# Annual Report

# 2019

# Multi-year overview of Group key figures

**Results of operations**

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR | TEUR |
| Net sales | 236,396 | 209,783 | 189,404 | 174,299 | 152,884 |
| Change vs. previous year in % | 12.7 | 10.8 | 8.7 | 14.0 | -18.1 |
| Total operating revenue | 226,119 | 221,149 | 190,494 | 183,622 | 154,713 |
| Earnings before interest, tax, depreciation and amortization (EBITDA) | 19,168 | 15,371 | 11,116 | 9,236 | 8,071 |
| Earnings before interest and tax (EBIT) | 15,452 | 11,453 | 7,333 | 5,649 | 4,772 |
| Financial result | -361 | -525 | -369 | -368 | -285 |
| Operating result (EBT) | 15,277 | 11,233 | 7,197 | 5,393 | 4,576 |
| **Consolidated net income** | **10,302** | **7,608** | **4,923** | **1,784** | **2,603** |
| **Sales distribution** | | | | | |
| Net sales international in % | 35 | 35 | 35 | 30 | 27 |
| Service ratio in % | 38 | 37 | 34 | 33 | 34 |
| **Profitability** | | | | | |
| EBITDA margin in % | 8.1 | 7.3 | 5.9 | 5.3 | 5.3 |
| EBIT margin in % | 6.5 | 5.5 | 3.9 | 3.2 | 3.1 |
| Return on equity in % | 15.0 | 12.4 | 8.8 | 3.4 | 4.9 |
| Return on total assets in % | 11.0 | 9.2 | 6.3 | 5.1 | 5.0 |
| ROCE[1] in % | 21.8 | 17.9 | 12.5 | 10.1 | 8.6 |
| **Order and revenue situation** | | | | | |
| Order backlog at year-end | 116,773 | 131,497 | 95,855 | 91,232 | 85,472 |
| Book-to-bill ratio[2] as of 31 Dec. | 0.96 | 1.22 | 1.07 | 1.13 | 1.31 |
| **Expense structure** | | | | | |
| Cost of materials | 146,763 | 148,739 | 126,822 | 128,633 | 100,621 |
| Materials intensity in %* | 64.9 | 67.3 | 66.6 | 70.1 | 65.0 |
| Personnel costs | 38,965 | 35,310 | 32,670 | 29,951 | 29,315 |
| Average number of employees | 649 | 627 | 606 | 579 | 566 |
| Labor intensity in %* | 17.2 | 16.0 | 17.2 | 16.3 | 18.9 |
| Other operating expenses | 23,055 | 23,190 | 20,955 | 18,901 | 19,902 |
| Cost intensity in %* | 10.2 | 10.5 | 11.0 | 10.3 | 12.9 |
| Depreciation and amortization | 3,715 | 3,918 | 3,783 | 3,587 | 3,299 |
| Income tax | 4,802 | 3,450 | 2,041 | 1,699 | 1,885 |
| Tax ratio[3] in % | 31.4 | 30.7 | 28.4 | 31.5 | 41.2 |

### Financial position

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| | TEUR | TEUR | TEUR | TEUR | TEUR |
| **Total assets** | **140,921** | **124,796** | **116,258** | **111,389** | **95,855** |
| **Asset structure** | | | | | |
| Fixed assets | 28,182 | 27,527 | 25,458 | 24,635 | 23,475 |
| Tangible fixed assets to total assets ratio in %** | 17.1 | 18.3 | 17.8 | 17.2 | 18.4 |
| Current assets | 109,921 | 93,656 | 88,816 | 85,346 | 71,036 |
| Inventory turnover ratio | | | | | |
| Inventories | 3.9 | 4.5 | 4.3 | 4.0 | 4.7 |
| Receivables | 6.4 | 6.6 | 6.8 | 6.0 | 6.2 |
| **Capital structure** | | | | | |
| Equity | 68,522 | 61,556 | 55,711 | 52,916 | 52,647 |
| Equity ratio in % | 48.6 | 49.3 | 47.9 | 47.5 | 54.9 |
| Share capital | 4,430 | 4,430 | 4,430 | 4,430 | 4,430 |
| Provisions | 15,394 | 17,170 | 15,513 | 12,465 | 11,697 |
| Bank borrowings | 10,553 | 7,290 | 6,364 | 6,277 | 5,913 |
| **Working capital[4]** | **42,669** | **36,487** | **33,164** | **31,389** | **31,781** |
| **Financing** | | | | | |
| Cash inflow/cash outflow from | | | | | |
| operating activities | 1,921 | 4,875 | 12,845 | 6,382 | 2,062 |
| as % of sales | 0.8 | 2.3 | 6.8 | 3.7 | 1.3 |
| investing activities | -5,677 | -5,936 | -4,878 | -4,544 | -1,016 |
| financing activities | 733 | -1,382 | -2,114 | -1,703 | -1,888 |
| Investments in plants | 4,520 | 8,255 | 5,691 | 4,837 | 3,318 |
| Free cash flow[5] | -2,599 | -3,380 | 7,154 | 1,545 | -1,256 |
| in % of net sales | -1.1 | -1.6 | 3.8 | 0.9 | -0.8 |
| Dividends | 1,994 | 1,861 | 1,772 | 1,639 | 1,639 |
| Change in liquid assets | -3,022 | -2,443 | 5,854 | 135 | -842 |
| Liquidity as of 31 Dec. | 10,556 | 13,615 | 16,092 | 10,187 | 10,128 |

### 2G share

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR |
| Number of shares ( ≙ share capital in EUR) | 4,430,000 | 4,430,000 | 4,430,000 | 4,430,000 | 4,430,000 |
| Share price[6] | 44.90 | 21.90 | 17.70 | 18.34 | 21.62 |
| Earnings per share | 2.33 | 1.72 | 1.11 | 0.40 | 0.59 |
| Dividend per share | 0.45[7] | 0.45 | 0.42 | 0.40 | 0.37 |
| Dividend yield in %[6] | 1.0 | 2.1 | 2.4 | 2.2 | 1.7 |
| Payout ratio in %[8] | 19.4 | 26.2 | 37.8 | 99.3 | 63.0 |
| Price-earnings ratio[6] | 19.3 | 12.8 | 15.9 | 45.5 | 36.8 |
| Price-cashflow ratio[6] | 103.5 | 19.9 | 6.1 | 12.7 | 46.4 |

* Related to total output | ** Related to total assets | 1 = EBIT/(Fixed assets + Working capital) | 2 = CHP order intake/CHP net sales
3 = Income tax/EBT | 4 = Current assets – Current liabilities | 5 = Cashflow from operating activities – investments in plants | 6 = Based on year-end Xetra closing price | 7 = Proposal to the Annual General Meeting | 8 = Dividends/Net income

# Content

# Foreword of the Management Board

Management Board of 2G Energy AG (from left): Ludger Holtkamp, Christian Grotholt (Chairman) and Friedrich Pehle.

Dear shareholders,

2G performed well in the 2019 financial year. As in previous years, we achieved net sales growth in excess of ten percent to reach a level of around EUR 236 million, and even faster growth in earnings before interest and tax (EBIT) to a level of EUR 15.5 million. We expanded our market shares in Germany, Europe and America – including in a partially difficult market environment – and strengthened our competitive position thanks to our products, services and partner network. We are reaping the first fruits of our lead projects: Lead-to-Lean, Digitalization and the Partner Concept. We have consistently made our processes in production, service, sales and administration more efficient, and we have invested in digitalization. For customers, this means lower total cost of ownership and higher system availability. In other words, our CHP plants' economic efficiency is increasing, while the investments our customers make in them are paying off more quickly. All in all, the attractiveness of our CHP systems compared to conventional generators is continuing to increase.

We can proudly state that the 2G brand commands an international presence, and is appreciated by customers and partners. Every CHP plant, wherever in the world it produces energy efficiently and in a climate-compatible manner, represents a sound reference for further orders. 2G is an established supplier that guarantees reliable energy supplies and is continuously building customer confidence in its performance and reliability thanks to its services and technological innovations.

Business with services and the sale of spare parts also performed well in the year under review. This area outpaced our overall rate of net sales growth, reporting an increase of around 15 % to EUR 89 million. In total, the company generated 38 % of its consolidated net sales in the Service division. This division has matured into 2G's second pillar, ensuring regular cash flows that can be planned over many years – regardless of the order situation or economic trends.

For the first time, 2G has installed its self-developed hydrogen CHPs at customers' sites, realizing their first million euros of sales. Interest in our innovative development work is at a high level internationally and further orders have already been received. If hydrogen becomes established as a medium for seasonal storage – and there is much to be said for this at present – we will be well equipped to participate in this new market. This is because reconversion into electricity and heat at the point of consumption is indispensable. 2G also offers operators great technical latitude for gas mixtures with hydrogen, which is relevant for applications in the chemical industry or for utilities, for example. We are also capable of converting 2G natural gas operated CHPs to hydrogen operation. Our continuous investment in research and development ensures that we can enter new markets at an early stage.

In summary, we note that 2G as a company commands a healthy financial basis and is operating with innovative products in a structural growth market. CHP systems form the backbone technology of the energy revolution. 2G's balance sheet has been healthy for years: bank borrowings are very low, its equity ratio is almost 50 %, and we derive the working capital we need mainly from staggered advance payments for CHP orders and payments for services. Moreover, 2G has sufficient liquidity of its own and access to sufficient free credit lines on market terms. In short: with the financial capacity to act and flexibility, we can leverage business opportunities and avoid unnecessary risks.

From this position of strength, we are endeavoring to lead the 2G Group and its international subsidiaries through the COVID-19 pandemic with all due business judgement and responsibility. In other words, the health of our employees is our top priority, followed by safeguarding business operations and fulfilling our obligations to our customers.

We are convinced that the pandemic represents an existential and important lesson for the future of humanity. The coronavirus crisis can perhaps best be compared to a natural disaster that affects the whole world simultaneously. Parallels to global warming are obvious, as both of these challenges are immediate and require a coordinated and stringent approach to resolving them, and maximum damage limitation as a defined goal. The corona crisis sharpens the eye and raises awareness of fundamental threats such as climate change. Humanity cannot afford to be careless in limiting global warming. A total of 196 nations ratified the 1.5 °C Paris target already in 2015. The measures that governments have adopted to date are insufficient in order to achieve this goal. This is substantiated by all relevant scientific modelling.

The costs of renewable energy technologies and their electricity generation costs are falling rapidly, their variable marginal costs in operation are close to zero, and market penetration has risen to 52 percent for gross electricity consumption in Germany in the first quarter of 2020, naturally also as a consequence of the economic slowdown caused by the COVID-19 pandemic. However, these price and volume benefits generally only reach consumers to a limited extent. In the future, energy supplies based on renewables will be significantly cheaper than those based on conventional generators. It can therefore reduce the burden on businesses and end users.

In order to establish secure, uninterrupted supplies, however, the structural expansion of flexible, climate-compatible generators is needed very quickly, and in parallel to the coal phase-out. Such generators can integrate growing wind and solar energy capacities, which are dependent on the weather and the course of the day, in a manner that is beneficial to the system. In the future, seasonal (hydrogen) storage facilities will also support this approach. The pressure to act is enormous, as the further expansion of wind power and photovoltaics has already been outlined in the German climate protection package up to 2030 – up to 1.8 GW of wind onshore capacity per year (to 67 – 71 GW), around 1.35 GW of wind offshore capacity per year (to 20 GW) and around 5 GW of photovoltaic capacity per year (to 98 GW). Clearly, a coordinated and stringent approach is required in order to achieve the goals of limiting global warming to a maximum of 1.5 °C, and supply security. However, these targets can only be achieved if flexible, climate-compatible producers exhibit the following characteristics:

- Being naturally cleaner than coal-fired power stations
- Becoming available very quickly – in other words, being socially accepted and able to go online in an uncomplicated manner in terms of approval legislation
- Coupling sectors and providing not only electricity but also renewable heating
- Bypassing the stagnating expansion of the grid – in other words, suppling energy decentrally at the place of consumption
- Both handling base load and dynamically providing regulating power

- Operational in large volumes or with large capacities from 2023

According to our evaluation, such producers can only be climate-relieving and climate-neutral CHP plants in the medium output range. A major step towards environmental compatibility is already being achieved by substituting natural gas for coal, to be followed later by climate-neutral fuels such as hydrogen and synthetic fuels (methane gas-free). CHP plants are not a bridging technology, but rather backbone power systems for secure, decarbonized supplies based on renewable energies.

We continue to see this as an overriding market driver for the prosperous development of decentralized CHP technology – worldwide. Renewable energies' growth rates remain impressive. The International Energy Agency (IEA) expects wind and photovoltaic power plants to account for 70 % of worldwide capacity expansion over the next five years up to 2024. In turn, this means that demand for the system-related properties of CHP technology for secure supplies will also increase globally.

At the end of 2019, the Management Board analyzed a scenario that assumed a rapid and very strong short-term rise in new order intake, especially from Germany. As a consequence, we can state that 2G is well prepared to double its current annual generation capacity of approximately 200 MW without any significant investments. In such a scenario, we expect higher margins in addition to rising net sales, partly thanks to significantly greater economies of scale. Secondly, 2G will enjoy a not unusual pricing power in such situations.

Governments' focus on how to deal with the coronavirus pandemic, the partially significant reduction in economic performance, and the uncertainty prevailing among companies and consumers will likely lead to a short-term delay in setting the course for a coordinated approach to the energy revolution. In contrast with the coronavirus, a vaccine against global warming will not be developed. The only "medicine" that will not allow the temperature of "patient Earth" to rise excessively to any further extent is the phasing-out of coal energy and consistent structural expansion of decentralized energy supplies based on renewable energies. On a positive note, the German government's climate protection package is moving in the right direction through an interdisciplinary approach – away from the "all-electric society" towards sector coupling, thereby finally making heating supply and mobility part of the energy revolution – as, in the building sector alone, around 60 million tonnes of $CO_2$ should and must be saved by 2030.

The medium-term growth drivers for 2G are intact. The COVID-19 pandemic has only incurred a limited impact on our business operations to date. The Management Board also regards further business operations for the current year as largely secured. In our industry, delays in the acquisition and project planning phase in individual countries generally lead to them being postponed rather than cancelled. Nevertheless, a certain degree of uncertainty remains for the time being regarding the extent to which the industrial workforce can be deployed, the impact on supply chains, and how demand trends will unfold.

We are making the most of this period – and the unusual circumstances it entails – to self-critically improve our organizational flexibility in our operating processes. We are dynamically driving forward technological innovation and the organizational expansion of our international sales structures, as we aim to enter the coming market recovery with a further improvement in our performance, transforming the foreseeable increase in international demand into growing market shares for 2G.

Our guidance for the current year remains cautiously positive. In Germany, we expect demand for natural gas CHP plants to rise again. Sales of biogas modules are likely to decline without a supplementary regulation relating to flexibilization and the German Renewable Energies Act (EEG) support for old systems. In Europe, especially markets in the UK, France and Italy offer greater sales potential than in previous years. With a look to the American continent, the restructuring with new management completed at the end of 2018 is exerting a very positive effect in terms of order acquisition and services. In Central America, additional sales markets are being developed thanks to new LNG terminals. Overall, we assume that the American market offers an annual net sales potential of EUR 40 million to EUR 50 million in the systems and service businesses.

With due business prudence, the Management Board assumes that the company can achieve net sales of between EUR 235 million and EUR 250 million and an EBIT margin between 5.5 % and 7 % for the 2020 financial year.

We would like to thank all our employees, who are continuing to work on a very committed and cautious basis under the difficult conditions imposed by the coronavirus. All our teams are pulling together and are helping each other. We would like to thank you, our shareholders, for your confidence in our work and for your critical interest. Stay well!

Heek, May 2020
2G Energy AG

Yours sincerely

Christian Grotholt
Management Board Chairman (CEO)

Ludger Holtkamp
Management Board member

Friedrich Pehle
Management Board member

# Report by the Supervisory Board

Dear shareholders,

The Supervisory Board of 2G Energy AG accompanied the Management Board through a very successful financial year in 2019, supervising it and giving it advisory support in its management of the company and the 2G Group and fulfilling its tasks with due diligence in accordance with the statutory regulations, the company's bylaws and the rules of business procedure. The Supervisory Board was informed by the Management Board about important strategic and operational decisions as well as deviations from the annual budget and was involved in decisions of particular significance for the 2G Group. This did not require any committees to be formed.

The Management Board regularly informed the Supervisory Board either verbally or in writing about the progression of business, the results of operations and the financial position of the 2G Group as well as about business transactions of major importance. The Supervisory Board Chairman also maintained contact with the Management Board outside the scope of meetings. In addition to current business developments and personnel issues, questions relating to corporate organization, the further development of products and services, and foreign sales markets were discussed in particular. Consequently, the Supervisory Board was informed about important questions relating to business policy as well as relevant forthcoming decisions and was able to support the Management Board in its work.

**Organization of the Supervisory Board**

The members of the Supervisory Board in the year under review were Dr. Lukas Lenz (Chairman), Heinrich Bertling (Deputy Chairman) and Wiebe Hofstra. There were no changes to the composition of the Supervisory Board during the year under review. With three members, the Supervisory Board of 2G Energy AG is deliberately kept at a size that allows it to work efficiently and engage in fruitful discussions of both strategic matters and in-depth questions on a plenary basis. The formation of separate supervisory board committees is not considered justifiable or expedient for this reason. This also applies to an Audit Committee, whose tasks the plenary Supervisory Board continues to perform.

**Supervisory Board consultations and resolutions**

Making use of the exemptions pursuant to Section 110 (3) Clause 2 of the German Stock Corporation Act (AktG), three Supervisory Board meetings were held in the 2019 financial year, on May 9, June 24 and November 14. All Supervisory Board members attended these Supervisory Board meetings. The Supervisory Board discussed with the Management Board the transactions requiring its approval pursuant to the law and the company's bylaws and reviewed and approved them unanimously in all cases. At the meetings, the Supervisory Board utilized the reports and documents submitted by the Management Board to conduct consultations on the company's business and financial position, its operational and strategic development, its business divisions and its subsidiaries in Germany and abroad. This included, in particular, the development of the partner concept (internationalization), the “Lead to Lean” flagship project and the further digitalization of CHP systems as well as the development of services, the potential offered by hydrogen CHP technology and target attainment in relation to the annual budget. The Supervisory Board also concerned itself with trends in the overall regulatory environment and competition in various markets. The Supervisory Board requested reports on important specific questions relating to the company, its risk position, investment planning and personnel trends and consulted about them.

The following topics were discussed in detail at the individual meetings:

Important agenda items at the Supervisory Board meeting on May 9, 2019, included in particular the business policy and corporate planning as well as Group profitability during the previous financial year (2018), the progression of business during the first few months of the year under review, and the company’s medium-term liquidity, financial, investment and personnel planning. The Supervisory Board also discussed the annual financial statements, the Group management report and the auditor’s reports. The Supervisory Board adopted the separate annual financial statements, which it approved unanimously alongside the consolidated financial statement for the 2018 financial year. Furthermore, the Supervisory Board granted its unanimous approval to the Management Board in relation to business requiring its consent.

On June 24, 2019, the Management Board reported to the Supervisory Board on the progression of business and new order intake trends for the first half-year and provided an outlook of expected full-year trends.

At the Supervisory Board meeting on November 14, 2019, the Management Board explained the results of the half-year financial statements, business progress in the third and fourth quarters, and the company’s liquidity trends. The meeting also focused on monitoring the financial accounting process and the effectiveness of the internal control system. In addition, the Management Board provided an outlook on corporate trends in 2020. The Supervisory Board unanimously approved Management Board business requiring its consent, including the adjustment to credit facilities and the merger of 2G Drives GmbH with 2G Energietechnik GmbH.

No conflicts of interest arose among the members of the Supervisory Board.

In November 2019, the Supervisory Board extended the contract of CFO Friedrich Pehle ahead of time for a three-year term to November 2023.

**Separate and consolidated financial statements for the 2019 financial year**

In accordance with the statutory provisions, the AGM on June 25, 2019, elected Pricewater-houseCoopers AG, Wirtschaftsprüfungsgesell-schaft, Osnabrück, to audit the annual financial statements.

The Management Board prepared the separate financial statements, the consolidated financial statements and the Group management report of 2G Energy AG for the financial year from January 1 to December 31, 2019, in accordance with the regulations set out in the German Commercial Code (HGB). The auditors audited the separate financial statements, the consolidated financial statements and the Group management report of 2G Energy AG for the 2019 financial year, including the financial accounting, awarding them unqualified audit certificates. Audit work in the 2019 financial year focused on consolidation measures and consolidation-related matters, as well on the valuation of inventories and the valuation of provisions. The auditor issued an unqualified audit certificate.

The separate financial statements, consolidated financial statements and the Group management report as well as the related auditors' reports were submitted on time before the financial accounts meeting to all Supervisory Board members. At the Supervisory Board meeting on April 3, 2020, the auditor reported on the main audit findings and explained them to the Supervisory Board, providing comprehensive answers to the Supervisory Board's questions.

The Supervisory Board noted the audit reports with approval. Following the conclusive result of its own review, the Supervisory Board approved the separate financial statements, the consolidated financial statements and the Group management report. The annual financial statements pursuant to Section 172 of the German Stock Corporation Act (AktG) have thus been adopted.

The Supervisory Board concurs with the Management Board's proposal concerning the appropriation of the unappropriated profit of EUR 6,763,193.91, to distribute a dividend in an amount of EUR 1,993,500.00, equivalent to EUR 0.45 per share, and to allocate the remaining unappropriated profit of EUR 4,769,693.91 to other retained earnings.

The Supervisory Board would like to thank all employees of 2G Energy AG and its Group companies worldwide as well as the members of the Management Board and the managing directors of the subsidiaries for their personal contribution and hard work, which give the company a high degree of stability and flexibility. Thanks not least to this dedication, sales and earnings have increased significantly once again.

Heek, April 3, 2020

The Supervisory Board

Dr. Lukas Lenz
Supervisory Board Chairman

# 2G share clearly outperforms the market

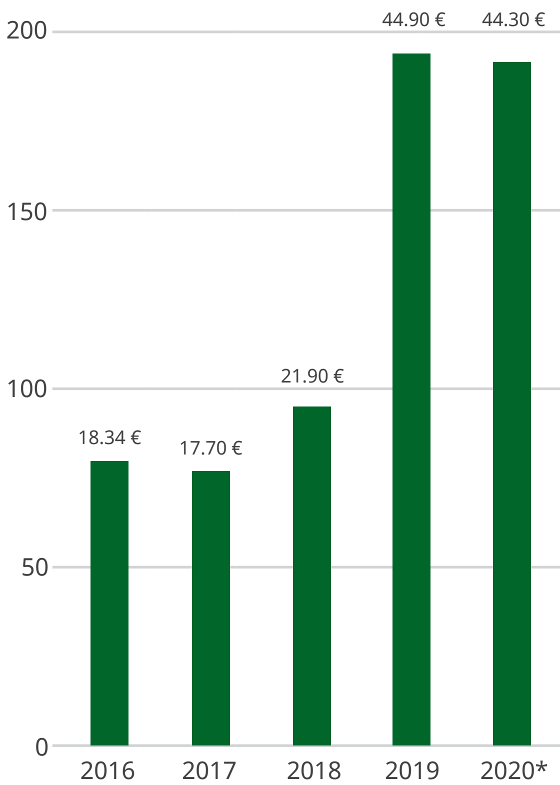
The 2G share started the 2019 stock market year at a price of EUR 21.50. It touched its low for the year a few days later at EUR 21.20. In late June, the share hit an interim high of EUR 43.10. Following a fall to EUR 32.20 in early September during the general market downturn, the 2G share climbed steadily to end the year at EUR 44.90. It peaked at EUR 46.40 on December 16. The value of the 2G share thereby more than doubled during the year under review.

Corporate news about receiving the Handelsblatt Energy Award, the stable trend in new order intake, healthy foreign business, a further increase in the dividend and the three flagship projects geared toward enhancing profitability and productivity – Internationalization, Digitalization and "Lead to Lean" – exerted a lasting positive impact on the share price in the year under review. As described on page 15, the investor relations work that was stepped up significantly in the 2019 financial year sparked and maintained the interest of both institutional and private investors.

On a full-year basis, the 2G share gained 108.8 % (previous year: 20.3 %), thereby significantly outperforming the overall market once again in the year under review. The stock markets rose worldwide in 2019. The DAX30 added 25.5 % (previous year: -18.3 %), while the TecDax climbed by 22.3 % (previous year: -3.1 %). The DAXsector All Industrial index, which is sector-specific to 2G, rose by 28.9 % (previous year: -16.3 %), while the DAXsubsector All Renewable Energies gained 71.3 % (previous year: -36.1 %). The Scale 30 Index, which includes the 2G share, increased by 24.5 % (previous year: -29.2 %).

The market capitalization of 2G Energy AG advanced from EUR 97.0 million in the previous year to EUR 198.9 million in the year under review, on unchanged share capital of EUR 4,430,000.00 at year-end. At the end of April 2020, the market capitalization continues at a level just below EUR 200 million.

