ANNUAL REPORT 2021

SFC ENERGY

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SFC ENERGY AG – KEY FIGURES

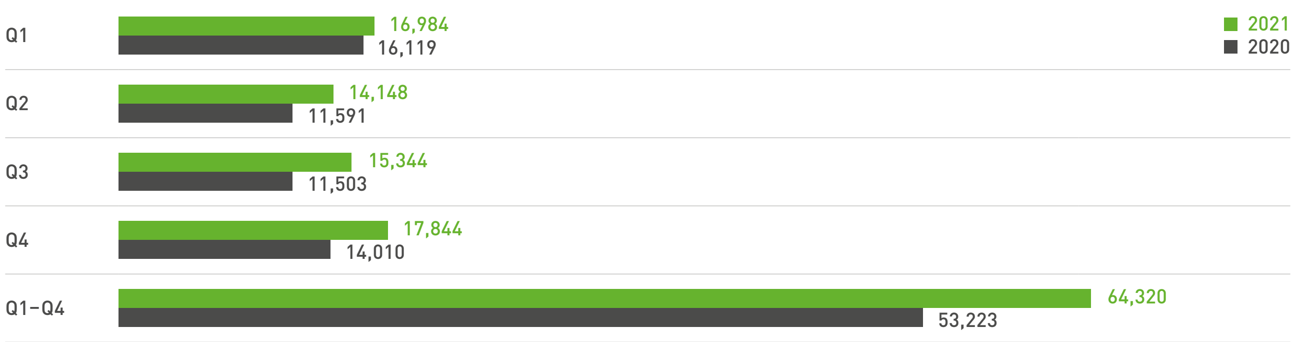
CONSOLIDATED KEY FIGURES

in EURk

	2021 01/01–12/31	2020 01/01–12/31	Change
Sales	64,320	53,223	20.9%
Gross profit	22,638	17,915	26.4%
Gross margin	35.2%	33.7%	
EBITDA	– 797	– 986	19.2%
EBITDA margin	– 1.2%	– 1.9%	
EBITDA underlying	6,233	2,936	112.3%
EBITDA margin underlying	9.7%	5.5%	
EBIT	– 5,105	– 4,501	– 13.4%
EBIT margin	– 7.9%	– 8.5%	
EBIT underlying	1,925	– 579	n/a
EBIT margin underlying	3.0%	– 1.1%	
Consolidated net loss	– 5,829	– 5,184	– 12.4%
Net loss per share, undiluted	– 0.40	– 0.39	– 3.1%
Net loss per share, diluted	– 0.40	– 0.39	– 3.1%

SALES BY QUARTER

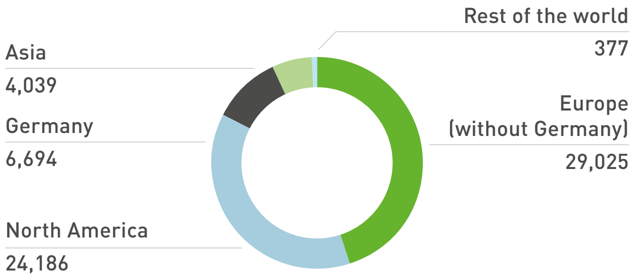
in EURk



SALES BY REGION

in EURk

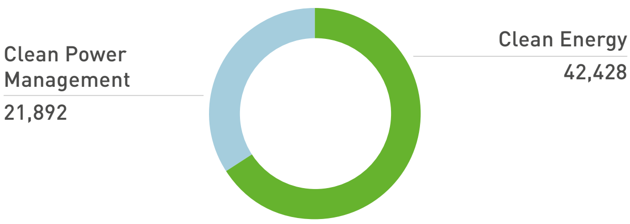
01/01 – 12/31/2021



SALES BY SEGMENT

in EURk

01/01 – 12/31/2021



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TO SHAREHOLDERS

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LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,
DEAR BUSINESS PARTNERS,
DEAR SFC EMPLOYEES,

We look back on financial year 2021 with pleasure and pride. In operational terms, it is the best in the company's history. Our dynamic development is the result of passionate work – innovation, quality and efficiency in the development and production of future-oriented fuel cell technology and power electronics on an industrial scale. In this way, we are meeting a steadily rising demand for environmentally friendly and sustainable power generators as well as energy supply solutions and accompanying our customers on their way to a climate-neutral energy landscape. Hydrogen and fuel cells are essential elements of the energy transition. What's more, in the global race-to-zero, they are the emission-free engine for achieving the ambitious climate protection targets. We have been present in the market with our fuel cells and energy solutions for more than 20 years, and we want to and will in fact make our contribution to continuing to gain speed. We are ideally positioned for this at several different levels. We think about tomorrow today and continuously develop new ideas to realize innovative energy solutions with state-of-the-art IIoT and cloud functionalities. As a pioneer, we have deep expertise, a large partner network, and a passionate team of energy experts that is constantly growing. This makes us one of the world's leading providers of hydrogen and methanol fuel cells and connected energy solutions. As a leader, we naturally take responsibility. Because it's time to do so. Time to rethink energy generation and act decisively.

Broad demand for EFOY fuel cells – record order backlog

This high momentum is reflected in an order backlog that has more than tripled year-on-year to over EUR 30.6 million as of December 31, 2021. Since the beginning of the year, we have been able to win additional orders in the amount of approximately EUR 34 million. The high market potential is also impressively demonstrated by the largest individual order in the company's history to date of more than EUR 20.9 million, which we were able to announce in the Clean Power Management segment at the beginning of February 2022. We have also seen and continue to see a strong increase in demand in the Clean Energy segment. In the past year alone, we succeeded in taking orders for around 6,500 fuel cells. Compared to 2020, this represents an increase of around 83%. The positive development in demand becomes even clearer when we compare the fourth quarter of 2021 with the fourth quarter of 2020, where the number of units sold nearly tripled. We are particularly pleased that demand is broadly spread across all of our national markets and various user industries. This high demand continues at the start of 2022. Immediately after the start of 2022, we exceeded the 55,000 mark for fuel cells sold and further expanded our leading market position.

As a leading supplier of hydrogen and methanol fuel cells, we will continue to resolutely seize the major market opportunities. Our new EFOY fuel cells combine years of SFC Energy greentech expertise with state-of-the-art IIoT and cloud functionalities to make the user's energy infrastructure not only climate neutral, but also more efficient.

The very positive development in the area of climate-neutral energy producers is, in our estimation, only the beginning. Nevertheless, we must keep a close eye on and address limiting factors such as the further COVID-19 pandemic and the supply chain challenges it poses. We also need to adequately address the increasing cybersecurity requirements by ramping up our investments in this area.

The SFC Energy Group generated consolidated sales of EUR 64,320 million in the past financial year, 20.9% above the previous year's figure of EUR 53,223 million in 2020. The development in the challenging pandemic environment was thus very pleasing and at the upper end of our forecast range (EUR 61.0 million to EUR 65.0 million). EBITDA for the Group adjusted for special effects doubled to EUR 6,233k in the reporting year 2021 (2020: EUR 2,936k) and was thus within the expected range (EUR 5.7 million to EUR 7.3 million). The underlying EBITDA margin increased significantly to 9.7% in 2021 (2020: 5.5%). This pleasing development is attributable to organic sales growth, continued good price penetration and an attractive product mix in favor of higher-margin products. EBIT adjusted for special effects improved to EUR 1,925k in financial year 2021 compared to the previous year (2020: EUR -579k) and was thus also in line with expectations (EUR 1.6 million to EUR 3.1 million). This results in an underlying EBIT margin of 3.0% (2020: – 1.1%).

Accelerated growth in the Clean Energy segment

This dynamic business development reflects the unabated high demand for EFOY hydrogen and methanol fuel cells as well as power electronics products from SFC Energy AG.

The **Clean Energy** segment in particular benefited from much faster market growth and high demand in the reporting year and posted a 30.8% increase in sales to EUR 42,428k compared to the previous year (EUR 32,439k). This applies both to industrial applications, including civil security technology, data transmission and digitalization, which account for the highest share of segment sales, and to consumer applications. In addition, the increased contribution of the fuel cell business in the US contributed to growth. The first weeks of the current financial year also show a very dynamic international demand trend across all user sectors. As expected, sales in the government business (defense & public safety) increased very strongly by 94% in the reporting year following a weak year in 2020 due to the pandemic.

Sales in the Clean Power Management segment rose by 5.3% to EUR 21,892k in the reporting year (2020: EUR 20,783k). The segment's share of Group sales amounted to 34.0% in 2021 (2020: 39.0%). The growth was mainly based on recovering demand as a result of the gradually easing COVID-19 pandemic situation with current customers and the improved market environment or good capacity utilization in the segment's target markets. In the new projects and new customers business, shifts in investment decisions and increasingly pandemic-related delivery delays for individual electronic components led to shifts in sales.

Our claim: Clean Energy Everywhere

All our technologies, activities and ideas follow our guiding principle "Clean Energy Everywhere." This claim is the maxim of our entrepreneurial actions. Its concrete implementation can be seen in many different ways. For example, we have not only been producing fuel cells for our customers who have a wide variety of applications for more than 20 years. We also want to actively shape the future of the energy landscape together with strong partners.

For example, we work with Jenoptik in the area of traffic safety. With GWU-Umwelttechnik, we are creating solutions for identifying areas suitable for wind farms. In August, we entered into a cooperation with Nel to focus the deep hydrogen expertise of two companies. Our goal is to develop the world's first integrated electrolyzer and hydrogen fuel cell system. With its help, users will be able to become even more independent in the future for a long-distance, mobile and emergency power supply. The Nel electrolyzer produces the required hydrogen, which the EFOY fuel cell in turn converts into environmentally friendly energy.

Strong performance of the SFC Energy share

In the year under review, the SFC Energy share continued to perform well, significantly outperforming German standard and technology indices. The share price increased by 78.2% and closed the stock market year 2021, which continued to be dominated by the pandemic situation, at a price of EUR 28.40. The strong operating business development had a particularly positive effect.

Forecast for 2022 and medium-term outlook

Based on the positive development in 2021 with historic records in a challenging environment as well as the strong order momentum, we expect the momentum to continue in 2022 and are aiming for another record year. Therefore, we expect consolidated sales to be in the range of EUR 75 million to EUR 83 million for the current financial year.

On the earnings side, we are currently planning conservatively and expect underlying EBITDA in a range of EUR 6.0 million to EUR 9.1 million and underlying EBIT of EUR 1.6 million to EUR 2.9 million. This planning takes into account the growth investments in the expansion of production capacities in Germany, the construction of a new production line in Romania, investments in the further digitalization of business processes, including measures to increase IT security, as well as the further development of the organization with regard to the upcoming growth. Furthermore, SFC Energy is taking into account the uncertainties in the overall economic environment.

Despite all the current economic challenges, we are sticking to our medium-term planning. The structural trends of the future hold ample growth potential for our business. We are fully on track to achieve our sales target of EUR 350 million to EUR 400 million and an underlying EBITDA margin of more than 15% by 2025. To achieve this goal, we have defined clear measures, some of which have already been implemented. The cornerstones are, on the one hand, further product developments in the hydrogen fuel cell area with higher performance and expanded IIoT functionalities. On the other hand, we are further internationalizing our business with successful partnerships such as with Toyota Tshusho in Asia or with FC TecNrgy and Bharat Electronics in India. The recent large-volume project successes in the US are also clearly attributable to our internationalization strategy. Alongside this, we are doubling our production in Germany and building a new production line for fuel cells at our site in Cluj, Romania. At the same time, we are examining further opportunities for strategic and operational cooperation with potential partners, which could also lead to equity investments or acquisitions.

As you can see, we have set our sights high. A committed team is essential for this. That is why we, the Board of Management, would like to expressly thank all our employees for this exceptional performance. We would not have gotten to where we are today without their support.

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

Stay tuned to us.
Sincerely yours,

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (COO)

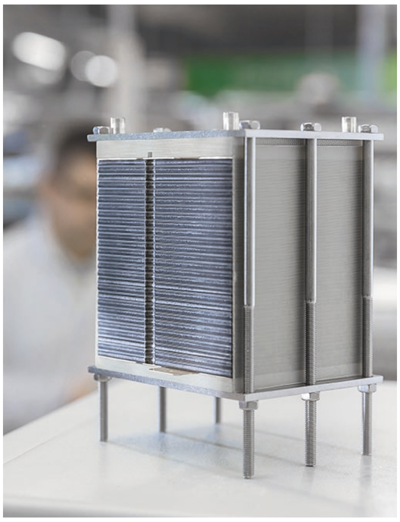
Daniel Saxena
Board Member (CFO)

MILESTONES IN 2021

January 11, 2021

SFC Energy and Johnson Matthey sign joint development partnership agreement and long-term supply contract

The nearly 20-year collaboration between the two greentech pioneers is set to continue: the partners will jointly further develop the fuel cells' membrane electrode assemblies (MEA). The respective supply agreement runs through March 2024.



January 21, 2021

SFC Energy receives its largest individual order to date in Japan for 135 EFOY Pro fuel cells

Toyota Tsusho Corporation orders 135 EFOY Pro fuel cells for smart traffic applications in Japan. The fuel cells will be used in semi-stationary LED traffic control systems that reduce idle time in traffic congestion, thereby improving both road user safety and vehicle emissions through shorter idle times.

February 5, 2021

EFOY Hybrid Power by SFC Energy wins 2021 European Innovation Award

EFOY Hybrid Power, consisting of an EFOY fuel cell and an EFOY lithium battery, ensures gentle tourism in harmony with nature in the caravanning and recreational boating sector. Every year, Europe's leading trade editors present the award to manufacturers of innovative products with great added value for users.

February 11, 2021

Visit from the Bundestag: Florian Hahn (MdB) gains insights into hydrogen fuel cell technologies

The Bavarian Free State relies on another 40 EFOY Jupiter hydrogen fuel cells for network hardening of the public authority radio BOSNet in Bavaria. Member of the Bundestag Florian Hahn symbolically accepts the partial delivery and informs himself about the status quo of hydrogen technologies Made in Germany.

March 22, 2021

Expansion of cooperation with Toyota Tsusho into Southeast Asia and China

The individual order of 135 EFOY Pro fuel cells for the Japanese market is followed by the expansion of Toyota Tsusho's sales territory to Thailand, the Philippines, Vietnam and China. The two partners are aiming for a sales volume of EUR 100 million by 2025.

TOYOTA TSUSHO

March 2, 2021

SFC Energy launches fifth EFOY Pro fuel cell generation

The new generation of the world's best-selling fuel cell reduces operating costs by up to 33% and is smaller, lighter and thus more flexible for use by professional users. Compared to the fourth generation product, it also has a higher level of connectivity for IoT applications, higher power bandwidth and a longer service life.

March 29, 2021

EFOY fuel cells ensure a sustainable power supply for wind lidar systems

SFC Energy and Leosphere deepen their cooperation. Leosphere specializes in the development, manufacture and maintenance of turnkey wind lidar systems for the wind power industry, aviation and meteorology. SFC Energy supplies clean power to the Leosphere WindCube® with EFOY fuel cells. The ground-based solution collects important data based on lidar technology to identify areas suitable for wind farms.

LEOSPHERE
A VAISALA COMPANY

April 14, 2021

SFC Energy and Jenoptik work together on sustainable road safety

The use of EFOY fuel cells makes it possible to operate speed measurement systems from Jenoptik's Light & Safety division in a location-independent and sustainable manner – even in areas where the conventional power grid is less developed. Several European countries are already using the systems.

April 26, 2021

The strongest start to the year in the retail sector in recent years

The number of EFOY fuel cells sold in the first quarter of 2021 increased by 78% to 586 units compared to the same quarter of the previous year. SFC Energy had shipped 329 units in the first quarter of 2020. The greatest growth is among users in the motor home and marine sectors from Germany, Scandinavia, and North America.

April 29, 2021

EFOY fuel cell wins 2021 iF DESIGN AWARD

The iF DESIGN AWARD is a globally recognized trademark when it comes to outstanding industrial design. The EFOY series scores high with its above-average ratings in the categories idea, form, function, uniqueness and effect.

May 20, 2021

Sunaina Sinha Haldea becomes first woman to join SFC Energy Supervisory Board

SFC Energy shareholders elect new members to the Supervisory Board at the 2021 Annual General Meeting. Sunaina Sinha Haldea subsequently becomes the first woman to join the Supervisory Board. As Managing Partner of the financial services provider Cebile Capital, she has many years of capital market experience.

May 25, 2021

SFC Energy receives largest US order in company history

LiveView Technologies (LVT) orders more than 100 EFOY Pro 2400 Duo fuel cells as power sources for mobile camera towers. Until now, LVT relied on conventional generators for its rapid deployment trailer.

June 16, 2021

For the first time in the company's history, SFC Energy receives an order for a 50 kVA emergency generator based on EFOY Hydrogen

International biotechnology and venture capital company SAN Group is the first customer for the fully equipped 50 kilovolt ampere emergency generator based on the EFOY Hydrogen fuel cell. It will be used at SAN Group's corporate site in Lower Austria, which is 100% powered by green energy.

July 1, 2021

Another visit from the Bavarian Minister of State accompanies the launch of the EFOY Hydrogen Fuel Cell 2.5

Member of the Bundestag Florian Hahn and Bavarian Minister of State Dr. Florian Herrmann are on site when SFC Energy presents the new EFOY Hydrogen Fuel Cell 2.5 energy solution. The modular hydrogen fuel cell solution covers the power range from 2.5 up to 50 kilowatts (kW).

July 20, 2021

Member of the Bundestag Dr. Anton Hofreiter (Bündnis 90/Die Grünen) visits SFC Energy production and development site

Dr. Anton Hofreiter enters into a dialog with SFC Energy CEO Dr. Peter Podesser and visits the production of environmentally friendly, hybrid energy supply solutions. He also gets an impression of the SFC Energy development center.

