflect the separate determination of the remaining loss carryforward.

No deferred tax liabilities exist relating to outside basis differences.

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

RECONCILIATION OF INCOME TAXES in EUR

	2020	2019
Tax rate	**27.38 %**	**27.38 %**
Result before taxes	**– 4,944,700**	**– 2,039,740**
Expected tax income	**– 1,353,859**	**– 558,481**
Reconciliation to the reported tax income/expense		
Tax ineffective loss carryforwards	80,376	20,322
Change in write-down of deferred tax assets	1,540,770	1,666,389
Differences in the tax rate	10,781	– 62,696
Taxes from permanent differences – non-deductible expenses	56,587	47,780
Effect of goodwill impairment, non-tax-deductible	0	– 264,499
Exchange rate differences	0	1,616
Capitalisation of costs for capital increase	– 140,623	– 925,662
Other	45,322	– 37,395
Reported tax income/expense in the consolidated income statement	**239,354**	**– 112,626**

(11) Cost of materials

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

COST OF MATERIALS in EUR

	2020	2019
Raw materials and supplies and related goods	27,026,629	28,274,975
Related services	2,383,803	2,243,735
Total	**29,410,432**	**30,518,710**

(12) Depreciation, amortization and impairments

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

The consolidated income statement was prepared in accordance with the cost of sales method and includes pro rata depreciation and amortization in the production costs of work performed to generate sales, sales costs, research and development costs, and general administration costs.

(13) Personnel expenses and employees

Personnel expenses were as follows:

PERSONNEL EXPENSES in EUR

	2020	2019
Wages and salaries	12,562,705	14,049,695
Social security expenses required by law	1,525,435	1,716,995
Variables/bonuses	968,617	726,232
Other social security expenses/pensions	467,711	395,758
Expenses for settlements	54,000	42,222
Expenses/income from SAR/Long Term Incentive Plan	3,447,474	1,445,762
Other	267,260	735,307
Total	**19,293,202**	**19,111,971**

The social security expenses required by law include the Company's share of EUR 529,533 in contributions to the public pension insurance system (previous year: EUR 667,861). The public pension insurance system is treated as a defined contribution plan pursuant to IAS 19.

In the past financial year, the Group received government support payments of EUR 1,502,341 as part of a government initiative to provide immediate financial support in the wake of the COVID-19 pandemic. There are no future costs associated with these payments, which were granted solely to compensate for the costs incurred during the current reporting year. The government support payments were recognized under production costs of work performed to generate sales, sales costs, research and development costs, and general administration costs.

The average number of permanent employees was as follows:

EMPLOYEES

	2020	2019
Full-time employees (with Management Board)	247	255
Part-time employees	33	30
Total	**280**	**285**

The Company employed an average of 15 (previous year: 14) trainees, graduates and student trainees.

3. Notes to the Consolidated Balance Sheet

(14) Inventories

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

INVENTORIES in EUR

	12/31/2020	12/31/2019
Finished goods	6,854,921	7,560,370
Unfinished goods	616,091	494,582
Raw materials and supplies	5,146,133	3,977,032
Total	**12,617,145**	**12,031,984**

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

INVENTORIES – RAW MATERIALS AND SUPPLIES		in EUR
	12/31/2020	12/31/2019
Raw materials and supplies – before impairment	5,688,222	4,196,410
Impairment	– 542,089	– 185,378
Net book value	**5,146,133**	**3,977,032**

INVENTORIES – UNFINISHED AND FINISHED GOODS		in EUR
	12/31/2020	12/31/2019
Unfinished and finished goods – before impairment	8,122,323	8,991,808
Impairment	– 651,311	– 936,856
Net book value	**7,471,012**	**8,054,952**

Inventories with a residual carrying amount of EUR 4,390,171 (previous year: EUR 4,811,673) were pledged as collateral for liabilities.

Write-downs on inventories of EUR 437,506 were recognized in the past financial year (previous year: EUR 59,362).

(15) Trade accounts receivable

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

TRADE ACCOUNTS RECEIVABLE		in EUR
	12/31/2020	12/31/2019
Trade accounts receivable – gross	13,424,023	14,325,910
Allowances for risk of default	– 1,061,156	– 632,132
Total	**12,362,867**	**13,693,778**

All trade accounts receivable are due in less than one year. For information about allowances, please see the section on "credit risk" in note (33) Financial instruments. The standard payment term of trade accounts receivable is 30 days. For individual customer contracts, the payment term can also be extended to up to 90 days.

More information on the risk profile and the impairment matrix of trade accounts receivable can be found under credit risk in note (33) Financial instruments.

Trade accounts receivable with a residual carrying amount of EUR 4,327,056 (previous year: EUR 7,831,464) were pledged as collateral for liabilities.

(16) Assets and liabilities from contracts with customers

If the production costs (including earnings contributions) incurred during the year under review for contracts that are not yet completed exceed the amounts already invoiced (installment payments received), the difference is reported as an asset from contracts with customers. Conversely, construction contracts with a negative net balance are reported as liabilities from contracts with customers.

ASSETS AND LIABILITIES		in EUR
	12/31/2020	12/31/2019
Production contracts with a positive balance due from the customer (reported as receivables from contracts with customers)	668,212	79,096
Production contracts with a negative balance due from the customer (reported as liabilities from contracts with customers)	**– 51,928**	**– 279,503**

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

No significant changes in measurements or estimates with respect to the risk profile of contracts with customers occurred in the past financial year.

The assets and liabilities from contracts with customers have a remaining term of less than one year. The transaction price for the remaining benefit obligations, which will be met in 2021, is EUR 225,337.

As of December 31, 2020, no capitalized costs existed that were incurred in connection with the initiation or fulfillment of contracts.

(17) Income tax receivables

Income tax receivables relating to tax refund claims of SFC AG no longer exist as of the reporting date (previous year: EUR 2).

(18) Other assets and receivables

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

OTHER ASSETS AND RECEIVABLES in EUR

	12/31/2020	12/31/2019
Deferred income	128,655	279,143
VAT receivables	445,263	304,093
Receivables from grants	0	3,133
Prepayments made	407,033	91,469
Others	68,435	143,647
Total	**1,049,386**	**821,485**

Other current assets and receivables do not include any financial assets as of the reporting date (previous year: EUR 3,133).

(19) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and current account balances as well as time and overnight money accounts with banks that are due within three months.

(20) Cash and cash equivalents with limitation on disposal

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

(21) Intangible assets

The Group's intangible assets report the following changes:

INTANGIBLE ASSETS in EUR

	Software	Patents and licences	Capitalised patents	Development costs	Goodwill PBF Group and Simark	Other intangible assets	Total
Acquisition costs As of 01/01/2019	**1,005,978**	**422,069**	**571,488**	**6,718,820**	**12,827,861**	**6,563,521**	**28,109,736**
Additions	125,763	0	0	2,455,877	0	0	2,581,640
Differences arising from currency translation	3,090	0	0	0	446,468	260,991	710,549
As of 12/31/2019	**1,134,831**	**422,069**	**571,488**	**9,174,697**	**13,274,329**	**6,824,512**	**31,401,926**
Additions	207,400	25,172	0	3,103,523	0	0	3,336,095
Disposals	– 45,224	0	0	0	0	0	– 45,224
Reclassification	11,401	– 11,401	0	0	0	0	0
Differences arising from currency translation	– 2,783	0	0	0	– 459,736	– 268,745	– 731,264
As of 12/31/2020	**1,305,625**	**435,840**	**571,488**	**12,278,220**	**12,814,593**	**6,555,767**	**33,961,533**
Depreciation and impairment losses As of 01/01/2019	**– 907,711**	**– 241,098**	**– 571,488**	**– 3,529,179**	**– 4,961,138**	**– 6,402,146**	**– 16,612,759**
Scheduled depreciation	– 64,155	– 25,286	0	– 353,698	0	– 161,377	– 604,516
Differences arising from currency translation	– 2,376	0	0	0	0	– 260,989	– 263,365
As of12/31/2019	**– 974,242**	**– 266,384**	**– 571,488**	**– 3,882,877**	**– 4,961,138**	**– 6,824,512**	**– 17,480,640**
Scheduled depreciation	– 103,748	– 29,480	0	– 662,661	0	0	– 795,889
Reclassification	23,678	– 23,678	0	0	0	0	0
Disposals	45,072	0	0	0	0	0	45,072
Differences arising from currency translation	458	0	0	0	0	268,745	269,202
As of 12/31/2020	**– 1,008,782**	**– 319,542**	**– 571,488**	**– 4,545,538**	**– 4,961,138**	**– 6,555,767**	**– 17,962,255**
Carrying amounts							
As of 01/01/2019	98,267	180,971	0	3,189,641	7,866,723	161,375	11,496,977
As of 12/31/2019	**160,589**	**155,685**	**0**	**5,291,820**	**8,313,191**	**0**	**13,921,284**
As of 12/31/2020	**296,843**	**116,298**	**0**	**7,732,682**	**7,853,455**	**0**	**15,999,278**

Development costs

Grants of EUR 201,186 (previous year: EUR 8,800) were received in connection with development activities and reported as a reduction in research and development costs of EUR 195,183 (previous year: EUR 6,543) as well as general administrative costs of EUR 6,003 (previous year: EUR 2,257).

Depreciation and amortization includes impairment charges on development costs at PBF due to the cancellation of a development and first series order by a customer in the amount of EUR 287,398.81 (previous year: EUR 0).

Impairment tests for goodwill

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

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

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

The planned cash flows from the five-year plan prepared by the relevant management (2021 to 2025) are applied. In addition, the plan values were then extrapolated applying a growth rate of 0.5 % (2026 onward), which was also applied as the long-term growth rate.