**2G Energy AG market capitalization** EUR millions



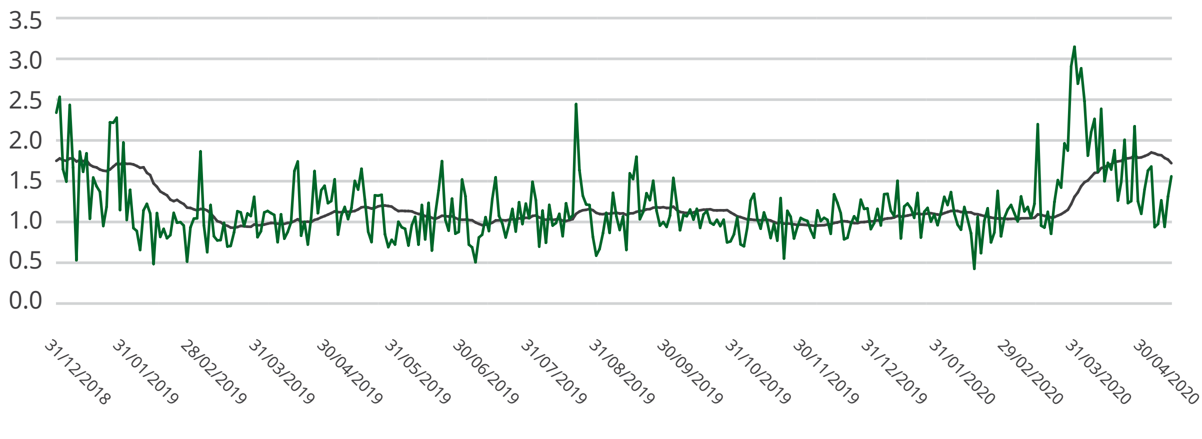

* XETRA closing price April 30, 2020

Market capitalization 2016 to 2019 as of Dezember 31, 2020 as of April 30, XETRA closing prices

### 2G share now firmly established in the Scale 30 selection index

The trading liquidity in the 2G share increased significantly year on year. This is reflected not least in the narrower average bid-offer spread,

**Trend in average spreads between bid and ask prices 2019 to April 2020**




Trend in average spreads between bid and ask prices 2019 to April 2020.
Source: Pareto Securities, 2G calculations, April 2020

as the following diagram illustrates. The average daily volume on the XETRA and tradegate trading platforms as well as on German regional stock exchanges was around 11,600 shares (previous year: around 8,270 shares), an increase of 40 %. The 2G share continued to make major progress towards the top end of the Scale 30 Index's ranking of trading volumes. In December 2019, it stood sixth in the selection index in terms of trading volume (previous year: 24th).

**Investor relations work stepped up**

Dialog with the capital market and continuous, transparent reporting on relevant corporate events and developments remained important guiding principles for the investor relations work of 2G Energy AG in the 2019 financial year. The aim is not only to further strengthen trust and confidence in the company's financial and technological profile but also to create the transparency required to enable analysts, shareholders and potential investors to appraise and evaluate the company in an appropriate and verifiable way. 2G endeavors to explain its business model, the international CHP market and its growth and earnings potential to all capital market participants with transparency.

Interest in the 2G share was evident in the many requests for roadshows in Europe and Germany and invitations to address investor conferences as well as investor visits to the production site in Heek. The Management Board presented the 2G business model at various capital market events and roadshows, explaining its three flagship projects as well as its products, technological development work, market trends and sales strategies in international markets.

Interest among analysts also remained high: three institutes, First Berlin, SMC Research and Pareto Securities, monitored and evaluated the company's development. After publication of preliminary Group financial figures for 2019 on April 2, 2020, all analysts see – on the basis of their valuation models – further upside potential for the 2G share and have issued "Buy" recommendations with price targets between EUR 50 and 57.

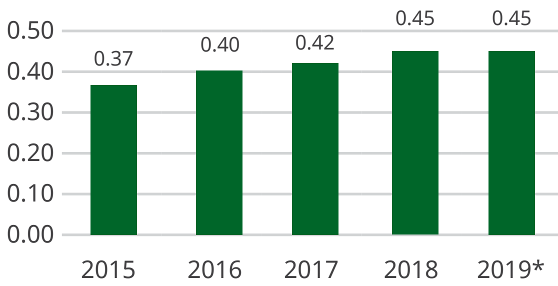
2G neither approved nor implemented any capital measures during the period under review.

**Dividend to remain stable**

2G Energy pursues the objective of its shareholders participating continuously and long-term in the company's success through a stable dividend. At the same time, the company's financial and innovative strength is to be maintained and enhanced for further growth. Value- and growth-oriented investors are thereby set to benefit in the long term from the continuous increase in the company's value. Based on the unappropriated profit generated in the 2019 financial year, the Management Board and Supervisory Board have authorized a proposal to the Ordinary AGM to be held on June 23, 2020 an unchanged dividend of 45 euro cents per share for the past financial year. Under the economic conditions that the COVID-19 pandemic currently determines, this proposal is a good compromise in the view of the committees. On the one hand, it allows the company to make an allocation to revenue reserves of around EUR 4.8 million. On the other hand, the shareholders continue to participate reliably in the company's success.

Based on the 2019 year-end closing price of EUR 44.90, this would correspond to a dividend yield

**Dividends 2015 – 2019*** EUR

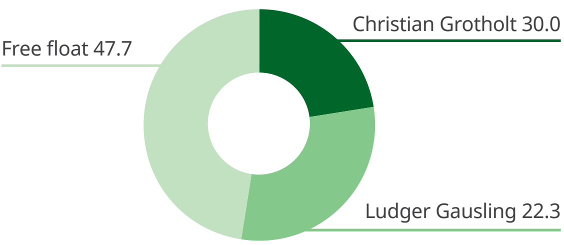



* Proposal to the Annual General Meeting

of 1.00 % (previous year: 2.05 %) and a payout ratio of 19.4 % (previous year: 26.2 %).

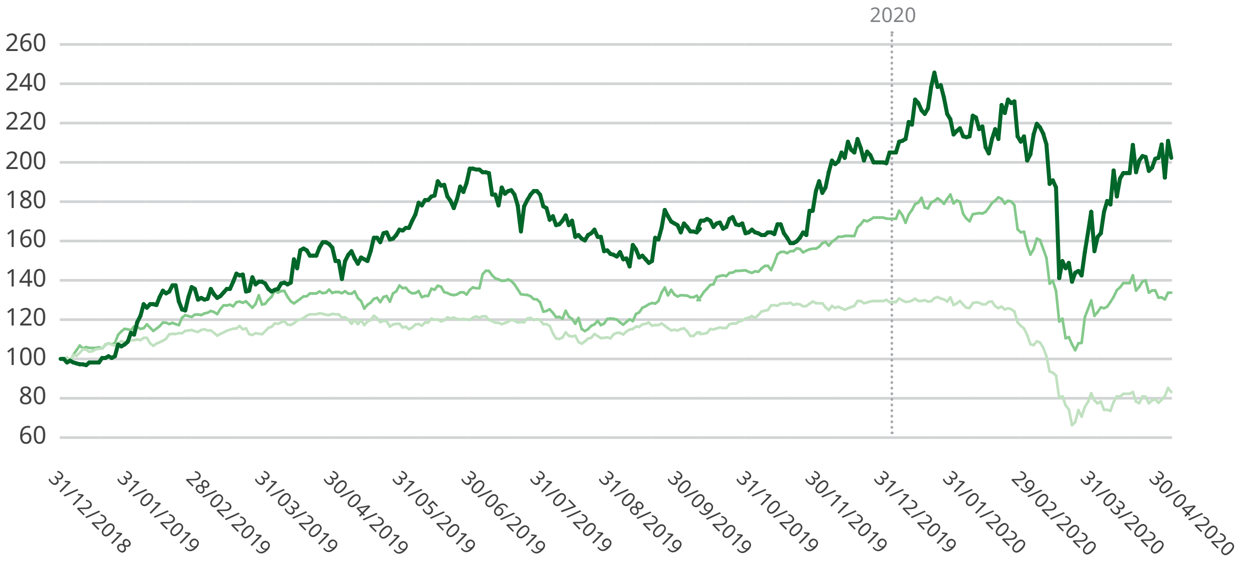
The shareholder structure of 2G Energy AG remained largely unchanged during the year under review. Company founders Christian Grotholt and Ludger Gausling held 30.0 % and 22.3 % of the shares, respectively, as of the balance sheet date, equating to a combined 52.3 %. 47.7 % of shares were thus in free float as of December 31, 2019.

**2G Energy AG shareholder structure** Share %




As of Dezember 31, 2019

**2G share price performance and comparative indexes 2019 to April 2020 (indexed)** in %




2G share price | DAXsubsector All Renewable Energies | DAXsector All Industrial

# Sustainability report

As a medium-sized international manufacturer and developer of gas-operated combined heat and power (CHP) systems, we are helping to steadily increase the percentage of climate-friendly energy producers in the global energy mix both directly and indirectly – directly via efficient energy generation using climate-friendly gases and CHP units, and indirectly by integrating fluctuating renewable energy sources into a secure, decentralized energy supply using residual and balancing energy from CHP units.

Sustainability is a key centerpiece of our business model. We think and act with a long-term perspective. This applies to our product development, production and service just as much as our corporate culture and staff development. We will not rest on our laurels simply because we have already reached a very high standard of technology and our CHP units are highly efficient. We recognize that 2G's success hinges on its ability to take account of economic, environmental and social change. We identify and analyze challenges of this kind, assessing their likely impact and incorporating them into our management processes in a way that leverages maximum benefit for the company. Sustainable value creation is one of the fundamental pillars of our long-term strategy and plans for future growth. 2G wants to play an active role in ensuring that our environment remains worth living in for future generations.

**Sustainability strategy embedded in CHP systems and service**

As one of the leading manufacturers of gas-operated combined heat and power systems, 2G aims to ranks as a technology leader and thereby significantly reduce the respective environmental footprint and impact. The highly efficient cogeneration of electrical and thermal energy and heating/cooling makes CHP technology more efficient and far more environmentally compatible than conventional energy production methods, reducing primary energy consumption by up to 40 % compared to conventional power generation. It can also cut $CO_2$ emissions by up to 60 % using natural gas or even eliminate them entirely by utilizing carbon-neutral fuels such as hydrogen.

It goes without saying that, for 2G, sustainability also means continuously improving the technical properties of its products. Even when our CHP series are still at the development stage, we factor economic, environmental and social criteria into our choice of materials, optimizing our service and maintenance, immissions and emissions, recyclability and life-cycle management for our systems. This includes the quality of our gas mixtures, to make combustion as clean and low-wear as possible, as well as reducing oil consumption and cutting noise immissions and exhaust gas emissions from CHP systems. Our in-house Research and Development team has been optimizing our engine technology and peripherals for many years now.

A shining example of this is undoubtedly the development of the hydrogen CHP unit. 2G adapted a standard natural gas CHP unit to run on 100 % hydrogen ($H_2$), enabling it to generate electricity and heat on a comparatively feasible basis economically, as well as being highly efficient in operational terms and generating almost no $CO_2$ emissions. If the hydrogen used is generated from renewable energy sources, the electricity and heat produced by the CHP unit will be almost completely climate-neutral.

In service, 2G is focusing consistently on efficiency through digital processes. These include the 2G Power Plant for remote diagnostics, remote control and remote maintenance as well as the my.2-g.com platform, a smart digital portal for customers and partners that connects up technical, administrative and commercial processes, data and reports. It allows system operators and partners to manage their 2G systems transparently and efficiently and continuously optimize their system operations.

With the development of its IRIS ("Intelligent Report Information System") platform, 2G has reached another milestone on its journey towards predictive maintenance. The system can be used to intelligently evaluate and link up to 400 million system and sensor values per week in real time. This allows logical conclusions to be drawn about the current and future behavior of CHP systems so that error messages can be predicted before they arise. As well as preventing unscheduled downtime, this reduces the number of site visits our service technicians have to make in person and consequently the number of trips required by the service vehicles. The power and heat yield from the systems is also made more efficient, increasing the output of climate-friendly electricity and heat while cutting total operating costs and thereby generating genuine added value for operators and the climate.

To ensure that gas engine CHP units can compete with other technologies, they have to be made more economically efficient and environmentally sustainable. Continuously improving these criteria is therefore a key strategic objective in terms of product development. In the long term, gas-operated CHP systems have to be able to stand up to the competition without requiring subsidies.

### Certified in accordance with quality, environmental and energy management standards

We continuously review and improve our processes as part of an integrated management system (IMS). The central Group companies are certified in accordance with the ISO 9001 quality management standard, while the Heek site is certified as complying with the stringent requirements of the environmental management standard ISO 14001. The focus is on continuously identifying potential savings through environmental measures and raising awareness of environmental issues among employees. All German sites operate an energy management system certified to ISO 50001.

### Social commitment

2G sees itself as a responsible member of society. For this reason, we play an active role in the region and promote cultural and social projects. For example, we support local sports associations and social facilities within the Münsterland region. We also support employees in their social engagement, such as through flexible working time regulations. At our Heek site, we are committed to integrating refugees into the world of work. We also promote knowledge exchange in the academic and scientific community. In this context, for example, we enable students to write papers, Bachelor dissertations or Master theses on 2G topics and give them the opportunity to work in project groups as part of their technician training.

Since 2015, the 2G Group has had a code of conduct in place that defines the values and principles for our business activities and how we treat customers, suppliers and one another. The code of conduct and the corporate guidelines contain binding compliance regulations valid across the entire Group. The code's contents include a ban on discrimination, protection against corruption, fair competition, the rights of all employees to fair treatment, and the handling of insider information. A compliance officer supports the Group-wide implementation of the code of conduct and develops it further.

**2G is an attractive employer**

As a medium-sized company, 2G is dependent on the commitment, knowledge and professional attitude of its more than 600 employees in

**Key sustainability figures**

| | 2019 | 2018 |
|---|---|---|
| **Companies with...** | | |
| an ISO 9001 quality management certificate | 3 | 3 |
| an ISO 14001 environmental management certificate | 1 | 1 |
| an ISO 50001 energy management certificate | 5 | 5 |
| an OHSAS 18001 occupational health and safety management certificate | 1* | 1 |
| **Consumption** | | |
| Self-generated electrical energy (kWh) | 1,376,138 | n. d.** |
| Electrical energy consumed (kWh) | 1,010,317 | n. d.** |
| of which self-generated | 365,821 | 500,281 |
| Natural gas (kWh) | 5,676,446 | 5,297,000 |
| Water ($m^3$) | 2,864 | 3,272 |
| Waste (metric tons) | 606 | 582 |
| of which recycled (metric tons) | 479 | 506 |
| Diesel (l) | 705,736 | 625,000 |
| Diesel (in equivalent kWh) | 7,029,134 | 6,244,435 |
| $CO_2$ emissions (metric tons) | 3,345 | 2,689 |
| of which fleet (metric tons) | 1,835 | 1,630 |

* until August 31, 2019
** not determinable due to a new data logging system installed in 2019 and changes to feed-in options

Germany and abroad. Motivated and successful employees are crucial to the company's long-term success and performance. The Group's Human Resources department reports directly to the CFO and coordinates all personnel-related matters. These include a sustainable staffing policy, attractive and fair working conditions, the training of young technical staff and internal and external further training for staff as well as intercultural and technical communication within the Group. Our success as a global company is founded on a corporate culture that champions the self-motivation, satisfaction, continuing professional development, health and diversity of our workforce.

The aim is to achieve a high level of employee identification with our products, after-sales services and corporate culture. We are committed to creating an atmosphere of respect and appreciation at work in which the tasks to be done have genuine meaning and purpose. We are confident that 2G is an attractive employer.

Key to this atmosphere of respect and appreciation is our team of well-qualified, highly motivated managers working to achieve their common aims with dedication and empathy. Back in 2018, therefore, we formulated our management principles in an inclusive process and devised a management development program on this basis, which we fully implemented in 2019. A total of 73 managers have taken part in this training since it began, devoting around 120 person-days to it in 2019 (previous year: around 125). Already during the early days of the coronavirus pandemic, i. e. in spring 2020, it has become clear that, even in difficult situations, our managers are equipped with the leadership tools required to keep our workforce informed about all significant developments, get them involved in our fast-moving processes of change and inspire them to the level of performance we have been seeing.

2G follows the principles of the International Labour Organization (ILO) on labor and social standards. These globally applicable minimum standards aim to safeguard labor rights and thereby humane working conditions. In Germany, 2G complies with the regulations of the relevant trade associations and applies the principles of an occupational health and safety management system in accordance with OHSAS 18001.

We conduct employee surveys to identify potential improvements and to strengthen dialog within the company. The last survey was conducted in December 2017. The surveys aim to yield information in order to develop employee-oriented solutions based on the results. Along with helpful improvement processes, this gives employees a voice with which they can contribute to positive improvement in their own working situation.

By doing so, 2G intends to foster employee trust and loyalty. In our daily work processes, we encourage employees at departmental level to actively contribute suggestions and ideas in order to exploit untapped areas of potential and leverage efficiency improvements.

**Key employee data (as of December 31, 2019)**

| | 2019 | 2018 |
|---|---|---|
| Employees | 653 | 640 |
| of which part-time | 75 | 70 |
| Trainees/work experience students | 38 | 42 |
| Employees at foreign subsidiaries | 121 | 116 |
| Percentage of female employees | 18.5 % | 17.5 % |
| Average age of employees in Germany | 36.7 | 36.6 |
| Employee turnover rate | 7.9 % | 7.2 % |
| Health ratio | 96.9 % | 96.8 % |
| Accidents per 100 employees | 3.4 | 2.7 |

As of December 31, 2019, the employees were divided among the individual divisions as follows:

**Number of employees per business division**

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | Number of employees (of which part-time) | Number of employees (of which part-time) |
| Service | 241 (2) | 233 (4) |
| Purchasing, warehouse, production | 165 (15) | 159 (13) |
| Administration | 87 (43) | 84 (39) |
| Project management | 59 (3) | 63 (3) |
| Sales & marketing | 65 (11) | 61 (9) |
| Research & development | 24 (0) | 28 (2) |
| Quality management | 12 (1) | 12 (0) |
| **Total** | **653 (75)** | **640 (70)** |

**Combined heat and power –** backbone of the energy revolution.

# Ambitious goals: $CO_2$ reduction in Germany and the EU

In light of the increasing concentration of $CO_2$ in the Earth's atmosphere and the resultant risks for the global climate, efforts to reduce carbon dioxide emissions will be stepped up significantly in many countries over the coming years.

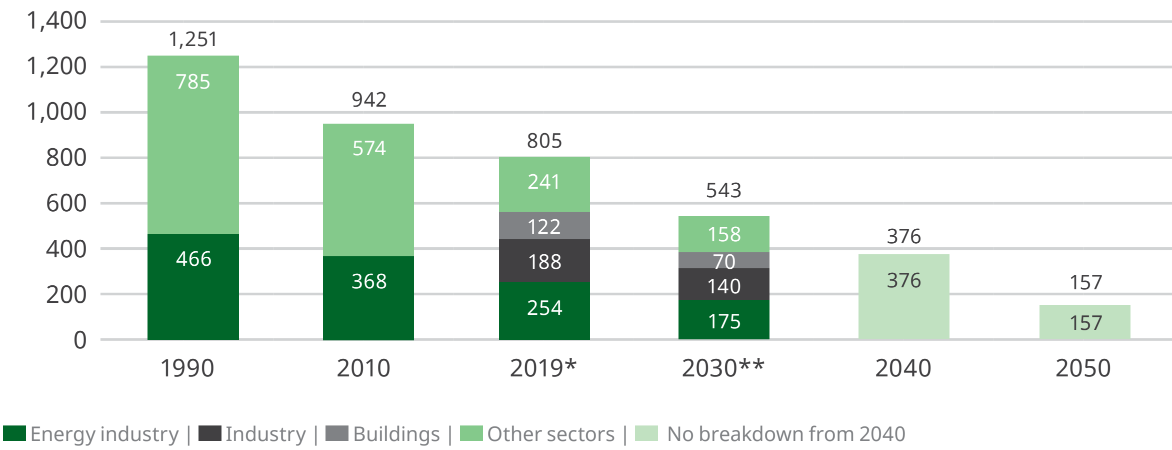
The EU has adopted targets for the 2021 to 2030 period:

- Reduce **greenhouse gas emissions** by at least 40 % (compared to 1990)
- Increase the share of **energy from renewable sources** to at least 32 % of energy consumption in the EU
- Boost **energy efficiency** by at least 32.5 %

According to the EU Commission, these targets are in line with the objectives of the Paris Agreement to limit the rise in temperatures to 1.5 °C.

With its Climate Protection Act, Germany is also pursuing an ambitious plan to reduce greenhouse gases. By 2030, emissions are to be gradually cut by at least 55 % compared to 1990 levels, and greenhouse gas neutrality is to be achieved by 2050.

**Greenhouse gas emissions and reduction targets in Germany** in million t $CO_2$ equivalents




* preliminary | ** according to the cabinet decision relating to the Climate Protection Act of December 2019

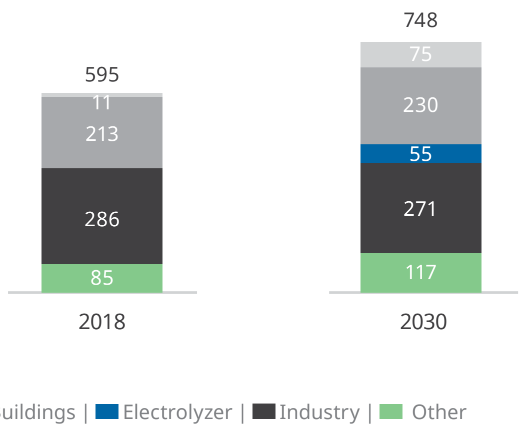
Greenhouse gas emissions and reduction targets in Germany in million t $CO_2$ equivalents.
Source: German Federal Environment Agency, March 9, 2020

For the first time, reduction targets have also been set for individual sectors, as broken down in the diagram above. The reduction targets to be achieved in the energy, industry and buildings sectors by 2030 necessitate further $CO_2$ reductions of 31, 26 and 43 %, respectively, compared with 2019. These objectives pose enormous challenges.

The situation is made more difficult by the fact that the demand for electricity will rise dramatically, as the fossil-based energy use such as in vehicles, in heat supply or in energy-intensive industry is being converted to electric vehicles, heat pumps and a hydrogen-based energy supply for the industry. By 2030, Cologne University's Institute of Energy Economics (EWI) expects an increase of electricity demand by around one quarter.

As a consequence, considerably more electricity will have to be generated in the future. At the same time, the share of electricity from renewables is to increase to 65 % by 2030. And decentralized generation capacities that are as climate-compatible as possible must be reliably combined to create secure supplies. Can this be achieved if we look at the current basis of electricity supply?