August 18, 2021

SFC Energy and Nel ASA collaborate on the development of the first integrated electrolyzer and hydrogen fuel cell system

The Norwegian company Nel ASA specializes in the production of hydrogen, storage systems and hydrogen refueling stations. Together, the two market and technology leaders are developing the world's first integrated electrolyzer and hydrogen fuel cell system for industrial markets as a key product to replace diesel generators.

September 7, 2021

SFC Energy signs Memorandum of Understanding with the Indian companies Bharat Electronics and FCTec

The three partners intend to address the rapidly developing market for off-grid power supply for Indian homeland security and disaster management. There are also plans to establish a center of excellence offering fuel cell solutions tailored specifically to the needs of the Indian market. The partner network is targeting local sales of EUR 50 to 100 million by 2025.

September 9, 2021

SFC Energy wins largest order for EFOY fuel cells in company history

SFC Energy exceeds initial largest U.S. order of 100 EFOY fuel cells in May. LiveView Technologies places follow-up order for 600 additional EFOY fuel cells valued at approximately USD 4 million.

LIVEVIEW TECHNOLOGIES

October 21, 2021

PETRONAS Chemicals Group Berhad supplies SFC Energy customers in Asia with high-purity methanol

Users of EFOY fuel cells in the Asian region now have even more options for sourcing high-purity methanol. In Malaysia, PETRONAS Chemicals Group Berhad (PCG) produces the industrial alcohol in commercially available fuel cartridges. This creates proximity to customers, which reduces the carbon footprint.

November 9, 2021

SFC Energy expands its sales territory and partnership with Schneider Electric in Canada

Schneider Electric has been part of the SFC Energy partner network for more than 20 years. The range of SCADA and process instrumentation is optimized by SFC Energy Canada to meet customers' highest requirements and is then integrated into specific applications with a sustainable EFOY energy solution. Together with its long-term partner Schneider Electric, SFC Energy now offers its Ontario customers the full range of Schneider Electric Process Automation products. For further expansion, SFC Energy is opening a sales office and warehouse in Toronto.

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

SUCCESS STORIES

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

55,000

More than 55,000 fuel cells sold worldwide

–4,300 t CO_2

4,300 tons of CO_2 emissions saved[1] – equal to 4,300 flights to New York or 2,900 one-week trips on a Cruise Ship

7.9 Mio. kWh

7.9 million kWh environmentally friendly electricity in total[1]

21 Years

More than 21-year experience in fuel cell technology

110 Mio. Bh

110 million operating hours of fuel cells in total[1]

0

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

1 Approximate values, subject to change

2 Compared to diesel generators, which are often used for off-grid applications, SFC solutions have already saved more than 4,300 tons of CO_2 that are harmful to the climate. Calculations based on myclimate.org

SUPERVISORY BOARD REPORT

Dear Shareholders,

In the 2021 financial year, the Supervisory Board performed its duties under law, the Articles of Association, the Rules of Procedure and the German Corporate Governance Code (GCGC) with due care and diligence. It regularly advised the Management Board on the management of the Company and carefully monitored its activities on an ongoing basis. It also provided advice on the strategic development of the Company and key individual measures, and satisfied itself that the management of the Company and the risk management system in place were legal, proper and expedient.

Supervisory Board composition; changes to the Supervisory Board and Management Board

In the 2021 reporting year, the Supervisory Board consisted of (i) Mr. Tim van Delden (Chairman), (ii) Mr. Hubertus Krossa (Deputy Chairman) and (iii) Mr. Gerhard Schempp until the General Meeting of SFC Energy AG on May 19, 2021.

In accordance with the resolution adopted by the General Meeting on May 19, 2021, the Supervisory Board was enlarged to four members (§ 10(1) sentence 1 of the Articles of Association) in order to be able to perform the Board's duties with a broader range of members in view of the growth potential of SFC Energy AG, and to strengthen the diversity and internationality of the Supervisory Board. Furthermore, at the proposal of the Management Board and the Supervisory Board, the General Meeting resolved to amend § 10(3) and § 12(1) of the Articles of Association of SFC Energy AG in order to introduce a staggered structure to the Supervisory Board (known as a "staggered board"). Based on this, Supervisory Board members would generally be elected for a term of four years, and two Supervisory Board members would resign from the Supervisory Board every two years. This staggered structure creates a balance between continuity and flexibility in the Supervisory Board's work.

Mr. Tim van Delden resigned from the Supervisory Board of SFC Energy AG at the end of the General Meeting on May 19, 2021; Mr. Gerhard Schempp's mandate expired at the end of this General Meeting. In accordance with the proposal of the Supervisory Board, the General Meeting on May 19, 2021 elected Ms. Sunaina Sinha Haldea, Mr. Henning Gebhardt and Mr. Gerhard Schempp (re-election) – with different terms of office as per the staggered structure, namely for a period of two years (Ms. Sinha Haldea and Mr. Schempp) and four years (Mr. Gebhardt). In making its proposal, the Supervisory Board complied in particular with the requirements of the German Stock Corporation Act (AktG) and the German Corporate Governance Code (GCGC); all elected members have the necessary knowledge, skills and professional experience for Supervisory Board work.

On May 19, 2021, the Supervisory Board elected Mr. Hubertus Krossa as Chairman and Mr. Henning Gebhardt as Deputy Chairman. Since its election by the General Meeting on May 19, 2021 and – with regard to Ms. Sunaina Sinha Haldea, the entry into force in addition of the amendment to the Articles of Association (enlargement of the Supervisory Board) and the assumption of office by Ms. Sunaina Sinha Haldea on August 12, 2021 – the Supervisory Board now consists of (i) Mr. Hubertus Krossa (Chairman), (ii) Mr. Henning Gebhardt (Vice Chairman), (iii) Mr. Gerhard Schempp and (iv) Ms. Sunaina Sinha Haldea.

There were no personnel changes on the Management Board in the reporting year.

Cooperation between the Supervisory Board and the Management Board

In the reporting year, the Supervisory Board closely monitored the management activities of the Management Board and was involved in all decisions of material importance to the Company. The Management Board informed the Supervisory Board regularly, without delay and comprehensively about all issues material to the Company with regard to planning, business policy and development, net assets, financial condition and results of operations, risk exposure, risk management, risk controlling and status of compliance with statutory provisions and internal policies. As a result, the Supervisory Board was kept informed of all relevant events at all times, and this close supervision of the Management Board ensured careful monitoring was in place at all times.

In accordance with the Rules of Procedure of the Management Board, the Management Board also informed the Supervisory Board regularly and in detail about the Company's key transactions by means of detailed reports and by communicating financial data (compared with the budget and the previous year in each case). The Chairman of the Management Board also provided the Supervisory Board with regular written and oral reports on the performance of the Company's and the Group's business. Between board meetings, the Chairman of the Supervisory Board was also in regular contact with the Management Board, particularly the Chairman of the Management Board, discussing strategy, current developments regarding the state of the business as well as major transactions, risk exposure and risk management, and compliance.

Transactions requiring the approval of the Supervisory Board were submitted in good time; the transactions were carefully reviewed and discussed with the Management Board in each case before the decision on approval was made.

Supervisory Board Meetings

The Supervisory Board held a total of nine meetings in the 2021 reporting year, on January 29, February 15, March 23 (to review the financial statements; continued on March 31 and April 1), May 18, May 19, July 22, August 18, October 20, and December 9 (continued on December 10). In light of the ongoing COVID-19 pandemic, Supervisory Board meetings were also held as video conferences or hybrid meetings, i.e., where members were electronically connected to a face-to-face meeting of the other Supervisory Board members. The Supervisory Board meetings are generally attended by all members of the Supervisory Board and, as a rule, by the members of the Management Board as well, although the Supervisory Board also regularly meets without the Management Board , in particular when Management Board matters or issues internal to the Supervisory Board are discussed. Attendance at Supervisory Board meetings in the reporting period was 100%. Individual attendance is reported at the end of the following section. In addition, the members of the Supervisory Board also consulted one another outside of meetings by telephone, in person or by email, if required.

Regular topics of discussion at Supervisory Board meetings were current sales, earnings and liquidity trends, budget planning, the current state of the Company's business, risk exposure and the risk management system, Group-wide compliance, the Company's strategic goals, and organizational changes. At the meetings, the Management Board also reported on the status of individual business units, the economic, financial, technological and strategic state of the Company and the Group, the Company's domestic and international growth strategy, and significant current developments and events, in particular potential cooperations and M&A projects. At several meetings in the reporting year, the Supervisory Board dealt with the issue of the search for potential investors and strategic partners; to this end, it received detailed reports from the Management Board on measures to identify and approach investors, to finance the Company's additional growth, and to involve external consultants. Regular topics at the Supervisory Board meetings also included finance and controlling, sales and marketing, operations, quality management, human resources, and research & development. In the 2021 financial year, we also continuously addressed the impact of the COVID-19 pandemic on the Company's operations and financial condition, results of operations, and net assets, as well as precautions taken.

The individual meetings during the reporting period focused on the following issues:

At the meeting on January 29, 2021, the Supervisory Board paid particular attention to the Company's growth strategy and its future financing, including external advice on strategy and financing, and to a settlement with a former Management Board member relating to his former activities.

At the meeting on February 15, 2021, the Management Board presented preliminary figures for the 2020 financial year and discussed them with the Supervisory Board, informed the Supervisory Board about the status of cooperation and M&A projects, in particular the status of negotiations and the future timetable, and the Supervisory Board approved SFC Energy AG's guidance for the 2021 financial year.

At the Supervisory Board meeting on March 23, 2021 to review the financial statements, the Supervisory Board mainly discussed the Company's annual financial statements and management report prepared in accordance with German commercial law and the IFRS consolidated financial statements and Group management report for the 2020 financial year; the annual financial statements and consolidated financial statements were approved. Representatives of the auditor attended the meeting, reported on the key results of their audit and gave an opportunity for questions to be asked by the Supervisory Board. Furthermore, the Supervisory Board adopted the Supervisory Board report, the corporate governance statement and the declaration of conformity with the German Corporate Governance Code within the meaning of section 161 AktG. It also received a report from the Management Board on the impact of the COVID-19 pandemic and decided on the bonus for the Management Board members for 2020. It also addressed the independence of its members, concluding that its members were independent within the meaning of the German Corporate Governance Code. The Supervisory Board also dealt with the agenda for the 2021 Annual General Meeting, in particular the enlargement of the Supervisory Board and the introduction of a staggered board, and with the proposal for the election of the auditor for the 2021 financial year, on which the Supervisory Board had already passed resolutions in each case. Furthermore, the Management Board presented the current figures and the current state of orders and the market for SFC Energy AG and the Group companies to the Supervisory Board, and discussed these with the Supervisory Board. Finally, the Supervisory Board dealt with current cooperation and M&A projects, had the status of these projects explained to it by the Management Board and discussed this with it. In the course of the continuation on March 31, 2021, the Supervisory Board discussed the agenda for the 2021 Annual General Meeting of SFC Energy AG, in particular regarding the candidates for Supervisory Board positions and the compensation systems for the Management Board and Supervisory Board, and dealt with a compensation component for the Management Board (the bonus). In the continuation of the meeting on April 1, 2021, the Supervisory Board most notably adopted its outstanding proposed resolutions for the 2021 Annual General Meeting of SFC Energy AG, and resolved on a compensation component for the Management Board (the bonus). Furthermore, the Supervisory Board dealt intensively with the topic of IT security/cybersecurity at SFC Energy AG and discussed the current cybersecurity situation, precautions taken and future investments with the Management Board.

At the Supervisory Board meeting on May 18, 2021, the Management Board gave an update to the Supervisory Board on the impact of the COVID-19 pandemic on the SFC Energy Group and precautions taken, as well as on the figures. The Supervisory Board also dealt with the upcoming 2021 General Meeting, the status of cooperation and M&A projects, and personnel issues (SFC Energy AG executives).

On May 19, 2021, the Supervisory Board elected Mr. Hubertus Krossa as its Chairman and Mr. Henning Gebhardt as its Deputy Chairman.

At the Supervisory Board meeting on July 22, 2021, the Management Board gave a report on the impact of the COVID-19 pandemic on the operations of SFC Energy AG and the Group companies, as well as the containment measures taken, and discussed this with the Supervisory Board. In addition, the Management Board discussed the half-year results and current issues relating to trends in SFC Energy AG's business with the Supervisory Board, in particular sales and marketing, clean power management, trends in the Dutch and Canadian business, quality management, human resources, and research and development. The Management Board also presented the status of M&A and cooperation projects, SFC Energy AG's hydrogen strategy, and ESG reporting, and discussed these with the Supervisory Board. Finally, the Management Board discussed a significant distribution agreement for the long-term supply of methanol to SFC customers in Asia and SFC Energy AG's risk management with the Supervisory Board; the Supervisory Board adopted Rules of Procedure for the Management Board and Supervisory Board.

At its meeting on August 18, 2021, the Supervisory Board established an audit committee and elected Mr. Gebhardt, Mr. Krossa and Mr. Schempp as its members. The Management Board also reported on current figures and the state of SFC Energy AG, with a focus on personnel, supply chains and the orders, as well as on the status of cooperation and M&A projects.

At a meeting on October 20, 2021, the Management Board gave a report on the impact of the COVID-19 pandemic on the operations of SFC Energy AG and the Group companies, as well as the containment measures taken, and discussed this with the Supervisory Board. In addition, the Management Board discussed current issues relating to trends in SFC Energy AG's business with the Supervisory Board, in particular preliminary figures for the third quarter of the reporting year, as well as sales and marketing, clean power management, trends in the Dutch and Canadian business, quality management, human resources, operations, ESG reporting, and research and development. Finally, the Management Board presented possible expansion efforts in Canada.

Moreover, on October 20 and 21, 2021, a strategic workshop was held with the Supervisory Board, the Management Board and the management teams at Group level to present and discuss the long-term growth plan, as well as the budget plan for 2022 and the medium-term budget plan for 2023-2026.

At its meeting on December 9, 2021, which was continued on December 10, 2021, the Supervisory Board first dealt with the figures in the third quarter and the forecast for the fourth quarter of the 2021 financial year, with particular focus given to discussing the current situation in the individual business units and subsidiaries, with particular reference to the impact of the COVID-19 pandemic. In addition, the budget planning for the 2022 financial year and the medium-term budget planning for the 2022 to 2026 financial years in all business units were discussed and approved. Additionally, the Supervisory Board addressed and adopted the Management Board's variable remuneration component (bonus) for 2022. The Supervisory Board also deliberated on the state of the Company's financing.

Committees

In accordance with its Rules of Procedure, the Supervisory Board established an Audit Committee in the reporting year by resolution of August 18, 2021. The Audit Committee prepares resolutions and issues to be dealt with by the full Supervisory Board. To the extent permitted by law, the Supervisory Board's decision-making powers are transferred to the Committee. The Committee chairman reports to the Supervisory Board on the Committee's work at the following meeting. The members of the Audit Committee are Mr. Henning Gebhardt (Chairman), Mr. Hubertus Krossa and Mr. Gerhard Schempp.

The Audit Committee held two meetings in the reporting year, on August 18 and November 12. In accordance with the Rules of Procedure of the Supervisory Board, the most notable, regular subjects of its meetings are monitoring the audit (particularly the independence of the auditor and the quality of the audit), appointing the auditor and determining of focal points of the audit, preparing the audit of the annual and consolidated financial statements, discussing half-yearly and quarterly financial reports with the Management Board, auditing the accounting and monitoring the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system and compliance. Attendance at Audit Committee meetings in the reporting period was 100%. Individual attendance is reported at the end this section. In view of the ongoing COVID-19 pandemic, some Audit Committee meetings were held by video conference or as hybrid meetings.

Key issues in the reporting period were the discussion of the 2021 half-year financial report and the quarterly financial report for the third quarter of 2021, as well as determining the key areas for the audit of the annual and consolidated financial statements for the 2021 financial year. Some of the Audit Committee meetings are also attended by representatives of the Management Board and the auditors. The Chairman of the Committee is also in regular contact with the auditor and the Chief Financial Officer between meetings.

At the meeting on August 18, 2021, the Audit Committee elected Mr. Henning Gebhardt as its chairman and Mr. Gerhard Schempp as its deputy chairman and, with representatives in attendance from the auditor of SFC Energy AG elected by the 2021 General Meeting, discussed in particular the appointment of the auditor, focal points of the audit for the 2021 annual financial statements and the half-year financial figures of SFC Energy AG. At its meeting on November 12, 2021, the Audit Committee, with representatives of the auditor in attendance, dealt with the recognition of provisions for the virtual stock option program (SARS) for the Management Board and selected executives.

There are no other committees. The Supervisory Board's view is that the four-member Supervisory Board is able to perform its duties efficiently in all other areas.

INDIVIDUAL ATTENDANCE OF MEETINGS BY MEMBERS OF THE SUPERVISORY BOARD IN THE REPORTING YEAR

	Supervisory Board[1]	Audit Committee	Attendance rate
Tim van Delden (until 05/19/2021)	4/4	n/a	100 %
Hubertus Krossa	9/9	2/2	100 %
Gerhard Schempp	9/9	2/2	100 %
Henning Gebhardt	5/5	2/2	100 %
Sunaina Sinha Haldea (since 08/12/2021)	3/3	n/a	100 %

1 Continued meetings of the Supervisory Board have been counted as one meeting.

Corporate Governance

The Company is committed to complying with the recommendations of the German Corporate Governance Code. The declaration of conformity required to be made by the Management Board and the Supervisory Board on an annual basis under section 161 AktG and made most recently on March 16, 2021 is available on the Company's website at **https://www.sfc.com/en/investors/corporate-governance/**.

Information on Supervisory Board-related aspects of the Company's corporate governance can also be found in the corporate governance statement on pages 187 et seqq. of the annual report. The current declaration of conformity is also reproduced in the corporate governance statement. The remuneration report contains the remuneration of the members of the Supervisory Board, and is reproduced on pages 200 et seqq. of the annual report.