Goodwill: PBF Group

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

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

Sales growth and EBIT margin

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

The growth assumptions are based on the general economic environment, the performance of the relevant markets and the specific tapping of new markets in terms of region (Asia) and industry (lasers, semi-conductors, security), particularly on the basis of system solutions. Based on this identified potential, an above-average growth rate is expected, which corresponds to a compound average growth rate (CAGR) of approximately 18.9 % p.a. over the entire planning horizon (2021–2025).

The planned expansion in the EBIT margin is based on the historically observed gross margin and on detailed resource and materials cost planning. The operating EBIT margin expected in the long term amounts to around 7.9%.

Cost of capital

The cost of capital applied to discount the cash flows is the weighted average cost of capital (WACC), which was determined on the basis of a group of peer companies in the same industrial sector as the PBF Group utilizing publicly available data. The WACC indicates the average weighted required return of equity and debt providers based on the ratio between the capital provided and the time value of money. To determine the WACC, an analysis of the cost of equity, the cost of debt and the capital structure at fair value is required. The cost of capital applied in the reporting year was approximately 8.05% (or approximately 7.55 % after subtracting growth from the terminal value).

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

The management has determined that a change to two material parameters considered possible could cause the carrying amount of the CGU to exceed the recoverable amount. This situation occurs if:

- the discount rate (WACC) exceeds the amount of 17.46 % (previous parameter: 8.05 %), or
- the long-term EBIT margin in the yield year is lower than 2.15% (previous parameter: 7.94 %).

The calculations assume that each of the other parameters remains constant (ceteris paribus).

Goodwill of Simark Controls Ltd.

The goodwill from the business combination of Simark Controls Ltd. amounts to EUR 6,674,624 (CAD 10,430,435).

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

Sales growth and EBIT margin

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

The growth assumptions are based on the segment-specific market environment and the Company's currently observed growth rates. Based on the overall planning horizon (2021–2025), average sales growth (CAGR) amounts to approximately 14.8 % p.a.

The planned expansion in the EBIT margin is based on the historically observed gross margin and on detailed resource and materials cost planning. The operating EBIT margin expected in the long term amounts to around 7.7 %.

Cost of capital

The cost of capital applied to discount the cash flows is the weighted average cost of capital (WACC) determined on the basis of a group of peer companies in the same industry as Simark Ltd., making recourse to publicly available data. The WACC indicates the average weighted required return of equity and debt providers based on the ratio between the capital provided and the time value of money. To determine the WACC, an analysis of the cost of equity, the cost of debt and the capital structure at fair value is required. The cost of capital applied in the reporting year was approximately 8.51% (or approximately 8.01% after subtracting growth from the terminal value).

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

The management has determined that a change to two material parameters considered possible could cause the carrying amount of the CGU to exceed the recoverable amount. This situation occurs if:

- the discount rate (WACC) exceeds the amount of 12.12 % (previous parameter: 8.05 %), or
- the long-term EBIT margin in the yield year is lower than 4.52% (previous parameter: 7.94 %).

The calculations assume that each of the other parameters remains constant (ceteris paribus).

Other intangible assets: PBF Group

As part of the acquisition of the PBF Group, the company's customer relationships, technology and order backlog were identified. As of December 31, 2019, the residual carrying amounts of the identified other intangible assets were completely written off to EUR 0.

(22) Property, plant and equipment

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

PROPERTY, PLANT AND EQUIPMENT in EUR

	Property, plant and equipment	Technical equipment and machinery	Other equipment, fixtures and fittings	Payments in advance and assets under construction	Total
Aquisition costs					
As of 01/01/2019	**0**	**2,269,905**	**4,578,810**	**66,018**	**6,914,734**
Adkustment IFRS 16	9,009,969	0	443,096	0	9,453,065
Additions	139,327	166,464	1,220,736	221,421	1,747,949
Disposals	0	0	– 120,815	– 286,664	– 407,479
Differences arising from currency translation	133,471	8,048	40,564	0	182,083
As of 12/31/2019	**9,282,768**	**2,444,417**	**6,162,391**	**776**	**17,890,352**
Additions	2,754,301	354,579	906,885	0	4,015,765
Disposals	– 1,951,788	0	– 123,549	0	– 2,075,337
Reclassification	0	0	776	– 776	0
Differences arising from currency translation	– 154,907	– 10,184	– 50,580	0	– 215,671
As of 12/31/2020	**9,930,374**	**2,788,812**	**6,895,923**	**0**	**19,615,109**
Depreciation and impairment losses					
As of 01/01/2019	**0**	**– 1,679,842**	**– 3,639,152**	**0**	**– 5,318,994**
Scheduled depreciation	– 1,892,754	– 116,675	– 715,971	0	– 2,725,401
Disposals	0	0	63,630	0	63,630
Differences arising from currency translation	– 10,052	– 4,054	– 26,302	0	– 40,408
As of 12/31/2019	**– 1,902,806**	**– 1,800,572**	**– 4,317,795**	**0**	**– 8,021,172**
Scheduled depreciation	– 1,837,732	– 129,693	– 752,348	0	– 2,719,773
Disposals	946,552	0	99,076	0	1,045,628
Differences arising from currency translation	33,201	3,814	28,290	0	65,305
As of 12/31/31.12.2020	**– 2,760,785**	**– 1,926,451**	**– 4,942,776**	**0**	**– 9,630,012**
Carrying amounts					
As of 01/01/2019	0	590,063	939,659	66,018	1,595,740
As of 12/31/2019	**7,379,962**	**643,846**	**1,844,596**	**776**	**9,869,180**
As of 12/31/2020	**7,169,589**	**862,361**	**1,953,147**	**0**	**9,985,097**

As a result of the first-time application of IFRS 16 as of January 1, 2019, based on the modified retrospective method the Group's property, plant and equipment increased by EUR 9,453,065 at the start of the past financial year. Of this amount, EUR 9,009,969 related to leased buildings and EUR 443,096 to leased other equipment,

fixtures and fittings. Right-of-use assets were initially calculated as the present value of the future lease payments plus initial direct costs (see note (27) Leases).

At Simark Controls Ltd., non-current assets with a residual carrying amount of EUR 439,547 (previous year: EUR 348,664) are pledged as collateral for liabilities. No non-current assets were pledged as security at the PBF Group as of December 31, 2020 (previous year: EUR 94,465). No non-current assets were pledged as security at SFC AG as of December 31, 2020 (previous year: EUR 0).

(23) Other provisions and tax provisions

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

OTHER PROVISIONS in EUR

	Warranty provisions	Other miscellaneous provisions	Total other provisions	Tax provisions
As of 01/01/2019	**2,463,109**	**100,000**	**2,563,109**	**34,252**
Differences arising from currency translation	– 984	0	– 984	0
Additions	525,213	193,361	718,574	0
Interest costs	13,956	0	13,956	0
Utilization	– 159,340	– 7,500	– 166,840	– 26,776
Reversal	– 144,534	0	– 144,534	0
As of 12/31/2020	**2,697,419**	**285,861**	**2,983,281**	**7,476**
thereof with a remaining term between one and five years	**1,407,402**	**0**	**1,407,402**	**0**

Warranty provisions

Warranty provisions are reported at the present value of the net amount required to satisfy the obligations. Discounting is based on an interest rate of 0.47 % (previous year: 0.63 %) on the part due after 2 years, 0.54 % (previous year: 0.72 %) on the part due after 3 years, 0.64 % (previous year: 0.84 %) on the part due after 4 years and 0.74 % (previous year: 0.97 %) on the part due after 5 years.

Restructuring provision

A restructuring provision of EUR 193,361 for intragroup restructuring was recognized under miscellaneous provisions in the past financial year (previous year: EUR 0).

Waste management and recycling obligations

Miscellaneous provisions include provisions of EUR 16,000 for waste management and recycling obligations (previous year: EUR 0).

Tax provisions

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

(24) Liabilities to banks

Liabilities to banks are shown in the following table:

LIABILITIES TO BANKS in EUR

	12/31/2020	12/31/2019	Interest rate	Duration
Short term loans (interest-bearing)				
Loan Simark	620,587	663,332	Canadian Variable Rate + 3.5 %	September 2022
Current account Simark	1,378,859	1,993,561	Bank´s Prime Lending + 1.25 %	until further notice
Current account PBF BV	1,729,540	1,888,079	EURIBOR + 2.5 %	yearly prolongation
Current account PBF SRL	610,968	806,832	EURIBOR + 2.0 %	yearly prolongation
Long term loans (interest-bearing)				
Loan Simark	209,446	1,160,830	Canadian Variable Rate + 3.5 %	September 2022

The following financial covenants exist for the loan and the credit line extended to Simark Controls Ltd.:

- Working capital ratio
- Debt service coverage ratio
- Senior funded debt to EBITDA ratio

The following financial covenants exist for the credit line extended to the Romanian subsidiary of the PBF Group:

- Debt ratio
- Solvency ratio

All financial covenants were met in both the past and the previous financial year.

For more information on loan categorization, please see (33) Financial instruments.

(25) Liabilities from prepayments

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

(26) Trade accounts payable

All trade accounts payable are due in less than one year.

(27) Leases

The first-time application of IFRS 16 as of January 1, 2019, resulted in all leased buildings and other equipment, fixtures and fittings being recognized as right-of-use assets with corresponding lease liabilities.