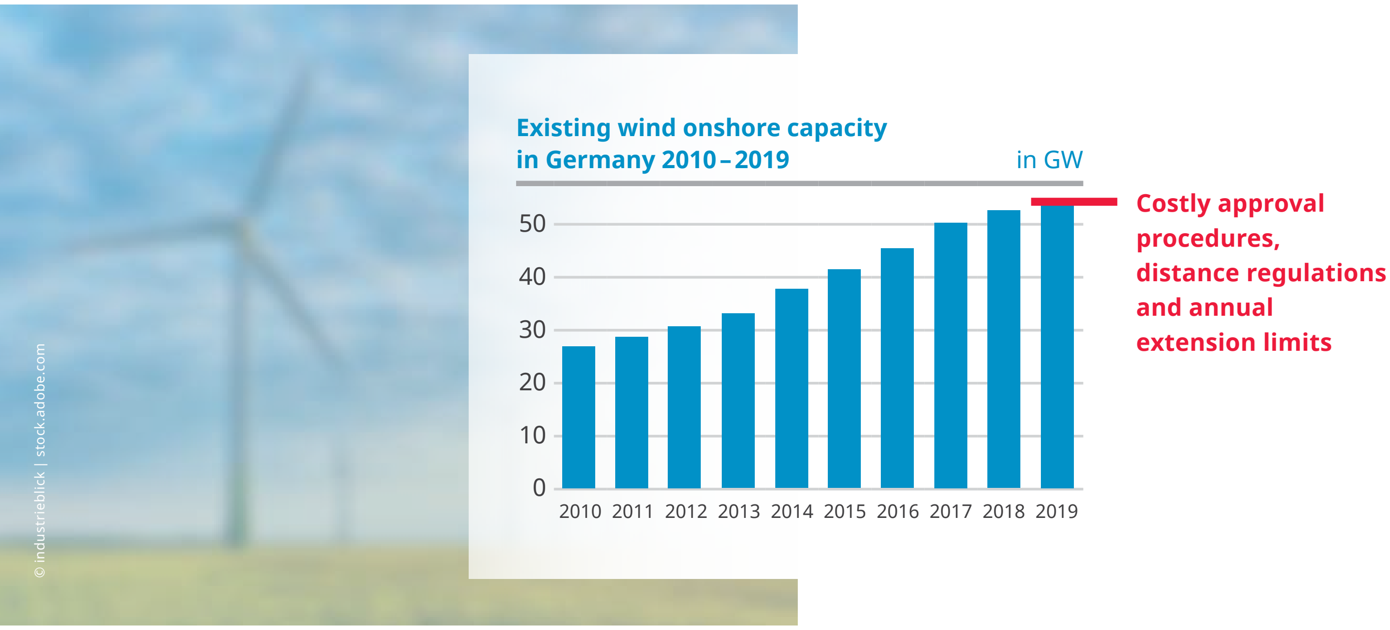
**Development of gross electricity demand in Germany** in TWh

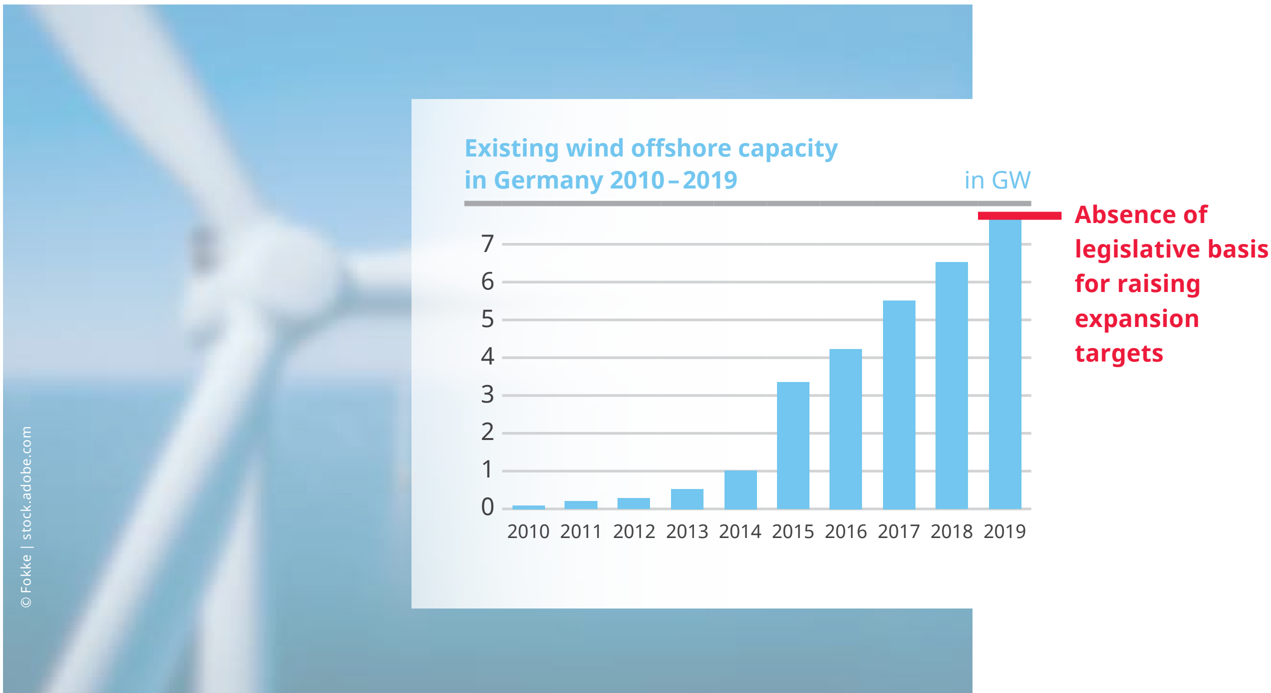


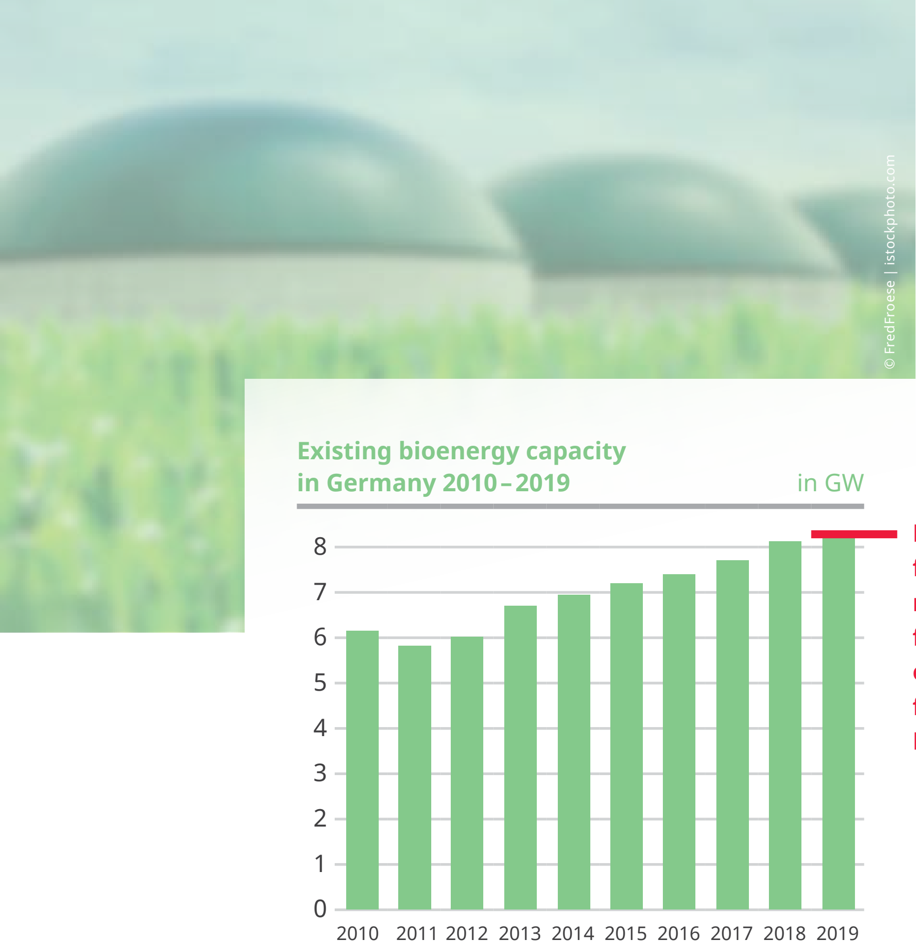

Development of gross electricity demand in Germany in TWh.
Source: Cologne University's Institute of Energy Economics (EWI); Handelsblatt, "Steigender Energiebedarf: Deutschland droht die Ökostrom-Lücke", January 6, 2020

# The energy revolution – a growth story?

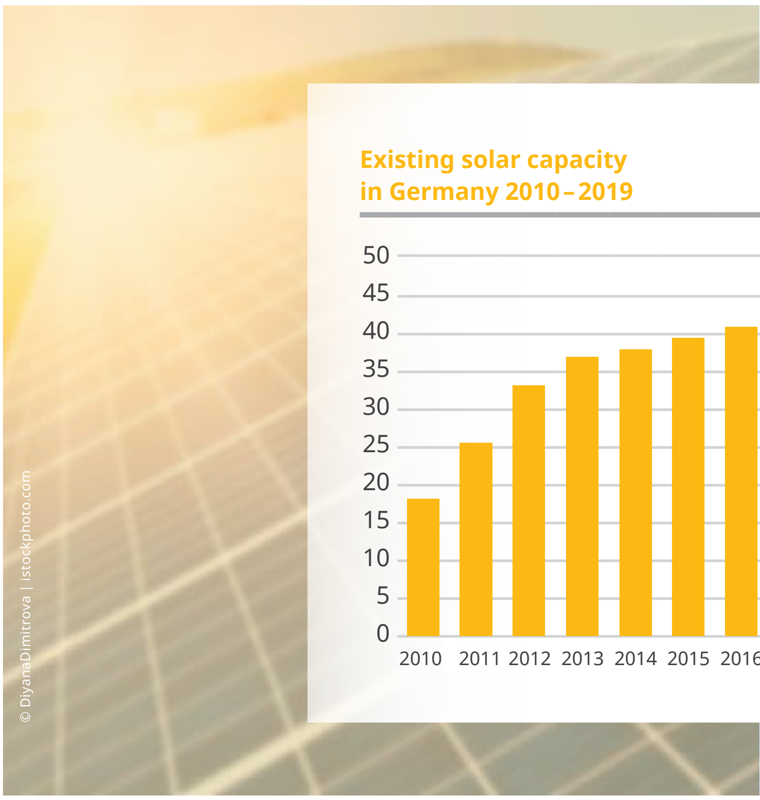
Overall, the renewable energy sources of solar, wind, hydro and biomass produced a total of around 236 TWh in 2019, an increase of 7 % compared with the previous year. The proportion of the electricity mix that actually derives from the wall socket was thereby at 41 %. However, the growth dynamic of renewables has come to a standstill over the last two years.






**For biogas plants, 1 GW flexibility subsidy achieved, no subsequent regulation for further plants and for old plants without support from the German Renewable Energies Act (EEG)**




**Expiry of EEG support when 52 GW is reached, no subsequent regulation available**

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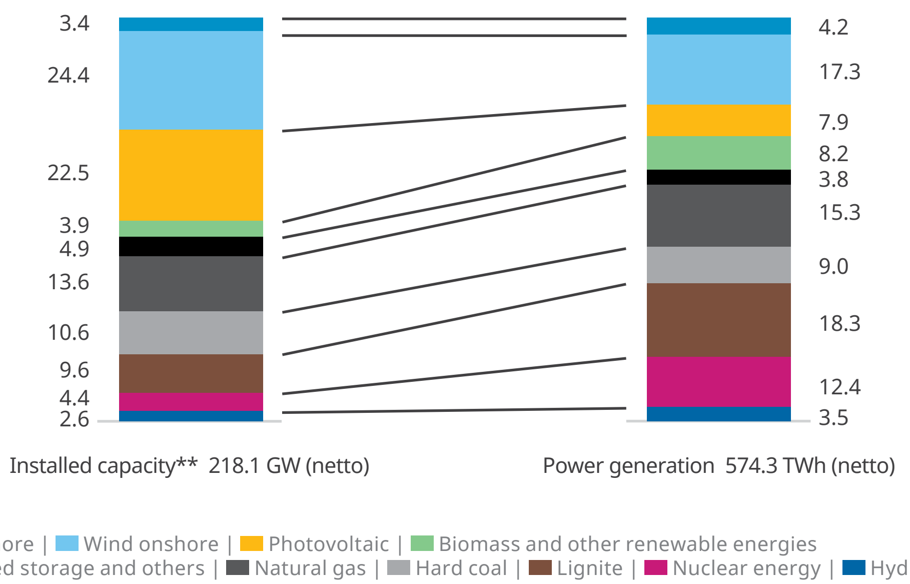
# Phasing out coal and nuclear power

For reasons of cost, efficiency and availability, power plants are deployed on a differing basis in order to generate electricity. Nuclear and lignite-fired power plants (see diagram below), for example, generated some 27 % of Germany's electricity in 2019 but only accounted for just 20 % of the total power plant park in terms of installed capacity.

In the case of electricity generation from solar and wind, the ratio is reversed (despite priority for feed-in): wind onshore and solar account for around 50 % of the power plant capacity installed in Germany, but generated only around 29 % of electricity in 2019. The reason is clear: the availability of wind and solar power depends on the weather and the course of the day. This means that wind and solar power can never provide a secure supply on their own – no matter how high the theoretically installed capacities are. After all, a reliable power supply requires plannable capacities through controllable plants that are available at all times.

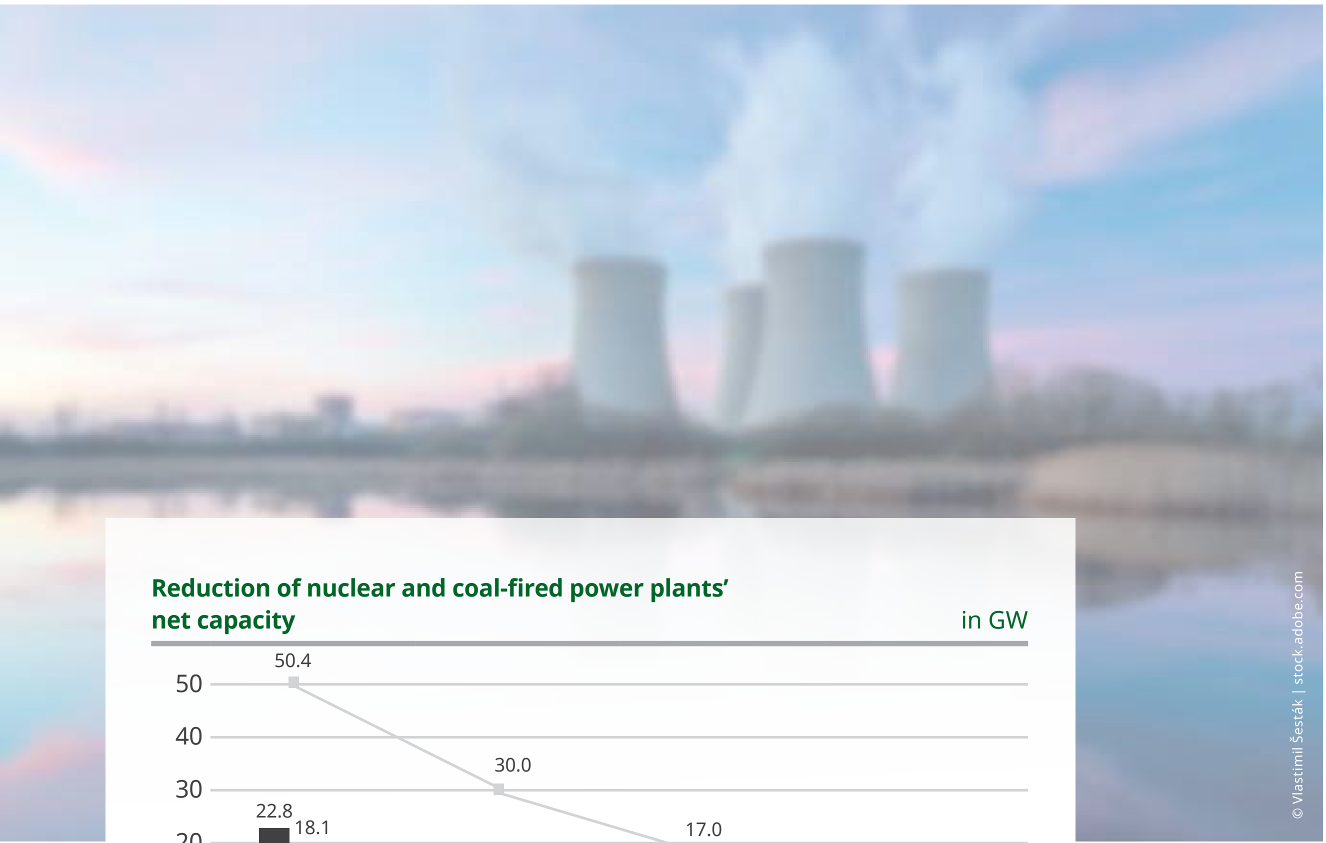
**Installed capacity and generation of the entire electricity industry* in Germany 2019**

in %

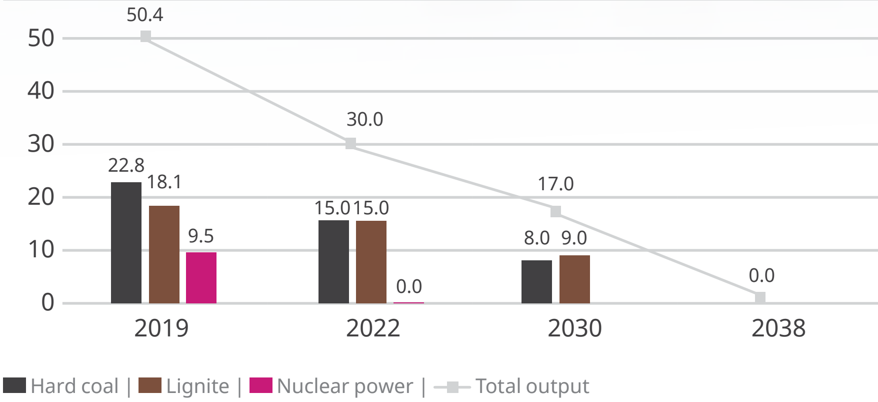



* preliminary | ** as of December 31, 2019

Installed capacity and generation of the entire electricity industry in Germany in 2019 in %.
Source: BDEW, "Installierte Leistung und Erzeugung 2019, gesamte Elektrizitätswirtschaft"; March 17, 2020




**Reduction of nuclear and coal-fired power plants' net capacity** in GW




Reduction of coal-fired power plants' net output in GW as part of phasing out of coal-fired power generation in Germany.
Source: Final report of the so-called "Kohlekommission" (Coal Commission), January 2019; German Federal Ministry of Economics and Technology (BMWi) draft bill of the Federal Cabinet on the "Act on the Reduction and Termination of Coal-fired Power Generation and on the Amendment of Other Acts", January 29, 2020

In Germany, acts and legislative projects to reduce the capacities of conventional, controllable nuclear and coal-fired power plants are well advanced. Over the next nine (!) years, they are to be reduced by 33 GW to 17 GW. These power plants that are to be decommissioned correspond to around one third (!) of the base load capacity available on April 1, 2020, according to the Federal Network Agency.

At this point, the serious question arises as to how the expansion of renewables described above and the parallel phase-out of coal and uranium power generation can ensure secure and economic energy supplies for all customers at any time.

# How can supplies be secured?

As a core objective of the energy revolution, the security of electricity supplies must not be jeopardized. Measures to stabilize the electricity grid have had to be taken increasingly frequently in recent years. The transmission grid operators' annual report attributes this requirement to regional change in generation capacities in the context of structural change, the increase in power plants with volatile feed-in, and the slow expansion of network capacities, among other factors.

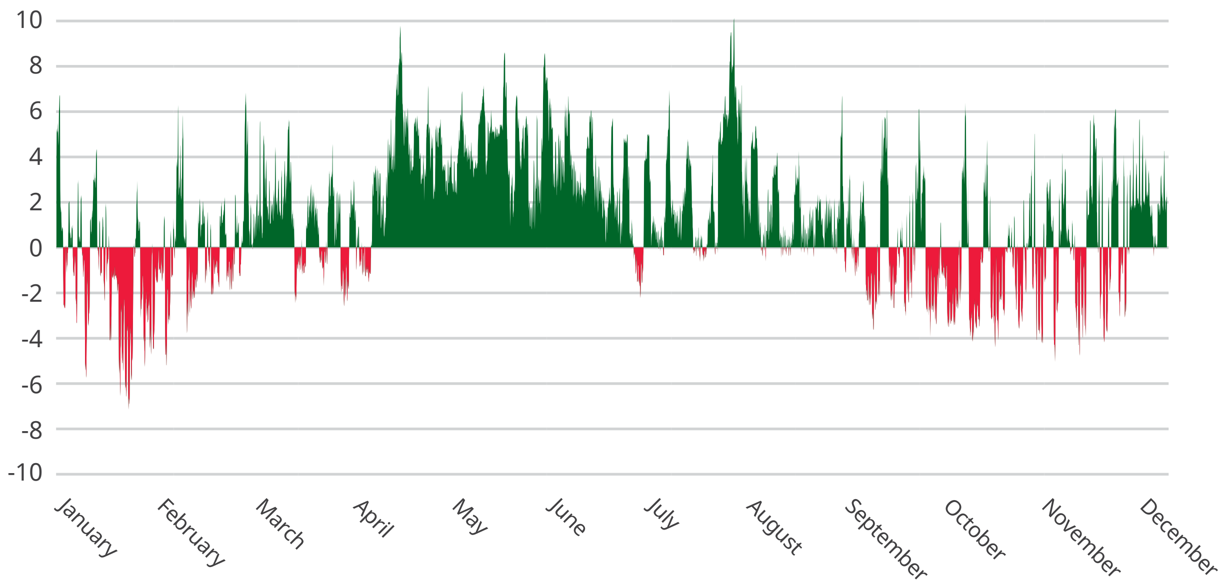
More attention is being paid to the supply situation at the most critical times, which are characterized by a combination of high electricity demand and limited sunlight. The supply situation becomes particularly challenging when a lull in wind is added. In such cases, experts speak of a so-called "cold dark lull".

Typically, such weather situations occur as misty autumn and winter weather. It is important for network operators to know the extent of "secured capacity" available to supply demand in such cases. Only capacities that are available (on the basis of historical data) for planning with a probability of at least 99 % within the target time can be taken into consideration. For fluctuating and so-called supply-dependent energy sources – especially wind and solar power – reliably available output is very low, despite high installed capacity, due to dependence on external factors. Therefore, wind and solar plants actually connot be included in the calculation of the "secured capacity".

As a consequence of the structural change in the German electricity industry, the secured reserve for the most critical hours is tending to decrease significantly. According to the calculations made by transmission grid operators, available overcapacities on peak load day will decrease from 3.5 GW in 2019 to 1.0 GW in this year, and will turn (significantly) negative for the first time in 2021 at -5.5 GW, whereby this already reflects reserve power plants.

Even if the expansion of wind and solar power progresses rapidly, back-up capacities will continue to be required, that together ensure supply and grid stability. These are primarily seasonal storage facilities such as the natural gas infrastructure as well as hydrogen storage facilities and controllable, climate-friendly generation capacities, such as combined heat and power plants that can keep the electricity grid stable.

**Calculated surplus capacity and capacity shortages 2019*** in GW




Source: Country data electricitymap.org, 2G evaluation; January 2019

* Model calculation based on the supply situation from 2023 onwards; Assumption: Reduction of actual power generation from coal by 10.8 GW/h with maximum utilization of gas capacities

# Possible solutions on the market

### Use of storage facilities?

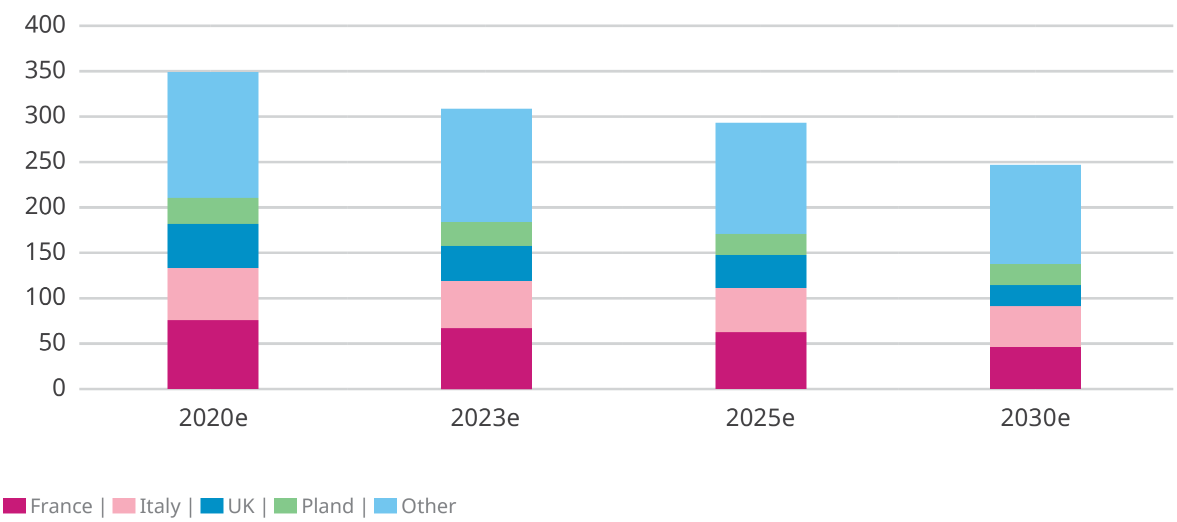
Reserves in the controllable power plants area are declining, while the share of generation capacities from wind and solar power is increasing, leading to volatile and uncertain availability. Resolving the resultant problem by building up large-scale storage capacities is unrealistic, at least at present and for the foreseeable future, due to the demand dimension.

Seasonal – in other words, long-term active – storage facilities, are not available. Batteries only provide electricity for a short period. Pumped storage facilities are currently and in the medium term not available on a sufficient scale, and the construction of new significant capacities is unrealistic.

### Import from abroad?

An obvious solution in this environment would be to make greater use of electricity imports during critical phases. However, conventional controllable generation capacities are also being reduced in other European countries (see Diagram below). Moreover, cross-border transmission capacities are

**Reduction of conventional power plant capacities in other European countries** in GW




Reduction of conventional power plant capacities in other European countries in GW.
Source: Fraunhofer, TEP, consentec, r2b: Definition und Monitoring der Versorgungssicherheit an europäischen Strommärkten, p. 97; January 23, 2019

limited, and as a rule general weather conditions for renewables are very similar across Europe, so that, despite possible overcapacities abroad, it will not be possible to cover a shortage in Germany.

### Expansion of transmission networks?

Shortages in electricity transmission are also conceivable, as grid expansion is progressing only very slowly. Of the necessary pipeline expansion of 5,830 km defined in the Federal Demand Plan Act, only about 700 km or 12 % had been approved, constructed or completed by the end of the third quarter of 2019.

### Expansion of wind and solar energy?

The alternative would be to expand generation capacities of renewable energies. But apart from the fact that these do not provide predictable help for the transmission system operators in times of “dark lulls”, the expansion would also have to be massively accelerated to cover demand. As explained earlier on pages 28/29, this is currently not foreseeable due to a variety of obstacles.

### Conclusion: CHP can ensure security of supply

This can ultimately lead to the intensified promotion of alternatives that offer a considerably better net climate impact than coal-fired power plants, but that are controllable, base load-capable and – due to grid restrictions – available on a decentralized basis. In view of the planned short-term shutdown of nuclear and coal-fired power plants, it is necessary that they can be implemented quickly. The “systematic investment framework” called for by the Coal Commission points in this direction.