In the 2021 financial year, as in previous years, the Supervisory Board examined potential conflicts of interest affecting its members. No conflicts of interest involving members of the Supervisory Board arose in the reporting period. The Supervisory Board does not include any former members of the Company's Management Board. The Supervisory Board determined at its meeting of March 23, 2021 that it included an appropriate number of independent members within the meaning of the recommendations C.6 and C.7 of the German Corporate Governance Code. None of the members of the Supervisory Board has any personal or business relationship with the Company, its governing bodies, a controlling shareholder or a company affiliated with the latter, which may cause a substantial and not merely temporary conflict of interest. Conflicts of interest with a controlling shareholder or a company affiliated with the controlling shareholder are not possible for the simple reason that the Company is not controlled by any of its shareholders. This is because there is no control agreement with any shareholder in place, and no shareholder has the absolute majority of the voting rights or at least a sustainable voting majority at the Annual General Meeting.

Training and professional development

The members of the Supervisory Board are responsible for undertaking the training and professional development required for their duties, such as on changes to the legal framework and on new, forward-looking technologies, and are supported by the Company in this regard. In particular, new Supervisory Board members during their induction receive explanations about SFC Energy AG's business model and strategy, among other things, as well as about the work and duties of the Supervisory Board . Provisions is also made for guided factory tours. On July 8 and 9, 2021, for example, Mr. Henning Gebhardt attended an ESMT Open Programs seminar entitled "The Supervisory Board – Financial and Auditing Competence".

Audit

Upon the proposal of the Supervisory Board, the General Meeting of SFC Energy AG on May 19, 2021 elected Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, as auditor and group auditor for the 2021 financial year, and as auditor for a possible audit review of interim financial reports. The Supervisory Board satisfied itself in advance of the independence of Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich. The Audit Committee negotiated the audit engagement, specified the focal points of the audit and engaged the auditor. The focal points of the agreed audit work were:

IFRS consolidated financial statement

i. Itemization of sales
ii Management Override Control (MOC)
iii. Recoverability of goodwill
iv. Recoverability of capitalized development costs
v. Valuation of inventories
vi. Completeness and measurement of other provisions
vii. Effect of the COVID-19 pandemic
viii. Risk management system

Annual financial statements in accordance with the German Commercial Code

ix. Itemization of sales
x. Management Overide Control
xi. Valuation of the shares in affiliated companies
xii. Valuation of inventories
xiii. Completeness and measurement of other provisions
xiv. Effect of the COVID-19 pandemic
xv. Effect of the COVID-19 pandemic
xvi. Risk management system

The auditor audited the annual financial statements of SFC Energy AG as of December 31, 2021 as prepared by the Management Board in accordance with the German Commercial Code and the management report, together with the bookkeeping system, and issued an unqualified audit opinion thereon. The consolidated financial statements were prepared in accordance with section 315e of the German Commercial Code (HGB) on the basis of International Financial Reporting Standards (IFRS). The auditor also audited these consolidated financial statements and the group management report and issued an unqualified audit opinion on them.

The annual and consolidated financial statements and audit reports were distributed to all members of the Supervisory Board immediately after their preparation and audit, and were discussed in detail at the meeting of the Audit Committee on March 15, 2022 and at the Supervisory Board meeting to review the financial statements for the 2021 financial year on March 16, 2022. The balance sheet did not show any profit, meaning no proposal by the Management Board on the appropriation of distributable profit was required. Representatives of the auditor attended the meetings, reported in each case on the progress, scope, focal points and main results of the audit and were available to answer questions and discuss matters. As part of the preliminary audit, the Audit Committee dealt in detail with the audit progress, the audit reports and the results and, following completion of the audit, recommended approval of the financial statements and reports to the full Supervisory Board.

Taking into account the auditor's reports, and on the basis of detailed discussions with the auditor's representatives, the Supervisory Board examined the annual and consolidated financial statements and the relevant management reports and concurred with the auditor's conclusions. Based on its own review of the annual and consolidated financial statements and the respective management reports, no reservations were made. The Supervisory Board approved the annual financial statements and the consolidated financial statements for the 2021 financial year, together with the relevant management reports, at the Supervisory Board meeting convened to approve the financial statements; the annual financial statements for the 2021 financial year are thus adopted (section 172 AktG).

The remuneration report was audited by the auditor in accordance with the formal audit required by law pursuant to section 162(1) and (2) AktG.

The Supervisory Board would like to thank Mr Tim van Delden for his dedication and service to SFC Energy AG in his role as Supervisory Board member and Chairman and would like to thank all employees for their outstanding performance and great commitment to the Company in the 2021 financial year, the Management Board for its trust-based cooperation, and all shareholders and business partners for the faith they have placed in the company.

Brunnthal, March 16, 2022

The Supervisory Board

Hubertus Krossa
Chairman of the Supervisory Board

SFC ENERGY ON THE CAPITAL MARKETS

Basic share data

Share information

Bloomberg symbol	F3C
Reuters symbol	CXPNX
German securities identification number (GSIN)	756857
International securities identification number (ISIN)	DE0007568578
Number of shares outstanding (December 31, 2021)	14,469,743
Type of shares	No-par value shares
Stock exchange segment	Prime Standard, Renewable Energies
Stock exchange	Frankfurt, FWB
Designated sponsor	mwb fairtrade Wertpapierhandelsbank AG

Development of the indices

Global stock market activity continued to be influenced by the Corona pandemic in 2021. The indices got off to a mixed start, due in particular to the various containment measures taken by the respective countries. The DAX opened at 13,890 points on January 4, 2021, and slipped to a low of 13,311 points for the year on January 28. In Germany, the start of vaccination (December 2020) and the dynamization of the vaccination campaign in the first half of 2021 spurred hopes of easing containment measures and a return to normality. The optimism, which was also based on higher company profits, could be seen in rising share prices for the DAX. Nevertheless, from the summer of 2021 on, the increasingly evident supply bottlenecks, logistics problems, high energy and raw material prices and the accompanying swelling inflation manifested themselves. Consequently, the DAX fell by around 1,000 points from its interim high of 16,030 points by the beginning of October. Declining infection figures caused the leading index to rise again to a new all-time high of 16,290 points by mid-November. The record level did not hold up for long, however. The Omicron virus variant caused increasing uncertainty in the market. The DAX closed 2021 at 15,885 points on December 30, up 15.8% on its 2020 closing level.

The TecDAX technology index continued its record performance in 2021. From the beginning of the year until mid-February 2021, the barometer climbed to an interim high of 3,606 points before losing around 400 points due to a volatile development through mid-May. It then rose dynamically to reach a new all-time high of 4,010 points in mid-November. The TecDAX closed at 3,920 points on December 30. This represents an increase of 22% in 2021. The EURO STOXX 50 followed a similar trend, closing 2021 20.6% higher than at the beginning of the year. The leading index in the US, the Dow Jones, recorded a gain of 19.8% in 2021 compared to its closing level on December 30, 2020.

Development of the SFC share

Share price development

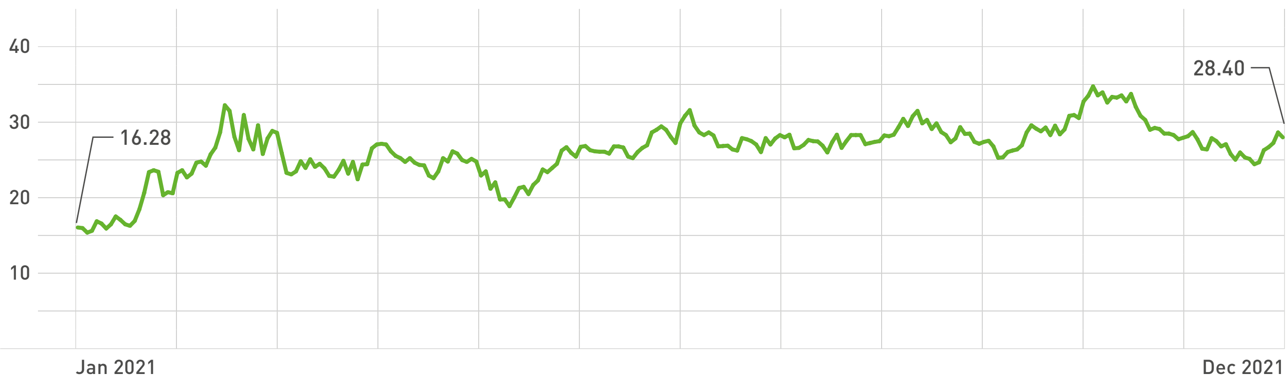
		in EUR
Opening price	01/04/2021	16.28
High	11/03/2021	35.40
Low	01/05/2021	15.48
Closing price	12/30/2021	28.40

The SFC Energy AG share outperformed both German standard and technology stocks as well as international indices by far. The shares opened the 2021 stock market year on January 4 at a price of EUR 16.28. The low was reached on January 5 at a price of EUR 15.48. The share price reached its high for the reporting period on November 3, 2021, at EUR 35.40. The SFC share finally exited trading on December 30, 2021, at a price of EUR 28.40. Its share price increased by 78.2% over the course of the reporting year, compared to a closing price of EUR 15.94 on December 30, 2020. With strong demand dynamics across industries and countries, the operationally best fiscal year in Company history turned out to be the most important influencing factor behind the strong performance of the share.

The average daily trading volume in the reporting year was 112,466 shares, significantly higher than the figure for the prior-year period of 41,343 shares. The significant increase in trading volume underscores the increased interest of investors in SFC Energy AG's business model and the strong operating performance. As of December 30, 2021, the market capitalization of SFC Energy AG amounted to EUR 410.9 million with 14.47 million shares outstanding and a closing price of EUR 28.40 (previous year: EUR 230.7 million).

Performance of the SFC share (absolute)

SHARE PRICE PERFORMANCE FROM THE BEGINNING OF JANUARY TO THE END OF DECEMBER 2021 — in EUR



Investor relations activities

SFC Energy maintains an intensive dialogue with current and potential shareholders and is constantly engaged in an exchange with journalists, investors and analysts. In the past fiscal year, the Management Board communicated the Company's business model, operational development and growth prospects based on hydrogen and fuel cell technology at various events that were mainly held digitally. All analyst conference calls are made available as web and audio casts on the SFC Energy website – **sfc.com** – where the latest version of the SFC Company Presentation is also available.

As designated sponsor, mwb fairtrade Wertpapierhandelsbank AG ensured binding bid/ask prices as well as adequate liquidity and corresponding tradability of the SFC share during the reporting period.

The Company provides comprehensive information on the business situation, current news and an overview of future events and activities in the Investor Relations section of the SFC Energy website – **sfc.com**.

Analyst research

The shares of SFC Energy AG are listed in the Prime Standard of the Frankfurt Stock Exchange and are regularly analyzed and assessed by renowned research houses. Detailed information is available to interested investors at **sfc.com** in the Investor Relations/Share section.

RESEARCH VALUATIONS in EUR

Publisher	Date	Recommendation	Target price
Oddo/BHF	02/14/2022	Outperform	32.80
First Berlin – Equity Research	02/15/2022	Buy	44.00
MM Warburg	02/15/2022	Buy	33.00
Metzler Capital Markets	07/05/2021	Buy	36.00

Shareholder structure

As of December 31, 2021, 43.15% of SFC shares were held by institutional investors. The extended management, including the Supervisory Board, holds 1.72% of the voting rights. 55.13% of SFC Energy AG shares were in free float at the end of December 2021. Detailed information on the shareholder structure can be found at **sfc.com** in the Investor Relations/Share section.

02

GROUP MANAGEMENT REPORT

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GROUP MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2021

Principles of the Group

Organization of the SFC Group and basis of reporting

SFC Energy AG ("SFC AG") together with its subsidiaries forms an internationally active Group of companies ("SFC" or "Group") in the fuel cell sector. In addition to the parent company SFC Energy AG (Germany), the scope of consolidation of the Group includes the subsidiaries SFC Energy B.V. (Netherlands) ("SFC B.V"), its subsidiary SFC Energy Power SRL (Romania) and SFC Energy Ltd. (Canada) ("SFC LTD.).

The Management Board of SFC AG is responsible for managing the Group. The Supervisory Board appoints, monitors and advises the Management Board and is directly involved in decisions that are of fundamental importance for SFC. Information on the remuneration structure of the Management Board and Supervisory Board can be found in the Remuneration Report.

The legal basis for managing and monitoring the Group is the German Stock Corporation Act and capital market law, as well as the German Corporate Governance Code.

The registered office of SFC AG is located in Germany, with the Group's headquarters in Brunnthal. The subsidiary SFC Energy B.V. is headquartered in Almelo, the Netherlands, and there is a production subsidiary in Cluj, Romania. The subsidiary SFC Energy Ltd. is headquartered in Calgary, Canada, with Canadian offices in Edmonton and Grand Prairie.

As of December 31, 2021, the Group had a total of 288 employees.

Segments, sales markets, products and services

As of December 31, 2021, SFC had the following reportable segments, according to which the Management Board steers the Group: **Clean Energy** and **Clean Power Management**.

SFC mainly develops, manufactures and sells modern energy supply systems as well as modules and components for off-grid and grid-connected devices based on fuel cell technology. The Group makes the necessary investments for this purpose and conducts all other related business. The product portfolio also includes accessories and spare parts, in particular fuel cartridges, solutions for combining fuel cell products with other power sources, storage and consumers, and mechanical, electronic and electrical instruments for monitoring and controlling production and logistics processes. SFC is one of the first companies worldwide to have commercial series products in the field of direct methanol fuel cells (DMFC) for a number of sales markets. SFC also has commercial series products in the field of hydrogen fuel cells (PEMFC). The segment also includes business with SCAD systems, some of which are integrated into solutions, but which are also sold.

The segmentation of the Group's activities primarily follows the Group's internal organizational and reporting structure by business area. Since January 1, 2021, this has been based on the Group's technology platforms and product and service portfolio. The Clean Energy segment comprises the portfolio of products, systems and solutions for stationary and mobile off-grid power supply based on hydrogen (PEMFC) and direct methanol (DMFC) fuel cells for applications in the industrial, private (consumer) and in the governmental sectors in various markets, such as the telecommunications equipment, security and surveillance technology, remote sensing technology and defense technology industries, as well as the caravanning and marine markets. The Clean Power Management segment bundles the entire business with high-tech, standardized and semi-standardized power management solutions such as voltage transformers and coils, which are used in equipment for the high-tech industry. Furthermore, the segment includes the business with frequency converters for the upstream oil and gas industry, some of which are integrated into solutions, but which are also sold.

Goals and strategy

The Group's strategic focus on expanding SFC's position in the market for environmentally friendly stationary and mobile off-grid power solutions remained unchanged in the reporting year. The goal is to establish a market-leading position as a supplier of low-emission or zero-emission control and emergency power supplies for off-grid applications, some of which are safety-critical, such as telecommunications equipment, security and surveillance technology, and off-grid sensors using fuel cell generators. The fuel cells are intended to provide low-emission or zero-emission alternatives to diesel engines, which have been used to date as emergency power generators or to cover peak loads, as well as to supplement the systems currently used for off-grid power supply.

The implementation of this strategy is to be realized both through organic growth and by means of acquisitions, joint ventures, investments and cooperation agreements.

Control systems

The most important financial performance indicators used by the Management Board to manage the operating business are sales revenue and its growth, and the earnings indicators gross profit margin, underlying EBITDA (adjusted earnings before interest, taxes, depreciation and amortization) underlying EBIT adjusted (adjusted earnings before interest and taxes) for the Group and the segments.

In addition to detailed financial reporting and controlling, numerous non-financial key performance indicators such as quality parameters are used as part of the current risk management system. However, these are not used for direct control.

Research and development

With our research and development activities, we continue to pursue the goal of securing or strengthening SFC's competitive and technological position against the backdrop of the upcoming transformation of energy systems in many countries. In particular, we are focusing on the development of fuel cell systems with higher performance and longer operating hours while reducing product costs, as well as on the digital connection of our solutions. In addition to this continuous renewal of our product portfolio, SFC is also working to improve its existing products and solutions.

With 64 (previous year: 64) employees as of the reporting date, approx. 22% (previous year: 23% of the Group's workforce was engaged in the development of fuel cell technology and power supply systems and their implementation in Group products.

In order to secure the Group's technology position and competitiveness or to expand market entry barriers, an active strategy is pursued with regard to patents and other intellectual property rights ("IP"), which includes both the active maintenance of the current IP portfolio and the development of new IP.

TOTAL RESEARCH AND DEVELOPMENT EXPENSES in EURk

	2021	2020
Research and development costs recognized in profit or loss	**3,257**	**2,843**
Capitalized development expenses	2,493	3,104
Expenses related to development cooperations	816	577
Grants received	253	195
Extraordinary effects (Special expenses for LTI programme)	– 202	0
Total research and development expenses	**6,111**	**6,718**

In the financial year 2021 ("reporting year"), research and development expenses adjusted for the non-recurring expenses for the LIT programs listed below and including development expenses capitalized in the reporting year, expenses for joint development projects ("joint development agreements") and grants received ("total R&D expenses") decreased slightly compared to the expenses of the reporting year 2020 ("previous year" or "prior-year period") to EUR 6,111k (previous year: EUR 6.718k). Research and development activities in the reporting year were mainly used to improve competitiveness and mainly related to intangible assets or capitalized development expenses in the amount of EUR 2,493k (previous year: EUR 3,104k) for the further development and digital connection of the Group's products. This corresponds to a capitalization ratio (capitalized development expenses in relation to total R&D expenses) of 41% (previous year: 46%).

The amortization of capitalized research and development costs in the year amounted to EUR 1,457k (previous year: EUR 555k).

In the reporting year, the Group's research and development activities were supported to a small extent by government grants, e. g. via the "National Organization Hydrogen and Fuel Cell Technology," and are expected to continue to be supported in the future as well.