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

LEASES in EUR

	Property, plant and equipment	Other equipment, fixtures and fittings	Total
Acquisition costs **As of 01/01/2019**	**9,009,969**	**443,096**	**9,453,065**
Additions	139,327	218,829	358,156
Differences arising from currency translation	133,471	3,169	136,640
As of 12/31/2019	**9,282,767**	**665,094**	**9,947,861**
Additions	2,754,303	318,772	3,073,075
Disposals	– 1,951,788	0	– 1,951,788
Reclassifications	0	459,733	459,733
Differences arising from currency translation	– 154,909	-16,473	– 171,382
As of 12/31/2020	**9,930,373**	**1,427,126**	**11,357,499**

continued

LEASES in EUR

	Property, plant and equipment	Other equipment, fixtures and fittings	Total
Depreciation and impairment losses			
As of 01/01/2019	**0**	**0**	**0**
Scheduled depreciation	– 1,892,754	– 245,012	– 2,137,766
Differences arising from currency translation	– 10,052	370	– 9,682
As of 12/31/2019	**– 1,902,806**	**– 244,642**	**– 2,147,448**
Scheduled depreciation	– 1,837,732	– 270,443	– 2,108,175
Disposals	946,552	0	946,552
Reclassifications	0	– 358,987	– 358,987
Differences arising from currency translation	33,202	10,243	43,445
As of 12/31/2020	**– 2,760,784**	**– 863,829**	**– 3,624,613**
Carrying amounts			
As of 12/31/2019	7,379,961	420,452	7,800,413
As of 12/31/2020	**7,169,589**	**563,297**	**7,732,886**

As of the reporting date, capitalized leased building right-of-use assets are written down over a period of between three and more than seven years. Write-downs on other equipment, fixtures and fittings right-of-use assets have cycles of between less than one year and up to more than five years.

The consolidated income statement, which was prepared in accordance with the cost of sales method, includes pro rata depreciation and amortization on leased right-of-use assets under production costs of work performed to generate sales, sales costs, research and development costs, and general administration costs amounting to EUR 2,108,176 for the financial year just ended (previous year: EUR 2,137,766).

This pro rata depreciation and amortization was included in functional expenses as follows:

DEPRECIATION in EUR

	Property, plant and equipment	Other equipment, fixtures and fittings	Total
Depreciation for fiscal year January 1st until December 31, 2020 included in			
Production costs of work performed to generate sales	– 790,919	– 144,152	– 935,071
Sales Costs	– 567,319	– 51,002	– 618,321
General administration costs	– 187,802	– 21,746	– 209,548
Research and development costs	– 291,692	– 53,544	– 345,236
As of 12/31/2020	**– 1,837,732**	**– 270,444**	**– 2,108,176**

DEPRECIATION in EUR

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

Contractually agreed, undiscounted lease payments amounted to EUR 8,234,593 as of December 31, 2020 (previous year: EUR 8,078,139), and had the following maturities:

LEASE LIABILITIES / MATURITY STRUCTURE in EUR

	12/31/2020	12/31/2019
Lease liabilities/Maturity structure – contractual agreed undiscounted Cash Flows		
Amounts due within 1 year	1,623,717	2,064,745
Amounts due between 1 and 5 years	6,103,047	5,750,320
Amounts due longer than 5 years	507,829	263,074
Total of undiscounted lease payments /As of 12/31/2020	**8,234,593**	**8,078,139**

Discounted lease liabilities of EUR 7,901,039 were recognized on the consolidated balance sheet as of December 31, 2020 (previous year: EUR 8,033,265). These lease liabilities break down into current and non-current liabilities as follows:

SHORT-TERM AND LONG-TERM LEASE LIABILITIES in EUR

	12/31/2020	12/31/2019
Lease liabilities/Statement as in group report		
Short-term	1,353,289	2,278,192
Long-term	6,547,750	5,755,073
Total of lease liabilities as in Group Consolidation /As of 12/31/2020	**7,901,039**	**8,033,265**

Payments relating to lease liabilities, which were recognized in both cash flow from operating activities and cash flow from financing activities, for the past financial year and the financial year prior to that are presented in the following table:

CLASSIFICATION IN CASH FLOW

in EUR

	12/31/2020	12/13/2019
Classification in Cash Flow for the financial year from January 1 to December 31, 2020		
Repayment of liabilities under finance lease in cash flow statement	– 2,053,151	– 2,008,287
Cash outflow for interests under finance lease in cash flow statement	– 237,780	– 292,860
Cash outflow for short-term lease liabilities, for low-value asset leases or for variable lease payments that are not included in the measurement of the lease liability and should be recognized under cash flow from operations	– 4,880	0

Interest expenses on lease liabilities recognized in the consolidated income statement for the financial year starting on January 1 and ending on December 31, 2020, totaled EUR 237,780 (previous year: EUR 292,860). Expenses relating to short-term rental agreements recognized in the consolidated income statement for the financial year starting on January 1 and ending on December 31, 2020, totaled EUR 4,880 (previous year: EUR 0).

LEASE EXPENSES

in EUR

	12/31/2020	12/31/2019
Lease expense in Profit & Loss statement for fiscal year January 1st until December 31, 2020		
Interest expense on lease liabilities	– 237,780	– 292,860
Expenses in connection with short-term leases	– 4,880	0

(28) Other liabilities

Other current liabilities were as follows:

OTHER CURRENT LIABILITIES in EUR

	12/31/2020	12/31/2019
Variables/bonuses	933,482	928,610
Outstanding vacation	566,736	597,105
Wage tax	981,387	276,348
VAT	339,144	135,986
Social security	97,203	103,871
Supervisory board compensation	96,875	112,500
13th salaries	10,296	210,503
Contributions to employers' liability insurance association	51,600	43,200
SAR Stock Appreciation Rights	2,930,691	0
Storage of business documents	73,800	33,400
Surcharge for non-employment of disabled persons	13,680	10,920
Overtime	75,040	89,838
Costs from the dissolution of contracts	54,000	0
Other	446,479	646,712
Total	**6,670,413**	**3,188,993**

Other current liabilities include financial liabilities of EUR 148,475 (previous year: EUR 155,700).

Other non-current liabilities were as follows:

OTHER NON-CURRENT LIABILITIES in EUR

	12/31/2020	12/31/2019
SAR Stock Appreciation Rights	2,752,773	2,792,231
Total	**2,752,773**	**2,792,231**

Other non-current liabilities as of December 31, 2020, relate exclusively to the liability from the Stock Appreciation Rights Plan (SAR Plan) for members of the Management Board of EUR 2,752,773 (previous year: EUR 2,792,231).

Other non-current financial liabilities were as follows:

OTHER NON-CURRENT FINANCIAL LIABILITIES		in EUR
	12/31/2020	12/31/2019
Option bond	0	4,639
Total	**0**	**4,639**

(29) Income tax liabilities

No income tax liabilities existed as of the reporting date (previous year: EUR 0).

(30) Equity

The change in equity of SFC is presented in the consolidated statement of changes in equity.

Subscribed capital

In the past financial year, the subscribed capital increased from EUR 12,949,612 to EUR 14,469,743. This increase was the result of both the exercise of a bond with warrants in January 2020 with gross issue proceeds of EUR 750,000 and a capital increase in November 2020 with gross issue proceeds of EUR 19,428,916. These two measures leading to changes in equity increased the Group's share capital by EUR 1,520,131 in the past financial year.

The bond with warrants placed in August 2017 by the Harbert European Growth Fund comprised a warrant right to 204,700 shares in the Company with a notional value of EUR 1.00 per share of the Company's share capital, offered at an option price of EUR 3.6639 each.

The capital increase from authorized capital resolved in November 2020 was placed by SFC with institutional investors as part of a private placement with a volume of 1,315,431 shares. This volume corresponded to around 10 % of the Company's previous share capital. The placement price was set at EUR 14.77 per new share in accelerated bookbuilding. The 1,315,431 issued new shares with a notional value of EUR 1.00 each in the share capital are entitled to dividends as of January 1, 2021.

In the previous financial year of 2019, the subscribed capital increased from EUR 10,249,612 to EUR 12,949,612. This was attributed to a capital increase in July 2019, which resulted in gross issue proceeds of EUR 27,000,000. This increased the Company's share capital by EUR 2,700,000.

The fully paid in ordinary bearer shares with no par value of 14,469,743 (previous year: 12,949,612) representing a notional amount of the share capital of EUR 1 per share each carry a voting right and full profit-sharing rights (IAS 1.79 (a)).

Capital surplus

The capital surplus amounted to EUR 119,118,339 as of the reporting date (previous year: EUR 100,416,909). In the past financial year, there was a net increase of EUR 18,701,430 in the Company's capital surplus. This resulted from the gross increase of EUR 545,300 in connection with converting the bond with warrants in January 2020 less the costs of the capital increase amounting to EUR 6,000, from the gross increase of EUR 18,113,485 as part of the capital increase in November 2020 less related costs of EUR 507,596 and from an equity-settled share-based payment transaction of EUR 556,241.

In the previous financial year there was a net increase of EUR 20,919,203 in the Company's capital surplus resulting from the gross increase of EUR 24,300,000 in July 2019 less related costs of EUR 3,380,797.

Authorized capital

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

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

Following the cash capital increase in the 2020 financial year pursuant to section 5 (6) of the Articles of Association, which is outlined below, SFC Energy AG still has authorized capital of EUR 3,809,375.00 (Authorized Capital 2019/I).

Conditional capital

Based on the resolution of the SFC Energy AG Annual General Meeting on May 19, 2020, the Management Board was authorized, with the Supervisory Board's consent, to increase the share capital of the Company by up to EUR 1,300,000.00 (Conditional Capital 2020). Conditional Capital 2020 serves solely to grant new shares to holders of warrant rights, which may be issued by the Company in accordance with the authorization resolution of the Annual General Meeting on May 19, 2020, under agenda item 7 a).