# Combined heat and power generation as a solution

Gas-fired combined heat and power generation forms an elementary part of the solution, delivering precisely the key properties required for supply security and integration of renewables: CHP plants can be utilized at any time, networked and regulated at short notice as required, and they generate electricity and heat on a decentralized basis at the place of consumption. In other words, they are an ideal integrating partner for wind and solar producers. CHP plants provide base load power as required when the sun is not shining, or when the wind is not blowing.

Gas-fired CHP plants in the medium output range can fulfil this integrative function very well. The priority of a rapid and sustainable reduction in $CO_2$ emissions must lead to improved framework conditions for producers that

- exert a significantly better net climate impact than coal-fired power plants,
- are controllable, baseload-capable, system-compatible,
- operate on a decentralized basis due to network restrictions and
- can be implemented quickly, in other words, without time-consuming approval procedures for major projects.

CHP plants in the power class from a few kilowatts to several megawatts meet all of the above-mentioned conditions. In addition, they offer substantially better energy efficiency (almost 90 %) compared to large power plants that generate electricity utilizing fossil fuels (less than 40 % on average). This goes hand in hand with a reduction of $CO_2$ emissions of up to 60 % when utilizing natural gas, and of up to 100 % when utilizing hydrogen.

The decentralized distribution of gas-fired CHP generators is systemically useful for secure electricity supplies, as they can feed energy into the grid within seconds via their digital interfaces. These properties are essential for the integration of wind and solar generators into secure nationwide supplies, because if fewer and fewer large power plants (coal-fired and nuclear power plants) are available with their “secure” output, a need exists for producers that can fill this gap on an absolutely reliable basis.

The expansion of electricity generation with gas engines represents one of the few alternatives that can be implemented quickly on an industrial scale. A major step towards reducing $CO_2$ emissions will be achieved by replacing coal with natural gas, followed medium-term by an ever-increasing proportion of climate-compatible “green” gases such as the lean gases of biogas, landfill gas, coal mine gas, gases from purification plants as well as hydrogen and synthetic gases such as methane.

## Key features for secure supplies

# Opportunities for 2G

2G has already done pioneering work in many areas of gas fuels in recent years, which enables it to offer a broad product range of CHP plants. For many customers, this paves the way to future-oriented energy generation that is as climate compatible and environmentally compatible as possible, with excellent cost-effectiveness and reliable service.

Reliable calculations assume a necessary expansion of gas-fired CHP plants of 17 GW by 2030. An expansion of this magnitude would equate to 150 % of the natural-gas CHP capacity currently available and would require newly installed capacities of 1,700 MW per year on average from 2021 onwards.

In 2G's opinion, the situation outlined on the previous pages and the expected unfolding of the energy system revolution over the coming years will lead to a significant increase in demand for CHP systems in the medium capacity range between 50 kW and 2 MW. 2G is prepared for this:

**Scalable production capacity**

Throughput in production (assembly) can be doubled at the Heek site with the implementation of further efficiency measures. Annual output of around 400 MW can be realized easily. Large-scale investments are not necessary for this purpose. From the placing of an order to installation at the customer usually takes less than six months.

**Sufficient skilled staff**

2G is an attractive employer in the Westmünsterland region. Its supportive working environment, well-trained managers and meaningful work content offer many employees long-term career prospects, and create sought-after jobs. In the past, capacity gaps have also been filled at short notice with the help of personnel service providers.

## Solid balance sheet and constantly sufficient working capital

2G Group's current liquidity position and credit standing ensure that it can meet necessary purchases of large-scale engines, general stockbuilding and personnel requirements. 2G finances the funds required to process an increasing order intake through advance payments as well as predictable and stable cash flows from the service business.

## Innovative product portfolio

2G offers a wide range of gas-fired CHP plants in the output range from 50 kW to 2,000 kW. In higher output ranges, outputs of more than 9 MW have been achieved by means of several systems connected in parallel. 2G cogeneration units can be operated at the lowest possible emissions with lean gases, hydrogen and natural gas as well as gas mixtures. All 2G CHPs are equipped with digital interfaces. These serve both efficient service and integration into the networks for system-compatible balancing and residual operation.

## Market position

2G is the largest independent developer and manufacturer of CHP plants in Germany. For both natural gas and biogas applications, 2G has been continuously expanding its market share in the medium power range for several years. In 2019, according to provisional figures available, market share will have amounted to around 25 % in each case. 2G's innovative CHP solutions, as well as the economic efficiency and reliability of its systems and of its service, make its systems sought-after capital goods for independent and climate-compatible energy supplies.

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# **2G.** Group management report.

# Group management report

**Reservation in relation to forward-looking statements**

This management report includes forward-looking statements that are based on management estimations that are current as of the time when this management report is prepared. Such statements relate to future periods, or are characterized by terms such as “expect”, “forecast”, “predict”, “intend”, “plan”, “estimate” and “anticipate”. Forward-looking statements harbor risks and uncertainties. Many of these risks and uncertainties are determined by factors that are not subject to the 2G Group’s influence. As a consequence, actual results can differ significantly from those described below.

## A. The 2G Group

**Operating activities and corporate structure**

The 2G Energy AG Group is an internationally leading manufacturer and provider of decentralized energy supply systems. With the development, production and technical installation as well as digital grid integration of combined heat and power plants, the company offers comprehensive solutions in the growing market for highly efficient combined heat and power (CHP) systems. After-sales and maintenance services comprise an important additional performance criterion. In particular, the product range includes CHP modules with an electric output range between 20 and 2,000 kW, for operation harnessing natural gas, biogas, other lean gases and hydrogen. All systems work highly efficiently, on a basis that conserves resources, and mitigate or neutralize the emission of climate-damaging carbon dioxide or nitrogen oxides through combined energy generation and modern emission gas cleaning systems. Worldwide, more than 5,500 installed 2G systems in various applications supply electrical energy, heating and cooling to a broad spectrum of customers, including companies in the housing industry, agriculture, commercial and industrial companies, public energy utilities, and municipal and local government authorities.

2G Energy AG is a holding company combining ten operating subsidiaries under its management.

2G Energietechnik GmbH (2GE), headquartered in Heek, in Germany’s western Münster region, comprises the main operating entity. The company combines the planning, sale, production, commissioning and ongoing service of 2G systems. Moreover, 2GE operates dependent branches in Schonstett near Munich, in Hamburg, in Halle/Saale, and in Berlin.

Outside of Germany, 2G is represented by independent sales and service companies in the USA, Canada, France, the UK, Italy, Spain and Poland. In addition, important conurbation areas and industrial markets are secured through sales partnerships in countries and regions such as Japan, Southeast Asia, Australia, Eastern Europe, Africa, and Russia.

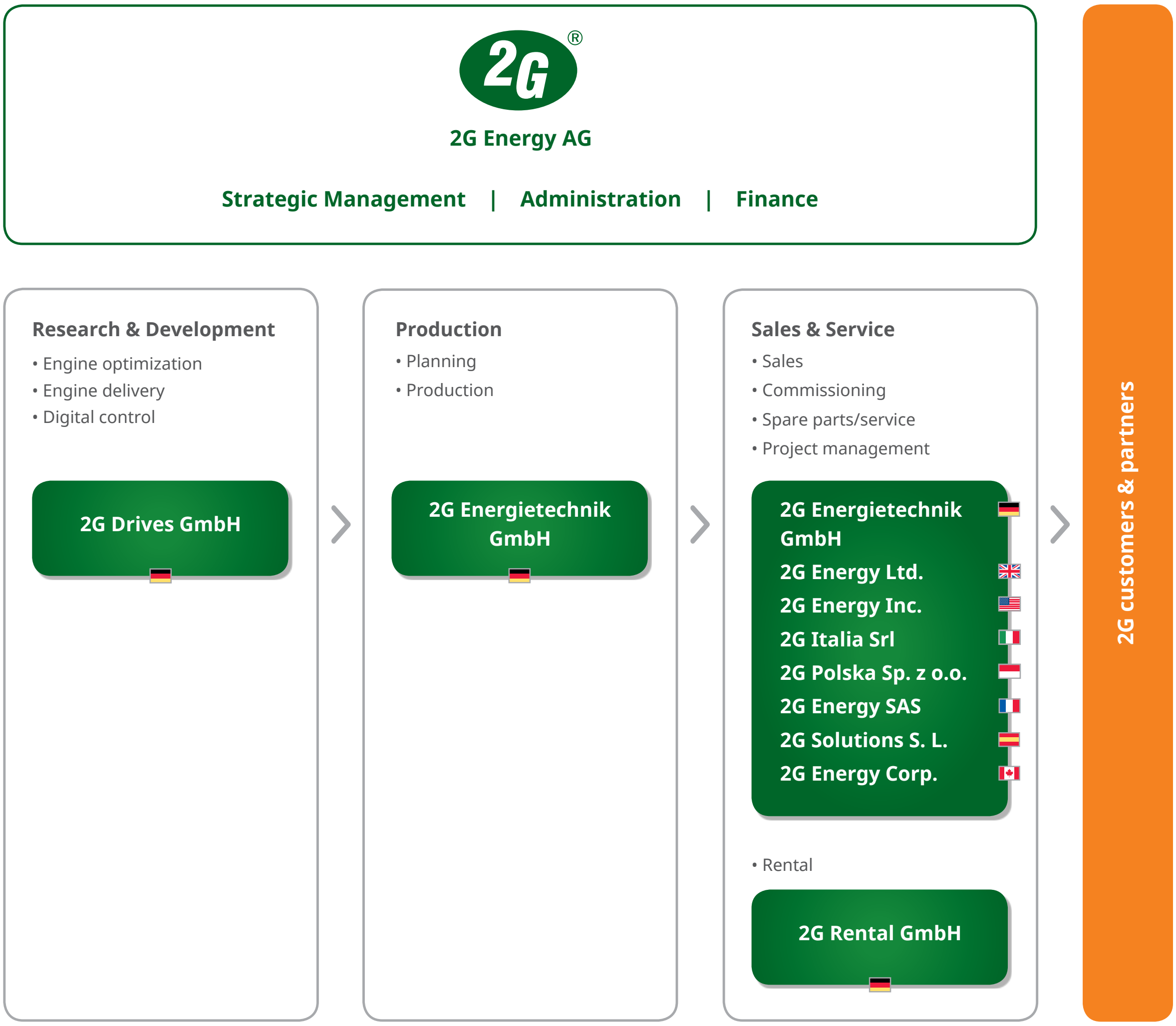


Diagram 1: 2G Energy AG corporate structure (December 31, 2018).

## B. Economic and business environment

### Macroeconomic situation

*End of the upswing*

In its 2019/2020 annual report presented in November 2019, the German Council of Economic Experts (GCEE) forecast a slowdown in the global economy and particularly in the advanced economies. According to expert opinion, growth, however, has also slowed in the emerging economies. Global trade has declined, companies in many parts of the world are becoming increasingly reluctant to invest, and the mood in the manufacturing industry is also showing the first signs of darkening. The GCEE is expecting global gross domestic product (GDP) to increase by 2.6 % in 2019 (previous year: 3.3 %).

In the eurozone, the rather modest economic growth that had been observed in the previous year continued in 2019 due in particular to the decline in investment and falling exports. By contrast, the positive labor market trend means that private consumption is likely to supply continued momentum for growth. 2019 also saw a further loosening by the ECB's Governing Council of what was already a very expansionary monetary policy. The GCEE is predicting that eurozone GDP growth will be well below the previous year's level in 2019 (1.2 % as against 1.9 %).

As regards the German economy, the experts are expecting the sustained upswing to come to an end during the current reporting year, but are not anticipating a deep recession. The reason why economic growth is only modest, according to the GCEE, is because industry is weak in many countries. This in turn is due partly to a cyclical downturn, say the experts, coupled with a fall in investment by companies. They believe that what happens next will depend on the extent to which this trend affects domestic demand and the labor market, which has hitherto proven robust. Overall, the GCEE is forecasting growth in German GDP of 0.5 % in 2019 (2018: 1.5 %).

Overall, 2019 was a disappointing year for Germany's mechanical engineering companies according to the German Engineering Federation (VDMA). Orders were down by 9 % in real terms year-on-year over 2019 as a whole. The VDMA believes that the uncertainty and reluctance to invest were fueled primarily by international trade disputes, growing protectionism and the major undertaking that is Brexit as well as the root-and-branch structural transformation under way in the automotive industry.

**Global conditions and industry trends**

*CHP as an important building block in the future energy generation market*

The 2G Group, with its products and expertise, perceives itself as part of the global energy revolution. A sustainable energy future is embedded in the company's very purpose: 2G helps to preserve resources, avoid emissions and mitigate climate change with its highly efficient gas-operated CHP systems that produce electrical and thermal energy in a combined process on an economical basis.

As explained at this point in the report in previous years, the structural environment for energy supply continues to be influenced by a rising demand for energy and the need to significantly reduce $CO_2$ emissions to mitigate the impact of climate change. To this end, many countries are endeavoring to gradually reduce their conventional, coal- and nuclear-based energy generation capacities and drive forward the expansion of renewable energies. The overarching challenge in this scenario is to shape the transition to low-carbon energy production while following the rule of economic efficiency and supply security. If this is to succeed, technical solutions capable of integrating renewables into a secure supply system that can be regulated need to be expanded at the same time, as do options for long-term storage and the conversion of energy back into marketable electricity and heat. Integrating renewables into an energy supply system backed by an adequate capacity for reliable output that can be regulated presents a major challenge, and one that has to be overcome in a relatively short time. This scenario is opening up new markets and opportunities for innovative companies offering integrative solutions.

Faced with these conflicting priorities, producers need technologies that can provide electricity and heat economically with natural gas, biogenic primary energy sources such as biogas, landfill and sewage gas, or hydrogen, thereby compensating for the fluctuating electricity production of PV plants and wind turbines as required. Decentralized structures and the intelligent networking of both production and consumption units are also required to efficiently harness electricity from the mix of renewables. This is the only way in which coal, in particular – one of the main fossil fuels with the highest $CO_2$ emissions – will be replaced. CHP technology offers precisely this efficient and environmentally friendly way of generating electricity that can be regulated and conserves resources in order to keep up an economically efficient energy supply.

The scale of this task and the areas of potential that it offers for stabilizing, efficient energy producers that can be regulated, such as CHP systems, is shown in Diagram 2. This illustrates the phase-out of nuclear power and coal in Germany as envisaged by the Federal Cabinet's resolution on the so-called Coal Phase-Out Act. Within the next three years, 20.35 GW of generation capacity (coal and nuclear power) is to be withdrawn from the market, followed by a further 13 GW by 2030. These power plants to be decommissioned correspond to around 24 % of the base-load-capable capacity deemed available according to the German Federal Network Agency as of November 11, 2019, as Diagram 2 shows.

**Reduction of nuclear and coal-fired power plants' net capacity** in GW

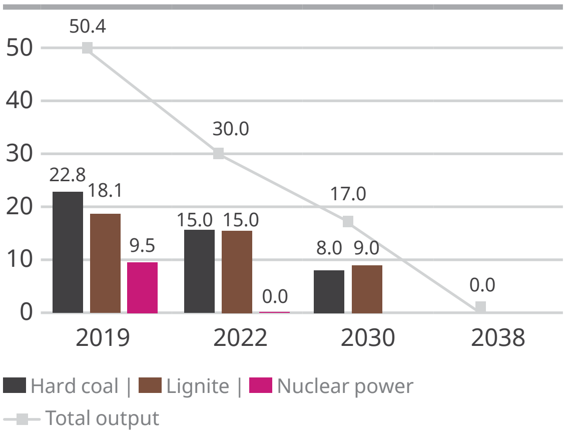


Diagram 2: Reduction of coal-fired power plants' net output in GW as part of phasing out of coal-fired power generation in Germany in GW.
Source: Final report of the so-called "Kohlekommission" (Coal Commission), January 2019; German Federal Ministry of Economics and Technology (BMWi) draft bill of the Federal Cabinet on the "Act on the Reduction and Termination of Coal-fired Power Generation and on the Amendment of Other Acts", January 29, 2020

If supply security is to be ensured despite these measures, the German Association of Energy and Water Industries (BDEW) believes that it will be necessary to build additional gas-operated CHP systems generating an output of 17 GW by 2030, based on an expert report by r2b (research to business energy consulting). An expansion in this order of magnitude would equate to 150 % of the natural-gas CHP capacity currently available and would require newly installed capacity of 1,700 MW a year on average from 2021 onward. The supply shortfall that this would create would thus open up significant market potential for manufacturers of decentralized natural-gas-fired CHP power plants such as 2G.

## Sale of CHP engines in Germany and abroad 2015–2019e

in MW

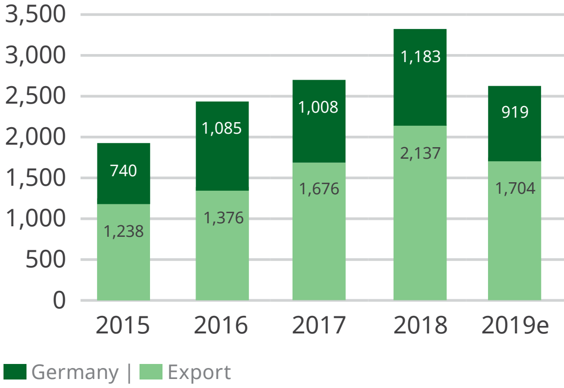


Diagram 3: Sale of CHP engines in Germany and abroad 2015–2019e in MW.
Source: Energie & Management, Öko-Institut, November 2019

The results of the annual survey of CHP manufacturers operating in Germany on modules sold, which was undertaken by Germany's Öko-Institut, the German Federal Cogeneration Association (B.KWK) and the journal Energie & Management and published in November 2019, shows that the sector's longstanding positive growth trend has not continued. For the first time in many years, the sales estimates issued by the manufacturers for the 2019 financial year are indicating a fall in output sold of some 20 %. As far as natural gas-operated systems are concerned, respondents put this down to the tender process that the German Cogeneration Act stipulates for systems upward of 1 MW as well as the limited subsidies available for systems upward of 100 kW designed for own supply. Although shortcomings in the tender process were also mentioned in the case of biogas plants, the main reason given here was the 1 GW flex cap being reached as early as mid-2019.

### 2G expands output sold, both in and outside Germany

The fall in sales forecast for the industry in its survey for 2019 was not borne out for 2G based on its output sold. Clearly bucking the downward trend in the sector, 2G sold electrical output of 207.9 MW, up by nearly 10 % on the previous year (189.7 MW). This sales growth was mainly due to increased sales of natural gas-operated CHP units in Germany (26.0 MW; previous year: 18.3 MW).

## Trend in 2G's market share in German biogas CHP market 2015–2019e

in %

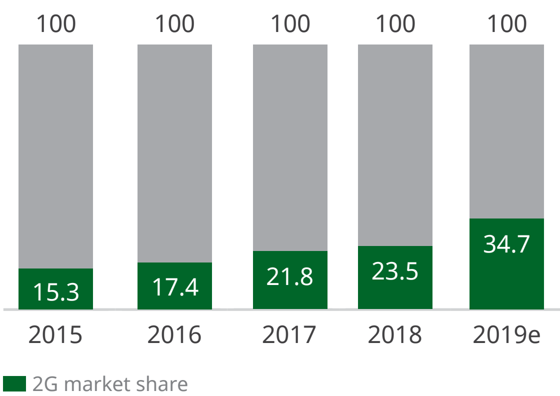


Diagram 4: Trend in 2G's market share in German biogas CHP market, 2015–2019e, for biogas operated CHP power plants across all performance ranges in %.
Source: 2G Energy AG, 2G calculations, German Biogas Association, July 2019

Measured in terms of the annual expansion of biogas-operated CHP modules, 2G significantly increased its market share in Germany to around a quarter in the year under review (previous year: 23.5 %). The company also succeeded in rebuffing competitors thanks to superstructuring. The market share data in Diagram 4 relates to the figures forecast for 2019, which the German

Biogas Association publishes annually on the overall market across all output classes.

Despite the legislative logjam affecting the operation of natural gas-operated CHP plants, which was not resolved until mid-2019, 2G succeeded in increasing its output sold by some 42 % year-on-year to 26 MW.

**Trends in 2G's market share in German CHP market for natural gas-operated CHP power plants in the core performance range > 50–500 kW** in %

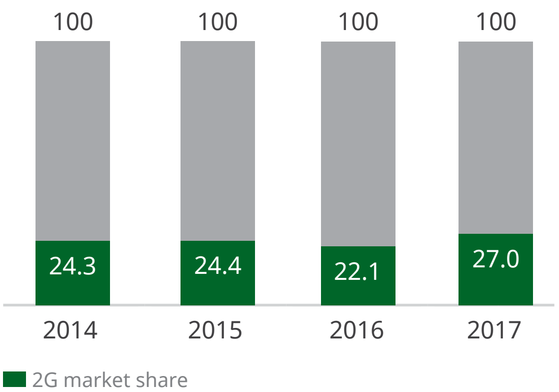


Diagram 5: Trends in 2G's market share in German CHP market 2014–2017 for natural gas-operated CHP power plants in the core performance range > 50–500 kW in %. Source: 2G Energy AG; German Federal Office for Economic Affairs and Export Control (BAFA), Dezember 31, 2019

In a contracting market, 2G thereby further strengthened its position in the German market for natural gas-operated CHP systems in the > 50 to 500 kW performance range. 2G has increased its market share from around 20 % to over 25 % in recent years. Based on its own calculations, the company believes that it has at least maintained this level for 2018 and 2019. Reliable industry figures from the German Federal Office of Economics and Export Control (BAFA) are only available after a significant delay.

Sales outside Germany were brisk in the year under review, rising by 12.5 % to 86.2 MW (previous year: 76.6 MW). At 41.5 %, the percentage of output sold outside Germany was roughly on a par with the previous year (40.4 %).

**2G CHP output sold in Germany and abroad 2015 – 2019** in MW

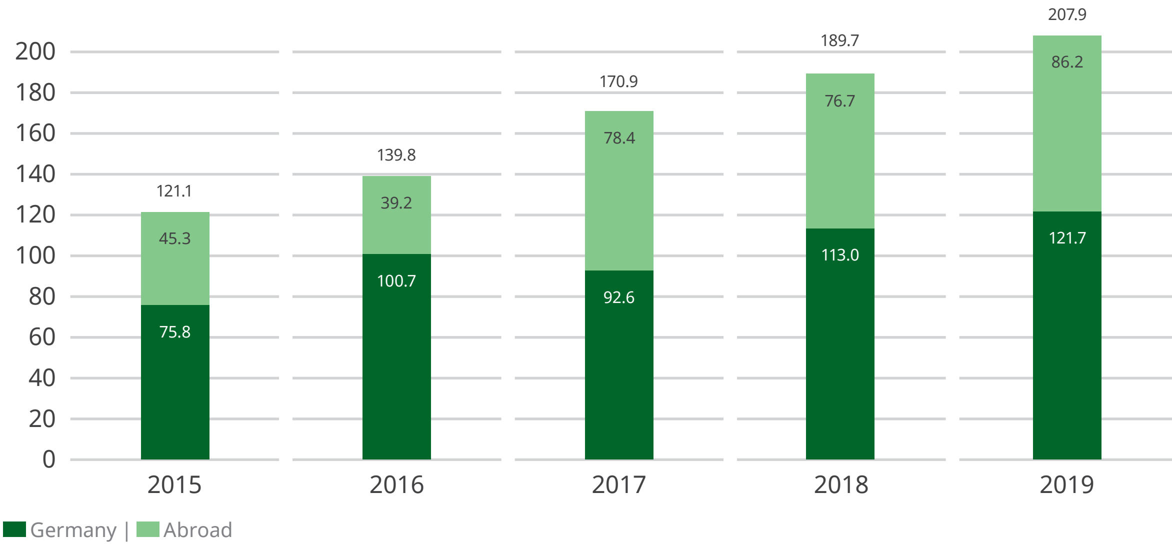


Diagram 6: 2G CHP output sold in Germany and abroad 2015 – 2019 in MW.
Source: 2G Energy AG, December 31, 2019

### Biogas market trends in Germany and abroad

As in the past few years, 2G benefited in particular from the trend towards the flexibilization of biogas plants (forecast expansion of electrical output: 249 MW; previous year: 373 MW), while the number of new biogas plants built remained at a low level. Via its service business, 2G is also benefiting from customer relationships that have evolved over many years, meaning that the company is often the first port of call for biogas plant operators. 2G is also in a position to provide these customers with first-class after-sales and spare-parts services via its own subsidiaries and its network of partners.

At EUR 84.3 million (previous year: EUR 118.2 million), ongoing order intake was healthy in 2019. This year-on-year fall mainly reflects a return to normality after a year that had been influenced by an unusually strong economic cycle. Its strongest foreign markets included France, with order intake of EUR 8.1 million (previous year: EUR 13.2 million), and the USA, with EUR 4.2 million (previous year: EUR 0.3 million).