In the Clean Energy segment, the focus of development is on topics such as the next generations of fuel cell modules and the digitalization and connectivity of our products. The focus in the reporting year was on the following development areas:

- Further development of the newly launched direct methanol fuel cell generation EFOY and EFOY Pro
- Construction and further development of hydrogen fuel cell systems based on the EFOY Jupiter system
- Development of a cloud-based remote monitoring system for the newly aunched fuel cell product generations
- Development of a 12 V and 24 V battery optimized for EFOY fuel cells with an integrated battery management system (BMS) for lithium batteries
- Development of an intelligent fuel management system to extend the autonomy of the new product generations
- Consistent improvements and further developments to increase the performance and lower the costs of current EFOY generations

The development of the Clean Power Management segment focused on topics such as increasing power density, power efficiency and the "Watt / Euro" ratio for the power management solutions offered. The focus in the reporting year was on:

- Further development of the current 3.8kW to 4kW energy platform;
- Technology development to increase the power of the current platforms from 4kW to 5kW;
- Integration of a new energy platform into laser systems.

Economic Report

Macroeconomic and industry-specific conditions

Declining growth momentum of the global economy

The development of the global economy was again dominated by the corona pandemic in the reporting year. Despite comparatively high infection figures and tighter containment measures by many of the national governments, 2021 initially started off with a strong increase in production and clear signs of recovery. With growth of around 2%, the global economy expanded in the first quarter of 2021 compared to the previous quarter.[1] Nevertheless, the pace of growth slowed significantly over the course of the year. Global output only grew at a rate of 0.5% in the second quarter of 2021, due in particular to rising infection rates and tearing supply chains. There was a heterogeneous development at the country level. Higher incidence rates primarily affected emerging markets. As a result, business confidence in surveys fell significantly, while respondents in industrialized countries were more confident about the future.[2] After the first half of the year, growth momentum declined further. Supply bottlenecks in various sectors slowed industrial production. The zero-covid policy in China exacerbated global supply difficulties and increased the resulting demand overhang. The Omicron variant of the coronavirus caused further uncertainty. In its winter 2021 forecast, the Kiel Institute for the World Economy (IfW) expects the global economy to grow by 5.7% in 2021, a reduction of 0.2 percentage points compared to the September forecast.[3]

Recovery trends thanks to advancing vaccination campaign

The German economy got off to a subdued start in 2021. In the first quarter, gross domestic product (GDP) fell by 1.7% compared to the previous quarter due to the pandemic. Private consumption in particular was affected, while the export industry supported the economy.[4] Recovery trends had been expected due to the vaccination campaign gaining momentum, but were delayed until the second quarter of the year. In the latter, the German economy grew by 1.6%.[5] Contact-related service sectors were hit hard by the infection control campaign; activities in the industrial sector were slowed by supply bottlenecks. In its latest forecast, the IfW predicts economic growth of 2.6% for Germany in 2021.[6]

Growth in 2022 with slowed momentum

The IfW is pessimistic when it comes to the global development in 2022 in view of the recent emergence of the Omicron variant of the coronavirus. Activity is projected to be noticeably dampened in the first few months. According to the economists, recovery tendencies will only emerge in the further course of the year. The IfW thus expects global GDP to grow by 4.5% in 2022, down 0.5 percentage points from its September 2021 forecast. If the pandemic does not have a significant impact on the economy, major central banks are expected to tighten monetary policy in the first half of 2022.[7] Jerome Powell, President of the U.S. Federal Reserve Board (Fed),

1 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_75_2021-Q1_Welt_DE.pdf
2 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_81_2021-Q3_Welt_DE.pdf
3 https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2021/weltwirtschaft-im-winter-2021-gebremste-expansion-0/
4 https://www.destatis.de/DE/Presse/Pressemitteilungen/2021/04/PD21_211_811.html
5 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_83_2021-Q3_Deutschland.pdf
6 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_86_2021-Q4_Deutschland_DE.pdf
7 https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2021/weltwirtschaft-im-winter-2021-gebremste-expansion-0/

held out the prospect of a total of four interest rate steps in 2022. The high price pressure is considered to be one of the triggers for this.[8] According to the IfW, an interest rate increase is not yet in sight for the European currency area.[9]

While 2021 was still comparatively strongly impacted by the pandemic, the effects on the economy, in particular effects from interrupted supply chains and supply bottlenecks, should subsequently dissipate. The IfW therefore expects GDP in Germany to increase by 4.0% in 2022,[10] with the pre-crisis level being reached in the second quarter of 2022. The institute expects production capacities to be utilized normally in the third quarter of 2022, by which time private consumption should also have returned to its pre-crisis level. This was hit particularly hard by the contact restrictions in response to the pandemic.[11] In summary, the economy should expand to the extent that the braking factors such as infection control measures and supply bottlenecks dissipate.

Clean Energy

Huge potential for stationary fuel cell applications

SFC AG's product portfolio includes PEMFC and DMFC fuel cells for stationary and mobile off-grid power supply as well as high-tech power management solutions for use in high-tech industry equipment and frequency converters demanded by the upstream oil and gas industry.

The Clean Energy segment includes the sales and expenses of SFC's hydrogen (PEMFC) and direct methanol (DMFC) fuel cell business. The segment addresses customers from the private, industrial and public sectors in various markets.

In general, the Clean Energy segment benefits from changes in national energy regulations, for example related to the promotion of the hydrogen industry, the need for security of supply for an increasing number and variety of off-grid systems and plants, CO_2 pricing and climate change targets, and the modernisation of energy markets. For example, 2020 was a record year in terms of policies and low-carbon hydrogen production, with ten governments around the world adopting hydrogen strategies.

In the wake of climate change and environmental degradation, policymakers have set ambitious goals. The European Green Deal is aimed at making the economy climate-neutral by 2050. One third of the investments from the NextGenerationEU build-up package and the EU's seven-year budget with a volume of EUR 1.8 trillion should flow into climate protection activities.[12] The German government's national hydrogen strategy provides more than EUR 9.0 billion in funding.[13]

A study by an internationally recognized consulting firm predicts that the relevant market potential for the Group's solutions will increase from 4.3 gigawatts (GW) of installable capacity in 2021 to 8.1 GW in 2026. This would equate to market growth of 12% p.a. The relevant market comprises nine use cases in the <100 kW

8 https://www.handelsblatt.com/finanzen/geldpolitik/fed-us-notenbanker-stellt-vier-statt-drei-zinserhoehungen-in-diesem-jahr-in-aussicht/27969848.html?ticket=ST-3249256-lHYa79GkGDrHmL-gFdKbc-ap5
9 https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2021/weltwirtschaft-im-winter-2021-gebremste-expansion-0/
10 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_86_2021-Q4_Deutschland_DE.pdf
11 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2021/KKB_86_2021-Q4_Deutschland_DE.pdf
12 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_de
13 https://www.bmwi.de/Redaktion/DE/Publikationen/Energie/die-nationale-wasserstoffstrategie.pdf?__blob=publicationFile&v=20

power spectrum, including telecommunications towers, construction power supply, upstream and midstream monitoring of oil and gas wells and pipelines, environmental monitoring of wind farms, and video-surveillance.

Market researchers from "Research and Markets" expect the global fuel cell market to grow from USD 2.52 billion to USD 7.35 billion in 2019.[14] Diesel generators, which were commonly used until now, can be replaced by environmentally friendly fuel cells. In 2019, the market volume of diesel generators for decentralized power generation amounted to USD 20.8 billion.[15]

Clean Power Management

Business climate and expectations in the electrical industry brighten up

The Clean Power Management segment includes the sales revenues and expenses of SFC's high-tech power management solutions. For power management solutions, the most important customer industries are found in the high-tech sector, such as manufacturers of analytical systems and semiconductor equipment. Frequency converters are mainly demanded by the upstream oil and gas industry in North America.

Although 2021 was still marked by the effects of the corona pandemic, order momentum picked up again. In its most recent publication, the ZVEI Economic Barometer of January 2022, the German Electrical and Digital Manufacturers' Association (ZVEI) reported a 22.5% increase in orders in the period from January to November 2021 compared to the previous year 2020. Orders in Germany were up 17.3% in this period, while foreign orders were up 26.9%. Sales in 2021 in Germany therefore totaled EUR 85.1 billion and foreign sales EUR 96.3 billion.[16]

The business climate brightened again in December 2021 in particular. Companies were more upbeat about the situation than in the previous month. Business expectations also increased. Although companies raised their production and employment plans again, supply bottlenecks will continue to play a role.[17]

For 2022, the industry association expects the volume of the global electronics market to rise to EUR 5.3 trillion. This corresponds to an increase of EUR 300 billion compared to the forecast value for 2021.

Canada's economy back on the road to recovery

On the one hand, Canadian employment levels recovered steadily in 2021,[18] while on the other hand, the Canadian economy has also been able to grow, except for a brief dip in the second quarter of 2021. The latest figures from the third quarter of 2021 confirm the recovery trend. Real gross domestic product (GDP) increased by 1.3% quarter-on-quarter and by 3.9% year-on-year.[19] Growth was supported by consumer spending and rising exports in the wake of the economic recovery in the US and higher oil prices.

14 https://www.researchandmarkets.com/reports/5457540/fuel-cells-market-forecasts-from-2021-to-2026
15 https://www.alliedmarketresearch.com/press-release/diesel-generator-market.html
16 https://www.zvei.org/fileadmin/user_upload/Presse_und_Medien/Publikationen/2022/Januar/ZVEI-Konjunkturbarometer_Januar_2022/ZVEI-Konjunkturbarometer-Januar-2022.pdf
17 https://www.zvei.org/fileadmin/user_upload/Presse_und_Medien/Publikationen/2022/Januar/ZVEI-Konjunkturbarometer_Januar_2022/ZVEI-Konjunkturbarometer-Januar-2022.pdf
18 Statistics Canada (November 2021): Labour Force Survey, November 2021. https://www150.statcan.gc.ca/n1/daily-quotidien/211203/dq211203a-eng.htm
19 Trading Economics (January 2022): https://tradingeconomics.com/canada/gdp-growth

Nevertheless, the overall upturn was significantly weaker than expected. In the latest OECD figures, Canada's economy grew by 4.8% in 2021 but remained below the OECD and global averages of 5.3% and 5.6% respectively.[20] A return to 2019 economic performance is not expected to be achievable until 2022.

The Canadian economy is expected to grow at a more moderate pace of 3.9% in 2022 due to a less favorable base effect.[21] Nevertheless, a lower unemployment rate, increased household savings and a rising vaccination rate should support private spending. Uncertainty about new variants of the virus and potential stop-start restrictions cloud the outlook.

Positive impetus is expected from the clean energy sector. For example, in their latest report, Clean Energy Canada and Navius Research forecast that the number of employees in the clean energy sector will grow by close to 50% and and to 639,200 people by 2030 under the Canadian federal government's new climate plan.[22]

Business performance and economic situation

Earnings position

In the year under review, the Group's net sales revenue increased considerably compared to the previous year's figure due to growth in both segments by EUR 11,098k or 20.9% to EUR 64,320k (previous year: EUR 53,223k). The growth in sales was attributable to the Clean Energy segment in particular, however, which recorded a particularly strong increase in sales of 30.8% due to a sustained high demand for fuel cells. The Clean Energy segment's share of Group sales increased significantly to 66.0% (previous year: 61.0%), while the share of the Clean Power Management segment accordingly declined to 34.0% (previous year: 39.0%).

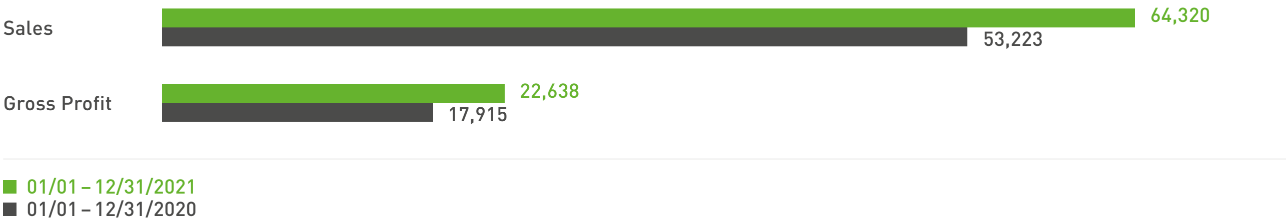
Exchange rate effects from the translation of the sales revenues of SFC Energy Ltd. had a positive effect of EUR 179k (previous year: EUR –564k) on the Group's sales revenues.

In the year under review, both the increased sales contribution of the higher-margin Clean Energy segment and the segment's higher gross profit margin led to an increase in Group gross profit of EUR 4,723k respectively 26.4% to EUR 22,638k (previous year: EUR 17,915k). The resulting gross profit margin of the Group (gross profit as a percentage of sales) improved to 35.2% (previous year: 33.7%).

20 OECD (December 2021): Economic Outlook No. 110. https://stats.oecd.org/viewhtml.aspx?datasetcode=EO110_INTERNET&lang=en
21 OECD (December 2021): Economic Outlook No. 110. https://stats.oecd.org/viewhtml.aspx?datasetcode=EO110_INTERNET&lang=en
22 Clean Energy Canada (June 2021): The New Reality. https://cleanenergycanada.org/wp-content/uploads/2021/06/Report_CEC_CleanJobs2021.pdf

SALES AND GROSS PROFIT

in EURk



Reconciliation of underlying EBITDA and underlying EBIT

Underlying EBITDA and Underlying EBIT are both reported in order to neutralize distortions caused by non-recurring effects that both contribute to and detract from the operating result for the reporting year in the presentation of financial performance indicators and to reflect comparability of these performance indicators between periods. Here, the effects of the special items listed below included in the respective functional costs and in other operating income are eliminated in the reporting year as part of a reconciliation to underlying EBITDA and underlying EBIT.

In the reporting year, these non-recurring effects include expenses and income from the increase or reversal of provisions and the capital reserve for obligations under the long-term variable share-price-based compensation programs ("LTI programs") and expenses associated with transaction efforts.

The LTI programs are stock appreciation rights ("SARs") and stock option programs ("SOP") for the Management Board and for managers of Group companies. The expenses for these programs in the reporting year amounted to EUR 7.193k (previous year: EUR 3,447k) ("Special expenses"). In the year under review, income from the reversal of provisions for SARs amounting to EUR 484k (previous year: EUR 0k) was recognized. This income was due to the reversal through profit or loss of provisions already recognized for the SARs, which were higher than the payment for the amounts received in cash in the current reporting year.

Expenses associated with transaction efforts in the amount of EUR 321k (previous year: EUR 281k) are included in the non-recurring effects ("special expenses").

In total, the non-recurring effects are recognized as a net expense in the amount of EUR 7.030k (previous year: EUR 3,922k) for the reporting year are included in EBIT and EBITDA.

Expenses for the LTI programs of the Management Board members Dr. Peter Podesser, Daniel Saxena and Hans Pol are included in both selling expenses and general and administrative expenses. Expenses for the LTI programs of employees (executives) are included in selling expenses and in research and development expenses. Expenses related to transaction efforts are included in general and administrative expenses and income from the reversal of SARs provisions is included in other operating income.

The non-recurring effects are comprised as follows:

NON-RECURRING EFFECTS

in EURk

	2021	2020
Expenses from the recognition of provisions in connection with the LTI program	7,193	3,447
Income from the reversal of provisions for SARs	– 484	0
Expenses in connection with transaction efforts	321	281
Total net expense	**7,030**	**3,922**
thereof included in selling expenses	4,294	2,012
thereof included in research and development expenses	202	0
thereof included in general and administrative expenses	2,697	1,436
thereof included in other operating income	484	0

These non-recurring effects are eliminated in the reporting year as part of the reconciliation to underlying EBIT and underlying EBITDA. The reconciliation to underlying EBITDA and underlying EBIT (= adjusted operating profit) and the allocation of non-recurring effects to the Group income statement items are thereby as follows:

RECONCILIATION OF EBIT / EBITDA TO UNDERLYING EBIT / UNDERLYING EBITDA in EURk

	2021	2020
Operating result according to the income statement (EBIT)	**–5,105**	**–4,501**
Selling expenses		
Expenses for LTI programs (personnel expenses)	4,294	2,012
Research and development costs		
Expenses for LTI programs (personnel expenses)	202	0
General administrative costs		
Expenses for LTI programs (personnel expenses)	2,697	1,436
Expenditure for transaction efforts	321	281
Restructuring expenses	0	193
Other operating income		
Income from LTI programs	–484	0
Underlying EBIT	**1,925**	**–579**
EBITDA	**–797**	**–986**
Selling expenses		
Expenses for LTI programs (personnel expenses)	4,294	2,012
Research and development costs		
Expenses for LTI programs (personnel expenses)	202	0
General administrative costs		
Expenses for LTI programs (personnel expenses)	2,697	1,436
Expenditure for transaction efforts	321	281
Restructuring expenses	0	193
Other operating income		
Income from LTI programs	–484	0
Underlying EBITDA	**6,233**	**2,936**

On February 15, 2021, Group sales of EUR 61,000k to EUR 70,000k, underlying EBITDA of EUR 3,500k to EUR 6,000k and underlying EBIT of EUR –900k to EUR 1,600k were originally forecast for the reporting year 2021.

Due to the good business performance in the first quarter of the reporting year and the continued high demand for the Group's products and solutions, the revenue forecast was confirmed on May 10, 2021, and the forecast for underlying EBITDA and EBIT was concretized to the upper half of the original forecast corridor, i.e., for underlying EBITDA to EUR 4,750k to EUR 6,000k and for underlying EBIT to EUR 350k to EUR 1,600k.

Based in particular on the financial figures for the first nine months of the reporting year and the outlook for the fourth quarter of 2021, the Management Board concretized its forecast for the reporting year 2021 on November 10, 2021, in terms of Group sales of EUR 61,000k to EUR 65,000k and raised the forecast in terms of underlying EBITDA to EUR 5,700k to EUR 7,300k and in terms of underlying EBIT to EUR 1,600k to EUR 3,100k.

With the sales of EUR 64,320k achieved in 2021, the Group is well above the previous year's figure and at the upper end of the Management Board's expectations. One of the main reasons for this was the strong sales growth in the Clean Energy segment already mentioned above, which was mainly due to the high demand for the Group's fuel cell solutions.