SFC Energy AG also has additional conditional capital of EUR 2,824,503.00 (Conditional Capital 2019), EUR 295,300.00 (Conditional Capital 2016) and EUR 278,736.00 (Conditional Capital 2011) to secure the issuance of no-par-value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, participation rights and/or participation bonds (or combinations of such instruments).

SFC also has Conditional Capital 2011 of EUR 278,736.00 to secure the issuance of no-par-value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, participation rights and/or participation bonds (or combinations of such instruments).

Authorization to purchase treasury shares

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

Other changes in equity not affecting profit or loss

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

4. Other Disclosures

(31) Contingent liabilities

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

No identifiable contingent liabilities existed as of the reporting date.

(32) Other financial liabilities

Order commitments

The Group had purchasing commitments of EUR 15,583,591 as of the reporting date (previous year: EUR 12,617,426). These relate primarily to framework orders for raw materials and supplies.

Contingent liabilities

No contingent liabilities existed as of the reporting date.

(33) Financial instruments

The following overview shows the financial assets and liabilities by measurement category and class:

CARRYING AMOUNTS SHOWN ON THE BALANCE SHEET		in EUR
	12/31/2020	12/31/2019
Financial assets		
Loans and receivables		
Trade accounts receivable	12,362,867	13,693,778
Other assets and receivables – short term	0	3,133
Cash and cash equivalents	31,464,099	20,906,380
Cash and cash equivalents with limitation on disposal	285,620	285,620
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks	4,549,400	6,512,634
Trade accounts payable	4,742,006	8,090,427
Liabilities under finance leases	7,901,039	8,033,266
Other long-term financial liabilities	0	4,639
Other liabilities – short term	148,475	155,700

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

Financial assets and liabilities measured at fair value are allocated to the following three hierarchy levels: Level 1 is applied to financial assets and liabilities if a market price exists for the same assets and liabilities in an active market. They are assigned to Level 2 if the inputs on which the fair value measurement is based are observable either directly as prices or indirectly from prices. Financial assets and liabilities are reported at Level 3 if the fair value is determined from unobservable parameters. In the 2020 financial year, no financial liabilities and financial assets exist that are based on fair value measurement at Level 3.

The assignment to the fair value levels was as follows:

FINANCIAL INSTRUMENTS in EUR

	12/31/2020		
	Level 1	Level 2	Summe
Financial assets			
measured as at amortized cost			
Trade accounts receivable	0	12,362,867	12,362,867
Cash and cash equivalents	0	31,464,099	31,464,099
Cash and cash equivalents with limitation on disposal	0	285,620	285,620
Financial liabilities			
measured as at amortized cost			
Liabilities to banks	0	4,549,400	4,549,400
Trade accounts payable	0	4,742,006	4,742,006
Lease liabilities	0	7,901,039	7,901,039
Other liabilities	0	148,475	148,475

FINANCIAL INSTRUMENTS in EUR

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

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

EXPENSES AND INCOME FROM THE FINANCIAL INSTRUMENTS		in EUR
	2020	2019
Financial assets		
measured as at amortized cost		
Trade accounts receivable		
Expense from write-downs of trade accounts receivable	– 534,630	– 43,463
Income from currency translation of trade accounts receivable	98,593	143,887
Expense from currency translation of trade accounts receivable	– 274,382	– 37,971
Net result of loans and receivables	**– 710,419**	**62,453**
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks		
Interest expense	– 163,569	– 262,146
Trade accounts payable		
Income from currency translation of trade accounts payable	20,396	12,958
Expense from currency translation of trade accounts payable	– 15,476	– 19,510
Lease liabilities		
Interest expense	– 237,780	– 292,860
Other shortterm liabilities		
Interest expense	– 1,181	– 177,999
Net result of liabilities carried at amortized cost	**– 397,610**	**– 739,557**

Capital management

SFC considers a strong financial profile for the Group to be a fundamental requirement for further growth. SFC's strategic orientation and especially the expansion strategy it has elected to pursue require further investments, which must be financed to ensure future business success – in particular in the areas of product development, tapping additional market segments and new regions, and expanding existing market segments. The funds received by the Company in connection with the capital increases implemented in July 2019 and November 2020 and the exercise of the bond with warrants in January 2020 were raised for this capital expenditure. Until utilized as part of the growth strategy, liquidity surpluses are invested in low-risk financial instruments (e.g. overnight deposits and time deposits) at various banks.

On August 3, 2017, the Management Board of SFC AG, with the approval of the Supervisory Board on the same day, concluded an overall financing plan with Harbert European Growth Capital Fund (Harbert) consisting of the issue of a secured, fixed-interest bond with a nominal value of EUR 4,997,500, the conclusion of the corresponding collateral agreements and the issue of a bond with warrants. The secured, fixed-interest bearer bond was redeemed in stages up to the reporting date of the previous financial year. The bond with warrants was issued on the basis of the authorization granted by the Company's Annual General Meeting on June 14, 2016, under exclusion of the subscription rights of the Company's shareholders, by way of a private placement to Harbert.

The bond with warrants with a nominal value of EUR 2,500 and a 2022 maturity bears interest at 4.0 % p.a. The issue price of the bond with warrants was set at 100% of par value. In addition, the bond with warrants comprises warrant rights to 204,700 no-par-value ordinary bearer shares in the Company with a notional value of EUR 1.00 per share of the Company's share capital at an option price of EUR 3.6639 each. The loan portion of the bond with warrants was fully repaid in the 2019 financial year. The bond with warrants was also exercised in January 2020. For more details on this, please see section (30) Equity.

The Group's capital management relates to cash and cash equivalents (see note (19) Cash and cash equivalents), equity (see note (30) Equity) and liabilities to banks (see note (24) Liabilities to banks).

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

COMPANY'S EQUITY RATIO in EUR

	12/31/2020	12/31/2019
Equity	**54,837,963**	**40,260,269**
As a percentage of total capital	63.5 %	55.3 %
Long-term liabilities	12,711,252	12,084,529
Short-term liabilities	18,780,476	20,514,044
Liabilities	**31,491,728**	**32,598,573**
As a percentage of total capital	36.5%	44.7 %
Total equity and liabilities	**86,329,691**	**72,858,842**

SFC's capital structure changed in both the previous and the 2020 financial year just ended due to the implementation of capital increases and the exercise of the bond with warrants. As a result of the capital measures implemented, the equity ratio rose to 63.5 % (previous year: 55.3 %).

Underlying operating result (EBIT)

The "underlying operating result" was one of the instruments the Company employed for internal steering in the 2020 financial year. The following table shows the reconciliation of the operating result reported in SFC's consolidated income statement to the underlying operating result:

RECONCILIATION TO UNDERLYING OPERATING RESULT (EBIT) in EUR

	2020	2019
EBIT (earnings before interest and taxes)	**– 4,501,442**	**– 1,287,885**
Restructuring costs	193,361	0
Reported as sales costs		
Expenses for the management board SAR Plan	2,011,534	872,446
Reported as general administrations costs		
Expenses for the management board SAR Plan	1,435,940	573,316
Expenses for acquisition-related costs	281,438	126,000
Underlying operating result (EBIT)	**– 579,169**	**283,877**

Financial risks, such as market, default or liquidity risks, may arise in connection with financial instruments and are explained below.

Risks and hedging policy

As a result of SFC's international activities, changes in exchange rates, commodities prices and interest rates can affect the Group's financial position and performance. In addition, credit and liquidity risks exist associated with market price risks or are accompanied by a deterioration of the operating business or disruptions to financial markets.

In general, rising commodity and energy costs continue to pose a risk to our product margins. At 5% volatility in the platinum price, the effect would be around EUR 21,000 annually.

Credit risk

Credit risk derives primarily from trade accounts receivable. The risk consists of the possibility of default by a contractual partner, as the customer structure is characterized by various major customers. To prevent credit risk, creditworthiness is checked by reviewing the credit reports for selected customers, and regular status reports with an early warning function are obtained. Deliveries to new customers are generally subject to advance payment. In addition, all overdue receivables are discussed on a weekly basis as part of receivables management and measures are initiated with the respective sales employees. For the PBF and Simark subsidiaries, the risk of default is prevented in such a way that, due to the manageable number of customers or bad debts, overdue receivables are first investigated by accounting staff and then discussed in a conversation between the customer and the relevant sales employee.

The amounts shown on the balance sheet are net of the write-downs for receivables expected to be uncollectible, as estimated by management on the basis of the expected credit loss model and the current economic environment. Individual value adjustments are applied as soon as an indication exists that receivables are uncollectible. The indications are based on close contact with the respective customers as part of receivables management. The expected losses are determined based on customers' payment histories. At each reporting date, the expected loss over the remaining term is determined as a percentage based on the period overdue.

The Group considers a financial asset to be impaired if it is unlikely that the debtor will be able to pay its credit obligation in full to the Group without the Group having to resort to measures such as the realization of collateral (where such collateral is available). The maximum default amount corresponds to the net carrying amount of the receivables. In the reporting period, as in the previous year, no collateral from defaulted receivables was acquired and recognized. The receivables from product sales are secured for SFC by retention of title.

Indicators that a financial asset's credit quality is impaired include the following observable data:

- significant financial difficulties on the part of the customer,
- a breach of contract, such as default or overdue by more than 90 days,
- restructuring of a loan or credit by the Group that it would not otherwise consider,
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization, or
- the disappearance, due to financial difficulties, of an active market for a security.

Of the trade accounts receivable of EUR 12,362,867 (previous year: EUR 13,693,778), amounts of EUR 1,711,755, EUR 750,357, EUR 666,868, EUR 633,866 and EUR 571,440 are attributable to the five largest customers comprising a total of EUR 4,334,286 (previous year: EUR 2,113,761, EUR 779,820, EUR 573,556, EUR 340,139 and EUR 314,225 attributable to the five largest customers respectively, amounting to a total of EUR 4,121,501). No other material risk concentrations exist.