### Natural gas market trends in Germany and abroad

Natural gas has been making a reliable contribution to energy supplies in Germany, Europe and large parts of the world for decades. Numerous experts share the view that natural gas is assuming a key role in sustainable energy supplies as part of the energy revolution. This is essentially based on five characteristics:

1. The net $CO_2$ emissions impact of natural gas is about 50 % smaller than that of coal or oil; emissions of soot particles, sulfur and nitrogen oxides are also significantly reduced.

2. Going forward, natural gas will be gradually replaced in the gas grid by green gases (hydrogen, methane), making them even more advantageous in terms of net $CO_2$ emissions impact.

3. Power plants powered by natural gas generate both base-load electricity and flexibly available electricity as required.

4. The existing natural gas infrastructure lends itself well to use as a (long-term) storage facility into which other gases such as hydrogen and methane can also be fed.

5. Supply security has improved over recent years through tapping new natural gas deposits and investments in distribution logistics such as harbor terminals to ship liquid natural gas (LNG).

Despite these attractive characteristics and conducive framework conditions, new business for natural gas-operated CHP systems in Germany was initially characterized by a reluctance amongst customers to invest. In particular, the lack of clarity surrounding the structuring of the mandatory levy on own energy consumption for new CHP systems installed since August 2014, a requirement of the German Renewable Energy Sources Act (EEG), had a negative impact. It was not until the end of June 2019 that the Bundestag agreed two significant amendments to the EEG and the German Cogeneration Act (KWKG). Demand then rose significantly in the second half of the year.

At EUR 55.8 million, new order intake for natural gas-operated systems was up by some 30 % on the previous year (EUR 42.9 million). 2G succeeded in growing its sales of such systems significantly in the USA and the UK as well as in Germany. Sales in the USA virtually doubled to EUR 13.9 million (previous year: EUR 7.2 million), with the new sales and service structures at 2G Energy Inc. and the recruitment of additional CHP experts with many years' market and product expertise starting to bear fruit. In the UK, meanwhile, new order intake rose by about a quarter to EUR 11.6 million from what was already a high level. CHP systems are very cost-effective in the country, thanks in particular to the favorable spark spread, making them an attractive investment. 2G's new order intake in Germany increased by nearly 10 % to EUR 23.0 million.

### Spark spread remains attractive

As a basic principle, potential 2G customers face an economic decision as to whether to invest in a gas-fired CHP power plant and thus become largely more independent of public supplies and save on energy costs or to stay with conventional energy supplies. Whether a CHP system offers value for money hinges on the so-called spark spread, the difference between the price of natural gas and the price of electricity. Particular focus is thus placed on monitoring the trend in this spread. As Diagram 7 illustrates, natural gas prices – measured against the Dutch TTF Natural Gas Forward – have fallen significantly in recent years. In the year under review, they fell by nearly half from EUR 22.45 per MWh to

EUR 11.80 per MWh. The general rise in the supply of natural gas (LNG from shale gas from the USA and Canada) is also helping to create a liquid gas market on a global scale and keep natural gas prices low over the long term.

**TTF Natural Gas Forward 2018 to February 2020** in EUR/MWh


Diagram 7: Dutch TTF Natural Gas Forward in EUR/MWh.
Source: European Energy Exchange AG, March 2, 2020

Meanwhile, electricity prices have been continuing to rise from a high level since 2011. No trend turnaround towards falling prices has been identifiable to date, including during the course of the current reporting year.

In the markets relevant to 2G, therefore, the trend in gas and electricity prices in 2019 proved favorable for the cost effectiveness of 2G CHP power plants. The experts from Delta Energy & Environment take the view that the market conditions for an investment start to become interesting once the spark spread exceeds 2.5. A factor higher than 3.0 indicates favorable conditions, while anything over 3.5 promises a very attractive cost/benefit analysis for operators. In Italy, Germany, the USA and the UK, the spark spread is close to or above 5. Even in France, with its comparatively cheap nuclear power, the spark spread now stands at 3, i. e. an adequate level.

There are no signs on the horizon of a change in these positive framework conditions.

**Spark spread ratios in the G7 countries 2015–2019**

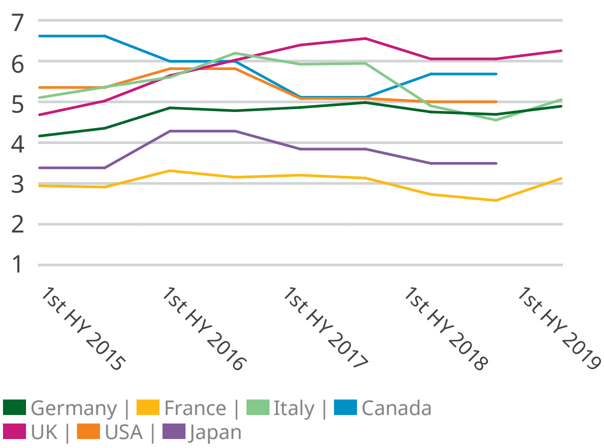


Diagram 8: Spark spread trends in the G7 countries 2015–2019.
Source: German Federal Statistical Office, energy price trend data, March 4, 2020; UK Department of Energy & Climate Change, Industrial Electricity & Gas Prices in the IEA, Dezember 19, 2019; 2G calculations

## Regulatory environment conducive to investments in CHP systems

The regulatory framework improved in some key areas during the year under review. The legislator clearly wants to create further incentives for the development of combined heat and power. At the end of June 2019, the German Bundestag approved two major modifications to the EEG and the KWKG. The amendments to the EEG affect CHP systems with an electrical output of more than 1 MW and up to 10 MW, which will once again only have to pay a uniform EEG levy of 40 % with retroactive effect from January 1, 2019. Furthermore, the regulations that have been criticized, entailing a limitation of the pro rata EEG levy to 3,500 full utilization hours per year and the claw-back mechanism for all CHP systems commissioned from August 1, 2014, no longer apply to all systems using gaseous fuels, again with retroactive effect from January 1, 2019.

In addition, the KWKG no longer contains any reservations under state aid law regarding the promotion of existing systems. As a result, support for existing CHP systems was suspended for 2019. The reservation of approval for the extension of the KWKG has also been lifted, so that the period of validity of the act is fixed until December 31, 2025. The planning and investment security that this creates for the next six years may well help to increase demand for natural gas-operated CHP systems in Germany once again.

Berlin sent out a few positive signals for the biogas industry in 2019. For instance, the federal government's "climate package" includes a clear commitment to stabilizing the country's fleet of biogas plants, sending out a message that the percentage of the total energy mix generated from biogas is to be kept at its current level. This is particularly relevant to those operators whose remuneration period under the EEG will expire in the near future. Plants will begin to fall outside the scope of the EEG at the end of 2020. The first important step taken in 2020 has to be revising the EEG. The German Biogas Association is also calling for the flexibilization of biogas plants to be continued and expanded. This could involve scrapping or raising the cap on the flexibility premium.

**The year in overview**

*2G enjoys growth in the 2019 financial year, increasing profitability and further expanding its activities outside Germany*

2G began the 2019 financial year with an order book position of EUR 131.5 million. The company maintained this high level throughout the year under review thanks to a consistently high level of new order intake both in Germany and abroad. This also enabled full capacity utilization in two-shift operation throughout the year and ultimately helped increase sales and earnings.

In Germany, 2G received orders for biogas-operated CHP systems worth EUR 52.4 million, down somewhat on the exceptionally high level recorded in the previous year. The pace of new order intake slowed in July 2019 when the so-called flex cap (1 GW) was reached, which grants eligibility for the flexibility premium. New order intake for natural gas-operated CHP systems increased, mainly in the second half of the year, reaching some EUR 23.0 million, after the legislator clarified a number of regulatory gray areas.

This further sharp increase in sales was driven primarily by brisk activities outside Germany, with developments in the UK, the Americas and France proving particularly pleasing. The trend in the UK was primarily down to 2G harnessing the potential offered by natural gas-operated CHP systems in the year under review thanks to a very beneficial spark spread. Total new order intake in the UK stood at EUR 14.3 million (previous year: EUR 10.4 million). 2G's US subsidiary reported the highest new order intake outside Germany at EUR 18.0 million (previous year: EUR 10.2 million). Overall, new order intake outside Germany was up some 7 % year-on-year (EUR 64.6 million as against EUR 60.3 million). Growth was underpinned by the successful cooperation with sales and service partners around the world as part of the partner concept.

2G thus continued to progress its diversification strategy successfully in the year under review. Foreign countries contributed nearly 46 % to total new order intake. 2G intends to become a fully globalized manufacturer of CHP systems in the medium term. In setting this strategic target, 2G plans to actively expand its position in selected growth markets in Europe, the Americas and Asia and further diversify its business opportunities and risks.

As well as the diversification of gas types and sales markets, 2G's service business is playing a key role in stabilizing net sales. This is due partly to an increase in the number of natural gas- and biogas-operated CHP systems sold together with service contracts in Germany and abroad and partly to the consistent digitalization of many service processes. This includes the I.R.I.S. ("Intelligent Report Information System") platform, which 2G developed itself and launched in 2019. It can be used to intelligently evaluate and link up to 400 million system and sensor values per week in real time. This allows logical conclusions to be drawn about the current and future behavior of CHP systems. The Service division uses this information to identify potential faults and interruptions, initiate corresponding countermeasures and thus prevent unscheduled downtime. The intention is therefore for error messages to be predicted before they arise ("predictive maintenance"). Customers get a more efficient power and heat yield from their system, creating real added value in terms of their power output and reducing their total cost of ownership.

2G sold the first of its first-generation hydrogen CHP units to customers in Germany during the year under review, which contributed some EUR 1 million to sales. Demand was very buoyant, and interest – both in general and in terms of tangible orders – is very high.

In view of the high new order intake and the rapid growth in new orders from Germany and abroad, in late November 2019 the Management Board of 2G Energy AG reaffirmed its forecast for the financial year – an EBIT margin of between 5.5 % and 7.0 % and consolidated sales of between EUR 220 million and EUR 230 million. At EUR 236.4 million, the sales forecast was ultimately exceeded thanks to a high percentage of projects for which the final invoice was submitted in December. In terms of EBIT, meanwhile, 2G achieved a result in the upper half of its forecast range at 6.5 %.

**2G Group**
**turnover, order intake,**
**EBIT margin**

EUR million
in %

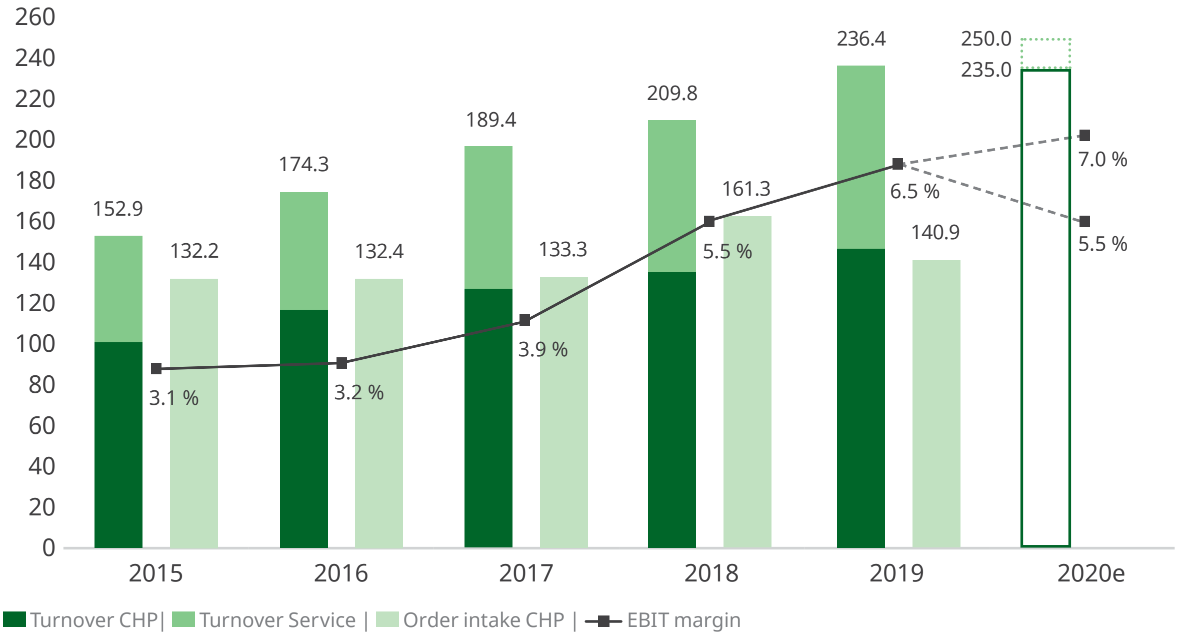


Diagram 9: Trends in sales, order intake and EBIT margin of 2G Energy AG 2015 – 2019 and the 2020 forecast.

## C. Results of operations

### Sales

*2G grows sales by over 10 % once again*

2G generated consolidated sales of EUR 236.4 million in the past financial year (previous year: EUR 209.8 million), thus maintaining its organic growth trend of some 10 % per year on average, which has been ongoing since 2013. A EUR 10.3 million reduction in inventories (previous year: an increase in inventories of EUR 10.8 million), pushed total operating revenue up to EUR 226.1 million (previous year: EUR 221.1 million, including own work capitalized of EUR 0.5 million).

### Distribution of net sales

The following table shows the distribution of sales in both absolute and relative terms:

### Composition of sales revenues and additional key indicators

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Germany | Abroad | Total | Germany | Abroad | Total |
| **Net sales** (EUR) | 153.5 | 82.9 | 236.4 | 137.0 | 72.7 | 209.8 |
| CHP systems | 90.3 | 56.8 | 147.0 | 79.4 | 52.3 | 131.7 |
| of which biogas | 66.7 | 32.0 | 98.7 | 63.5 | 30.5 | 93.9 |
| of which natural gas | 22.6 | 24.7 | 47.3 | 16.0 | 21.8 | 37.8 |
| of which hydrogen | 1.0 | 0 | 1.0 | 0 | 0 | 0 |
| Service | 63.3 | 26.1 | 89.4 | 57.6 | 20.4 | 78.0 |
| **CHP systems** Units | 351 | 182 | 533 | 307 | 138 | 445 |
| **CHP systems** Ø Value per unit (EUR/unit) | 257,163 | 311,906 | 275,856 | 258,706 | 379,146 | 296,056 |
| **Electric capacity sold,** in kW | | | 207,895 | | | 189,689 |
| **Electric capacity sold,** Ø kW per unit | | | 390 | | | 426 |

### Year-on-year change

| | Absolute (in million EUR) | | | As a % | | |
|---|---|---|---|---|---|---|
| | Germany | Abroad | Total | Germany | Abroad | Total |
| **Net sales** (EUR) | 16.5 | 10.1 | 26.6 | 12 | 14 | 13 |
| CHP units | 10.8 | 4.4 | 15.3 | 14 | 8 | 12 |
| of which biogas | 3.2 | 1.5 | 4.8 | 5 | 5 | 5 |
| of which natural gas | 6.6 | 2.9 | 9.5 | 41 | 13 | 25 |
| of which hydrogen | 1.0 | 0.0 | 1.0 | - | - | - |
| Service | 5.6 | 5.7 | 11.3 | 10 | 28 | 15 |

The following factors shaped the net sales trend in 2019:

1. Net sales outside Germany climbed by 14 % year-on-year, outstripping the rise in total sales. Overall, 39 % of net sales was generated from sales of CHP systems in other countries. Both 2G's foreign sales partners and its subsidiaries contributed to this sales growth. The branch operations generating the highest sales were 2G Energy Inc. (USA) with EUR 18.4 million (previous year: EUR 6.9 million) and 2G Energy Ltd. (UK) with EUR 18.1 million (previous year: EUR 13.8 million).

2. Net sales generated from services and the sale of spare parts also rose faster than total sales, as in the previous year, climbing by around 15 %. Overall, 38 % of 2G's consolidated net sales came from its Service division.

3. The bulk of the EUR 16.5 million in sales growth achieved in Germany is attributable to the natural gas business (EUR +6.6 million or +41 %) and service activities (EUR +5.6 million or +10 %). 2G also succeeded once again in increasing the sales generated from natural gas-operated systems outside Germany year-on-year (+13 %).

### Group results

2G advanced its earnings before interest and tax (EBIT) from EUR 11.5 million to EUR 15.5 million (+35 %) in the year under review, corresponding to an EBIT margin of 6.5 % (previous year: 5.5 %). This is in the top half of the communicated target range of 5.5 to 7.0 %.

In absolute terms, the cost of materials was down from EUR 148.7 million in the previous year to EUR 146.8 million in the year under review, despite a rise in total operating revenue. This pushed the cost of materials ratio (relating to total operating revenue) down to 64.9 %, compared with 67.3 % in the previous year. Personnel costs increased by EUR 3.7 million or 10 %. The implementation of an industrial process model in both production and administration is increasing the average qualification level required for new posts. Combined with an unemployment rate of a mere 2 % or so in Borken district, this led to an increase in average personnel costs per employee (+6.6 %).

At EUR 23.1 million, sales and marketing, operating, administration and miscellaneous expenses were virtually on a par with the previous year (EUR 23.2 million).

Following a financial result of TEUR -361 (previous year: TEUR -525), essentially deriving from loan interest and guarantee commission as well as income taxes in the amount of EUR 4.8 million (previous year: EUR 3.5 million), the resulting consolidated net profit stands at EUR 10.3 million (previous year: EUR 7.6 million).

## D. Financial position

The following condensed cash flow statement presents the Group's financial position:

### Consolidated cash flow statement

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | TEUR | TEUR |
| **Consolidated net profit for the year** | **10,302** | **7,608** |
| Depreciation of fixed assets | 3,715 | 3,918 |
| Change in provisions | -260 | 1,521 |
| Change in inventories | -14,306 | -2,153 |
| Change in trade receivables and other assets that cannot be allocated to investing or financing activities | -4,393 | -5,460 |
| Change in trade payables and other liabilities that cannot be allocated to investing or financing activities | 7,673 | 109 |
| Loss/gain from fixed asset disposals | 47 | 12 |
| Miscellaneous | -856 | -680 |
| **Cash flow from operating activities** | **1,921** | **4,875** |
| **Cash flow from investing activities** | **-5,677** | **-5,936** |
| **Cash flow from financing activities** | **733** | **-1,393** |
| **Liquid funds on December 31** | **10,556** | **13,615** |

The marked increase in inventories (EUR +14.3 million; previous year: EUR +2.2 million) pushed cash flow down to EUR 1.9 million (previous year: EUR 4.9 million) despite a higher net profit for the year. In the year under review, a total of EUR 4.3 million was invested in tangible fixed assets (previous year: EUR 7.1 million), which consisted of items including:

- EUR 1.1 million for new (service) vehicles, commissioned by 2G Energietechnik GmbH
- EUR 0.8 million for renovation work and adding new storage space at the company's premises, commissioned by 2G Energy AG
- EUR 0.6 million for fixtures, fittings and business supplies, commissioned by 2G Energy Ltd.
- EUR 0.2 million for software licenses, commissioned by 2G Energy AG
- EUR 0.2 million for new IT equipment, commissioned by 2G Energietechnik GmbH

2G Energy AG invested around EUR 1.4 million in acquiring minority interests in 2G Drives AG (acquisition with effect from 1 January 2019).

As part of its financing activities, financial liabilities amounting to EUR 1.2 million were repaid on schedule. 2G Energy AG took out EUR 4.0 million in short-term money market loans to meet its greater need for operating resources due to the planned increase in its engine stock.

In total, liquidity in the form of bank deposits amounted to EUR 10.6 million as of the balance sheet date. In addition, free credit lines with banks were, and are, available as required for guarantees, bonds and letters of credit and as a potential liquidity reserve. Free lines amounting to around EUR 27.2 million were available as of December 31. No significant changes occurred to lending conditions.

The detailed cash flow statement is included as a separate part of the consolidated financial statements.

## E. Net assets

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

**Assets**

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | TEUR | TEUR |
| A. Fixed assets | 28,182 | 27,527 |
| B. Current assets | 109,921 | 93,656 |
| C. Prepayments and accrued income | 341 | 838 |
| D. Deferred tax assets | 2,476 | 2,776 |
| **Total assets** | **140,921** | **124,796** |

**Equity and liabilities**

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | TEUR | TEUR |
| A. Equity | 68,522 | 61,556 |
| B. Provisions | 15,394 | 17,170 |
| C. Liabilities | | |
| I. Bank borrowings | 10,553 | 7,290 |
| II. Other liabilities | 46,452 | 38,779 |
| **Total assets** | **140,921** | **124,796** |

Total assets increased by 13 % to EUR 140.9 million as of the reporting date of December 31, 2019. The following factors in particular contributed to this rise:

- Inventories were up from EUR 46.1 million to EUR 60.4 million as of the balance sheet date. In line with the lower amount of work in progress (EUR -10.3 million), prepayments received on orders, which are allocated to specific projects and thus openly deducted from inventories, fell by EUR 17.6 million. In addition, inventories of raw materials and supplies climbed from EUR 38.3 million to EUR 48.4 million. 85 % of this rise was due to the increased stock of engines (EUR +8.5 million), which enables shorter delivery times and thus generates a competitive edge.

- Trade receivables increased from EUR 31.9 million to EUR 37.0 million as of the year-end. Some EUR 4.0 million of this amount resulted from final invoices issued by 2G Rental GmbH to an external financing partner in December.

Working capital – the difference between current assets and current liabilities – increased to EUR 42.7 million as of the balance sheet date (previous year: EUR 36.5 million).

As a result of the profit retained as of December 31, 2019, equity rose to EUR 68.5 million (previous year: EUR 61.6 million). As this increase was outstripped by that in total assets, the equity ratio fell slightly from 49.3 % to 48.6 %.

### Overall statement on the business situation

Business trends during the year under review proved highly satisfactory once again. 2G continued to achieve organic growth of some 10 % per year on average, also significantly increasing profitability (+35 %). Combined with a high level of liquidity, the stable equity ratio of almost 50 % forms the foundation for further growth. The Management Board is confident that the company's profitability can continue to be enhanced sustainably in the near future thanks to its consistent pursuit of its strategic flagship projects.

## F. Corporate responsibility

Business activities are inseparably connected with risks. Corporate success is characterized by the fact that – after giving due in-depth consideration to all important decisions – the respective opportunities outweigh the risks entailed. 2G interprets risks in the broadest sense as the risk of failing to achieve financial and operational targets as planned, and within the narrowest bounds as the risk of jeopardizing the company as a going concern. In this sense, risk management forms an element of all decisions and business processes.

### Management of risks and opportunities

The Management Board, the managing directors of all 2G companies, and relevant department heads are all defined as risk managers in the company-wide risk management process. These risk managers reappraise the areas that they manage and their risk situations at regular intervals, reporting any risks identified to the next highest level in the hierarchy or as part of regular Group-wide reporting duties. Significant changes in the assessment of known risks as well as new significant risks are reported immediately.

The deliberate and controlled handling of opportunities and risks thus comprises a central management element in the 2G Group. The Supervisory Board receives important key data for business trends and risk evaluation as part of quarterly reporting.

2G continuously records and evaluates new challenges and opportunities due to internationalization, digitalization, optimization of the depth of vertical manufacturing, and services, such as the rental of 2G power plants. Consistently preserving resources, avoiding waste and increasing the efficiency of 2G power plants, as well as continuously optimizing service, lead to improved profitability and greater customer benefits. The identification of opportunities and new business possibilities in terms of products, sales and service is equally important for the further development and growth of the 2G Group. At regular meetings, the Management Board and divisional heads develop strategic options, new products and business models for the 2G Group's medium and long-term prospects.

For the business activities of 2G Energy AG, the management has assessed the risks listed below as relevant for the company's further development and measured them as to their event probability and loss level. This mainly entails listing risks that, were they to materialize, would have a significantly negative effect on the company's net assets, financial position and results of operations. 2G is potentially exposed to further risks, although these are not yet known, or are currently not yet gaged as significant. The following risks were identified with risk factors, in declining order of significance, as of the reporting date and as of the date of the preparation of this management report, taking existing management and controlling measures into account. At the time of producing this report, the management was not aware of any risks that might jeopardize the 2G Group as a going concern.

### Business-related risks

The total revenues and the results of the 2G Group are based on a large number of worldwide markets and different 2G products in varying performance classes, application areas and operating gas types. This diversification is designed to help minimize risks, since the international markets are different in terms of their structure and economic cycles. It also lends expression to 2G's strategy of becoming an internationally operating company that is independent of national legislation or economic cycles. In this context, 2G integrates its risk management into the processes involved in sustainable business planning. Potential negative developments, such as changes in customer demand or changes in political and legal framework conditions, are described and assessed.

Such an approach allows countermeasures to be launched at an early stage where actual events differ from planning. This analysis also influences investment and expansion projects.

### Corporate growth risks

2G aims to continue its growth in Germany and abroad particularly through organic growth and, where appropriate, through strategic alliances and acquisitions of companies or parts of companies. The appointment of suitable managers and employees, the selection of strategic partners, and the raising of the necessary financial resources are required in order to exploit such opportunities. The meaningful expansion of appropriate organizational structures is also required, especially in the areas of financial accounting, controlling, personnel, and sales and marketing. Strong growth, acquisitions and strategic alliances harbor integration and execution risks by their very nature. 2G has developed and rolled out an extensive partner concept to minimize the company's own risks in the internationally growing CHP market as well as its level of capital employed. Partnerships both in Germany and abroad are thereby forming a central sales and service model, keeping market entry and market establishment risks as low as possible for the 2G Group.