Both the adjusted EBITDA of EUR 6,233k and the adjusted EBIT of EUR 1,925k were also within the target range of the Executive Board's expectations. The strong increase in the gross profit, which resulted from the achievement of the target of an increase in the consolidated gross profit margin in connection with the growth in turnover, contributed to this. Furthermore, the disproportionately low increase in adjusted selling expenses, which account for the largest share of functional costs, and the particularly strong growth in other operating income had a positive effect on adjusted EBITDA and adjusted EBIT. However, this was counteracted by a significant increase in adjusted general administrative expenses.

Overall, the Management Board is satisfied with the business development.

Sales development by segments

The segmentation of sales for the reporting year and the fourth quarter of 2021 compared to the previous year is as follows:

SALES BY SEGMENT in EURk

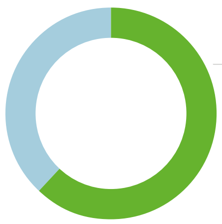
Segment	2021	2020	Change	Change in %
Clean Energy	42,428	32,439	9,989	30.8%
Clean Power Management	21,892	20,783	1,109	5.3%
Total	**64,320**	**53,223**	**11,098**	**20.9%**

The **Clean Energy** segment in particular benefited in the year under review with an increase in sales of 30.8% to EUR 42,428k (previous year: EUR 32,439k) from market growth and high demand for fuel cells. This applied to both industrial applications, including civil security technology, data transmission and digitalization, which account for the highest share of segment sales, and to private (consumer) applications. In this context, the increased contribution of the fuel cell business for industrial applications in North America had a positive effect on segment growth.

In the year under review, the sales of the **Clean Power Management** segment rose by 5.3% to EUR 21,892k (previous year: EUR 20,783k). The growth was mainly based on recovering demand as a result of the gradually easing COVID-19 pandemic situation with current customers and the improved market environment and good capacity utilization in the segment's target markets.

BREAKDOWN OF SALES BY SEGMENT
01/01 – 12/31/2021

in %



With regard to the distribution of sales among the segments in the reporting year, the share of Group sales accounted for by the Clean Energy segment increased. With a share of 66.0% (previous year: 61.0%), Clean Energy remained the stronger segment in terms of sales, while the share of sales accounted for by Clean Power Management decreased slightly to 34.0% (previous year: 39.0%).

Clean Energy

The core business of the Clean Energy segment focuses on the development, manufacture, supply, integration and marketing of products, systems and solutions based on technologically advanced hydrogen and direct methanol fuel cells for power generation. The segment has an extensive portfolio of products that are sold individually or as solutions to customers in the private, industrial and governmental sectors in various markets.

Overall, the segment has proven remarkably resilient during the COVID-19 pandemic, and demand momentum has remained strong. SFC expects that the energy transition in many countries, the increasing shift to low-carbon power generation, and the growth of off-grid or grid-independent application fields will increase future demand for fuel cell solutions.

In the markets addressed by Clean Energy, rising demand for clean energy and increasingly stringent national energy regulations to decarbonize value chains[23] are currently shifting market demand away from fossil fuel power generation, towards reliable, sustainable solutions with low or no emissions at all. This is particularly evident in Europe, North America and Asia. The International Energy Agency (IEA) believes that replacing fossil fuels with renewable electricity in many sectors of the economy, including the key sectors of transport, heating and industry, will be an essential pillar on the road to "net-zero." In a scenario analysis, the IEA projects that around 50% of final energy consumption will be met by electricity by 2050, up from around 20% today.[24]

23 World Economic Forum, (January 2021): Net-Zero Challenge: The supply chain opportunity
24 International Energy Agency, (October 2021): Net Zero by 2050 - A Roadmap for the Global Energy Sector.

In general, the Clean Energy segment also benefits from changes in national energy regulations, in connection with the promotion of the hydrogen industry, the need for security of supply for an increasing number and variety of off-grid systems and plants, CO_2 pricing and climate protection targets, and the modernization of energy markets, for example.[25] For instance, 2020 was a record year in terms of policies and low-carbon hydrogen production, with ten governments around the world adopting hydrogen strategies.[26]

The segment generated sales of EUR 42,428k in the year under review (previous year: EUR 32,439k) and thus achieved an increase of EUR 9,989k or 30.8% compared to the same period of the previous year.

Sales of the segment's fuel cell solutions increased in all three application areas. The strongest absolute contribution to growth came from business with industrial applications, where a number of significant initial and follow-up orders were acquired. In the year under review, sales with fuel cells for industrial applications increased by 28.9% or EUR 4,966k to EUR 22,170k (previous year: EUR 17,204k). Sales for applications in the state sector nearly doubled in the year under review, following low sales in the previous year due to the pandemic. The main reason for this was the delivery of orders to the Swiss and Indian defense authorities. Sales with customers for private applications also increased by 17.4% compared to the previous year.

Clean Power Management

The core business of the Clean Power Management segment comprises the development, manufacture and marketing of the Group's broad range of technologically advanced power management solutions used to generate and control regulated voltages in electronic systems. The target customers for these solutions are equipment manufacturers of high-tech industrial machinery for various industries. Here, the segment focuses in particular on companies with long-term positioning, especially in high-growth sectors.

With a smaller share of sales, the segment also includes the frequency converter business for customers in the oil and gas industry.

Parts of the product portfolio of the Clean Power Management segment are also used in the Clean Energy segment.

Power management solutions are a key component of power conversion systems. The solutions are used to improve power density, reduce electromagnetic interference, maintain power and signal integrity, maintain safety in the presence of variable voltage ranges, as well as extend battery life, among other purposes. Demand for these components has traditionally been affected by changes in the general economic environment, but is being fueled by the emergence of new uses and a number of trends: These include decarbonization and digitalization, leading to increasing demand for smarter devices as well as electricity storage and the flexible control of electricity distribution, including with a higher share of renewable energy.[27] Components are evolving based on new materials. Conversion systems require new topologies and ever higher levels of compactness and efficiency.

25 Hydrogen Council / McKinsey & Company, (February 2021): Hydrogen Insights 2021: A perspective on Hydrogen investment, deployment and cost competitiveness
26 International Energy Agency, (November 2021): Hydrogen - More efforts needed. https://www.iea.org/reports/hydrogen
27 ZVEI (January 2022): Four percent production growth: electrical and digital industry optimistic about 2022. https://www.zvei.org/presse-medien/pressebereich/

Compared to the previous year's figure, the Clean Power Management segment recorded sales growth of 5.3% to EUR 21,892k (previous year: EUR 20,783k). This growth was mainly based on recovering demand from the burdens associated with the COVID-19 pandemic and the improved market environment and good capacity utilization in the segment's target markets. However, the recovery occurred more quickly and was stronger than expected, leading to constraints in the global value chains in the course of the year.

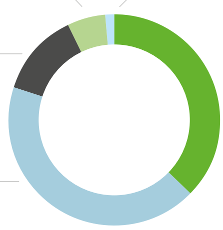
Sales development by region

The sales development by region for the reporting year and the fourth quarter of 2021 compared to the previous year is as follows:

SALES BY REGION in EURk

	2021	2020	Change	Change in %
North America	24,186	18,913	5,273	27.9%
Europe (excluding Germany)	29,025	19,264	9,761	50.7%
Germany	6,694	8,279	1,585	– 19.1%
Asia	4,039	6,304	2,265	– 35.9%
Rest of World (RoW)	377	463	86	– 18.6%
Total	**64,320**	**53,223**	**11,098**	**20.9%**

BREAKDOWN OF SALES BY REGION in %
01.01.–31.12.2021



The following changes occurred in the regional development of sales in the year under review compared to the same period of the previous year: The Europe region excluding Germany contributed 45.1% (previous year: 36.2%) to Group sales and, with sales of EUR 29,025k (previous year: EUR 19,264k), it recorded the highest growth in both absolute and relative terms. North America's share of Group sales increased slightly in the reporting year to 37.6% (previous year: 35.5%), mainly due to the strong sales growth of SFC Ltd..

The shares of Germany and Asia at 10.4% and 6.3% of Group sales decreased in the reporting year.

Gross profit

Compared to the previous year, gross profit increased by 26.4% to EUR 22,638k (previous year: EUR 17,915k) and thus increased by EUR 4,723k compared to the previous year's figure. The gross profit margin of the Group resulting from the development of sales (gross profit as a percentage of sales) increased markedly in the reporting year to 35.2% (previous year: 33.7%). This was due to the higher contribution to sales made by the higher-margin Clean Energy segment, which at the same time also increased the gross profit margin.

The gross margin of the Clean Energy segment in the year under review of 40.1% (previous year: 38.5%), as was the gross profit on sales at EUR 17,011k (previous year: EUR 12,481k) were above the level of the same period of the previous year due to a more favorable product mix with a higher contribution to sales from higher-margin products and in a general a good price penetration from the Clean Energy Segment.

Although the gross profit of the Clean Power Management segment decreased to EUR 5,627k (previous year: EUR 5,435k), the resulting gross margin was slightly below the level of the same period of the previous year at 25.7% (previous year: 26.1%), however. The decline is attributable on the one hand to higher logistics expenses for materials procurement and on the other hand to a less favorable product mix in the second half of the year.

The gross profit compared to the previous year for the individual segments is as follows:

GROSS PROFIT ON SALES in EURk

Segment	2021	2020	Change	Change in %
Clean Energy	17,011	12,481	4,530	36.3%
Clean Power Management	5,627	5,435	192	3.5%
Total	**22,638**	**17,915**	**4,723**	**26.4%**

Selling expenses

Selling expenses increased in the reporting year compared to the previous year by 24.2% to EUR 15,051k (previous year: EUR 12,122k). This development is due in particular to the significantly higher special expenses included in selling expenses compared to the same period of the previous year, amounting to 4,294k (previous year: EUR 2,012k).

Adjusted for these effects, selling expenses in the year under review increased by 6.4% to EUR 10,757k (previous year: EUR 10,111k). The increase is attributable in particular to higher personnel expenses. These resulted from the combination of lower government subsidies in connection with the pandemic in the amount of EUR 420k (previous year: EUR 716k), the withdrawal of pandemic-induced salary reductions, and sales-related higher short-term performance-related compensation. Group-wide, adjusted selling expenses as a percentage of sales decreased slightly to 16.5% (previous year: 19.0%) due to higher sales.

Selling expenses in the Clean Energy segment, adjusted for the above-mentioned non-recurring expenses of EUR 4,294k (previous year: EUR 2,012k), were 3.3% lower than in the previous year at EUR 8,777k (previous year: EUR 9,073k). The selling expenses of the Clean Power Management segment, which do not include any special expenses, recorded a significant increase and amounted to EUR 1,980k (previous year: EUR 1,038k). Especially the Clean Power Management segment had benefited from government wage subsidies in the Netherlands and Canada in the previous year. In addition, the segment's selling expenses also include higher sales commissions and bonuses for the SFC Ltd., in particular due to the strong increase in sales.

Research and development costs

Research and development costs recognized in the income statement increased in the year under review by 14.6% to EUR 3,257k (previous year: EUR 2,843k).

Adjusted for the above-mentioned special expenses in the amount of EUR 202k (previous year: EUR 0k) and including development expenses capitalized in the year under review, expenses for joint development agreements and grants received in the combined amount of EUR 1,068k (previous year: EUR 772k), the total research and development expenses of the Group in the year under review amounted to EUR 6,111k (previous year: EUR 6,718k). The lower expenses in the reporting year resulted mainly from fewer purchased services and consulting in connection with external development services in the Clean Power Management segment. Furthermore, the Clean Power Management segment included impairment losses of EUR 287k in the same period of the previous year. There were no impairment losses in the current reporting period.

The Group's overall development ratio (total R&D expenditure as a percentage of sales) decreased to 9.5% (previous year: 12.6%).

General administrative costs

General and administrative costs in the year under review amounted to 10,292k (previous year: EUR 7,125k) and were significantly higher than in the same period of the previous year. After adjustment for the above-mentioned non-recurring effects amounting to EUR 3,018k (previous year: EUR 1,717k), general and administrative costs rose compared to the same period of the previous year by 34.5% to EUR 7,275k (previous year: EUR 5,408k). The increase is mainly attributable to higher personnel expenses in connection with a higher headcount in both segments, higher audit, legal and consulting expenses and IT expenses, as well as higher investor relations expenses.

Other operating income

Other operating income increased significantly in the year under review compared to the same period of the previous year to EUR 904k (previous year: EUR 157k). The main reason for this is the income from the reversal of SARs provisions through profit or loss in the amount of EUR 484k (previous year: EUR 0k). Furthermore, this item includes income from exchange rate differences amounting to EUR 415k (previous year: EUR 119k), resulting from the valuation of foreign currency receivables and liabilities.

Other operating expenses

Other operating expenses in the year under review amounted to EUR 48k (previous year: EUR 290k) and resulted from expenses from exchange rate differences.

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

Earnings before interest, taxes, depreciation and amortization (EBITDA) of the Group decreased in the reporting year to EUR −797k (previous year: EUR −986k), resulting in a negative EBITDA margin (EBITDA in relation to sales) of −1.2% (previous year: −1.9%). The negative EBITDA is attributable to the significant charges to functional areas from the non-recurring effects cited above.

The key financial performance indicator for managing the operating business, EBITDA adjusted for special effects (underlying EBITDA), amounted to EUR 6,233k (previous year: EUR 2,936k) and, with an increase of EUR 3,297k more than doubled the previous year's figure. The underlying EBITDA margin recorded a strong increase of 4.2 percentage points and stood at 9.7% (previous year: 5.5%) significantly above the prior year's level.

Mainly as a result of the significantly higher gross profit, the EBITDA of the Clean Energy segment, adjusted for non-recurring effects, improved in the year under review to EUR 5,539k (previous year: EUR 687k), which resulted in a likewise improved underlying EBITDA margin for the segment of 13.1% (previous year: 2.1%).

EBITDA for the Clean Power Management segment does not include any non-recurring effects. Mainly due to the above-mentioned decline in the gross margin in conjunction with higher selling expenses, EBITDA decreased significantly in the year under review to EUR 694k (previous year: EUR 2,250k). The segment's EBITDA margin also decreased significantly to 3.2% (previous year: 10.8%).

Operating result (EBIT)

Earnings before interest and taxes (EBIT) of the Group decreased in the reporting year to EUR −5,105k (previous year: EUR −4,501k). The EBIT margin (EBIT in relation to sales) remained stable at −7.9% (previous year: −8.5%) also due to the charges arising from the non-recurring effects listed above.

EBIT adjusted for the non-recurring effects (underlying EBIT) amounted to EUR 1,925k (previous year: EUR −579k) and was therefore with EUR 2,504k or considerably higher than the previous year's figure. This resulted in an underlying EBIT margin of 3.0% (previous year: −1.1%).

The underlying EBIT of the Clean Energy segment for the reporting year amounted to EUR 2,343k (previous year: EUR – 1,612k). The EBIT of the Clean Power Management segment, which does not include any non-recurring effects, amounted to EUR – 419k (previous year: EUR 1,033k).

Interest and similar income

Due to the low level of interest rates, interest and similar income amounted to EUR 0k (previous year: EUR 0k).

Interest and similar expenses

Interest and similar expenses in the amount of EUR 410k (previous year: EUR 443k) include interest expenses from the application of IFRS 16 amounting to EUR 215k (previous year: EUR 213k), interest payments on financial liabilities and negative interest on short-term bank balances. The decrease in this item resulted from lower interest expenses for financial liabilities.

INTEREST AND SIMILAR EXPENSES in EURk

Segment	2021	2020	Change	Change in %
Lease liabilities (IFRS 16)	215	213	2	0.7%
Credit institutions	195	230	– 35	– 15.3%
Total	**410**	**443**	**– 34**	**– 7.6%**

Group annual result

The reporting year was concluded with a consolidated loss for the period of EUR – 5,829k (previous year: EUR – 5,184k).

Earnings per share

The undiluted and diluted loss per share in accordance with IFRS amounted to EUR – 0.40 (previous year: EUR – 0.39).

Order intake and order backlog

Incoming orders increased significantly in the year under review to EUR 89,087k (previous year: EUR 49,095k). Correspondingly, the Group's order backlog as of the reporting date of December 31, 2021, increased to EUR 30,551k (previous year: EUR 9,881k). Of this amount, SFC AG accounted for EUR 8,529k (previous year: EUR 2,171k), SFC Energy B.V. for EUR 10,907k (previous year: EUR 5,886k) and SFC Energy Ltd. for EUR 11,116k (previous year: EUR 1,825k).

Net assets and financial position

Principles and objectives of financial management

The goal of financial management is to secure SFC's financial strength over the long term. The focus is on the task of adequately covering the financial requirements of the operating business as well as the financial requirements for investments. SFC's financial management comprises capital structure management, liquidity management, management of market price risks (currency, interest rates) and management of credit default risks.

Capital structure management shapes the capital structure of the Group and its subsidiaries. The Group companies are capitalized in accordance with the principles of cost- and risk-optimized finance and capital resources.

As part of liquidity management, cash flows from operating activities and financial transactions are recorded in a rolling plan. SFC covers its liquidity requirements by using the appropriate instruments for liquidity management, such as internal Group financing through loans or credit financing with local banks. SFC follows a prudent financing policy based on a comfortable liquidity cushion and a balanced financing portfolio with diversified maturities.

The management of market price risks has the task of limiting the effects of fluctuations in currencies and interest rates on the Group's earnings.

The management of credit default risk involves monitoring the risk volume of the Group's accounts payable positions vis-à-vis financial institutions and customers. The credit risk to financial institutions arises from the investment of liquid funds as part of liquidity management. The management of these credit risks is mainly based on the analysis of the creditworthiness of the financial institution or the corresponding deposit insurance systems. The credit risk to customers from the supply and service business results from the relationship with dealers, as well as corporate and retail customers. Key elements in the management of credit risk include proper credit assessment, which is supported by risk classification procedures, and structured portfolio analysis and monitoring.