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

DEVELOPMENT OF WRITE-DOWNS OF TRADE ACCOUNTS RECEIVABLES in EUR

	2020	2019
Write-downs as of 01/01	**632,132**	**678,499**
Additions	534,630	25,661
Drawdown / utilisation	– 105,606	0
Release	0	– 72,028
Write-downs as of 12/31	**1,061,156**	**632,132**

The following table shows the term structure of overdue but not yet impaired trade accounts receivable of EUR 6,541,506 (previous year: EUR 4,188,535):

TRADE ACCOUNTS RECEIVABLES in EUR

	2020	2019
Not past due or impaired	5,821,361	9,505,243
Past due and not impaired		
Up to one month past due and not impaired	651,850	1,409,010
One to three months past due and not impaired	1,052,411	545,834
Three to six months past due and not impaired	59,757	603,846
Over six months past due and not impaired	4,777,488	1,629,845
Receivables per balance sheet	**12,362,867**	**13,693,778**

The outstanding receivables that are neither past due nor impaired are of high credit quality thanks to the structure of the current customer base. No indication existed as of the reporting date that any defaults were to be expected on these receivables.

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

LOSS RATE in EUR

	12/31/2020				
	not overdue	overdue less than 30 days	overdue 30 to 90 days	overdue more than 90 days	Total
Expected loss rate (in %)	1 %	3 %	7 %	16 %	
Accounts receivables (gross)	5,874,758	672,804	1,126,977	5,749,484	13,424,023
Allowance for doubtful accounts	53,397	20,954	74,566	912,239	1,061,156

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

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

Furthermore, no default risks exist in relation to cash and cash equivalents. These cash and cash equivalents mainly comprise short-term time and call deposits and immediately available deposits at banks. SFC is exposed to credit risks associated with the investment of cash and cash equivalents to the extent that banks fail to meet their obligations. To minimize such risk, the banks in which the deposits are made are selected with care, and the deposits are distributed among several banks. Moreover, only short-term time deposits have been made, which are covered by the deposit insurance of the banks. The maximum risk position corresponds to the carrying amount of the cash as of the reporting date.

Liquidity risk

Liquidity risk describes the possibility that SFC may not be able to meet its payment obligations. This risk was counteracted by the capital increases in July 2019 and November 2020 and by the exercise of the bond with warrants in January 2020 as well as all the previous capital-increasing measures. The cash reserves increased significantly from the previous year due to these capital measures.

In the final instance, responsibility for liquidity risk management lies with the Management Board, which has established an appropriate concept to manage short-, medium- and long-term financing and liquidity requirements. The Group manages liquidity risk by maintaining reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

SFC incurs cash outflows from the financial liabilities held, which are presented undiscounted at their earliest possible dates in the table below. The cash inflows from financial instruments of current and non-current assets are presented in the same manner. The remaining net cash outflow will be covered by existing cash and cash equivalents.

NON-DERIVATIVE FINANCIAL LIABILITIES AND ASSETS in EUR

	2020				2019			
	Summe	1 Jahr	1 – 5 Jahre	>5 Jahre	Summe	1 Jahr	1 – 5 Jahre	>5 Jahre
Non-derivative financial liabilities								
Liabilities to banks	– 4.549.400	– 4.339.954	– 209.446	0	– 6.512.634	– 5.351.804	– 1.160.830	0
Trade accounts payable	– 4.742.006	– 4.742.006	0	0	– 8.090.427	– 8.090.427	0	0
Llease Liabilities	– 7.901.039	– 1.353.289	– 6.055.455	– 492.296	– 8.033.266	– 2.278.193	– 5.755.073	0
Other long-term financial liabilities	0	0	0	0	– 4.639	0	– 4.639	0
Other short-term financial liabilities	0	0	0	0	0	0	0	0
Other financial liabilities	– 148.475	– 148.475	0	0	– 155.700	– 155.700	0	0
Total cash outflow	**– 17.340.920**	**– 10.583.724**	**– 6.264.901**	**– 492.296**	**– 22.796.666**	**– 15.876.124**	**– 6.920.542**	**0**
Non-derivative financial assets								
Cash and cash equivalents	31.749.719	31.749.719	0	0	21.192.000	21.192.000	0	0
Trade accounts receivable	12.362.867	12.362.867	0	0	13.693.778	13.693.778	0	0
Other financial assets	0	0	0	0	3.133	3.133	0	0
Total cash inflow	**44.112.586**	**44.112.586**	**0**	**0**	**34.888.911**	**34.888.911**	**0**	**0**
Net liquidity from financial instruments	**26.771.666**	**33.528.862**	**– 6.264.901**	**– 492.296**	**12.092.245**	**19.012.787**	**– 6.920.542**	**0**

Based on Simark's financial debt, the Group applies an interest rate of 4.50 % which is calculated from the Canadian variable rate plus 3.5 % (previous year: Canadian variable Rate plus 3.5 %) until the end of the remaining term to calculate interest payments amounting to EUR 73,579 (previous year: EUR 102,543).

Cash includes cash equivalents with limitations on disposal.

Interest rate risk

Interest rate risk mainly results from the investment of cash and cash equivalents. As part of the capital increase in 2007, shares were also placed in the USA. In this context, SFC was required to assume the contractual obligation to comply with certain tax laws in the USA. Consequently, no investments may exceed a three-month term at present. In this respect, SFC's net interest income is significantly influenced by short-term capital market interest rates.

In addition, the Group is exposed to interest rate risks from current and non-current variable-interest liabilities. An increase or decrease of 50 basis points in interest rates would have increased or decreased net interest income by EUR 11,479 (previous year: EUR 11,755). In addition, the Group is not exposed to any material interest rate risks from variable-rate instruments.

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

Exchange rate risk

In the future, due to Simark's volume of business, SFC will generate a substantial portion of its sales in Canadian dollars, which will be offset by expenses and payments in Canadian dollars. In addition, SFC and Simark generate sales in US dollars in North America. Simark also purchases some products in US dollars. No forward exchange contracts were concluded in the 2020 financial year.

The currency translation of the assets and liabilities of Simark Controls Ltd. as of December 31, 2020, would have had an effect of EUR – 801,518 (previous year: EUR – 850,494) if the exchange rate had fluctuated by – 5 % and an effect of EUR 801,518 (previous year: EUR 850,494) if the exchange rate had fluctuated by + 5 %, which would have been reflected in the Group's equity.

No material effects arise from the foreign currency translation of the business of the Romanian subsidiary and its transactions in Romanian leu.

The measurement of the foreign currency receivables and liabilities of SFC, PBF and Simark as of December 31, 2020, would have resulted in a foreign currency result of EUR 79,755 (previous year: EUR 3,372) if the exchange rate had fluctuated by – 5 % and a result of EUR – 79,755 (previous year: EUR – 3,372) if the exchange rate had fluctuated by + 5 %.

The aim of foreign currency management is to minimize currency losses in comparison with budget assumptions. For this purpose, an open foreign currency position is calculated on the basis of actual and planned foreign currency positions and adjusted in the context of the rolling year-end forecast. In the case of larger open positions, the open balance is largely hedged by means of forward exchange transactions if the forecast and market expectations result in significant deviations from the budgeted assumptions. No open forward exchange transactions exist as of the reporting date. To this extent, foreign exchange risk exists for the unhedged portion of sales.

(34) Share-based compensation

As part of the Management Board employment agreements, the Company entered into a contract for the creation of a Stock Appreciation Rights Plan (SAR Plan). The goal of the plan is to foster a business policy that is strongly aligned with shareholder interests in order to promote the long-term appreciation of the shareholders' interests in the Company. In the 2020 financial year, additional SARs were granted to Mr. Saxena under the new Management Board contract (tranche DS1). In addition, the vesting periods for two sub-tranches of tranche PP3 were shortened by 7 and 14 months respectively.

Tranche PP3 was replaced by a stock option program during the financial year, which is why there were no more obligations resulting from this tranche at the end of the financial year.

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

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

The SARs awards have been classified and measured as cash-settled, share-based payment transactions pursuant to IFRS 2.30. Their fair market value will be remeasured on each reporting date applying a Monte Carlo model, taking into consideration the terms on which the SARs were awarded.