**Legal risks**

2G is also exposed to litigation risks. These include risks in the area of product liability, competition and antitrust law, capital market law, patent law, and environmental protection. As a research-based technology company, 2G owns a portfolio of intellectual property rights, such as patents and brand names. These may become the target of attacks and infringements. 2G strives to minimize and manage all legal risks across the board.

Wherever possible and meaningful, 2G limits liability and loss risks in the countries where it operates through contractual agreements and insurance cover, whose type and scope are constantly adjusted in accordance with current requirements. Here, 2G can already rely on experience gained in numerous countries outside Europe. The company can also call on a country-specific advisory network consisting of auditors, tax consultants and lawyers, who take account of the Group's cross-border affairs.

Cover and liability gaps are closed within an integrated worldwide insurance program for all 2G companies. Insurance premiums are adjusted through appropriate and manageable deductibles.

**Political risks**

The destabilization of political systems and the potential imposition of trade barriers, as well as fluctuations in currency exchange rates, may lead to sales problems in certain countries and regions. It should be possible to reduce the potential negative impact by diversifying regional sales markets. Entry into developing markets and a withdrawal from saturated sub-markets are considered in the process.

**Product quality, price and availability risks**

As a manufacturer of complex technical systems, 2G is exposed to heightened product liability risks. Ongoing quality controls and documentation along the entire value chain minimize such risks. This starts with the qualification of suppliers and continues with comprehensive quality requirements for the materials and semi-finished products used, as well as long-term strategic partnerships in the case of preliminary products and an HR policy that is strongly geared to qualification and quality-consciousness. The capability to make deliveries and supplies delivered to deadline are an important competitive factor. On the purchasing side, risks arise from potential increases in raw materials prices. 2G sets great store by alternative purchase sources, avoids dependencies, and ensures parts availability and supply capability through order volume optimization and stock holding.

**Research and development risks**

From the outset, innovation has been a key element of 2G's corporate strategy, with a view to setting the company apart from its competitors through technological and electrical engineering expertise. This is associated with the latent risk that research and development projects will be delayed, anticipated budgets exceeded, or targets not met. Ongoing research and development projects are monitored for this very reason and are discussed regularly and reorganized where appropriate. Decisions regarding investments in new technologies, for example, are made with the aim of minimizing risks as far as possible.

**Financial risks**

As an internationally active company, 2G is exposed to various financial risks. Such risks primarily include liquidity risks, default risks, tax risks, currency risks, customs risks, and market price risks.

In order to secure itself as a going concern, a company must be able to fulfill its commitments arising from operational and financial activities at all times. 2G manages its liquidity across the entire Group centrally through its parent company 2G Energy AG in Heek in order to minimize any liquidity risks.

Default risks can arise both in connection with financial investments, loans taken out, financing commitments, or through the rental transfer for utilization of 2G power plants, and in the case of operating receivables. Inherent credit and default risks are hedged as far as possible through a credit insurance policy that is in place. This also ensures professional ongoing credit monitoring and debt collection. Overall, 2G minimizes these risks through its stringent prepayment policy. Only a few significant financial transactions entailing credit risk are concluded, and only with banks with good credit ratings.

Moreover, the 2G Group has extremely good liquidity, which significantly reduces its dependency on lenders. As a matter of principle, however, it cannot be ruled out that, in markets that are at times changing extremely rapidly, specific trading partners or customers with CHP rental agreements will default, even if such counterparties have positive credit ratings.

Latent tax and liability risks exist in the case of cross-border transactions (purchasing and selling), which can arise with formal offenses. Thanks to the requisite specialist knowledge in the relevant divisions, early and correct tax allocation can be implemented, including involving external experts. Despite process-based precautions, erroneous assessments and processing errors cannot be excluded entirely.

As a result of its global group structure, 2G will naturally be exposed to currency and interest rate risks, even if only to a limited degree. 2G has minimized currency risks due to exchange rate and interest rate fluctuations, especially through forward currency transactions. Exchange rate fluctuations affecting financial transactions, outstanding operating receivables and obligations are to be hedged mainly through forward currency transactions.

**Human resource risks**

The future success and growth of all 2G companies are highly dependent on their employees and their know-how. Consequently, the expertise and commitment of employees in all the areas in which 2G operates are crucial to its success.

The regional talent markets relevant to 2G are characterized by intensive competition. Competition is additionally intensified by the scarcity of qualified specialists in the areas in which 2G operates and by demographic challenges in global markets. As a consequence, recruiting and retaining qualified specialists and talents at 2G represents one of the key priorities for the company. 2G promotes the further training of its own employees and specialists and endeavors to recruit staff at an early stage, i.e. while they are still training. Potential improvements are identified through employee surveys, which are then implemented through specific measures. In addition, 2G offers its employees a catalog of voluntary social benefits in order to make it even more attractive as an employer.

**IT risks**

IT risks with an impact on operating results occur if data and information or processes are unavailable or incorrect or are unintentionally disclosed, or when processes have been programmed in IT systems in a form that is too inflexible, too complex, or illegal. Security gaps and insufficient emergency planning measures can quickly become incidents affecting the entire company.

Violations of data protection due to the incorrect allocation of authorizations or the EU General Data Protection Regulation (GDPR) can have negative external effects or lead to fines. The growing importance of IT and the increasing interconnectedness of IT landscapes, both for the Group and for its products and services, require high expenses for their further development and maintenance. As the complexity of the IT landscape increases, so do the potential risks, despite efficient processing and programming. Significant risk scenarios for 2G include the failure of central IT systems, the publication of confidential research and development and business development data, as well as the manipulation of IT systems.

2G ensures the required availability of business-critical systems and access to business-relevant data through the redundant configuration of technical components, networks and sites, as well as suitable, tested contingency measures. Appropriate organizational and technical precautions for access control, access rights, virus protection and data protection further limit such risks. A dedicated process ensures that IT risks are evaluated and appropriate measures taken.

Based on the measures adopted, it can be assumed that the probability that a serious IT risk will materialize is low. To secure and protect personal data, 2G cooperates with an external data protection officer and follows the recommendations for implementing the EU GDPR.

**Environmental and safety risks**

As a company with production operations, 2G is exposed to risks of possible personal injury as well as damage to property and its reputation. We minimize these risks to individuals and the environment by auditing, advising and training in matters of environmental protection as well as occupational health and safety. Safety and occupational safety officers manage these risks both at the Group's own sites and on our customers' building sites to protect the company's interests. 2G ensures the preservation of its goods and assets by adhering to high technical standards, strict codes of conduct, and all legal requirements for environmental protection and occupational health and safety. Furthermore, 2G itself is interested in conserving resources and operates an energy management system certified according to ISO 50001:2011.

**Overall statement on the risk situation**

The following overall statement on the risk situation does not take account of any risks resulting from the COVID-19 pandemic. See the separate risks and opportunities report on page 65 for more information.

The risk strategy has the character of that of a medium-sized company and is deliberately opportunity-orientated. The company's management is focused on organizational and especially financial stability but can deviate from existing plans where this is in the company's interests. Taking existing steering and controlling measures into account, no specific risk is deemed to be a going concern risk; neither has the company identified any aggregate going concern risk given the simultaneous occurrence of individual risks. From today's perspective, it does not identify any such going concern risks for the future either. The risks listed could nevertheless exert a negative effect on the company's net assets, financial position, results of operations, and business performance.

Significant changes in the risk position derive especially from the growing internationalization of the operating activities. As shown above, a correlation exists between international growth and related risks. Sales generated abroad grew by 15.5 % to EUR 84.0 million during the year under review. The complexity of the management task also increases as a consequence.

The company has the capacity to withstand risks at all times on account of its available and potential financial reserves, good balance sheet ratios, and a highly developed insurance concept. The business and entrepreneurial opportunities outweigh the potential risks entailed.

**Opportunities**

2G has implemented a number of measures to create the basis for the Group's further growth and earnings-based development, to identify and evaluate business opportunities, and to put them into practice on a controlled basis. Some of these measures are medium to long-term in orientation and consequently extend over several reporting years, while other measures described here were new ones launched in the year under review.

1. 2G is forging ahead with the expansion of its business activities in its core foreign markets of North America, the UK, France, Italy and Japan and is further developing the 2G partner concept worldwide. In establishing its partner concept, 2G has relied on the possibilities offered by digitalization from the outset. With its comprehensive online platform “my.2-g.com”, the company provides all relevant information to its sales and service partners as well as plant operators. An electronic spare parts catalog is also integrated, supporting fast spare parts supplies. 2G is also further advancing the digitalization of CHP systems in terms of control, maintenance and operational availability through creating interfaces to energy utilities, contractors and investors as well as in-house developments such as I.R.I.S. (the “Intelligent Report Information System” platform) for service.

2. The “Lead to Lean” flagship project is gradually leading to a sustainable improvement in production processes. Among other measures, 2G has introduced a “Terminleitstufen” (“deadline guide steps”) concept that is helping to smooth out seasonal fluctuations and consolidate all purchasing and production processes. In the year under review, the project had even more of a positive impact in the form of shorter delivery times, lower production costs and increased product quality.

3. The Service division is well placed for profitability following reorganizations in its office services and field sales force, the expansion of the staff base in direct local customer service, as well as the digitalization of the control, maintenance and operational reliability of 2G power plants. After-sales services for both biogas and natural gas-operated CHP systems are enjoying growing demand in foreign markets too. Service expertise is an important performance criterion when customers make investment decisions.

4. 2G is consistently advancing the technical further development of CHP modules. This also includes the CHP unit that runs on pure hydrogen ($H_2$), which 2G developed itself. 2G’s Research and Development team successfully adapted the technology in a standard natural gas CHP unit so that $H_2$ is harnessed to generate electricity and heat on a comparatively feasible basis economically, as well as being highly efficient in operational terms and generating almost no $CO_2$ emissions. 2G offers $H_2$ CHP units in the output range from 80 kW to 280 kW at similar prices to those for natural gas-operated systems.

5. The further expansion of rental and lease possibilities for 2G power plants leverages additional sales potential. With the launch of a pay-per-use solution, for the first time 2G is offering the specific utilization of a CHP power plant as a rental solution. This enables customers to exploit the benefits of CHP technology without needing to make their own investment and without long-term commitment. From the customer’s perspective, this addresses the important question as to how their investments can be secured financially after the subsidy period of 30,000 full utilization hours (for systems above 50 kW) prescribed by law has expired.

6. The international climate debate is also increasingly supporting 2G’s business model in general. The global community agreed on a joint climate protection target in December 2015 in Paris. The measures to be derived at national

level (such as the decision to phase out coal in Germany by 2038) and international level (such as the shutdown of numerous nuclear power plants in France) for energy generation support technologies and forms of generation that deliver efficiency gains, considerably reduce resource consumption and greenhouse gas emissions and facilitate the integration of volatile renewable energies for a reliable supply. In other words, the establishment of energy production capacities from renewable energies and integration technologies is being encouraged. The intended phase-out of coal as a primary energy source and the greatest source of greenhouse gases will also require technologies that ensure energy supplies in accordance with fluctuating renewables in terms of flexibility, supply security, and economic efficiency. This represents one of the strengths of CHP technology from which great international potential demand can grow in the future.

7. The development outlined in 6. also implies a fundamental change in generation type for heating supplies. This is because some 70 % of Germany's coal-fired power plants are integrated by some means into a CHP system; in other words, as less coal is used to generate electricity, huge quantities of heat will no longer be available. Although heat pumps can make up some of the shortfall, they – like the growing number of electric vehicles on the road – will lead to an increase in power consumption. Most scientific studies are suggesting that this will rise by over a quarter in Germany by 2030. In other words, new markets and sales opportunities are opening up for CHP for both heating and power supplies in the future.

8. The listing of 2G Energy AG in the "Scale" segment of the Frankfurt Stock Exchange creates transparency. Being listed on the stock market gives the company access to growth and investment capital where required. The transparency requirements that are made help to significantly increase confidence among customers in deciding to invest in 2G CHP power plants and help the company to set itself apart from its competitors through reliability and transparency.

Overall, the Management Board has identified attractive opportunities for 2G on both the German and foreign markets. This assessment is based on the trend in the spark spread, which is important for the economic viability of CHP systems: the electricity price is generally rising, or staying at a high level, and the gas price is flatlining at a low level or falling. The fact that they can be operated with flexible control makes CHP systems an ideal partner for fluctuating energy sources, such as solar and wind. Combined heat and power generation thus represents an important building block in a global energy revolution to guarantee value for money and supply security for electricity and heat consumers.

### Risks and opportunities associated with the COVID-19 pandemic

The COVID-19 pandemic is directly and indirectly affecting the business and working lives of companies and whole populations all around the world. The expected drop in economic output that all economies will face across the board is due to the measures taken to curb the pandemic, some of them draconian, as well as the uncertainty this has caused, the lack of demand, the fall in production in some parts of industry, the closure of service companies, and a widespread reluctance to invest.

For as long as no vaccine is available to prevent or immunize against the virus and no drugs are able to treat it, an extension to the radical self-isolation, shielding and quarantine measures cannot be ruled out.

2G primarily believes that the COVID-19 pandemic poses risks in the areas of “Sales risks”, “Product availability”, and “Human resources”, as explained in the risks and opportunities report below. Based on the current state of its knowledge as of the end of March 2020, it would assess these risks as follows:

**Sales risks**

The Management Board believes that any sales risks will only be temporary in nature. The global demand for decentralized, base load-capable energy production capacities that reduce $CO_2$ emissions still remains. COVID-19 will not stop climate change or push it into the background; neither does the pandemic release humanity from its duty to act as a matter of urgency. Although lawmakers appear likely to switch their focus temporarily to fighting the pandemic, this will not pose a fundamental threat to the urgent legislation on the cards, such as the Coal Phase-Out Act and the revision of the Renewable Energy Sources Act in Germany. 2G’s broad-based international presence gives it a high level of diversification in respect of this risk. With a healthy order book position at present, 2G also enjoys a certain degree of planning security in its CHP production that will take it well into 2021. In addition, the service business makes up some 40 % of consolidated sales and will generate predictable and steady cash flows both in 2021 and beyond.

**Product availability risks**

2G believes that it has secured the availability of products for its production and service operations to a limited extent. It has a large stock of engines on hand for the most common CHP modules, although the availability of raw engines might be restricted in the spring as a key supplier is based in Switzerland. All the other suppliers have so far been working reliably through their order lists. 2G can also switch to alternative suppliers for nearly all its components and, in geographical terms, is focused on Germany, Austria and Switzerland, meaning that logistical risks also appear manageable. Back in the previous year, 2G significantly expanded its warehouse capacity at its Heek site and built up its inventories. With the products and components available, 2G does not see any risk to it working through the abovementioned order backlog. The company’s healthy financial situation also gives it corresponding scope to exploit procurement opportunities counter-cyclically as well.

**Human resource risks**

Back in February, 2G provided its staff with communications and recommendations for dealing with COVID-19 in their day-to-day lives at work and at home. As well as protecting all our employees, the Management Board is also focusing on maintaining business operations as best it can and continuing to ensure that our customers benefit through fully functional CHP.

In doing so, it is looking ahead to the future, not least as the situation could escalate further if new restrictions are imposed.

Conscious of the duty of care it has in respect of the health of all staff, the Management Board has enabled employees to work from home for as long as the current coronavirus pandemic makes this necessary. To this end, investment in corresponding extra IT equipment was made back in February. Only the competent employees are now authorized to enter the production line and the warehouse. Production and logistics staff are split into small groups that have as little contact with one another as possible. Within these groups, teams of two and three have been set up that work more closely together if required, ensuring that the recommendation of social distancing is largely implemented in production and the warehouse and fully observed in administration and service. Preventive hygiene products and measures have been made available in production, administration and service. All meetings with people outside the company are held online. We have issued a strict code of conduct for service technicians working externally. Managers have been strongly and repeatedly reminded to monitor and, if necessary, enforce compliance with the code of conduct.

The Management Board is holding regular discussions at frequent intervals and evaluating the protective measures taken and the changing situation so that it can respond quickly and flexibly. The aim is to protect and maintain the health of all employees, preserve the competitiveness of the company and safeguard the operation of all plants across the world.

There is a good chance of new market opportunities for 2G thanks to its ongoing supply capability and healthy financial situation as well as its established brand name and the longstanding transparency brought by its flotation on the stock market.

## G. Outlook

The 2G Group outlook takes account of relevant facts and events that were known on the date when the consolidated financial statements were prepared and that could influence further business development and growth.

### Group focus over the next two financial years

As an internationally leading manufacturer of gas-operated combined heat and power systems, 2G is continuing to vigorously pursue its objective of strengthening existing markets, tapping into selected new markets and expanding its global market share on a profitable basis. To this end, we have launched three flagship projects, which we are consistently pursuing: internationalization as part of the partner concept, digitalization and the “Lead to Lean” project. These projects give rise to the following strategic guiding principles for growth and earnings:

- Tapping additional areas of potential by driving ahead the internationalization of sales of CHP systems and services, including integrating sales and service partners

- Consistent digitalization of CHP engine control and service as well as maintenance services, thereby creating our own digital products as additional sales potential

- Cutting costs while increasing quality and capacity through an optimized process structure along the entire value chain

These guiding principles will continue to determine business activities over the coming years. 2G will step up its efforts to accelerate organic growth in all the markets it serves, focusing on the regions of North America, Asia and Central and Eastern Europe. To supplement its positioning as a technology leader in developing and manufacturing CHP systems, 2G aims to increasingly establish itself as a supplier of CHP systems that can be integrated and controlled digitally for high-end balancing energy operation. The company is also addressing the more stringent demands for ultra-low exhaust gas emissions with its own innovations, such as a combustion system that uses low-pressure supercharging and a 2G SCR catalytic converter technology. We have reached a further significant milestone by getting the CHP unit that we developed ourselves and that runs on pure hydrogen ready for series production, meaning that we can now offer our customers a $CO_2$-free energy supply. 2G also sees itself as a service provider and product partner for customers' energy management concepts. 2G is thus positioning itself in the high-growth international energy market as a flexible provider of highly efficient CHP power plants and energy generation solutions.

**Future macroeconomic situation**

The ifo Institute issued a statement on the significant economic and business impact and risks presented by the coronavirus pandemic in advance of its economic forecast published on March 19, 2020:

"The global economy is collapsing as a result of the coronavirus pandemic. To curb the spread of new infections and prevent healthcare systems from being overwhelmed, many countries are now imposing restrictions on freedom of movement and bringing public life virtually to a standstill. At the same time, most countries are attempting to mitigate the anticipated consequences for the economy with extensive economic policy measures. It is virtually impossible at the current point in time to make an accurate forecast of the economic cost of the coronavirus crisis as there is a great deal of uncertainty surrounding the further spread of the virus and, in particular, the measures that governments have taken to contain the pandemic. There is also no past experience of comparable events that could be used to predict the likely course of this crisis. Ultimately, there are currently only very few economic indicators available that could serve to gage the scope of the impact of the coronavirus crisis on the economy as a whole."

In the current situation, it is hard to make any reliable statements on general global economic development, and these must therefore be appraised with due caution.

The experts from the ifo Institute believe that the German economy could shrink by 1.5 % this year as things stand. The growth rate would thus be 3 percentage points lower than if the coronavirus crisis had not erupted. While gross domestic product (GDP) is still likely to rise slightly in the first quarter of 2020 on the back of a strong start to the year, the full, quantifiable effect of the crisis will make its presence felt in the second quarter, potentially causing GDP to slump by as much as 4.5 %. Assuming that the restrictions on the economy and public life are gradually lifted, the production of goods and services should then slowly return to normal by some time in the first half of 2021.

The global economy is also set to be hit hard by the coronavirus crisis according to the ifo Institute, whose experts expect global GDP to grow by a mere 0.1 % this year, compared with 2.6 % in 2019. This is also likely to have a severe knock-on effect on world trade, which may well drop by 1.7 %. Economic output will already have fallen slightly at the start of the year due to lower activity in China and South Korea in real terms. Japan, however, is also set for a slowdown. As the pandemic escalates further, global economic output is likely to slump by 2.6 %, especially in the second quarter of the year, dragged down by Europe and the USA in particular. The crisis is expected to follow a very similar course in the USA and Germany. By contrast, activity in China and South Korea is likely to pick up slightly again following declines in new infections. There is expected to be something of a gradual catch-up across the world from the summer onward, with growth of just under 2 % in the third and 1.7 % in the fourth quarter. Mirroring the situation in Germany, output is likely to be 0.5 % below pre-crisis levels at the end of the forecast period.

### Future sector situation

In its International Energy Outlook (IEO) 2019, the IEA expects gas to play a major role in the energy revolution and energy supplies as a primary energy source. Gas grids are a critical mechanism for getting energy to consumers as they can typically transport more energy than power grids. They are also a valuable source of flexibility. Expanded gas and power grids can offer complementary advantages in terms of supply security. From the perspective of the energy revolution, natural gas can bring short-term benefits in replacing less environmentally friendly fuels. Looking ahead to the medium to long term, it remains to be seen how readily gas grids will be able to handle low or zero-carbon energy carriers such as hydrogen and biomethane. Integrating these into gas grids would open up possibilities for further developing the supply media and technologies and cutting costs.

### IEA predicts “golden age of gas”

The IEA expects global natural gas consumption to continue trending upwards. In 2018, it climbed by 4.6 %, making up nearly half of the increase in global energy demand. Liquid natural gas (LNG) holds the key to this broader-based future growth: 2019 was already a record year for investments in new LNG supplies, even though prices fell to record lows in major importing regions. Based on its many years of observations and recent surveys, the IEA has concluded that the world is likely to be heading towards a “golden age of gas”. According to the IEA’s forecast for the period up to 2040, demand for natural gas will continue to exceed that for coal or oil.

### Hydrogen set for boost

Statutory emission regulations and ambitious climate plans in many parts of the world will make fossil fuels harder and more expensive to use in the next few decades. Electricity from renewable sources is also becoming cheaper and cheaper. A base load-capable, secure supply based on renewable energies could therefore be established with green hydrogen using power-to-gas technologies.

This would combine approaches to two problems: how to avoid $CO_2$ emissions and how to store electricity generated from renewables over the long term. Combined heat and power systems enable the pure hydrogen or gas mixtures to be converted back into electricity and heat.

**“National Hydrogen Strategy” can strengthen CHP’s integrative role in the energy revolution**

The German Federal Government is currently devising a “National Hydrogen Strategy” designed to promote the industrial-scale production of hydrogen with an installed electrolyzer capacity of between five and ten gigawatts by 2030. The strategy also states that hydrogen, as the “basis for synthetic fuels”, makes important contributions to reducing $CO_2$ while also being “a storage medium that can store renewable energy flexibly and in line with supply”. The German Federal Ministry for Economic Affairs and Energy (BMWi) goes on to say that “gaseous energy carriers [form] an integral and long-term part of the energy revolution”. Power-based gases such as hydrogen will “steadily replace [natural gas], especially in the years after 2030”. According to current plans, both production from renewable energy (“green hydrogen”) and that using natural gas (“blue hydrogen”) should be taken into account. As well as expanding capacity, however, necessary changes to the regulatory framework such as the imposition of taxes and charges are also being discussed. For instance, the Federation of German Industries (BDI) is calling for the electricity used in production to be exempt from the levy promoting renewable energy as this is the only way to turn green hydrogen into a viable business model in its view.

2G believes that, although natural gas, as a fossil fuel, will continue to play an important role in the heating sector and in the production of electricity for a few years yet, it will be hampered by the target of climate neutrality in the long term – not just in Germany but across the world. Consequently, the investments that 2G is making in further developing its hydrogen CHP are all the more important.

**Upswing in the German natural gas CHP market on the horizon**

A favorable spark spread remains on the cards for natural gas-operated CHP units in 2G’s target markets. The natural gas infrastructure in many countries is also becoming much more integrated, driven not least by the expansion of LNG supply. Funding infrastructure measures like these is beneficial for many governments as natural gas-operated systems enable them to reduce $CO_2$ emissions per MWh from their energy sectors by 40 – 50 %. This is presenting 2G with new sales opportunities outside Germany.

With regard to the German market, changes are also envisaged to the subsidies available under the Cogeneration Act as part of the parliamentary legislative process for the Coal Phase-Out Act. What form these will ultimately take remains to be seen. The Coal Phase-Out Act could potentially be passed even before the parliamentary recess in the summer. If there is to be a secure transition from nuclear and coal to an energy supply based largely on renewables, however, gas-driven combined heat and power will be indispensable. It is the only method that is likely to be economically efficient enough to integrate renewables into a secure electricity supply system that can be regulated. Subsidizing this key contribution would thus be a good use of taxpayers' money in economic terms, and not just as part of stimulus packages with a short-term impact.

### Biogas CHP market stable around the world

The same applies to biogas in our view. 2G expects to have worked through its remaining order backlog from the 1 GW flex cap in fall 2020. New rules for biogas plants that fall outside the scope of EEG subsidies in 2020, for new plants and for the further flexibilization of existing plants will have to be found during the act's upcoming revision. This is because, with an installed capacity of 5.2 GW in Germany, base load-capable bioenergy is a necessary stabilizing factor in supply security – as well as boasting an advantageous carbon footprint. Outside Germany, we are expecting demand to rise slightly. Technological development, statutory regulations and subsidies for biogas plants are covering an increasingly wide range of fermentation substrates. As well as renewable raw materials, waste materials from the agricultural industry, residual materials from livestock farming, waste from food production and use, and other specialty materials are being used as the basic materials. Thanks to our strong position in markets including France, the UK, Japan and the Americas, we can continue to benefit from trends of this kind.