Capital structure

As of December 31, 2021, equity amounted to EUR 50,019k (December 31, 2020: EUR 54,838k) and thus decreased by EUR 4,819k.

The net financial position (freely available cash and cash equivalents less liabilities to banks) decreased in the year under review by EUR 5,027k to EUR 21,888k (December 31, 2020: EUR 26,915k).

SFC's strategic orientation and especially the chosen strategy require further investments that must be financed to ensure future business success. This relates to the areas of product development, opening up further market segments as well as new regions and the expansion of existing market segments. Until such time as it is used, surplus liquidity is invested in low-risk financial instruments (e.g. overnight and time deposits) at various banks.

No capital requirements are defined in SFC's Articles of Association.

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

Cash and cash equivalents

As of December 31, 2021, freely available cash and cash equivalents amounted to EUR 24,623k (December 31, 2020: EUR 31,464k).

Overall, liabilities to banks decreased in the year under review compared to the end of reporting year 2020 by EUR 1,815k to EUR 2,735k (December 31, 2020: EUR 4,549k), mainly due to a lower utilisation of working capital credit lines as of the reporting date.

SFC Energy AG

As part of the operational financing of SFC Energy AG, a guarantee facility in the amount of EUR 500k with a fixed guarantee commission and an indefinite term was concluded in reporting year 2021. Liquid funds in the same amount are to be pledged as collateral for guarantees issued. As at 31 December 2021, the guarantee utilisation amounted to EUR 99k.

SFC Energy Ltd.

As part of the financing of the subsidiary SFC Energy Ltd., a loan agreement maturing until May 2022 with a variable interest rate (Canadian variable rate plus a margin grid depending on "senior funded debt to equity") was concluded with banks. The outstanding loan amount under the loan agreement as at 31 December 2021 was EUR 227k.

In addition, a working capital loan agreement in the amount of up to TCAD 4,000 without a fixed term was also concluded with a variable interest rate (Canadian Prime Lending Rate plus fixed margin).

Both loans are subject to extensive financial covenants (compliance with various financial ratios) ("working capital ratio," "debt service coverage ratio" and "senior funded debt to EBITDA ratio"), non-compliance with which could result in the loans being called in by the lenders. The threshold values of the financial covenants as of December 31, 2021 were complied with. Exceedances are also not expected in the 2022 financial year.

SFC AG has issued a letter of subordination to the banks of SFC Energy Ltd. for a current shareholder loan until January 1, 2022. The shareholder loan is short-term and bears interest at 5.6% p.a. The loan is valued at TCAD 2,048 including interest as of the balance sheet date.

In addition, SFC AG has agreed with the banks to extend the payment term for trade receivables against SFC Energy Ltd. in the amount of TCAD 753 to January 1, 2022.

SFC Energy B.V.

As part of the financing of the subsidiary SFC Energy B. V. Almelo, the Netherlands, a working capital loan agreement with a term of 12 months and an extension option as well as and a frame of up to EUR 3,000k and a variable interest rate (EURIBOR plus a fixed margin) was concluded. In addition, a working capital loan agreement with a frame of up to EUR 500k without a fixed term ("until further notice") was also concluded with a variable interest rate (1-month EURIBOR plus a a variable mark-up and a fixed margin).

No financial covenants (credit protection clause) were agreed with the financing bank.

As part of the financing of the direct sub-subsidiary SFC Energy Power S.R.L Cluj, Romania, a working capital loan agreement of up to EUR 1,000k with a variable interest rate (reference rate plus a fixed margin) and a term of 12 months together with an annual extension option was concluded with a bank. The financial covenants agreed in the contract (debt and solvency ratio) were complied with as of the balance sheet date December 31, 2021.

Continuous investment in product development as well as potential joint ventures, shareholdings and acquisitions remain an important part of our growth and internationalization strategy in order to strengthen and expand our market positions in a targeted manner or to supplement existing businesses or enter new fields of business. The implementation of this strategy could give rise to financial obligations or additional financing requirements.

Until used, liquidity surpluses are invested in low-risk financial securities (e.g. overnight and time deposits) at various banks.

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

EQUITY RATIO OF THE GROUP in EURk

	12/31/2021	12/31/2020
Equity	**50,019**	**54,838**
as % of total capital	57.3%	63.5%
Borrowed capital	**37,346**	**31,492**
as % of total capital	42.7%	36.5%
Long-term debt	16,348	12,711
Current liabilities	20,998	18,780
Group balance sheet total	**87,365**	**86,330**

Non-current assets (excluding deferred taxes) continue to be financed through equity, and current assets cover current liabilities.

Liquidity

In the reporting year 2021, there was a net outflow of funds in the amount of EUR 6,841k (previous year: net inflow of EUR 10,558k).

Cash and cash equivalents available at the end of December 2021 decreased to EUR 24,623k (end of December 2020: EUR 31,464k). In addition, cash and cash equivalents in the amount of EUR 385k (previous year: EUR 286k) were restricted in favor of a landlord and in favor of a bank in connection with a guarantee.

SFC currently invests its cash and cash equivalents exclusively in short-term investments. As a result, SFC is generally subject to interest rate risk in times of very low interest rates or even negative interest rates.

As of December 31, 2021, there were no open foreign exchange or commodity forward contracts.

As of the balance sheet date, there were current liabilities to banks in the amount of EUR 2,735k (previous year: EUR 4,340k). There were no non-current liabilities to banks (previous year: EUR 209k). There was no breach of the renegotiated financial covenant.

As of the reporting date, there are credit lines that have been drawn down as follows:

UTILIZATION OF CREDIT LINES AS OF 12/31/2021 in EURk

	Credit line	Utilization
SFC Energy Ltd; operating credit line	CAD 4,000k	CAD 390k
SFC Energy Power S.R.L.; operating credit line	EUR 1,000k	EUR 805k
SFC Energy B.V.; operating credit line I	EUR 3,000k	EUR 954k
SFC Energy B.V.; operating credit line II	EUR 500k	EUR 431k

The exercise options of the working capital credit line of SFC Energy Ltd. and the working capital credit line I of SFC Energy B.V. (NL) are linked to trade receivables and inventories, respectively.

CASHFLOW in EURk

	01/01–12/31/2021	01/01–12/31/2020
Operating cashflow before changes in working capital	5,914	3,456
Cash flow from		
operating activities	1,078	–595
investing activities	–3,873	–4,279
financing activities	–4,046	15,432

Operating cash flow and cash flow from operating activities

Operating cash flow before changes in net working capital and income taxes (operating result before changes in working capital) amounted to EUR 5,914k (previous year: EUR 3,456k) and was thus significantly higher than in the previous year.

After taking the change in net working capital into account, which increased by EUR 4,567k (previous year: EUR 3,893k) and income tax payments, the cash flow from operating activities amounted to EUR 1,078k (previous year: EUR –595k). The main reason for this very high increase was the extremely positive development in adjusted EBITDA and operating cash flow before changes in net working capital and taxes.

With regard to the main changes in net current assets, both trade accounts receivable increased in the year under review by EUR 4,955k and trade accounts payable increased in the same period by EUR 2,589k. Inventories increased in the year under review by EUR 1,377k with an effect on liquidity. Together with the other items under net current assets, this resulted in an increase in net current assets and thus a cash outflow of EUR 4,567k (previous year: EUR 3,893k) in the reporting period.

The net change in cash and cash equivalents amounted to EUR -6,841k (previous year: EUR 10,558k). As of December 31, 2021, the balance of freely available cash and cash equivalents amounted to EUR 24,623k (December 31, 2020: EUR 31,464k).

Cash flow from investing activities

Cash flow from investing activities in the reporting year amounted to EUR –3,873k (previous year: EUR –4,279k). The decrease is mainly due to lower capitalizable development expenses for the further development of the products of SFC Energy AG and SFC Energy B.V., which amounted to EUR 2,493k (previous year: EUR 3,104k) in the year under review.

Investments

Investments in property, plant and equipment in the reporting year amounted to EUR 1,021k (previous year: EUR 943k).

Investments in intangible assets amounted to EUR 2,762k (previous year: EUR 3,336k), of which EUR 2,493k (previous year: EUR 3,104k) is attributable to capitalizable development expenses.

The investments were made from the company's own funds or within the framework of the current credit agreements.

INVESTMENTS in EURk

	2021	2020
Clean Energy	2,872	4,987
Clean Power Management	1,244	2,365
Total	**4,117**	**7,352**

Cash flow from financing activities

The negative Cash flow from financing activities in the reporting year amounting to EUR –4,046k (previous year: EUR 15,432k) mainly consists of the repayment of financial liabilities amounting to EUR 654k (previous year: EUR 900k) of SFC Ltd., the repayment of working capital lines of SFC Ltd. and SFC B.V. in the amount of EUR 1,295k (previous year: EUR 851k) and the repayment of leasing liabilities in the amount of EUR 1,699k (previous year: EUR 2,053k) in connection with the application of IFRS 16.

Asset position

Consolidated balance sheet total of EUR 87,365k as of December 31, 2021 (December 31, 2020: EUR 86,330k) increased by 1.2% or EUR 1,036k compared to the end of the previous reporting year.

Inventories increased by around 12.4% mainly as a result of growth to EUR 14,185k (December 31, 2020: EUR 12,617k). In particular, inventories increased at SFC Energy AG and SFC Energy B.V. as of the reporting date. Irrespective of this, the Group continued to pursue the targeted higher stockpiling of intermediate goods at all Group companies in reporting year 2021 in order to prevent potential interruptions in the supply chains due to the COVID-19 pandemic and potential supply bottlenecks.

In line with sales, trade accounts receivable also increased as a result of growth. As of the reporting date, these amounted to EUR 17,608k (previous year: EUR 12,363k) and were thus 42.4% above the previous year's level. However, this development is also due to the relatively high Group sales at the end of the reporting year. Trade receivables increased at SFC AG and SFC Energy Ltd. in particular.

In the reporting year, the share of non-current assets in total assets remained unchanged at 32.8% (December 31, 2020: 32.3%) at the level of the end of the reporting year 2020.

Intangible assets increased as of the reporting date to EUR 17,698k (previous year: EUR 15,999k), mainly due to higher capitalized development expenses, which as of December 31, 2021, cumulated to EUR 8,768k (December 31, 2020: EUR 7,733k), and higher recognized goodwill of SFC Energy Ltd. and SFC Energy B.V., which as of December 31, 2021, amounted to EUR 8,414k (December 31, 2020: EUR 7,853k). The increase resulted from positive currency translation effects regarding the goodwill allocated to the Canadian SFC Energy Canada Ltd. Capitalized development expenses of EUR 1,457k (previous year: EUR 663k) in the reporting year were amortized.

Property, plant and equipment decreased to EUR 8,887k (December 31, 2020: EUR 9,985k). Investments or capitalization in property, plant and equipment in the reporting year amounted to EUR 1,335k (previous year: EUR 4,016k), of which EUR 368k (previous year: EUR 3,073k) resulted from the capitalization of rights of use (IFRS 16).

Current liabilities increased in the year under review, in particular as a result of the increase in trade payables by EUR 2,218k to EUR 20,998k (December 31, 2020: EUR 18,780k).

In line with inventories, trade payables also increased in the year under review and amounted to EUR 7,642k (December 31, 2020: EUR 4,742k) and were thus 61.2% respectively EUR 2,900k, significantly above the level at the end of the previous reporting year.

Due in particular to the provisions for short-term performance-related compensation for employees, other current provisions increased by EUR 430k to EUR 2,006k (December 31, 2020: EUR 1,576k).

Current lease liabilities increased by EUR 507k to EUR 1,860k (December 31, 2020: EUR 1,353k).

Non-current liabilities increased in the reporting year by EUR 3,637k to EUR 16,348k (December 31, 2020: EUR 12,711k). The main items included in non-current liabilities are lease liabilities in the amount of EUR 4,891k (December 31, 2020: EUR 6,548k) and liabilities from the LTI programs in the amount of EUR 7,210k (December 31, 2020: EUR 5,683k).

Financial liabilities declined in the year under review by EUR 1,815k to EUR 2,735k (December 31, 2020: EUR 4,549k) and are exclusively of a short-term nature. These relate to working capital lines of SFC Energy B.V., SFC Power SRL and SFC Energy Ltd.

The composition and development of net financial liabilities were as follows:

NET FINANCIAL DEBT — in EURk

	12/31/2021	12/31/2020	Change
Liabilities to banks	2,735	4,549	– 1,815
thereof SFC Energy AG			–
thereof SFC Energy B.V.	1,385	1,730	– 345
thereof SFC Energy Ltd.	545	2,209	– 1,664
thereof SFC Power SRL.	805	611	194
Less			
Freely available cash and cash equivalents[1]	24,623	31,464	– 6,841
Total	**21,888**	**26,915**	**– 5,027**

1 Cash and cash equivalents less restricted cash and cash equivalents

Overall, debt as a percentage of total capital amounted to 42.7% (December 31, 2020: 36.5%).

In the reporting year, the Group's equity decreased to EUR 50,019k (December 31, 2020: EUR 54,838k). The equity ratio also decreased to 57.3% (December 31, 2020: 63.5%). With regard to the development of equity, please refer to the Consolidated Statement of Changes in Equity.

Summary of the business performance and situation

In summary, it can be concluded from the business situation presented above that the Group has a stable net assets and financial position as of the reporting date, in particular due to the level of cash and cash equivalents and taking possible future capital injections into account, irrespective of the current negative result. However, in the event of a negative development in the results of operations that deviates from the forecast sales and earnings and an associated deterioration in the financial position, the overall picture could change negatively.

Financial and non-financial performance indicators

The Management Board places a particular focus on the sustainable development of the Group. The financial performance indicators for managing the Group and their development in the reporting year 2021 have already been presented above under "Control system."

Of the non-financial key figures and performance indicators, the Management Board primarily uses the following regularly collected employee-based or sustainability indicators for control purposes:

- Quality indicators, ratings and reject rates
- Number of employees and employee development

However, unlike financial performance indicators, these key figures or indicators are not used for direct company management purposes.

The Management Board is constantly informed of supplier quality and product quality.

To determine the supplier quality, the ratio of the number of complaints of the goods receipts to the total number of goods receipts is formed in relation to the nine most important suppliers. These nine most important suppliers are determined annually by Quality Control and Purchasing on the basis of various criteria. The supplier quality ratio of 0.65% defective parts (previous year: 1.41%) was significantly lower than the previous year's ratio.

The mean time to failure for SFC AG's industrial equipment is used to determine product quality. At 2,934 hours, this increased compared to the previous year's level (previous year: 2,798 hours) and thus also improved.

As sustainability is an essential basis for the long-term business success of the Group, the Management Board strives to achieve the highest possible ecological efficiency in all activities. This aspect is crucial to both product development and production processes. In addition, the Group assumes its social responsibility towards its employees.

To ensure that production is as environmentally friendly as possible, the Group is working to continuously optimize the use of resources. These measures often also have a cost-reducing effect.

The prerequisite for operating in the most sustainable and environmentally friendly manner possible is the highest quality in order to keep waste in the production process as low as possible. For this purpose, all production sites of the SFC Group have their own quality management system, which is also certified according to DIN ISO 9001. SFC applies the approach of an integrated quality management system here, which bundles the monitoring and control of the entire process chain in one specialist responsibility. In addition, SFC Energy AG and SFC Energy B.V. have had an environmental management system certified to ISO 14001 since 2014. SFC Energy Ltd. is audited and certified according to COR (Certificate of Recognition).

In the spirit of sustainable company management, SFC offers its employees a motivating and socially balanced working environment. SFC places great importance on satisfied employees in order to achieve long-term loyalty to the company. Employees of SFC receive individual support. In addition to professional qualification measures, individual further training is also offered. These measures are determined in the course of the annual employee appraisals. In the area of occupational health and safety, we implement an annual training program at all SFC Energy sites worldwide. In addition, SFC gives its employees an appropriate share in the company's success through a variable component.

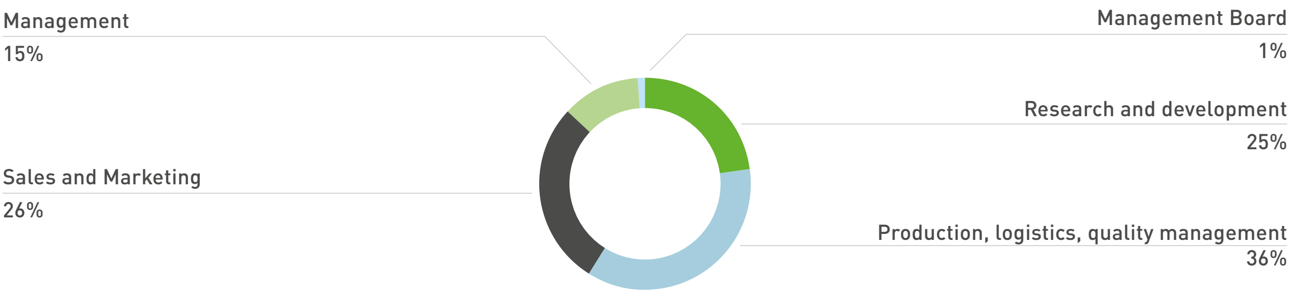
Employees

The number of permanent employees as of 31 December, is as follows:

AVERAGE NUMBER OF EMPLOYEES

	12/31/2021	12/31/2020	Change
Management Board	3	3	–
Research and development	64	64	–
Production, logistics, quality management	103	96	7
Sales and marketing	76	79	–3
Management	42	41	1
Permanent employees	**288**	**283**	**5**

EMPLOYEES BY FUNCTIONAL AREA



As of December 31, 2021, the Group employed 288 permanent employees worldwide (December 31, 2020: 283).

Risk and Opportunities Report

SFC's segments are exposed to a variety of risks that are inextricably linked to their business activities. A risk is understood to be the possibility that events or actions will prevent the Group or one of the segments from achieving its intended goals. At the same time, it is important for SFC to identify opportunities in order to take advantage of them and secure or expand the Group's competitiveness.