The status of the SARs in 2020 is presented in the following table:

SAR STATUS 2020 in EUR

	Tranche HP2	Tranche PP2	Tranche MB1	Tranche HP3	Tranche PP3	Tranche DS13
Number of stock appreciation rights (SARs)	180,000	360,000	180,000	180,000	420,000	228,000
Maximum term (years)	7.00	7.00	7.00	7.00	7.00	8.00
Outstanding number of SARs at the beginning of the 2020 reporting period (01/01/2020)	20,000	260,000	102,500	150,000	420,000	0
During the 2020 reporting period						
SARs awarded	0	0	0	0	0	228,000
SARs forfeited	0	40,000	47,500	30,000	420,000	0
SARs exercised	0	0	0	0	0	0
SARs expired	0	0	0	0	0	0
Outstanding number of SARs at the end of the 2020 reporting period (12/31/2020)	**20,000**	**220,000**	**55,000**	**120,000**	**0**	**228,000**
Exercisable SARs at the end of the 2020 reporting period (12/31/2020)	**0**	**0**	**0**	**0**	**0**	**0**

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

SAR STATUS 2019 in EUR

	Tranche HP2	Tranche PP2	Tranche MB1	Tranche HP3	Tranche PP3
Number of stock appreciation rights (SAR)	180,000	360,000	180,000	180,000	420,000
Maximum term (years)	7.00	7.00	7.00	7.00	7.00
Outstanding number of phantom shares at the beginning of the reporting period (01/01/2019)	20,000	300,000	150,000	180,000	0
During 2019 reporting period					
SAR awarded	0	0	0	0	420,000
SAR forfeited	0	40,000	47,500	30,000	0
SAR exercised	0	0	0	0	0
SAR expired	0	0	0	0	0
SAR outstanding at the end of the reporting period (12/31/2019)	**20,000**	**260,000**	**102,500**	**150,000**	**420,000**
Exercisable SAR at the end of the reporting period (12/31/2019)	**0**	**0**	**0**	**0**	**0**

The following parameters were taken into consideration in connection with the measurement as of December 31, 2020:

2020 in EUR

	Tranche HP2	Tranche PP2	Tranche MB1	Tranche HP3	Tranche PP3	Tranche DS1
Measurement date	12/31/2020	12/31/2020	12/31/2020	12/31/2020	12/31/2020	12/31/2020
Remaining term (years)	1.50	3.25	3.17	4.50	6.00	7.50
Expected volatility	64.05 %	55.05 %	54.69 %	54.73 %	49.68 %	48.63 %
Risk-free interest rate	– 0.76 %	– 0.77 %	– 0.77 %	– 0.76 %	– 0.73 %	– 0.69 %
Dividend yield	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Strike price	EUR 1.00	EUR 1.00	EUR 1.00	EUR 1.00	EUR 1.00	EUR 1.00
Share price on the measurement date	EUR 15.94	EUR 15.94	EUR 15.94	EUR 15.94	EUR 15.94	EUR 15.94

The following parameters were taken into consideration in the measurement in the previous year (December 31, 2019):

2019 in EUR

	Tranche HP2	Tranche PP2	Tranche MB1	Tranche HP3	Tranche PP3
Measurement date	12/31/2019	12/31/2019	12/31/2019	12/31/2019	12/31/2019
Remaining term (years)	2.50	4.25	4.17	5.50	7.00
Expected volatility	45.54 %	48.46 %	48.29 %	45.87 %	43.04 %
Risk-free interest rate	– 0.61 %	– 0.51 %	– 0.52 %	– 0.44 %	– 0.33 %
Dividend yield	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Strike price	EUR 1.00	EUR 1.00	EUR 1.00	EUR 1.00	EUR 1.00
Share price on the measurement date	EUR 9.72	EUR 9.72	EUR 9.72	EUR 9.72	EUR 9.72

For the term, the length of time from the measurement date to the end of the respective agreement was applied. The share price was determined via Bloomberg applying the closing price in XETRA trading on December 31, 2020. The volatility presented is based on the historical volatility of SFC shares over periods matching the respective remaining terms. The expected volatility taken into consideration is based on the assumption that future trends can be inferred from historical volatility, so that the actual volatility may diverge from the assumptions made. The expected dividend yield is based on market estimates for the amount of the expected dividend for SFC shares in 2020 and 2021.

As of December 31, 2020, a liability of EUR 5,683,464 (of which EUR 2,752,773 non-current) was recognized under other liabilities under the SAR Plan (December 31, 2019: EUR 2,792,231; of which EUR 2,792,231 non-current). Expenses for the period from January 1 to December 31 amounted to EUR 2,891,233 (previous year: EUR 1,445,762).

Stock option plan

As part of the Management Board employment agreements, the Company entered into a contract with Dr. Podesser for the creation of a Stock Option Plan (AOP). The goal of the plan is to foster a business policy that is strongly aligned with shareholder interests in order to promote the long-term appreciation of the shareholders' interests in the Company. In the 2020 financial year, stock options only were granted to Dr. Podesser as a replacement for the claims resulting from tranche PP3 of the SAR.

The plan envisages the payment of variable compensation in the form of stock options. One stock option entitles the holder to subscribe to one no-par value bearer share in the Company against concurrent payment of the strike price by the option holder. Once vested, stock options can be exercised within one year, except during blackout periods. The number of stock options available to exercise largely depends on the average price of SFC's shares for the 30 trading days prior to the end of the vesting period (reference price).

The stock option awards have been classified and measured as equity-settled share-based payment transactions pursuant to IFRS 2.30. Their fair market value is measured once on the grant date applying a Monte Carlo model and taking into consideration the terms on which the stock options were awarded.

The status of the stock options in 2020 is presented in the following table:

STOCK OPTIONS 2020

	Tranche PP1
Number of stock appreciation rights (SAR)	504,000
Maximum term (years)	8.00
Outstanding number of phantom shares at the beginning of the reporting period (01/01/2020)	0
During 2020 reporting period	
SAR awarded	504,000
SAR forfeited	0
SAR exercised	0
SAR expired	0
SAR outstanding at the end of the reporting period (12/31/2020)	**504,000**
Exercisable SAR at the end of the reporting period (12/31/2020)	**0**

The following parameters were taken into consideration in connection with the measurement as of December 31, 2020:

2020

	Tranche PP1
Measurement date	12/31/2020
Remaining term (years)	8.15
Expected volatility	45.18 %
Risk-free interest rate	– 0.54 %
Dividend yield	0.00 %
Strike price	EUR 1.00
Share price on the measurement date	EUR 10.00

As of December 31, 2020, a capital surplus of EUR 556,241 was recognized under the stock option plan (December 31, 2019: EUR 0). Expenses for the period from January 1 to December 31 amounted to EUR 556,241 (previous year: EUR 0).

(35) Related party transactions

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

Persons in key positions at SFC are the members of the Management and Supervisory Boards along with close members of their families. The Management and Supervisory boards were comprised as follows in the 2019 and 2020 financial years:

Management Board members

Dr. Peter Podesser, Simbach am Inn, business graduate (Chairman)
Daniel Saxena, Thalwil, Switzerland, business graduate (since July 1, 2020)
Hans Pol, Ede, Netherlands, business graduate
Marcus Binder, Munich, electrical engineering graduate (until February 28, 2020)

Supervisory Board members

Tim van Delden, Düsseldorf, engineering graduate (Chairman)
Gerhard Schempp, Kaltental, mathematics graduate (since June 1, 2020)
David William Morgan, Rolvenden (United Kingdom), MA ACA, business graduate (until May 31, 2020)
Hubertus Krossa, Wiesbaden, business graduate

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

The compensation of persons in key positions was as follows:

COMPENSATION in EUR

	2020		2019	
	Fixed portion	Variable portion	Fixed portion	Variable portion
Management Board	769,962	3,740,808	789,922	1,875,330
Supervisory Board	112,500	0	112,500	0
Total	**882,462**	3,740,808	**906,283**	1,875,330

Liabilities to persons in key positions amounting to EUR 3,417,069 (previous year: EUR 3,242,129) were reported as of the reporting date.

Agreements with Management Board members

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

Pursuant to his Management Board employment agreement dated April 1, 2014, Dr. Peter Podesser was granted 360,000 stock appreciation rights (SARs) under the 2014–2016 SAR Plan with a strike price of EUR 1.00 each. A specified portion of the SARs expired on three predefined dates in 2015, 2016 and 2017 depending on SFC Energy AG's share price. Following a four- to six-year vesting period, one-third of the non-expired SARs are/were exercised at a defined reference price when certain performance targets were reached. In the event another entity acquires control of SFC Energy AG, the SARs that have not yet expired at the time a takeover offer is made must be disbursed according to specified ranges based on the reference price. The reference price corresponds to the offer price as defined in section 31 (1) of the German Securities Acquisition and Takeover Act (WpÜG). Dr. Peter Podesser's Management Board employment agreement was extended from April 1, 2017, to March 31, 2020. In connection with that agreement, Dr. Peter Podesser was granted an additional 360,000 SARs (2017–2020 SAR Plan) on December 14, 2016. The terms of the 2017–2020 SAR Plan were largely equivalent to the 2014–2016 SAR Plan. In addition, Dr. Peter Podesser's Management Board employment agreement was extended from April 1, 2020, to March 31, 2024. Dr. Peter Podesser was accordingly granted an additional 420,000 SARs (2020–2024 SAR Plan) on May 15, 2019. A specified portion of the SARs may expire on four predefined dates in 2021, 2022, 2023 and 2024 depending on SFC Energy AG's share price. Following a four- to seven-year vesting period, one-quarter of the non-expired SARs may be exercised at a defined reference price when certain performance targets have been reached. In the 2020 financial year, the 2020–2024 SAR Plan was transformed into a physical stock option plan, the terms of which are largely consistent with the relevant SAR Plan.

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

Daniel Saxena was appointed to the Management Board from July 1, 2020, to June 30, 2024. His Management Board employment agreement contains an agreement regarding the 2020–2024 SAR Plan with a term until June 30, 2027. Mr. Saxena was granted 228,000 SARs.

Marcus Binder was appointed to the Management Board from March 1, 2017, to February 28, 2020. His Management Board agreement was not extended beyond February 28, 2020.

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

COMPENSATION in EUR

	Fixed compensation		Short-term performance based compensation		Long-term performance based compensation		Total	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Dr. Peter Podesser	386,073	369,597	138,396	290,821	2,295,287	955,526	2,819,756	1,615,944
Hans Pol	218,763	218,466	50,062	81,398	735,252	286,044	1,004,077	585,908
Marcus Binder - resigned on 02/29/2020	33,126	201,859	3,500	53,724	398,718	207,817	435,344	463,400
Daniel Saxena since 07/01/2020	132,000	0	0	0	119,593	0	251,593	0
Total	**769,962**	**789,922**	**191,958**	**425,943**	**3,548,850**	**1,449,387**	**4,510,770**	**2,665,252**

(36) Earnings per share

Earnings per share are calculated by dividing the consolidated net income for the year that is attributable to shareholders of the parent by the average number of shares in circulation. The calculation of diluted earnings per share is based on the profit attributable to the holders of ordinary shares and a weighted average of the ordinary shares in circulation after eliminating all dilutive effects of potential ordinary shares. In the 2020 financial year, the diluted and basic earnings per share were identical thanks to dilution protection, as conversion into ordinary shares would reduce the loss per share for the current year.