### 2G geared up for sharp increase in new orders from Germany

By phasing out its previously dominant coal and nuclear power, both forms of energy that can be regulated, and transitioning to an energy supply system based on renewables, Germany is playing a pioneering role that is attracting global attention. As a highly industrialized nation and the world's fourth-largest economy (in terms of gross domestic product), the country can also not afford any supply bottlenecks in terms of electricity or heat. We therefore believe that the rapid growth of combined heat and power based on clean gas engines is essential in Germany. This is because efforts to expand transmission lines and distribution networks are lagging well behind the levels required, alternative storage technologies will not be available on an industrial scale for the foreseeable future, and the much-cited import and export of electricity is only feasible to a limited extent as nearly all European countries have now agreed to at least gradually reduce their production capacities from coal and nuclear in order to protect the environment and mitigate climate change. The search for clean, decentralized alternatives that can be installed quickly and will be accepted by society will lead inevitably to gas-operated CHP systems.

2G is geared up for a sharp increase in new orders from Germany coming at short notice. In other words, it will be able to double its annual capacity for energy generation from its current level of around 200 MW quickly and without any major investment. In a scenario analysis, 2G has identified and assessed the following significant critical factors: the capacity of production facilities, the availability of key components, the availability of skilled staff, the capacity of managers, the performance capability of the ERP system, and the extent to which sales growth can be financed. If such a rapid rise in demand were to come about, 2G would also expect higher margins in addition to higher sales. These increased margins would be due partly to greatly improved economies of scale on fixed costs and partly because 2G could routinely expect to wield a degree of pricing power in such situations.

**Positive sales and earnings trend expected to continue**

The coronavirus pandemic will have a significant impact on global economic development. The extent of this impact, and how long it will last, is impossible to gauge as things stand. The Management Board of 2G Energy AG is well aware of this. Nevertheless, we believe that global efforts to reduce $CO_2$ emissions will (have to) be kept up and that demand for electricity will continue to rise. As well as greater demand for climate and environmentally friendly production capacities, there will also be a particularly sharp increase in the demand for technologies that can integrate the fluctuating renewable energy sources into a capacity that can be regulated and do so efficiently and in a manner that benefits the system as a whole. This will enable a reliable and cost-effective supply to the consumers to be ensured. It is precisely here, at this “sweet spot”, that gas-operated CHP systems come in. With their wide range of potential applications, they are increasingly turning from a “nice-to-have” into a “must-have” investment.

This assessment gives us a certain degree of entrepreneurial optimism for the coming years. And the facts on the table are also sending out a clear message for the current financial year: the very full order books already at the start of 2020 and the ongoing order intake from Germany and abroad as well as the growing service business and the steady stream of positive results from the three flagship projects make the Management Board cautiously optimistic for the current financial year. The company has begun 2020 well thanks to the backlog from the previous year of EUR 116.8 million – even though this is down slightly on the very high level recorded last year (EUR 131.5 million), which had been influenced by an unusually strong economic cycle in the German biogas market – and buoyant demand in the first quarter. The company enjoys a good level of diversification internationally via its own subsidiaries and its network of partners, and the demand trend remains strong in the Americas, the UK and France as well as in some Asian markets. 2G also began investing at an early stage in developing technological solutions for low-emission combustion and hydrogen applications.

Adopting an approach in line with due commercial prudence, the Management Board is thus expecting to be able to achieve net sales of between EUR 235 million and EUR 250 million in the 2020 financial year. Its earnings forecast for the 2020 financial year envisages an EBIT margin within the same range as the past financial year, i.e. between 5.5 % and 7.0 %. However, it cannot be ruled out that the coronavirus pandemic will have an impact on 2G in the current year in the form of a fall in orders, supply bottlenecks, logistical problems or the need for quarantine measures in production, sales or administration at the company's own sites or in its partner network. This could affect its sales and earnings trend. Looking ahead to the long term, the Management Board is sticking with its target of generating EUR 300 million in sales by 2024 and improving Group profitability, i.e. the EBIT margin, to 10 % on a lasting basis through efficiency savings from its flagship projects, margin contributions from the service business and leveraging economies of scale.

Heek, March 31, 2020

Christian Grotholt
Management Board Chairman (CEO)

Ludger Holtkamp
Management Board member

Friedrich Pehle
Management Board member

# 2G. Consolidated financial statements.

# Consolidated balance sheet of 2G Energy AG

## Assets

| | 31/12/2019<br>Euro | 31/12/2018<br>Euro |
|---|---:|---:|
| **A. Fixed assets** | | |
| I. Intangible fixed assets | | |
| Purchased concessions, industrial property rights and similar rights and assets, and licenses to such rights and assets | 515,729.65 | 537,592.07 |
| Goodwill | 2,713,726.37 | 3,257,758.66 |
| Prepayments rendered | 9,333.00 | 9,333.00 |
| | **3,238,789.02** | **3,804,683.73** |
| II. Tangible fixed assets | | |
| Land, land rights and buildings, including buildings on third-party land | 13,148,804.75 | 12,711,333.72 |
| Plant and machinery | 1,281,148.29 | 1,081,672.01 |
| Other factory and office equipment | 9,570,803.74 | 8,973,175.69 |
| Prepayments rendered and plant under construction | 63,822.35 | 64,720.95 |
| | **24,064,579.13** | **22,830,902.37** |
| III. Financial fixed assets | | |
| Participating interests in associated companies | 868,469.58 | 881,030.44 |
| Other participating interests | 10,000.00 | 10,000.00 |
| | 878,469.58 | 891,030.44 |
| | **28,181,837.73** | **27,526,616.54** |
| **B. Current assets** | | |
| I. Inventories | | |
| Raw materials and supplies | 48,413,088.57 | 38,341,343.64 |
| Work in progress | 30,856,174.88 | 41,146,465.40 |
| Prepayments rendered | 1,279,921.72 | 4,320,388.12 |
| Prepayments received for orders | -20,124,106.79 | -37,689,584.15 |
| | **60,425,078.38** | **46,118,613.01** |
| II. Receivables and other assets | | |
| Trade receivables | 37,030,124.06 | 31,891,190.00 |
| Receivables due from participating interests | 301,622.91 | 322,038.29 |
| Other assets | 1,462,606.06 | 1,691,341.10 |
| | **38,794,353.03** | **33,904,569.39** |

## Assets

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | Euro | Euro |
| III. Cash in hand, bank balances | **10,701,989.93** | **13,632,458.25** |
| | **109,921,421.34** | **93,655,640.65** |
| **C. Prepayments and accrued income** | **341,284.70** | **837,847.07** |
| **D. Deferred tax assets** | **2,476,098.29** | **2,775,782.08** |
| **Total** | **140,920,642.06** | **124,795,886.34** |

## Equity and liabilities

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | Euro | Euro |
| **A. Equity** | | |
| I. Subscribed share capital | 4,430,000.00 | 4,430,000.00 |
| II. Capital reserve | 11,235,300.00 | 11,235,300.00 |
| III. Other retained earnings | 53,129,681.91 | 40,299,580.49 |
| IV. Consolidated net income | 630,403.04 | 5,835,705.09 |
| V. Minority interests | -42,691.61 | 662,602.70 |
| VI. Equity difference from currency translation | -860,688.13 | -907,255.47 |
| | **68,522,005.21** | **61,555,932.81** |
| **B. Provisions** | | |
| Tax provisions | 1,304,741.02 | 2,821,619.73 |
| Other provisions | 14,088,937.11 | 14,348,780.41 |
| | **15,393,678.13** | **17,170,400.14** |
| **C. Liabilities** | | |
| Bank borrowings | 10,552,715.90 | 7,290,399.38 |
| Prepayments received for orders | 26,405,463.52 | 21,429,055.25 |
| Trade payables | 13,728,619.72 | 10,631,818.53 |
| Other liabilities | 6,318,159.58 | 6,718,280.23 |
| | **57,004,958.72** | **46,069,553.39** |
| **Total** | **140,920,642.06** | **124,795,886.34** |

# Consolidated profit and loss account of 2G Energy AG

| | 01/01/ to 31/12/2019 | 01/01/ to 31/12/2018 |
|---|---|---|
| | Euro | Euro |
| **Net sales** | **236,395,643.92** | **209,782,529.63** |
| Increase/decrease in work in progress and finished goods | -10,290,290.52 | 10,834,452.53 |
| Other own work capitalized | 13,776.59 | 532,430.56 |
| | **226,119,129.99** | **221,149,412.72** |
| Other operating income | 2,016,706.78 | 1,764,175.69 |
| | **228,135,836.77** | **222,913,588.41** |
| Cost of materials | | |
| a) Costs of raw materials and supplies, and for purchased merchandise | 118,369,427.96 | 120,228,940.11 |
| b) Costs of purchased services | 28,393,108.49 | 28,509,611.62 |
| | **146,762,536.45** | **148,738,551.73** |
| Personnel costs | | |
| a) Wages and salaries | 32,577,245.73 | 29,451,816.08 |
| b) Social security, pension and other benefits | 6,387,810.55 | 5,857,901.81 |
| | **38,965,056.28** | **35,309,717.89** |
| Depreciation and amortization applied to tangible and intangible fixed assets | 3,715,252.13 | 3,917,683.47 |
| Other operating expenses | 23,054,957.54 | 23,189,625.62 |
| Income from associated companies | -12,560.86 | -130,339.66 |
| Income from other participating interests | 500.00 | 200.00 |
| Other interest and similar income | 58,202.96 | 59,563.72 |
| Interest and similar expenses | 407,236.93 | 454,685.67 |
| Taxes on income | 4,801,921.40 | 3,450,478.81 |
| **Profit after taxes** | **10,475,018.14** | **7,782,269.28** |
| Other taxes | 173,125.08 | 174,659.76 |
| **Consolidated net profit/loss for the year** | **10,301,893.06** | **7,607,609.52** |
| Share of net profit/loss attributable to other shareholders | 8,005.89 | -90,040.23 |
| **Consolidated net profit/loss** | **10,309,898.95** | **7,517,569.29** |
| Retained earnings | 5,835,705.09 | 178,735.80 |
| Dividend payment | -1,993,500.00 | -1,860,600.00 |
| Allocation to other retained earnings | -13,521,701.00 | 0.00 |
| **Consolidated net retained earnings** | **630,403.04** | **5,835,705.09** |

# Derivation of EBIT

| | | 01/01/ to 31/12/2019 | 01/01/ to 31/12/2018 |
|---|---|---|---|
| | | Euro | Euro |
| | **Consolidated net profit/loss for the year** | **10,301,893.06** | **7,607,609.52** |
| + | Taxes on income | 4,801,921.40 | 3,450,478.81 |
| + | Interest and similar expenses | 407,236.93 | 454,685.67 |
| − | Other interest and similar income | 58,202.96 | 59,563.72 |
| = | **Earnings before interest and tax** | **15,452,848.43** | **11,453,210.28** |

# Notes to the consolidated financial statements

## A. General information about the consolidated statements

### 1. Basic information

2G Energy AG is a public limited company under German law. The company's shares are listed on the trading segment Scale, a part of the Open Market (Regulated Unofficial Market) of the Frankfurt Stock Exchange (FWB), as operated by Deutsche Börse AG, which is consequently not an organized market.

The company is entered in the commercial register of the Coesfeld District Court (commercial register sheet number B 11081), and has its headquarters at Benzstrasse 3, 48619 Heek, Germany.

### 2. Line of business

The company and its subsidiaries primarily plan and install combined heat and power ("CHP") systems and other systems for the recovery of efficient use of electrical energy, and provide after-sale services associated with CHP systems. One subsidiary is responsible for optimizing gas engines, and for manufacturing and marketing Otto spark-ignition gas engines.

### 3. Accounting policies

The consolidated financial statements of 2G Energy AG were prepared in accordance with Section 290 et seq. of the German Commercial Code (HGB) and the supplementary regulations of the German Stock Corporation Act (AktG).

The regulations for public limited companies in the meaning of Section 264 et seq. of the German Commercial Code (HGB), the relevant provisions of the German Stock Corporation Act (AktG), and the provisions pursuant to Section 290 et seq. of the German Commercial Code (HGB) in relation to consolidated financial statements apply to the Group's accounting procedures.

The Group's functional currency is the euro. All amounts are consequently presented in euros or thousands of euros (TEUR). Foreign companies' balance sheet items as well as foreign currency transactions in the trade balance II are translated at the respective exchange rate on the balance sheet date. Equity items are translated at historical rates. Cost and income items are translated at average rates for the year related to the financial year.

## B. Consolidation methods

### 1. Consolidation scope and shareholdings

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

**Subsidiary**

| | Interest in % | Subscribed capital in TEUR | Equity in TEUR | Profit/loss for year in TEUR | Initial consolidation |
|---|---|---|---|---|---|
| 2G Energietechnik GmbH*, Heek, Germany | 100 | 1,000 | 2,832 | 0 | 30/06/2007 |
| 2G Drives GmbH, Heek, Germany | 100 | 25 | 4,111 | 624 | 24/03/2010 |
| 2G Home GmbH, Heek, Germany | 100 | 125 | 578 | 4 | 31/12/2007 |
| 2G Rental GmbH, Heek, Germany | 100 | 50 | 85 | 159 | 31/12/2014 |
| HJS Motoren GmbH, Amtzell, Germany | 50 | 25 | 947 | 638 | 01/07/2018 |
| 2G Solutions of Cogeneration S.L., Vic Barcelona, Spain | 90 | 3 | -650 | -114 | 31/01/2008 |
| 2G Energie SAS, Sainte-Luce-sur-Loire (Nantes), France | 100 | 200 | 877 | 584 | 24/08/2016 |
| 2G Italia Srl, Vago di Lavagno (Verona), Italy | 100 | 10 | 507 | -127 | 15/03/2011 |
| 2G Energy Ltd., Cheshire, United Kingdom** | 100 | 1 | 444 | 216 | 19/09/2011 |
| 2G Polska Sp. z o.o., Bielsko-Biała, Poland** | 100 | 1 | -57 | 2 | 07/11/2011 |
| 2G Energy Inc., St. Augustine (FL), USA** | 100 | 1 | 706 | -81 | 27/02/2012 |
| 2G Energy Corp., Fergus (ON), Canada** | 100 | 0 | -371 | -366 | 01/01/2019 |

* On July 5, 2007, a control and profit assumption agreement was contracted with 2G Energietechnik GmbH
** Converted at reporting date's exchange rate

The purpose of the subsidiaries 2G Energietechnik GmbH, 2G Home GmbH, 2G Solutions of Cogeneration S.L., 2G Energie SAS, 2G Italia Srl, 2G Energy Ltd., 2G Polska Sp. z o.o., 2G Energy Inc. and 2G Energy Corp. is to plan and install combined heat and power systems, trade in components for CHP systems, and provide after-sales services associated with CHP systems.

The purpose of the subsidiary company 2G Drives GmbH is to optimize gas engines, and to manufacture and market Otto spark-ignition gas engines. The purpose of the subsidiary company 2G Rental GmbH is to trade in, and rent, combined heat and power systems.

The purpose of HJS Motoren GmbH is the development, sales and service of combined heat and power systems.

Apart from HJS Motoren GmbH, all of the companies are included as subsidiaries in the consolidated financial statements due to the parent company owning the majority of their voting rights.

HJS Motoren GmbH is included ‘at equity’ in the consolidated financial statements.

**2. Consolidation methods applied**

**Closing date for consolidated financial statements and companies included in the consolidation scope**

The consolidated financial statements are based on the separate financial statements of 2G Energy AG and the financial statements of the subsidiaries included in the consolidation scope. The financial statements are prepared as of the December 31, 2019 closing date.

**Capital consolidation**

Capital is consolidated according to the revaluation method pursuant to Section 301 (1) of the German Commercial Code (HGB). All balance sheet items at subsidiary level are recognized at fair value on the first-time consolidation date. Share acquisition costs are offset subsequently against revalued proportionate equity. The residual differential amount from capital consolidation (goodwill) is capitalized and amortized, as it applies to the core business of 2G Energy AG, straight-line over a prospective 20-year useful life pursuant to Section 309 (1) of the German Commercial Code (HGB).

Interests in subsidiaries which are included in the consolidated financial statements, but which are not held by 2G, are reported as minority interests.

**Consolidation of liabilities**

Liabilities are consolidated pursuant to Section 303 (1) of the German Commercial Code (HGB). Accordingly, prepayments rendered and other receivables, provisions and liabilities between the companies included in the consolidated financial statements are to be eliminated. Offsetting differences in connection with the consolidation of liabilities are recognized through profit or loss if they comprise year-on-year changes. Otherwise, they are recognized directly in equity. Minor offsetting differences were recognized in the reporting year.

Currency translation differences as part of the consolidation of liabilities are recognized in profit or loss under other operating income or expenses.

**Treatment of unrealized results of intragroup transactions**

Unrealized results of intragroup transactions are eliminated pursuant to Section 304 (1) of the German Commercial Code (HGB). Accordingly, assets that are based fully or partly on deliveries or services between the companies included in the consolidated financial statements must be recognized at the amount at which they could be recognized in the annual balance sheet for the respective company prepared on the closing date of the consolidated financial statements, if the companies included in the consolidated financial statement were also to form a single entity in legal terms.

The consolidated profit and loss account is adjusted to reflect profit or loss contributions from intragroup transactions as part of consolidating income and expenses in accordance with Section 305 of the German Commercial Code (HGB).

Currency translation differences in the context of the elimination of interim profits are recognized in profit or loss under other operating income or expenses.

**Consolidation of income and expenses**

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

**Equity valuation**

The valuation using the equity method must be carried out if a company is to be regarded as an associated company. This means that the parent company can exercise a significant influence on the business and financial policy of the subsidiary. According with Section 311 of the German Commercial Code (HGB), such significant influence is to be assumed in the case of participations in companies and thus a valuation must be carried out 'at equity'.

Shares in associated companies are valued at the level of their proportioned equity plus a goodwill acquired for a consideration pursuant to Section 312 of the German Commercial Code (HGB). The equity valuation was carried out using the book value method at the time of acquisition in the consolidated financial statements.

The remaining difference (goodwill) is capitalized in the participating interest in associated companies and since it represents the acquired know-how of the associated company depreciated over the expected useful life of 3 years using the straight-line method.

The elimination of unrealized results of intragroup transactions in the context of the equity valuation was waived due to its minor significance in accordance with Section 312 (5) sentence 3 of the German Commercial Code (HGB).

## C. Information about accounting policies

The individual financial statements of 2G Energy AG and its subsidiaries are prepared in accordance with standard accounting policies.

The annual financial statements of the companies included in the consolidation scope are prepared in accordance with the regulations set out in the German Commercial Code (HGB) and the respective legal form-specific regulations.

Valuation methods were applied unchanged compared with the previous year.

Valuation details are as follows:

### 1. Intangible fixed assets

Acquired intangible fixed assets are recognized at acquisition cost and, if they comprise depreciating assets, less straight-line amortization:

**Intangible fixed assets**

| | Useful life |
|---|---|
| Software | 3–5 years |
| Licenses | 3 years |
| Other intangible fixed assets | 3–6 years |

Prepayments rendered are recognized at normal value.

### 2. Tangible fixed assets

Tangible fixed assets are recognized at acquisition cost and, if they are subject to wear and tear, less scheduled depreciation. Depreciation is applied straight-line according to the assets' prospective useful lives:

**Tangible fixed assets**

| | Useful life |
|---|---|
| Land and land rights | 0 years |
| Buildings, indoor and outdoor facilities on own land | 5–33 years |
| Buildings on third-party land | 9–19 years |
| Fixtures and fittings | 6–21 years |
| Vehicles and conveyor vehicles | 6–8 years |
| Tools | 5–13 years |
| Computer equipments | 3–9 years |
| Facilities on third-party land | 5–21 years |
| Other operating and office equipment | 5–21 years |

Prepayments rendered are recognized at normal value.

### 3. Financial fixed assets

Other participating interests are recognized at the lower of their cost or fair value on the balance sheet date. If the value of financial assets calculated in accordance with the principles referred to above is higher than the fair value on the balance sheet date, an extraordinary write-down is applied. If the grounds for a lower valuation no longer exist, a write-up is applied pursuant to Section 253 (5) Clause 1 of the German Commercial Code (HGB).

### 4. Inventories

Raw materials and supplies are recognized at the lower of cost or fair value.

Work in progress and finished goods are recognized at the lower of cost or fair value. In addition to directly attributable specific costs of materials and production, production costs also include materials and production overheads, as well as general administrative costs to the extent that they can be allocated to production. Borrowing costs are not included in production costs.

Prepayments rendered are recognized at nominal value.

If prepayments received do not exceed the value of the work in progress, they are offset with work in progress to the level of the satisfaction amount on a project basis.

**5. Receivables and other assets**

Receivables and other assets are recognized at the nominal value. Appropriate specific valuation allowances are applied to all risky items. General default and credit risk is reflected through general valuation allowance.

**6. Cash in hand and bank balances**

Cash in hand and bank balances are measured at nominal value.

**7. Prepayments and accrued income**

Prepayments and accrued income include payments received before the balance sheet date as far as they represent costs for a particular time period after that date.

**8. Deferred tax**

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

Offsetting applied as part of consolidation generates a differential amount that is to be reported as goodwill. Deferred taxes are not charged on this differential amount (German Accounting Standard/DRS 18 section 25).

**9. Equity**

Equity is measured at nominal value.

**10. Tax provisions**

Tax provisions are recognized at the settlement amounts and include taxes relating to the reporting year that have not yet been assessed.

**11. Other provisions**

Other provisions are recognized at the settlement amounts and are created for contingent liabilities at their settlement value in accordance with reasonable commercial judgment, and taking into account all identifiable risks and contingent liabilities.

**12. Liabilities**

Liabilities are recognized at the settlement amounts.

**13. Prepayments received**

Prepayments received include advance payments for new plants, and advance payments from full maintenance contracts. If prepayments received do not exceed the value of the work in progress, prepayments received for new plants are offset on a project basis with work in progress to the level of the satisfaction amount. Any surplus is reported as a prepayment received on the liabilities side of the balance sheet. Prepayments received for full maintenance contracts are accrued on a percentage of completion basis according to the specific contract. Prepayments received for full maintenance contracts are recognized in sales revenues according to percentage of completion. Any surplus prepaid amount is accrued as a prepayment received.

### 14. Currency translation

Items in the annual financial statements that are based on amounts denominated in foreign currencies are translated at the cash exchange rate in compliance with Section 256a of the German Commercial Code (HGB).

## D. Notes to the consolidated balance sheet

### 1. Fixed assets

For information about changes in fixed assets during the financial year under review, please refer to the corresponding presentation in the statement of changes in fixed assets. This statement also presents depreciation, amortization and extraordinary write-downs applied for each balance sheet item during the financial year.

Fixed assets include TEUR 3,166 (previous year: TEUR 3,755) of rental plants from the operating activities of 2G Rental GmbH.

Participating interests in associated companies include a difference between the book value and the equity of the associated company in the amount of TEUR 332 (previous year: TEUR 663), which is attributable in full to the acquired goodwill.

### 2. Receivables and other assets

Specific and general valuation allowances of TEUR 4,483 (previous year: TEUR 4,458) were applied to trade receivables.

As in the previous year, receivables due from participating interests relate to trade receivables in full.

As in the previous year, all receivables and other assets have a residual term of less than one year.

### 3. Deferred tax assets

Deferred tax receivables of TEUR 2,476 (previous year: TEUR 2,776) arise from tax loss carryforwards (TEUR 122) at 2G Polska Sp. z o.o. and 2G Energy Corp. No deferred tax assets were formed in relation to the loss carryforwards of 2G Solutions S.L., 2G Italia Srl. and 2G Energy Inc. due to their having generated net losses in previous years. In this context, a cautious approach was adopted that does not take into account positive expectations arising from current structural changes. In addition, deferred taxes were formed in relation to eliminated intragroup gains on fixed assets (TEUR 917) and inventories (TEUR 1,313) deriving from intragroup deliveries and services as of the balance sheet date, and on temporary differences (TEUR 124). These temporary differences arise mainly from recognizing differing valuations for inventories and provisions in the financial statements and in the tax accounts.

It is assumed with sufficient probability that the tax benefits connected with the loss carryforwards can be realized over the coming financial years.

No deferred tax liabilities required reporting as of the balance sheet date.

#### 4. Consolidated equity

The share capital amounts to TEUR 4,430, and is divided into 4,430,000 ordinary bearer shares, each with a nominal value of EUR 1.

Capital reserves of EUR 11,235 arise mainly from share premiums from capital increases at 2G Energy AG.

In a resolution passed at the Annual General Meeting on July 8, 2015, the Management Board was authorized to increase the company's subscribed share capital during the period until July 7, 2020, with Supervisory Board approval, once or on several occasions, by up to a total of TEUR 2,215 by issuing new shares against cash or non-cash capital contributions (Approved Capital 2015).