The risks and opportunities of the business are to be balanced successfully. In this context, opportunities are to be exploited while risks are to be taken in moderation. Risks that could jeopardize the company's continued existence are to be avoided as a matter of principle.

The Group's risk profile is influenced by its willingness to take risks. This is controlled by the risk management activities described below. The Group's willingness to take risks is derived from SFC's strategic focus on sustainable growth. A conservative approach is pursued with a particular focus on securing liquidity in the short and medium term.

Internal control system and risk management system for the Group accounting process

SFC has an internal control and risk management system with regard to the (Group) accounting process in which suitable structures and processes are defined and implemented in the organization. The internal control system is an integral part of the risk management system.

Amendments to laws, accounting standards and other pronouncements are analyzed on an ongoing basis with regard to their relevance and impact on the Consolidated Financial Statements, and the resulting changes in the Group's internal systems and processes are adjusted accordingly.

All companies included in the Consolidated Financial Statements must follow uniform guidelines when preparing their IFRS reporting packages. These guidelines comprise the recognition, measurement and disclosure rules to be applied in the Group in accounting. These are designed to ensure the timely, uniform and correct accounting recognition of all business processes or transactions. This ensures compliance with legal standards and accounting regulations.

Accounting for the Dutch subsidiary SFC Energy B.V. is performed by the accounting department in the Netherlands, while accounting for the Romanian company is performed in Cluj, Romania. The uniform application of accounting standards in accordance with IFRS throughout the Group is ensured by appropriately qualified personnel locally and at the parent company.

The accounting of the Canadian subsidiary SFC Energy Ltd. is performed by the accounting department in Canada. The uniform application of accounting standards in accordance with IFRS throughout the Group is ensured by appropriately qualified personnel of the parent company.

Based on the data of the companies included in the scope of consolidation, the consolidation measures and certain reconciliation work are performed by the parent company's accounting department. Due to the size of the Group, there is no separate Group Accounting department.

System-technical controls are monitored by accounting staff and supplemented by performing manual checks. In principle, there is at least a dual control principle at every level.

Certain approval processes must be run through the entire accounting process.

The Management Board is responsible for implementing and monitoring the internal control system, including the (Group) accounting-related internal control system. In addition to defined control mechanisms, the internal control system is based on technical and manual reconciliation processes, the separation of functions, and compliance with work instructions, for example.

Due to the size of the Group, there is no Group internal audit department.

The Management Board of SFC AG is of the opinion that the accounting-related internal control system was functional in the financial year. The effectiveness of the internal control system is monitored by the Supervisory Board of SFC AG. As a general rule, it should be noted that an internal control system, regardless of its design, does not provide absolute assurance that material misstatements in the financial statements will be prevented or detected.

Risk management system

The Group's risk management is an integral part of the Group's business processes and is designed to ensure a comprehensive overview of the Group's risk situation. In particular, risks with a significant negative impact on the asset, financial and earnings positions are to be identified at an early stage so that measures can be taken to avoid, reduce or manage them. The risk management system is the responsibility of the Management Board and takes into account the legal requirements arising from legislation, case law, the German Corporate Governance Code and international accounting standards. It is monitored by the Supervisory Board and the Audit Committee of the Supervisory Board. In accordance with the Group's organizational and responsibility hierarchy, the respective management of the subsidiaries, business areas and organizational units (collectively "risk owners") are required to implement a risk management system that is tailored to their specific businesses and responsibilities while complying with the Group's overarching principles.

The risk management system used at SFC is supplemented by an early warning system. The indicators provide an objective overview of the Group's financial situation, a target/actual comparison between the budget and the costs, a detailed forecast of expected incoming orders and sales for each segment (sales pipeline), division-specific cost controlling, cost controlling for development and marketing projects, a project management tool for the entire Group, and other process-related indicators. SFC B.V. and SFC Ltd. are integrated into the risk management system (for certain key figures).

Direct responsibility for the identification, analysis, management and communication of risks lies with the respective division heads as well as the members of the Management Board and the Extended Executive Board of the Group companies. They are to support the Management Board on identifying and assessing risks in their area of responsibility. The risk officers provide information on changes in the risk situation in the business areas through target-setting meetings between the Management Board and the risk officers and through regular reporting.

The risk management system is continuously and systematically further developed. The risk management policy was reviewed for up-to-datedness in the financial year and adjusted accordingly. The goal of the risk management system is especially to inform the Management Board and Supervisory Board of the risks with medium and high expected value ("material risks," the expected value is a combination of the probability of occurrence and the level of negative impact on the asset, financial and earnings positions). The risk assessment criteria are derived from the Management Board's risk strategy. Changes in risks and opportunities are continuously recorded, monitored, assessed and managed, and incorporated into the planning process during the year as required.

Known risks are assessed on the basis of their probability of occurrence according to a three-level scale of "unlikely," "possible" and "probable." Furthermore, the potential extent of the risk is assessed according to three criteria, in particular on the basis of SFC's earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) adjusted for special effects; the potential extent is assessed according to realized measures to avoid or reduce damage. There is no offsetting of opportunities and risks. The risk matrix is shown in detail in the following chart:

RISK CLASSIFICATION MATRIX – EXPECTED VALUE

Probability of occurence / Degree of impact	Unlikely < 20%	Possible from 20% to < 70%	Probably >= 70%
Insignificant (up to EUR 500k)	low	low	moderate
Moderate (from EUR 500k to EUR 1,000k)	low	moderate	high
Significant (from EUR 1,000k)	moderate	high	high

The Group distinguishes between financial risks on the one hand and business opportunities and risks on the other. These are the main factors influencing SFC. The financial risks are presented under "Risk reporting in relation to the use of financial instruments." The financial risks as well as the business risks and opportunities are shown in detail under "Risk Report." Changes from the previous year are explicitly explained.

Risk reporting in relation to the use of financial instruments

The Supervisory Board generally receives a monthly financial report, the Chairman of the Supervisory Board is usually informed verbally by the Chairman of the Management Board on a weekly basis about significant issues, and in addition, if required, the entire Supervisory Board is also informed of current developments at short notice. The Supervisory Board is thus involved in risk management through the Management Board's reports on transactions that could be of particular significance to profitability and liquidity.

One of the main tasks of SFC is to coordinate and manage the Group's financial requirements and to ensure the Group's financial independence. This involves optimizing financing and limiting financial risks. Appropriate processes have been established and documented to manage financial opportunities and risks. One component of this is financial planning, which serves as the basis for determining expected liquidity requirements. Financial planning covers a planning horizon of at least twelve months and is updated regularly.

In the course of their operating activities, the companies and the Group are exposed to various risks with regard to their financial instruments.

Financial instruments include assets and liabilities as well as contractual claims and obligations relating to the exchange or transfer of financial assets. Primary financial instruments on the assets side are financial investments, receivables and cash and cash equivalents, as financial instruments do not only include trade receivables. On the liabilities side, provisions, liabilities to banks (financial liabilities in the narrow sense), trade payables, other liabilities and leasing liabilities as well as provisions are to be allocated to the financial instruments.

The associated financial risks include liquidity risks, market risks (especially interest rate and currency risks), and credit or default risks. As a result of these financial risks, assets may lose value and liabilities may have to be valued higher; furthermore, income may decrease or expenses may increase. SFC does not hedge these risks. For reasons of materiality, please refer to the Notes to the Consolidated Financial Statements. If default risks are probable for financial assets, these risks are recognized through valuation allowances.

RISKS RELATING TO FINANCIAL INSTRUMENTS

	Probability of occurrence	Degree of impact
Default risk	possible	significant
Liquidity risk	unlikely	significant
Interest rate risk	possible	insignificant
Currency risk	possible	insignificant

The objective of risk management with regard to the use of financial instruments is to minimize the risks listed above. The financial risks and SFC's objectives and procedures are described below.

Default risk (credit risk)

Credit or default risk is defined as an unexpected loss on financial instruments if a counterparty fails to meet its obligations in full and when due, or if collateral loses value. Default risks resulted mainly from trade receivables and the risk of potential default by a contractual partner. SFC's customer structure is characterized by various major customers, among others. In order to prevent default risk, credit assessments are carried out and credit limits are obtained on the basis of customer information or reports from external rating agencies and information service companies and on the basis of SFC's experience with regard to bad debt losses for certain customers. The internal ratings take into account appropriate forward-looking information relevant to the specific financial instrument, such as expected changes in the debtor's financial position, shareholder structure, management or operational risks, as well as broader forward-looking information, such as expected macroeconomic and industry and competitive developments. New customers are generally supplied only in exchange for prepayment.

Nevertheless, this does not fundamentally rule out the default of individual counterparties, even with excellent credit ratings, even if this is considered unlikely. A receivable is considered to be in default if the counterparty is unwilling or unable to meet its payment obligations. A number of internally defined occasions trigger a default rating, the opening of insolvency proceedings or a default rating by an external rating agency, for example.

SFC has set up various processes to analyze and monitor credit and default risk. One of the main elements are weekly receivables meetings, in which all significant overdue receivables are discussed and measures are initiated with the responsible sales employees. For SFC Energy B.V. and SFC Energy Ltd., prevention of default risk is generally carried out in such a way that overdue receivables are first investigated by accounting staff and then discussed with the customer by the responsible sales staff.

The maximum amount at risk for financial assets, excluding collateral, is their net carrying amount. The amounts shown in the Consolidated Statement of Financial Position are net of allowances for doubtful accounts, which have been estimated by management on the basis of case-specific information, past experience and the current economic environment. Specific allowances are established when there is an indication that receivables may be uncollectible. The indications are based on intensive contacts in the context of receivables management.

In the financial year under review, as in the previous year, no collateral was acquired and recognized for defaulted receivables. Receivables from product sales are secured for SFC AG by retention of title.

The outstanding receivables, for which value adjustments amounting to EUR 853k exist, are of high credit quality due to the current customer structure. Despite the effects of the COVID-19 pandemic, there were no indications as of the balance sheet date that further significant payment defaults were to be expected with regard to these receivables.

There are potential default risks relating to cash and cash equivalents. Cash and cash equivalents mainly comprise short-term time deposits and overnight money and immediately available balances at banks.
In connection with the investment of cash and cash equivalents, SFC is exposed to losses from credit risks

if financial institutions fail to meet their obligations. To minimize this risk, the financial institutions with which investments are made are carefully selected and the investments are spread across several banks. Particular care is taken to ensure that the majority of cash and cash equivalents are invested with banks domiciled in Germany that are members of the Deposit Protection Fund of the Association of German Banks and the Compensation Scheme of German Banks GmbH. In addition, only short-term time deposits with a maximum term of three months are agreed. The maximum risk position corresponds to the carrying amount of cash and cash equivalents as of the balance sheet date. As of the balance sheet date, SFC had not invested any liquid funds in time deposits.

There are no significant risks with regard to the default of receivables, as SFC does not have any significant customer relationships with Russia and Ukraine.

Overall, the credit or default risk is to be assessed as high due to the the volume of assets fundamentally affected and the probability of occurrence with a significant negative impact classified as possible.

Liquidity risk

Liquidity risk describes the risk that the Group will not be able to meet its payment obligations to a sufficient extent. In order to reduce potential liquidity risks, the Group follows a well-considered company financing policy, which is based on the short-, medium- and long-term financing and liquidity requirements of the Group. Overall, the company financing policy is geared towards a balanced capital structure, a diversified maturity profile and a stable liquidity cushion.

The Group limits liquidity risk by continuous pursuit of the financing options available on the financial markets and observes how the availability and costs of financing options develop. One of the main objectives is to secure the Group's financial flexibility and limit any repayment risks. Since financial covenants have been agreed in the loan agreements, these contracted loan commitments may not be callable in the event of poor creditworthiness on the part of SFC or one of the subsidiaries.

It cannot be ruled out that the armed conflict between Russia and Ukraine may have a longer-lasting negative impact on the capital markets. SFC is not currently exposed to any liquidity risk. The unrestricted cash and cash equivalents available as of the reporting date amounted to EUR 24.623k (previous year: EUR 31.464k).

Overall, the liquidity risk is assessed as unlikely to materialize, but with a significant degree of moderate risk.

Interest rate risk

Changes in the level of interest rates have an effect on the interest expense for drawing on credit lines and the income from the investment of cash and cash equivalents, in particular due to variable interest rates. Currently, cash investments are made with a maximum term of 3 months, so SFC's interest result is significantly influenced by short-term interest rates on the capital market. The interest rate risk from the investment of liquid funds results in particular from the negative interest rates for short-term time deposits.

In addition, there is an interest rate risk due to the credit rating. The credit agreements of SFC Ltd. contain financial covenants (compliance with various financial ratios). In the event of non-compliance or non-fulfillment of the covenants, there is a risk that a surcharge will have to be paid on the interest rate or that the respective loan will be called due prematurely. In addition to the earnings situation, increased financing requirements can also lead to an increased covenant risk.

The Group is not exposed to any significant interest rate risks from variable-rate instruments.

The amount of drawings on the credit lines may be subject to strong fluctuations and cannot be forecast with certainty; therefore, no hedging takes place. The interest rates for the agreed credit lines correspond to EURIBOR or the Canadian Prime Lending Rate plus a margin. The EURIBOR used as a basis for drawing the loan is based on the interest period, which can be a maximum of one month.

Interest rate risks have potentially immaterial negative effects, are assessed as possible and represent low risks overall.

Currency risk

Due to the international orientation of its business activities, the Group is exposed to risks from exchange rate fluctuations. An exchange rate risk consists of possible changes in value, especially of receivables and liabilities in a currency other than the respective functional currency of the Group companies, due to fluctuations in exchange rates (transaction risk). In particular due to the business volume of SFC Energy Ltd., the Group generates a significant share of its sales in Canadian dollars, which are also offset by expenses or expenditures in the same currency. Furthermore, SFC AG and SFC Ltd. in North America generate sales in U.S. dollars, which are only partially offset by expenses or expenditures in US dollars for the purchase of preliminary products or services.

To limit risks from foreign currencies, foreign currency management seeks to avoid surpluses in Canadian dollars and U.S. dollars and to minimize currency losses compared to budget assumptions.

The planned foreign currency position is not hedged. In the event of larger open positions or a significant increase in foreign currency risk, the planned foreign currency position can be hedged using forward exchange transactions.

Furthermore, there are exchange rate risks relating to the translation of balance sheet items and the income and expenses of foreign Group companies outside the euro zone (translation risk).

The currency translation of the assets and liabilities of SFC Energy Ltd. as of December 31, 2021, would have resulted in an effect of EUR –879k (previous year: EUR –802k) if the CAD exchange rate had fluctuated by –5% and in an effect of EUR 879k (previous year: EUR 802k) if the CAD exchange rate had fluctuated by + 5%, which would have been reflected in the Group's equity.

If the exchange rate of the CAD to the EUR changes by 5% compared with the assumptions in the company's planning, this will have an impact of around 1,8% on Group sales and around 0,5% on underlying Group EBITDA.

There were no open forward exchange transactions as of the balance sheet date. Derivative financial instruments were also not used during the year to hedge currency transactions.

Currency risks have potentially insignificant negative effects, are assessed as possible and represent a low risk overall.

Risk Report

Other risks and opportunities of which we are currently unaware or which we currently assess as insignificant could also affect our business activities. At present, no risks have been identified which, either individually or in combination with other risks, could jeopardize the continued existence of the Group.

The Group's business activities - in addition to the risks described above in connection with financial instruments – give rise to the following significant risks that could have a material adverse effect on the Group's asset, financial and earnings positions (i.e. effects on assets, liabilities and cash flows). Changes in risks and opportunities are continuously monitored, assessed and, if necessary, incorporated into the planning during the year.

Unless individual segments are listed below, the risks relate to all segments. The risks relating to the Group companies SFC B.V. and SFC Ltd. relate to the segments on a pro rata basis.

Other risks and opportunities that are currently unknown or are currently considered insignificant could also affect the Group's operations. At present, no risks have been identified which, either individually or in combination with other risks, could jeopardize the continued existence of the Group.

Business Risks

BUSINESS RISKS

	Probability of occurrence	Degree of impact
Market risks	probable	significant
COVID-19 pandemic risks	possible	significant
Clean Power Management segment	possible	significant
Clean Energy segment	unlikely	significant

Market Risks

Overall economic development

The development of the Group's operating business is influenced by market factors such as geographical and industry-specific economic trends, political and financial changes, raw material prices and exchange rates. These market factors are in turn themselves subject to a variety of influences.

The COVID-19 pandemic continues to have a major impact on the global economy. A high degree of uncertainty regarding its development continues to result from the further course of the pandemic and emerging new virus variants, such as the Omicron variant at present. In particular, a renewed increase in the dynamic pace of infection and thus more comprehensive containment measures than currently assumed would severely impair economic recovery and international trade links, could bring the recovery of the economy to a standstill and even lead to a new recession. These effects would be all the more pronounced, the broader and more comprehensive the respective containment measures would be.

After the pandemic-related slump in global industrial production in the first half of 2020, it was only marginally affected by the economic situation in 2021. After just six months, the slump in 2020 had already been offset[28] and the rapid and strong recovery in global demand for goods resulted in supply and delivery bottlenecks, particularly in 2021, which led to sharp price increases for raw materials, intermediate products and finished goods.

Both the demand overhang in global merchandise trade and the supply-side bottlenecks had a price-driving effect on intermediate products in the fiscal year. Together with the sharp rise in fossil fuel prices in the final months of the fiscal year, this also had a direct impact on global consumer prices. In November 2021, these were up 4.9% year-on-year in the euro zone and 6.8% in the US.[29]

A significant risk to our sales growth and earnings situation would come from prolonged supply and delivery bottlenecks, which could also lead to further upward pressure on prices. In particular, an increasing unavailability of precursors, especially electronic components on the one hand, and access to raw materials on the other, would significantly reduce our production potential. A significant and sustained rise in inflation rates could lead to serious dislocations on the global money, capital and currency markets if central banks initiate an end to expansionary monetary policy too quickly and too aggressively. Such a scenario could lead to significantly higher financing costs for highly indebted countries (both emerging and developed) and a loss of investor confidence. Additional negative effects on sales to governmental sector customers could also result from increasing pressure on governments to intensify austerity measures, up to and including dwindling market confidence in individual currency markets.