The weighted average of ordinary shares at December 31, 2020, was as follows:

AVERAGE OF ORDINARY SHARES in EUR

	2020	2019
Number of shares in circulation at the beginning of the period	12,949,612	10,249,612
Effect of the shares issued	321,220	1,246,154
Weighted average number of shares at December, 31	**13,270,832**	**11,495,766**

Basic and diluted earnings per share are stated in the Consolidated Income Statement.

(37) Disclosures on the consolidated statement of cash flows

The consolidated statement of cash flows shows the origin and utilization of cash flows. In accordance with IAS 7 "Cash Flow Statements", cash flow statements analyze cash flows in terms of cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. The cash and cash equivalents presented in the cash flow statement correspond to the cash and cash equivalents item on the balance sheet. Cash and cash equivalents consist of cash and credit balances of EUR 31,359,700 (previous year: EUR 20,388,605) as well as time and call deposit accounts of EUR 390,018 (previous year: EUR 803,395).

Income tax payments and refunds primarily pertained to withholding tax on capital and the solidarity surcharge withheld from credited interest when overnight and time deposits matured and income tax payments for the Canadian and Romanian subsidiaries.

As SFC invests surplus cash in short-term, low-risk financial securities, the interest that is received is allocated to cash flow from investing activities. Interest payments are presented in cash flow from financing activities.

The following table shows a reconciliation of the movements in liabilities to cash flow from financing activities.

MOVEMENTS IN LIABILITIES 2020 in EUR

	12/31/2019	Payment effective	Payment non-effective				12/31/2020
			Exchange rate change	Interest	Conversion IFRS 16	Allocation of stock option program	Total
Other Liabilities from financing	– 4,639	– 5,820	0	1,181	0		0
Liabilities to banks	– 6,512,635	– 1,936,688	– 216,887	190,340	0		– 4,549,400
Liabilities from financing	– 8,033,266	– 2,290,931	– 132,552	237,780	2,053,476		– 7,901,039
Subscribed capital and capital surplus	– 113,366,521	19,665,320	0	0	0	556,241	– 133,588,082
Total	**– 127,917,061**	**15,431,881**	**– 349,439**	**429,301**	**2,053,476**	**556,241**	**– 146,038,521**

MOVEMENTS IN LIABILITIES 2019 in EUR

	12/31/2019	Payment effective	Payment non-effective				12/31/2020
			Exchange rate change	Interest	Conversion IFRS 16	Allocation of stock option program	Total
Other Liabilities from financing	– 2,573,193	– 2,746,674	0	177,999	0	0	– 4,639
Liabilities to banks	– 6,295,250	– 296,334	251,573	262,145	0	0	– 6,512,635
Liabilities from financing	– 97,389	– 2,301,147	133,063	292,860	9,811,101	0	– 8,033,266
Subscribed capital and capital surplus	– 89,747,318	23,619,203	0	0	0	0	– 113,366,521
Total	**– 98,713,150**	**18,275,048**	**384,636**	**733,004**	**9,811,101**	**0**	**– 127,916,939**

(38) Disclosures on consolidated segment reporting

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

Accounting policies for reportable segments are in accordance with principles described above.

For the internal alignment to the core markets of Clean Energy & Mobility, Industry, Oil & Gas and Defense & Security, as well as to manage the Group, the Management Board utilizes sales, gross margin, underlying gross profit and earnings before interest, tax, depreciation and amortization (EBITDA), underlying gross profit and earnings before interest and taxes (EBIT), and the development of cash and cash equivalents at Group level.

In the Defense & Security segment, SFC Energy AG generates sales in the defense and security market. The defense and security market includes defense and security applications from military organizations and government agencies.

The Clean Energy & Mobility segment is highly diversified. Firstly, it includes any area of industry where professional users run electrical equipment away from the grid and use SFC's EFOY Pro fuel cell. Secondly, SFC sells compact fuel cell generators through established commercial channels in the consumer market to generate electricity for mobile homes, sailboats and cabins.

In the Industry segment, PBF develops and produces high-quality and reliable power supply systems.

In the Oil & Gas segment, Simark operates as a specialized distribution, service and product integration company for high-tech power supply, instrumentation and automation products used in the oil and gas industry.

No offsetting between the segments occurs. The net result from interest income and interest expenses is presented in the financial result.

The following presents an analysis of sales and non-current segment assets by region:

SALES AND NON-CURRENT SEGMENT ASSETS BY REGION in EUR

	Sales from transactions with external customers		Long-term Assets	
	2020	2019	12/31/2020	12/13/2019
North America	18,912,752	22,668,294	9,578,428	9,082,242
Europe (not including Germany)	19,263,746	21,458,099	4,509,290	4,588,200
Germany	8,278,612	7,908,642	11,896,657	10,120,022
Asia	6,304,307	4,824,511	0	0
Rest of the world	463,353	1,678,598	0	0
Total	**53,222,770**	58,538,144	**25,984,375**	23,790,464

The analysis of sales by region was based on the registered offices of the respective customers. In the Group's German domestic market, sales of EUR 8,278,612 (previous year: EUR 7,908,642) were achieved.

In the past financial year, no customer generated more than 10% of total sales (previous year: 0).

The depreciation of non-current assets included in production costs can be analyzed by segment as follows:

DEPRECIATION OF NON-CURRENT ASSETS in EUR

	2020	2019
Clean Energy & Mobility	846,328	487,360
Industry	456,076	475,075
Oil & Gas	101,211	217,687
Defense & Security	302,285	472,511
TOTAL	**1,705,900**	**1,652,633**

There was no interest income in the 2020 financial year that would have been allocated to the respective segments.

Interest expenses of EUR 187,545 (previous year: EUR 242,271) related to the Clean Energy & Mobility segment, interest expenses of EUR 74,875 (previous year: EUR 91,907) related to the Industry segment, interest expenses of EUR 153,340 (previous year: EUR 278,856) related to the Oil & Gas segment and interest expenses of EUR 27,498 (previous year: EUR 138,821) related to the Defense & Security segment.

Internal reporting is limited to expense and income items. As a consequence, the segment reporting does not include any balance sheet items.

New segment structure from the 2021 financial year

From January 1, 2021, the Group's segment structure is being realigned, based on a product-oriented approach and product-centric management of business activities. The Group's former segment structure was based on its key markets. The realignment of the segment structure means that the Company's internal reporting structure is now also being realigned to more accurately reflect the Company's product and service portfolio. The former Clean Energy & Mobility and Defense & Security segments are being fully reallocated to the new Fuel Cell Systems segment. The former Industry segment is being allocated to the new Power Management & Solutions segment. The former Oil & Gas segment is being split between the two new segments Fuel Cell Systems and Power Management & Solutions.

(39) Auditor's fees

The auditor's fees were:

AUDITOR'S FEES in EUR

	2020	2019
Financial statements	191,000	183,000
Tax consultancy services	0	0
Other[1]	0	499,000
Total	**191,000**	**682,000**

1 other work perfomed has been related to comfort letters.

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

On March 23, 2021 the Management and Supervisory Boards issued an updated declaration of compliance with the German Corporate Governance Code pursuant to section 161 of the German Stock Corporation Act (AktG) and published it on the website of SFC Energy AG (www.sfc.com/en/investors/corporate-governance). The declaration of compliance will remain available on the Internet for the next five years and has thereby been made permanently accessible to the public. It is published in the Annual Report as part of the Corporate Governance Report.

(41) Subsequent Events after the Balance Sheet Date

Since January 1, 2021, all of SFC AG's subsidiaries have been operating under the SFC Energy name. The subsidiary PBF now operates under the name SFC Energy B.V., while Simark operates under the name SFC Energy Ltd.

A pending legal action with the Munich District Court I between the former Management Board member Marcus Binder and SFC Energy AG was amicably resolved by way of a settlement agreed after the balance sheet date on February 4, 2021. The settlement amount covers all obligations for short-term compensation (bonus) and long-term variable compensation (SAR Plan) and for consulting services, for which adequate provisions were recognized at the balance sheet date.

On February 23, 2021, the Supervisory Board of SFC Energy AG unanimously resolved in agreement with Mr. Hans Pol to cancel his appointment and his Management Board employment agreement of March 6/22, 2018, effective February 28, 2021. By way of a further resolution on February 23, 2021, the Supervisory Board appointed Mr. Hans Pol to the Management Board effective March 1, 2021, for a term of four years until February 28, 2025, and concluded a new Management Board employment agreement to this extent.

Up until the date of preparation of this Annual Report, no other events of particular significance occurred that are expected to have a material effect on the net assets, financial position and results of operations of SFC Energy AG.

Brunnthal, March 23, 2021

The Management Board

Dr. Peter Podesser **Chairman of the Board (CEO)**	**Hans Pol** **Board Member (COO)**	**Daniel Saxena** **Board Member (CFO)**

RESPONSIBILITY STATEMENT

Consolidated Financial Statements and Group Management Report for Financial Year 2020

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

Brunnthal, den 23. März 2021

The Management Board

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (COO)

Daniel Saxena
Board Member (CFO)

INDEPENDENT AUDITOR'S REPORT

To SFC Energy AG, Brunnthal

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of SFC Energy AG, Brunnthal, and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SFC Energy AG, Brunnthal, for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the consolidated corporate governance statement pursuant to Sections 289f and 315d German Commercial Code (HGB) included in the Corporate Governance Statement of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2020 and of its financial performance for the financial year from 1 January to 31 December 2020, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the aforementioned consolidated corporate governance statement pursuant to Sections 289f and 315d German Commercial Code (HGB).