Notional dividend payout restrictions exist in relation to deferred taxes of TEUR 2,776.

An amount of TEUR 43,349 is available to shareholders for distribution in the year under review. No restricted amounts that cannot be distributed exist in the separate financial statements of 2G Energy AG.

For more information about changes in consolidated equity during the financial year under review, please refer to the corresponding presentation in the consolidated statement of changes in equity.

#### 5. Other provisions

The composition on the balance sheet date and changes in other provisions during the reporting year are shown in the following statement of changes in provisions:

**Other provisions,** in TEUR

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Warranty commitments | 6,046 | 6,177 |
| Residual work on completed plants/outstanding invoices | 4,263 | 4,586 |
| Amounts owed to staff | 2,143 | 1,865 |
| Taxable fringe benefits | 872 | 872 |
| Professional cooperative contributions | 315 | 292 |
| Costs of preparing and auditing financial statements | 158 | 154 |
| Litigation costs | 82 | 80 |
| AGM and annual report | 53 | 49 |
| Archiving of business documents | 20 | 19 |
| Misc. other provisions | 137 | 255 |
| **Total** | **14,089** | **14,349** |

### 6. Liabilities

Liabilities consist of the following:

**Residual terms**, in TEUR (previous year's amounts in brackets)

| | < 1 year | > 1 year | of which > 5 years | Total |
|---|---|---|---|---|
| Bank borrowings | 5,406 (1,219) | 5,146 (6,071) | 1,532 (2,151) | 10,553 (7,290) |
| Prepayments received for orders | 26,405 (21,429) | 0 (0) | 0 (0) | 26,405 (21,429) |
| Trade payables | 13,729 (10,632) | 0 (0) | 0 (0) | 13,729 (10,632) |
| Other liabilities | 6,318 (6,718) | 0 (0) | 0 (0) | 6,318 (6,718) |
| **Total** | **51,859 (39,998)** | **5,146 (6,071)** | **1,532 (2,151)** | **57,005 (46,070)** |

The following collateral instruments are connected with bank borrowings:

- EUR 2.8 million land charge, Siemensstrasse 20, Heek
- EUR 2.63 million land charge, Benzstrasse 3, Heek
- EUR 0.31 million land charge, Siemensstrasse 10, Heek
- Collateral assignment of a lease claims

Other liabilities comprise tax liabilities of TEUR 3,820 (previous year: TEUR 4,251), and social security liabilities of TEUR 118 (previous year: TEUR 93).

## E. Notes to the consolidated profit and loss account

The profit and loss account is prepared applying the nature of expense method, and structured according to Section 275 (2) of the German Commercial Code (HGB).

### 1. Net sales

Net sales are divided geographically and by operating activities as follows:

**Net sales,** in TEUR
(previous year's amounts in brackets)

| | Germany | Abroad | Total |
|---|---|---|---|
| CHP units/ After Sales | 90,264 (79,426) | 56,767 (52,322) | 147,031 (131,745) |
| Service | 63,255 (57,614) | 26,110 (20,424) | 89,365 (78,038) |
| **Total** | **153,519 (137,037)** | **82,876 (72,746)** | **236,396 (209,783)** |

### 2. Other operating income

Other operating income comprises TEUR 1,249 (previous year: TEUR 624) of income related to other accounting period that consists mainly of insurance compensation payments and loss compensation payments (TEUR 807) and the decrease of bad debt allowances (TEUR 303).

Other operating income includes income of TEUR 382 (previous year: TEUR 202) from currency translation.

### 3. Other operating expenses

Other operating expenses consist of the following:

**Other operating expenses,** in TEUR

| | 2019 | 2018 |
|---|---|---|
| Operating expenses | 7,756 | 7,333 |
| Administration expenses | 3,221 | 3,234 |
| Sales and marketing expenses | 7,100 | 6,257 |
| Miscellaneous | 4,979 | 6,366 |
| **Total** | **23,055** | **23,190** |

Other operating expenses comprise TEUR 876 (previous year: TEUR 1,802) of expenses related to other accounting periods that consist mainly of non-period credits and losses incurred on receivables.

Other operating expenses include expenses of TEUR 558 (previous year: TEUR 295) from currency translation. The expenses from currency translation amount to TEUR 0 (previous year: TEUR 8) from currency translation differences in the context of the consolidation of liabilities.

### 4. Personnel costs

Social security contributions and pension and benefit expenses include TEUR 449 (previous year: TEUR 401) of pension expenses.

### 5. Depreciation

Depreciation and amortization applied to tangible and intangible assets include amortization of goodwill in the amount of TEUR 544 (previous year: TEUR 794).

### 6. Income from associated companies

Income from associated companies consist of the following:

**Income from associated companies,** in TEUR

| | 2019 | 2018 |
|---|---|---|
| Partial result | 319 | 201 |
| Depreciation of goodwill | -332 | -331 |
| **Total** | **-13** | **-130** |

### 7. Other interest and similar income

Other interest and similar income includes income from the discounting of provisions in the amount of TEUR 7 (previous year: TEUR 8).

### 8. Taxes on income

The following items are recognized in the profit and loss account under taxes on income:

**Income from deferred taxes**, in TEUR

| | 2019 | 2018 |
|---|---|---|
| Deferred tax income | 45 | 1,500 |
| Deferred tax expenses | -345 | -159 |
| of which attributable to loss carryforwards (net balance) | 45 | -159 |
| **Income from deferred taxes** | **-300** | **1,341** |

## F. Additional information

### 1. Consolidated cash flow statement

The cash flow statement is prepared in compliance with German Accounting Standard/ DRS 21.

Cash and cash equivalents shown in the cash flow statement include cash at banks and in hand, less short-term liabilities of TEUR 146 (previous year: TEUR 17).

### 2. Notifications pursuant to Section 20 of the German Stock Corporation Act (AktG)

Christian Grotholt notified the company in accordance with Section 20 of the German Stock Corporation Act (AktG) that they each own more than one quarter of the shares in 2G Energy AG as of the balance sheet date. Both notifications were submitted to the electronic Federal Gazette (Bundesanzeiger) on July 30, 2007.

### 3. Events of key significance after the reporting date

Effective January 1, 2020 (merger date), 2G Energietechnik GmbH will take over the assets of the transferring sister company 2G Drives GmbH as part of the merger. The executive board of 2G Energy AG, Heek, as the sole shareholder of 2G Energietechnik GmbH and 2G Drives GmbH, passed the resolution to merge these companies on November 11, 2019. The supervisory board of 2G Energy AG approved the resolution on November 14, 2019. The entry in the commercial register is still pending.

The COVID-19 pandemic is directly and indirectly affecting the business and working lives of companies and whole populations all around the world. The expected drop in economic output that all economies will face across the board is due to the measures taken to curb the pandemic, some of them draconian, as well as the uncertainty this has caused, the lack of demand, the fall in production in some parts of industry, the closure of service companies and a widespread reluctance to invest.

For as long as no vaccine is available to prevent or immunize against the virus and no drugs are able to treat it, an extension to the radical self-isolation, shielding and quarantine measures cannot be ruled out.

2G primarily believes that the COVID-19 pandemic poses risks in the areas of “Sales risks”, “Product availability” and “Human resources”, as discussed in the risk and opportunity report. We refer to our comments in the group management report. From today's perspective, there are no discernible risks to the continued existence of 2G.

### 4. Derivative financial instruments

Derivative financial instruments serve exclusively to hedge currency risks. On the balance sheet date, the following derivative financial instruments existed:

**Financial instruments,** in TEUR

| | Scope | Maturity | Fair value |
|---|---|---|---|
| Forward exchange transaction EUR – USD | 922 | 15/01/2020 | -25 |
| Forward exchange transaction EUR – GBP | 356 | 15/01/2020 | -6 |
| Forward exchange transaction EUR – USD | 3,375 | 31/01/2020 | -84 |
| Forward exchange transaction EUR – GBP | 424 | 14/02/2020 | -7 |
| Forward exchange transaction EUR – USD | 226 | 19/02/2020 | -1 |
| Forward exchange transaction EUR – USD | 621 | 28/02/2020 | -26 |
| Forward exchange transaction EUR – USD | 1,186 | 28/02/2020 | -16 |
| Forward exchange transaction EUR – GBP | 292 | 28/02/2020 | -5 |
| Forward exchange transaction EUR – GBP | 1,383 | 13/03/2020 | -51 |
| Forward exchange transaction EUR – GBP | 458 | 03/04/2020 | -17 |
| Forward exchange transaction EUR – GBP | 611 | 17/04/2020 | -22 |
| Forward exchange transaction EUR – USD | 555 | 17/04/2020 | -4 |
| Forward exchange transaction EUR – CAD | 195 | 24/04/2020 | -3 |
| Forward exchange transaction EUR – USD | 855 | 30/04/2020 | 7 |
| Forward exchange transaction EUR – USD | 491 | 08/05/2020 | -4 |
| Forward exchange transaction EUR – USD | 773 | 26/06/2020 | -9 |
| Forward exchange transaction EUR – GBP | 484 | 30/06/2020 | -10 |
| Forward exchange transaction EUR – USD | 695 | 02/07/2020 | -8 |
| Forward exchange transaction EUR – USD | 775 | 10/07/2020 | -9 |
| Forward exchange transaction EUR – USD | 2,044 | 30/07/2020 | -22 |
| Forward exchange transaction EUR – USD | 1,741 | 30/09/2020 | -24 |
| **Total** | **18,462** | | **-346** |

As the conditions for these transactions are met, valuation units are formed according to section 254 of German Commercial Code (HGB) (micro hedge). Accordingly, provisions for anticipated losses with regard to the negative market value of the transactions were not required. The counteracting cash flows are offset on maturity of the underlying transactions, which are corresponding to the maturity of the hedging transactions. The effectiveness of the valuation unit is based on the consistency between the terms and conditions of the underlying and the hedging transaction. The so-called freezing method is used for financial reporting of the effective parts of the valuation units.

### 5. Contingent liabilities

No contingent liabilities in the meaning of Section 251 (HGB) of the German Commercial Code existed for third-party liabilities as of the balance sheet date.

### 6. Other financial obligations

Other financial obligations existed in relation to contracts as follows:

**Other financial obligations**, in TEUR
(previous year's figures in brackets)

| | < 1 year | 1–5 years | Total |
|---|---|---|---|
| Permanent rental contracts* | 483<br>(369) | 0<br>(0) | 483<br>(369) |
| Fixed-term rental contracts | 154<br>(125) | 247<br>(157) | 401<br>(282) |
| Lease contracts | 188<br>(186) | 280<br>(145) | 468<br>(331) |
| **Total** | **825**<br>**(680)** | **527**<br>**(302)** | **1,352**<br>**(983)** |

* The stated value for the continuing obligations relates to the Company's obligation under these contracts for a period of 12 months

### 7. Average number of employees during the financial year

The average number of employees pursuant to Section 267 of the German Commercial Code (HGB) is composed as follows:

**Number of employees**

| | 2019 | 2018 |
|---|---|---|
| Industrial workers | 350 | 326 |
| Commercial employees | 299 | 301 |
| **Total** | **649** | **627** |
| of whom part-time employees | 77 | 67 |

### 8. Management Board

The Management Board is currently composed as follows:

**Management Board**

| | Since | Appointed until |
|---|---|---|
| Mr. Dipl.-Ing. Christian Grotholt (Chairman)<br>Ahaus-Alstätte<br>CEO of 2G Energy AG<br>Strategy, Sales, Service, Research and Development | 17/07/2007 | 16/07/2022 |
| Mr. Ludger Holtkamp<br>Gronau<br>COO of 2G Energy AG<br>Procurement, Production, Project Management | 17/07/2007 | 16/07/2022 |
| Mr. Dipl.-Betriebsw. (BA) Friedrich Pehle<br>Soest<br>CFO of 2G Energy AG<br>Finance, Human Resources, Law, Investor Relations | 01/12/2017 | 30/11/2023 |

More information about the Management Board members of 2G Energy AG is provided on 2G's website in the section entitled "Company".

### 9. Supervisory Board

The following individuals were appointed as members of the Supervisory Board during the year under review:

**Supervisory Board**

| | Since |
|---|---|
| Dr. Lukas Lenz (Chairman)<br>Hamburg<br>Lawyer | 17/07/2007 |
| Mr. Heinrich Bertling<br>(Deputy Chairman)<br>Gronau<br>Tax adviser | 28/08/2012 |
| Mr. Wiebe Hofstra<br>Drachten/NL<br>Senior Manager<br>van der Wiel Holding BV | 17/07/2007 |

The Supervisory Board members are appointed until the end of the AGM that passes a resolution concerning the discharge of the directors for the 2021 financial year.

More information about the Supervisory Board members of 2G Energy AG is provided on 2G's website in the section entitled "Company".

### 10. Directors' compensation

Compensation of TEUR 944 (previous year: TEUR 786) was paid to the Management Board in the financial year under review, and compensation of TEUR 46 (previous year: TEUR 30) to the Supervisory Board.

### 11. Auditor's fee

Other operating expenses include the fees expensed for the auditor of the financial statements. The auditor's fee totaled TEUR 93 (previous year: TEUR 100) and is composed as follows:

**Auditor's fee,** in TEUR

| | 2019 | 2018 |
|---|---|---|
| Audit services | 91 | 91 |
| Other assurance services | 2 | 0 |
| Other consultancy services | 0 | 9 |
| **Total** | **93** | **100** |

### 12. Proposed appropriation of profits

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

The unappropriated profit of EUR 6,763,193.91 reported in the annual financial statements of 2G Energy AG as prepared according to the German Commercial Code (HGB), consisting of net profit of EUR 6,763,193.91 for the year and EUR 0.00 of net retained profits, are to be distributed in an amount of EUR 1,993,500.00, and to allocate in an amount of EUR 4,769,693.91 to other retained earnings.

### 13. Exemption rules

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

Heek, March 31, 2020

Christian Grotholt
Management Board Chairman (CEO)

Ludger Holtkamp
Management Board member

Friedrich Pehle
Management Board member

# Consolidated statement of changes in fixed assets

| | Cost | | | | | |
|---|---|---|---|---|---|---|
| | 01/01/2019 | Currency translation | Additions | Transfers | Disposals | 31/12/2019 |
| **Intangible fixed assets** | | | | | | |
| Purchased concessions, industrial property rights and similar rights and assets, and licenses to such rights and assets | 2,390,683.34 | 197.26 | 233,875.44 | 0.00 | 17,789.68 | 2,606,966.36 |
| Goodwill | 8,431,787.58 | 0.00 | 0.00 | 0.00 | 0.00 | 8,431,787.58 |
| Prepayments rendered | 9,333.00 | 0.00 | 0.00 | 0.00 | 0.00 | 9,333.00 |
| | **10,831,803.92** | **197.26** | **233,875.44** | **0.00** | **17,789.68** | **11,048,086.94** |
| **Tangible fixed assets** | | | | | | |
| Land, land rights and buildings, including buildings on third-party land | 14,812,616.89 | 54,174.35 | 850,346.01 | 9,918.38 | 0.00 | 15,727,055.63 |
| Plant and machinery | 2,098,932.90 | 14,938.47 | 361,718.41 | 0.00 | 67,435.24 | 2,408,154.54 |
| Other factory and office equipment | 20,353,398.55 | 71,104.06 | 3,065,246.07 | 0.00 | 1,263,369.51 | 22,226,379.17 |
| Prepayments rendered and plants under construction | 64,720.95 | 0.00 | 9,019.78 | -9,918.38 | 0.00 | 63,822.35 |
| | **37,329,669.29** | **140,216.88** | **4,286,330.27** | **0.00** | **1,330,804.75** | **40,425,411.69** |
| **Financial fixed assets** | | | | | | |
| Participating interests in associated companies | 881,030.44 | 0.00 | 0.00 | 0.00 | 12,560.86 | 868,469.58 |
| Other participating interests | 10,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 10,000.00 |
| | **891,030.44** | **0.00** | **0.00** | **0.00** | **12,560.86** | **878,469.58** |
| **Total** | **49,052,503.65** | **140,414.14** | **4,520,205.71** | **0.00** | **1,361,155.29** | **52,351,968.21** |

| Depreciation and amortization | | | | | Book value | |
|---|---|---|---|---|---|---|
| 01/01/2019 | Currency translation | Additions | Disposals | 31/12/2019 | 31/12/2019 | 31/12/2018 |
| 1,853,091.27 | 193.48 | 252,688.04 | 14,736.08 | 2,091,236.71 | 515,729.65 | 537,592.07 |
| 5,174,028.92 | 0.00 | 544,032.29 | 0.00 | 5,718,061.21 | 2,713,726.37 | 3,257,758.66 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 9,333.00 | 9,333.00 |
| **7,027,120.19** | **193.48** | **796,720.33** | **14,736.08** | **7,809,297.92** | **3,238,789.02** | **3,804,683.73** |
| 2,101,283.17 | 4,468.27 | 472,499.44 | 0.00 | 2,578,250.88 | 13,148,804.75 | 12,711,333.72 |
| 1,017,260.89 | 10,482.11 | 165,596.20 | 66,332.95 | 1,127,006.25 | 1,281,148.29 | 1,081,672.01 |
| 11,380,222.86 | 42,395.45 | 2,280,436.16 | 1,047,479.04 | 12,655,575.43 | 9,570,803.74 | 8,973,175.69 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 63,822.35 | 64,720.95 |
| **14,498,766.92** | **57,345.83** | **2,918,531.80** | **1,113,811.99** | **16,360,832.56** | **24,064,579.13** | **22,830,902.37** |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 868,469.58 | 881,030.44 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 10,000.00 | 10,000.00 |
| **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **878,469.58** | **891,030.44** |
| **21,525,887.11** | **57,539.31** | **3,715,252.13** | **1,128,548.07** | **24,170,130.48** | **28,181,837.73** | **27,526,616.54** |

# Consolidated cash flow statement

| | | 01/01/ to 31/12/2019 | 01/01/ to 31/12/2018 |
|---|---|---|---|
| | | Euro | Euro |
| | **Consolidated net profit/loss for the year** | **10,301,893.06** | **7,607,609.52** |
| + | Depreciation, amortization and fixed asset write-downs | 3,715,252.13 | 3,917,683.47 |
| ± | Change in provisions | -259,843.30 | 1,521,499.45 |
| ± | Change in inventories | -14,306,465.37 | -2,152,544.17 |
| ± | Change in trade receivables and other assets that are not allocable to investing or financing activities | -4,393,221.27 | -5,459,637.67 |
| ± | Change in trade payables and other liabilities that are not allocable to investing financing activities | 7,673,088.81 | 108,642.97 |
| ± | Loss/gain from fixed asset disposals | 46,591.51 | 11,842.06 |
| + | Interest and similar expenses | 407,236.93 | 454,685.67 |
| − | Other interest and similar income | -58,202.96 | -59,563.72 |
| − | Other income from participating interests | 12,060.86 | 130,139.66 |
| + | Taxes on income | 4,801,921.40 | 3,450,478.81 |
| ± | Income tax payments | -6,019,116.32 | -4,655,500.81 |
| = | **Cash flow from operating activities** | **1,921,195.48** | **4,875,335.24** |
| + | Proceeds from fixed asset disposals | 173,454.86 | 2,258,893.32 |
| − | Payments for investments in intangible fixed assets | -233,875.44 | -148,421.21 |
| − | Payments for investments in tangible fixed assets | -4,286,330.27 | -7,095,214.86 |
| − | Payments for investments in financial fixed assets | 0.00 | -1,011,370.10 |
| − | Payments for acquisition of consolidated companies | -1,388,888.00 | 0.00 |
| + | Interest received | 58,702.96 | 59,763.72 |
| = | **Cash flow from investing activities** | **-5,676,935.89** | **-5,936,349.13** |

| | | 01/01/ to 31/12/2019 | 01/01/ to 31/12/2018 |
|---|---|---|---|
| | | Euro | Euro |
| + | Proceeds from raising of loans | 4,363,169.29 | 2,800,000.00 |
| − | Outgoing payments for redemption of loans | -1,229,154.24 | -1,866,242.42 |
| − | Interest paid | -407,236.93 | -454,685.67 |
| − | Dividends paid to parent company shareholders | -1,993,500.00 | -1,860,600.00 |
| = | **Cash flow from financing activities** | **733,278.12** | **-1,381,528.09** |
| = | **Net change in cash and cash equivalents** | **-3,022,462.29** | **-2,442,541.98** |
| ± | Currency-related change in cash and cash equivalents | -36,307.49 | -34,729.69 |
| + | Cash and cash equivalents at start of period | 13,615,190.87 | 16,092,462.54 |
| = | **Cash and cash equivalents at end of period** | **10,556,421.09** | **13,615,190.87** |

| | 01/01/ to 31/12/2019 | 01/01/ to 31/12/2018 |
|---|---|---|
| | Euro | Euro |
| **Composition** | | |
| Liquid assets | 10,701,989.93 | 13,632,458.25 |
| Short-term bank borrowings | -145,568.84 | -17,267.38 |
| | **10,556,421.09** | **13,615,190.87** |

# Consolidated statement of changes in equity

**Consolidated statement of changes in equity**, in Euro

| | Parent company | | | | |
|---|---|---|---|---|---|
| | Subscribed share capital | Capital reserves | Retained earnings | Equity difference from currency translation | Consolidated retained earnings attributable to the parent company |
| **Balance on 01/01/2018** | **4,430,000.00** | **11,235,300.00** | **40,299,580.49** | **-1,005,335.70** | **178,735.80** |
| Currency translation | 0.00 | 0.00 | 0.00 | 98,080.23 | 0.00 |
| Dividends | 0.00 | 0.00 | 0.00 | 0.00 | -1,860,600.00 |
| Consolidated profit for the year | 0.00 | 0.00 | 0.00 | 0.00 | 7,517,569.29 |
| **Balance on 31/12/2018** | **4,430,000.00** | **11,235,300.00** | **40,299,580.49** | **-907,255.47** | **5,835,705.09** |
| **Balance on 01/01/2019** | **4,430,000.00** | **11,235,300.00** | **40,299,580.49** | **-907,255.47** | **5,835,705.09** |
| Transfer to retained earnings | 0.00 | 0.00 | 13,521,701.00 | 0.00 | -13,521,701.00 |
| Currency translation | 0.00 | 0.00 | 0.00 | 46,567.34 | 0.00 |
| Dividends | 0.00 | 0.00 | 0.00 | 0.00 | -1,993,500.00 |
| Miscellaneous changes | 0.00 | 0.00 | -691,599.58 | 0.00 | 0.00 |
| Consolidated profit for the year | 0.00 | 0.00 | 0.00 | 0.00 | 10,309,898.95 |
| **Balance on 31/12/2019** | **4,430,000.00** | **11,235,300.00** | **53,129,681.91** | **-860,688.13** | **630,403.04** |

| | Non-controlling interests | | | Consolidated equity |
|---|---|---|---|---|
| Total | Non-controlling interests before equity difference from currency translation and profit | Profit/loss attributable to non-controlling interests | Total | |
| 55,138,280.59 | 5,300.60 | 567,261.87 | 572,562.47 | 55,710,843.06 |
| 98,080.23 | 0.00 | 0.00 | 0.00 | 98,080.23 |
| -1,860,600.00 | 0.00 | 0.00 | 0.00 | -1,860,600.00 |
| 7,517,569.29 | 0.00 | 90,040.23 | 90,040.23 | 7,607,609.52 |
| 60,893,330.11 | 5,300.60 | 657,302.10 | 662,602.70 | 61,555,932.81 |
| 60,893,330.11 | 5,300.60 | 657,302.10 | 662,602.70 | 61,555,932.81 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 46,567.34 | 0.00 | 0.00 | 0.00 | 46,567.34 |
| -1,993,500.00 | 0.00 | 0.00 | 0.00 | -1,993,500.00 |
| -691,599.58 | -5,000.00 | -692,288.42 | -697,288.42 | -1,388,888.00 |
| 10,309,898.95 | 0.00 | -8,005.89 | -8,005.89 | 10,301,893.06 |
| 68,564,696.82 | 300.60 | -42,992.21 | -42,691.61 | 68,522,005.21 |

# Auditor’s report*

### Audit opinions

We have audited the consolidated financial statements of 2G Energy AG, Heek, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the financial year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the Group management report of 2G Energy AG for the financial year from 1 January to 31 December 2019.

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 requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 in compliance with German Legally Required Accounting Principles, 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.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], 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 § 317 HGB in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (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 German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. 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.

### Other information

The executive directors are responsible for the other information.

The annual report is expected to be made available to us after the date of the auditor's report.

Our audit opinions on the consolidated financial statements and on the Group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the Group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

**Responsibilities of the 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 the requirements of German commercial law, and 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 German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, 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, provided no actual or legal circumstances conflict therewith.

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 § 317 HGB 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 skepticism 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 control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Legally Required Accounting Principles.

- 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.

Osnabrück, April 1, 2020

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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|---|---|
| Norbert Niedenhof | ppa. Stefan Heitmeyer |
| German Public Auditor | German Public Auditor |

* Translation of the auditor's report issued in German language on the consolidated financial statements prepared in German language by the management of 2G Energy AG

# Colophon

**Published by**
2G Energy AG
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**Design and layout**
Werbeagentur Holl GmbH & Co. KG
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Baker & Company Language Solutions
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