Pursuant to Section 322 (3) sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report.

We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the recoverability of goodwill as the key audit matter we have determined in the course of our audit:

Our presentation of this key audit matter has been structured as follows:

a) description (including reference to corresponding information in the consolidated financial statements)

b) auditor's response

Recoverability of goodwill

a) The goodwill of kEUR 7,853 (9.1 % of the balance sheet total) disclosed in the consolidated financial statements of SFC Energy AG relates to two companies and is subject to an impairment test at least once a year at the end of the reporting period.

   The recoverable amount is determined by calculating the fair value less costs of disposal using the discounted cash flow method. Judgements made by the executive directors materially affect the outcome of these measurements in estimating the future cash inflows and in selecting the discount rate. Consequently, the respective impairment tests are subject to a high degree of uncertainty.

   This matter has been classified by us as key audit matter as the impairment test of goodwill is complex and depends to a great extent on a number of estimates and assumptions made by the executive directors.

   Information provided by the executive directors on the impairment tests is provided in the consolidated notes under note (21) "Intangible assets"; information on the accounting policy options applied is provided in section 1 under Accounting policies: "Impairment of non-financial assets".

b) We assessed the appropriateness of the material assumptions and judgements, and the method of computation used in the impairment test with support from valuation experts from our Valuation Services department.

Our analysis of the future cash flows determined by the executive directors to evaluate the expected impact of events or developments took into account our assessment of the reliability of the planning system of SFC Energy AG, and included, amongst other things, an analysis of the adherence to budget. In the light of the specific planning uncertainties, we verified and assessed the sensitivity analyses prepared by the executive directors.

Our assessment of the fair value was based on a reconciliation of the cash inflows and the five-year planning figures (2021 to 2025) prepared by the executive directors and approved by the supervisory board. In assessing the underlying five-year planning figures, we discussed the central planning assumptions and measures with the executive directors focusing on the development of the sales markets in Canada and Europe, and the movement in sales and procurement prices.

In auditing the discount rate, with support from our valuation experts, we examined the parameters used in determining the discount rate, including the weighted average cost of capital (WACC), and verified the computation.

In addition, we verified the systematic approach to performing the impairment test and the application of the computation scheme (discounted cash flow method) with support from our valuation experts.

Finally, we assessed the completeness and appropriateness of the disclosures on the recoverability of goodwill in the notes to the consolidated financial statements.

Other Information

The executive directors and the supervisory board are responsible for the other information. The other information comprises

- the report of the supervisory board
- the consolidated corporate governance statement pursuant to Sections 289f and 315d HGB included in the Corporate Governance Statement of the group management report,
- the executive directors' confirmation pursuant to Section 297 (2) sentence 4 and Section 315 (1) sentence 5 HGB, respectively, regarding the consolidated financial statements and the group management report and
- all the remaining parts of the annual report which will be published after the issuance of this auditor's report
- but not the consolidated financial statements, not the audited content of the group management report and not our auditor's report thereon.

The supervisory board is responsible for the report of the supervisory board. The executive directors and the supervisory board as well are responsible for the declaration according to Section 161 German Stock Corporation Act (AktG), which is part of the consolidated corporate governance statement pursuant to Sections 289f and 315d HGB included in the Corporate Governance Statement of the group management report. Apart from that the executive directors are responsible for the other information.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our group audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that as a whole provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit.
We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not f or the purpose of expressing an audit opinion on the effectiveness of these systems.

- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Audit of the Electronic Files of the Consolidated Financial Statements and of the Management Report prepared for Publication pursuant to Section 317 (3b) HGB

Audit Opinion

In accordance with Section 317 (3b) HGB, we have assessed with reasonable assurance whether the electronic files of the consolidated financial statements and of the management report (hereafter referred to as "ESEF files") prepared for publication, contained in the accompanying file, which has the **SHA-256 value 8A4E460ED327C4ABD73BDF0BFEAC2FE71578A42B2D0EC0C0681D07C93785DE07**, meet, in all material respects, the requirements concerning the electronic reporting format ("ESEF format") pursuant to Section 328 (1) HGB. In accordancewith the German legal requirements, this audit only covers the transfer of the consolidated financial statements' and the management report's information into the ESEF format, and therefore covers neither the information contained in these electronic files nor any other information contained in the file stated above.

In our opinion, the electronic files of the consolidated financial statements and of the management report prepared for publication contained in the accompanying file stated above meet, in all material respects, the requirements concerning the electronic reporting format pursuant to Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and on the accompanying management report for the financial year from 1 January to 31 December 2020 contained in the above "Report on the Audit of the Consolidated Financial Statements and of the Management Report", we do not express any audit opinion on the information contained in these electronic files and on any other information contained in the file stated above.

Basis for the Audit Opinion

We conducted our audit of the electronic files of the consolidated financial statements and of the management report contained in the accompanying file stated above in accordance with Section 317 (3b) HGB and on the basis of the IDW Draft Auditing Standard: Audit of the Electronic Files of the Annual Financial Statements and of the Management Report prepared for Publication pursuant to Section 317 (3b) HGB (IDW Draft AuS 410). Our responsibilities in this context are further described in the section "Auditor's Responsibilities for the Audit of the ESEF Files". Our audit firm has applied the Quality Assurance Standard: Quality Assurance Requirements in Audit Practices (IDW QS 1) promulgated by the Institut der Wirtschaftsprüfer (IDW).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Files

The executive directors of the company are responsible for the preparation of the ESEF files based on the electronic files of the consolidated financial statements and of the management report according to Section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements according to Section 328 (1) sentence 4 no. 2 HGB.

In addition, the executive directors of the company are responsible for such internal control as they have determined necessary to enable the preparation of ESEF files that are free from material violations against the requirements concerning the electronic reporting format pursuant to Section 328 (1) HGB, whether due to fraud or error.

The executive directors of the company are also responsible for the submission of the ESEF files together with the auditor's report and the accompanying audited consolidated financial statements and the audited management report as well as other documents to be filed with the publisher of the Federal Gazette.

The supervisory board is responsible for overseeing the preparation of the ESEF files as part of the financial reporting process.

Auditor's Responsibilities for the Audit of the ESEF Files

Our objective is to obtain reasonable assurance about whether the ESEF files are free from material violations against the requirements pursuant to Section 328 (1) HGB, whether due to fraud or error. We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material violations against the requirements pursuant to Section 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

- obtain an understanding of internal control relevant to the audit of the ESEF files in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls.

- assess the technical validity of the ESEF files, i.e. whether the file containing the ESEF files meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as of the balance sheet date as to the technical specification of this file.

- evaluate whether the ESEF files enable a XHTML copy of the audited consolidated financial statements and of the audited management report whose content is identical with these documents.

- evaluate whether the ESEF files have been tagged using inline XBRL technology (iXBRL) in a way that enables an appropriate and complete machine-readable XBRL copy of the XHTML copy.

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 19 May 2020. We were engaged by the supervisory board on 25 November 2020. We have been the group auditor of SFC Energy AG, Brunnthal, without interruption since the financial year 2007.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Julius Pinckernelle.

Munich, 23 March 2021

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Julius Pinckernelle
Wirtschaftsprüfer
(German Public Auditor)

Oliver Pointl
Wirtschaftsprüfer
(German Public Auditor)

FINANCIAL CALENDAR 2021

FEBRUARY 15, 2021	PRELIMINARY FIGURES 2020
MARCH 25, 2021	ANNUAL REPORT 2020
MAY 18. 2021	Q1 REPORT 2021
MAY 19, 2021	ANNUAL GENERAL MEETING
AUGUST 19, 2021	Q2 REPORT 2021
AUGUST 25, 2021	CAPITAL MARKET CONFERENCE HIT, HAMBURG
NOVEMBER 15, 2021	Q3 REPORT 2021
NOVEMBER 22, 2021	GERMAN EQUITY FORUM, FRANKFURT

SHARE INFORMATION

Bloomberg symbol	F3C
Reuters symbol	CXPNX
WKN	756857
ISIN	DE0007568578
Number of shares as of 12/31/2020	14,469,743
Stock category	No-par value shares
Stock segment	Prime Standard, Renewable Energies
Stock exchange	Frankfurt, FWB
Designated sponsors	mwb fairtrade Wertpapierhandelsbank AG

INVESTOR-RELATIONS

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

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

IMPRINT

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

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

Title: iStock/aprott
Fugro Norway AS; Martin Bolle;
Werner Tillmetz; Michael Paukner;
Oneberry Technologies Pte Ltd;
iStock/KristinaGreke; Hendrik Leber;
iStock/mantaphoto; adKor GmbH;
SiteWatch Safety Inc.; unsplash.com/
Rune Hausgeng; ePropulsion Technology;
iStock/fokkebok; Calzavara S.p.A.;
National Oceanic and Atmospheric
Administration (NOAA); AuroraHuts Oy
All other images: SFC Energy AG

Statements about the future
This annaul report contains statements and information about the future. Such passages contain such word as "expect", "intend", "plan", "believe", "aim", "estimate", etc. Such statements about the future are based on current expectations and certain assumptions. They therefore also contain a number of risks and uncertainties. A multitude of factors, many of which are beyond the control of SFC, affect our business, our success, and our results. These factors can lead the Group's actual results, success, and performance to deviate from the results, success, and performance in the statements made explicitly or implicitly about the future. SFC assumes no obligation to update any forward looking statements.

This is a translation of the German "Geschäftsbericht 2020 der SFC Energy AG". Sole authorative and universally valid version is the German language document.