Other significant risks could arise from political tensions (particularly in the Middle East, Hong Kong and Taiwan), relations between the European Union and the US and Russia, and in particular from the current hostilities between Russia and Ukraine and the resulting geopolitical and realpolitik burdens. However, SFC does not realise any significant sales with Russia or Ukraine.

28 Ifo Institute, Munich (December 2021): ifo Economic Forecast Winter 2021. https://www.ifo.de/node/67010
29 Ifo Institute, Munich (December 2021): ifo Economic Forecast Winter 2021. https://www.ifo.de/node/67010

The Group is dependent on the economic development of certain industries. A prolonged or even worsening cyclical and structural downturn in the macroeconomic environment in core customer industries would have a negative impact on the Group's business prospects. If growth or demand for the Group's products and solutions in certain markets declines significantly or comes to a standstill and the Group is unable to successfully adjust its production and cost structures to the changed market environment, this could have a negative impact on the Group's net assets, financial position and results of operations. A decline in demand could also result in a greater decline in prices for the Group's products, solutions and solutions than currently assumed.

The Group's international business positioning, its broad product portfolio for customers from the private, industrial and governmental sectors in different markets, which follow different business cycles, help to offset the consequences of unfavorable developments in individual markets. While demand for fuel cells in the Clean Energy segment, for example, was only affected to a limited extent by economic cycles in recent quarters, the core customer industries of the Clean Power Management segment in particular were characterized by a reluctance to invest during the pandemic-related recession.

Strategic Risks

The markets in which the Group operates with its fuel cell technology are subject to rapid and significant change as a result of increasing environmental, social and governance requirements from governments and customers, as well as financing restrictions from governments, customer requirements and financing restrictions for technologies that emit greenhouse gases. With regard to hydrogen fuel cell technology in particular, the need for customers to be prepared to change the technologies or procurement strategies already in use represents a risk. Further sales-related risks also exist with regard to the dependence of both the customer project business and the sector business (e.g. oil and gas industry) on the business success of individual customers in their markets and the economic development of the respective markets in which the customers operate. Close customer relationships, our own further developments and market proximity, including precise market analyses, serve us as mitigating factors.

The Group's company strategy is primarily geared towards growth and internationalization in the fuel cell market. The strategic assumptions regarding growth are based on assumptions and estimates that could subsequently prove to be inaccurate. These include operational and regulatory developments as well as future economic developments and market changes, as core customer markets and regional markets on which the Group strategically focuses may develop differently than expected. The Group mitigates these risks through careful analysis. Notwithstanding this, it cannot be excluded that any of the aforementioned circumstances could lead to the expected results not being achieved in individual markets. Overall, the Group attempts to counter these risks through a broad diversification of markets and regions.

The net risk to the Group from negative political and macroeconomic developments is now seen as possible and would have a significant negative impact on the Group's asset, financial and earnings positions. It is thus assessed as a high risk.

Clean Energy segment

In recent years, the energy turnaround and climate protection have become dominant issues in society, politics and business. According to our estimates, there will be upheavals in the energy sector, also in response to climate target obligations. Power generation from fossil fuels is coming under increasing pressure as the prevailing trend in many regions of the world is toward sustainable power generation from renewables or carbon-neutral fuels. This is demonstrated, among other things, by the closing of ranks of large sections of science, industry and civil society in favor of a comprehensive CO2 price, the German government's climate package, but also the EU Commission's "EU Green Deal" and the U.S. Department of Energy's "Energy Earthshots" initiative.

Changes in the regulatory framework or an increase in the CO2 price can contribute significantly to the development of an efficient hydrogen and methanol economy. This would improve the competitiveness of "green hydrogen" and "green methanol" and thus also that of the segment's product portfolio.

These – in some cases disruptive – expected developments in the energy markets, including the trend towards decarbonization of industries, provide us with opportunities to accelerate the penetration of our target markets with lower-carbon or zero-carbon fuel cell technology and, in our estimation, will have a significant positive impact on sales growth and earnings in the Clean Energy segment.

However, the relevant changes could be gradual over several years or even decades. There is a risk that demand for hydrogen and direct methanol fuel cell solutions will fall short of forecasts because the transition to the technology will be slower than we expect or other low-emission or -neutral technologies will be deployed.

There is also a risk that corresponding requirements or regulatory measures (e.g. CO_2 pricing, deployment restrictions for greenhouse gas emitting technologies, promotion of hydrogen infrastructure) will be implemented in a much longer timeframe than we expect and could force us to rethink our strategy and organizational structure as well as our product portfolio.

Low or even falling electricity generation costs from conventional or fossil fuels in some regions of the world could mean that demand for fuel cells develops more slowly than expected.

As in the past, the segment's sales growth and earnings will continue to depend to a large extent on our ability to meet the evolving needs of our current and potential new customers, and on our ability to anticipate and adapt to changes in the markets we serve and optimize our cost base accordingly.

Parts of the segment's product portfolio are aimed at public-sector customers. Risks lie in the dependency on the spending behavior of public-sector budgets in Germany and in foreign customer countries. Government budgets can be restructured and cut back, which could also affect the departments we address.

The diversified customer structure ensures a balance in the event of fluctuations in demand in individual sectors and regions. The diversified product portfolio in terms of performance and fuel cell technology and the low dependence on individual customers mean that price change risks and weaknesses in demand can be cushioned.

The consistent internationalization of the segment and the focus of its business on the major economic areas of Europe, North America and Asia limit dependency on individual customer countries and spread the risk. Overall, negative political, regulatory and macroeconomic developments are considered unlikely for the segment, but could have a significant negative impact on the asset, financial and earnings positions in individual cases. The segment is therefore classified as moderate risk.

Clean Power Mangement Segment

The Clean Power Management segment develops, manufactures and markets power management products and solutions that enable efficiency gains in the transmission and, in particular, use of electrical energy in the value-adding stages and products of the markets addressed. They form the basis for the intelligent and efficient use of electrical energy, in the power supply of measuring and analysis equipment, manufacturing machinery and industrial drive systems, for example.

Due to the markets served for equipment in the high-tech and oil and gas industries, the development of the Clean Power Management segment is closely linked to macroeconomic trends and business cycles at a global level, but also in the individual regions and countries in which the segment operates. Risks arising from economic cycles cannot be completely averted.

Thus, there is a risk of short-term market fluctuations in the addressed markets. It is also possible that future market downturns could turn out to be different from those seen to date, for example taking an L-shape with longer phases of stagnant growth. A lack of or decline in market growth would make it considerably more difficult to achieve the segment's growth target.

Permanently low oil and gas prices could lead to a decline in demand for our products and solutions for the oil and gas industry. At present, analysts at international banks believe that the price of oil will not collapse or will continue to rise in the short term due to the cyclical rise in demand for oil, despite the increasing incidence of COVID-19 infection in parts of the world, while the supply of oil remains unchanged.

Declining trends worldwide and in individual countries and temporary fluctuations in demand for capital goods in the high-tech and oil and gas industries are being countered by expanding the company's international presence and increasingly marketing products in the renewable energies industry.

The segment's diversified product portfolio helps to ensure that temporary economic fluctuations can be partially offset by more favorable developments in other regions and markets.

The net risk from negative macroeconomic and cyclical developments in the markets addressed by the segment is considered possible and could have a significant negative impact on the asset, financial and earnings positions. We therefore classify it as a high risk.

COVID-19 pandemic

The negative impact of the COVID-19 pandemic on the Group's business performance in the financial year was lower than in the previous year. However, the level and probability of occurrence of procurement risks were reassessed during the year. This affected both operating segments. In particular, measures initiated to protect health and safeguard production had a risk-reducing effect. Internally, all necessary measures were taken at short notice to successfully maintain business operations via mobile working and with support of hygiene concepts. The employees showed themselves to be flexible, committed and exceptionally motivated.

However, the COVID-19 situation could worsen again against the backdrop of dynamic infection events in various countries. The number of cases and the severity of the disease vary greatly from country to country, depending on the vaccination rate. The impact of the pandemic therefore varies considerably between regions and core customer markets.

In addition to a possible future delay in vaccinations, current or new mutations of the virus, against which vaccination is less effective or that exhibit significantly increased infectivity, could again lead to rising infection figures. If the incidence of infection increases, there is a risk that more stringent restrictions, such as restrictions on the opening of the Group's trading partners or restrictions on access to customers, could be adopted, which could then lead to a substantial loss of sales. The extent and duration of individual impacts on the Group's business are for this reason fundamentally difficult to predict. Overall, the Group classifies the COVID-19 pandemic as a high risk.

Operational Risks

OPERATIONAL RISKS

	Probability of occurrence	Degree of impact
Technological risks	possible	moderate
Patent law risks	unlikely	insignificant
Competitive risks	possible	moderate
Product risks	possible	significant
Procurement risks	probable	significant
Production risks	possible	significant
Commodity price risks	probable	significant
Human Resources	probable	significant
Information technology risks	possible	significant
Risks in the regulatory environment	possible	significant
Business development risks	possible	significant

Technological Risks

An important prerequisite for SFC's success is its technology leadership and its ability to anticipate and adapt to changes in its core customer markets. This includes increasing the performance of the Group's fuel cells while at the same time reducing or optimizing the manufacturing costs of the products. In addition to its own development work, SFC also works closely with important suppliers in this context.

The further development of today's technologies for new applications with higher performance, among other purposes, as well as the introduction of new products and technologies requires a strong commitment to research and development that involves a considerable investment of financial resources and is not necessarily successful. In addition, development projects can be delayed or expected budgets exceeded. In the course of portfolio management, all projects in the development pipeline are assessed and reviewed regularly, and realigned if necessary.

The conclusion and continuation of intensive cooperation agreements and the externalization of certain development services are of major importance. Any deviation from the strategic goals defined for this purpose could have a critical negative impact on the future earnings situation of the Group.

The know-how generated during (further) development represents an important competitive advantage for SFC. The Group's patents and intellectual property portfolio are actively maintained and further developed in order to secure or expand the Group's technology position. On the one hand, however, not all products manufactured by the Group are subject to patent protection; on the other hand, the patents and other intellectual property rights cannot prevent competitors from developing and selling their own products and technologies that are similar to those of SFC and compete with SFC. Such risks are mitigated by speed in the development process and de facto protection in the form of the know-how held by the Group.

A changed budgetary situation in Germany could lead to restrictions in the allocation of funding. However, it must be taken into account that only a small number of potential projects will be considered for funding in 2022 and that the grants for current projects had almost expired in 2021, so that the opportunities outweigh the risks here, in particular as a result of the National Hydrogen Strategy that has come into force and, to some extent, the Research Subsidies Act.

Overall, the technology risk is considered to be a moderate risk due to the probability of occurrence considered possible and a moderate negative impact.

Patent Law Risks

The increasingly confusing property rights situation and the complexity of the products continue to mean that some of SFC's processes or products possibly infringe on patents of which we are not aware.

Thanks to its unique position as a supplier of commercial direct methanol fuel cells, SFC has acquired intellectual property rights and applications (currently: 18 patent families) that give it a strong competitive position vis-à-vis its competitors. Nevertheless, it cannot be ruled out that legal costs could be incurred to defend these patents. Due to SFC's orientation as a provider of energy supply solutions, there is also a risk that integration solutions could already be subject to granted property rights. SFC constantly works with experienced patent attorneys to obtain legal certainty also in other countries with respect to patents that could be relevant there.

Due to its product portfolio and technology position, SFC is increasingly exposed to a number of sector-specific crime risks. This relates primarily to the risk that confidential information, especially development results, could be stolen or the integrity of the product portfolio compromised, among other things through counterfeiting and infringement of the Group's property rights, as well as all types of property crime, including the respective attempts. Similarly, criminal phenomena such as e-crime and espionage could affect our innovations or innovative capability as such.

To combat potential product crime respectively infringement of SFC's property rights and intellectual property, a Group-internal cross-functional and cross-segment network has been in place for several years. Technical security solutions and certain preventive approaches are in place to ward off threats in the area of e-crime and espionage. Measures to avert risks and prosecute any offenses identified are carried out in all relevant areas of crime in close and trusting cooperation with the relevant authorities.

There can be no assurance that the measures SFC takes to protect its intellectual property will be successful under all circumstances. The impact of these risks on business activities depends on the individual case, product-specific factors, and above all regional aspects.

The threat resulting from patent risks in general is therefore no longer regarded as unlikely. The negative impact on the Group's asset, financial and earnings positions is not judged to be insignificant. Overall, the risk is classified as medium.

Competitive Risks

SFC AG currently has a unique position due to its technology leadership and marketing advantage in the field of direct methanol fuel cells. In the field of hydrogen-powered PEM fuel cells, SFC is one of the first companies to have an industrially mature product in the area of stationary applications with an output of up to 50 KW, giving it a competitive advantage (time lead). This lead is secured by industrial property rights, speed, and focusing on technological concepts.

Due to the massive change in the demand situation, enormous government subsidy programs and the influx of private capital, a higher intensity of competition can be expected here, as well as improved capital availability for development programs of companies in the industry.

It cannot be ruled out that the industry will undergo a consolidation process which could lead to increased competition, a change in the Group's relative market position, a build-up of inventories of (un)finished goods, or unexpected price erosion. In addition, there is a risk that important suppliers will be acquired by our competitors and that competitors will increasingly offer services to our installed base. Some potential future competitors also have regionally better or at least comparably good market access in China and the US, which in principle creates the risk that SFC could lose its leading role.

The Group is subject to the usual risks of competition in both segments. In the Clean Energy segment, there are also risks from announcement effects and actual substitution solutions that could lead to uncertainty among market participants and to a loss of sales for SFC.

The Group counters these risks through various measures, such as product development focused on system solutions, modular basic concepts and customer-specific design concepts, strategic initiatives, sales initiatives, and potential joint ventures by means of which barriers to competition are raised.

Furthermore, the intensive cultivation of long-term established customer relationships, with a clear focus on service and a focus on product and system integration, leads to competitive advantages and thus to further risk minimization.

Overall, this risk is classified as moderate, with a possible probability and a moderate impact on the asset, financial and earnings positions of the Group.

Product Risks

The products manufactured by SFC must meet high quality standards in order to be approved for the market and to be accepted by customers in the long term. In addition to the further development of its own technology, SFC devotes a great deal of attention to quality assurance. The Group makes great efforts to ensure compliance with quality standards, conducts regular internal inspections itself, and also undergoes external audits.

Despite these quality assurance processes, it cannot be completely ruled out that flaws or defects could occur in products, that products may not meet quality specifications, and that complaints could be made by customers or the authorities. The defects could also be caused by suppliers and lead to costs, general impairment or damage to the company's image. In this connection, claims for damages, reductions or reversals by customers or business partners cannot be ruled out entirely. In the case of major projects, particularly in the Clean Energy segment, there is also a risk that these projects may not be completed within the planned timeframe in the corresponding quality, which could have an impact on follow-up orders.

Depending on the product concerned and the severity of the complaint, it is possible that considerable negative impacts on the asset, financial and earnings positions could result. Accordingly, we classify the risk as high.

Procurement Risks

The results of our operating business units depend on reliable and effective management of our supply chain for components, parts and materials. Unexpected delivery failures or supply bottlenecks resulting from ineffective supply chain management and/or capacity constraints at individual suppliers could lead to production bottlenecks, delivery delays, quality problems and additional costs.

Our operating business units are dependent on individual suppliers to supply certain components and parts. In the event that one of these suppliers restricts or discontinues production or interrupts supply, this could potentially have a significant negative impact on the respective business.

We counter these risks through ongoing monitoring of procurement markets, structured procurement concepts, the avoidance of supplier dependencies, careful selection of efficient suppliers, annual supplier reviews, quality and reliability checks at suppliers, alternative suppliers and subcontractors. We also reduce the probability of occurrence of this risk potential through long-term strategic alliances for supply- and price-critical components, medium- and long-term framework supply agreements, and higher safety stocks.

As a result of pandemic-related rising demand in individual countries and scarce transport capacities, there have been significantly more supplier bottlenecks since the first quarter of the financial year compared to previous years. The situation is not expected to improve in the short term, as further supplier bottlenecks will occur in the future with a time lag depending on the situation in the international supply countries.

SFC has no suppliers based in crisis regions such as Russia and Ukraine. However, it cannot be ruled out that the armed conflict will have a negative impact on delivery times.

Overall, we no longer assess the probability of occurrence of the risk as possible, but now as probable.
We continue to assess the negative impact on the asset, financial and earnings positions as considerable in individual cases. Overall, this risk is assessed as high.

Production Risks

Production risks mainly result from quality problems, possible disruptions to operating processes or production stoppages at individual sites, e.g. due to fire, natural disasters or force majeure, which could lead to a significant interruption or restriction of business activities. To the extent possible and economically reasonable, the Group limits damage risks by means of insurance coverage, the type and scope of which is continually adjusted to current requirements. SFC is also exposed to the risk of production stoppages and related delivery bottlenecks that can be triggered by technical problems at production facilities operating at high capacity. There are also risks of supply bottlenecks due to a lack of capacity or the loss of capacity. SFC works to continually reduce risks through regular investments, preventive maintenance, the maintenance of inventories, activities in the area of fire protection, and employee training. The occurrence of these risks is classified as possible and could have a high negative impact on the asset, financial and earnings positions in individual cases and is therefore assessed as a high risk.

Commodity Price Risks

The Clean Energy segment requires certain precious metals for the production of fuel cells that are purchased from suppliers. The Clean Power Management segment requires electronic components for its production process. The purchase prices for these raw materials or preliminary products can fluctuate significantly due to market conditions, political crises or legislation – combined with possible supply shortages – and volatile demand for individual raw materials or products.

Past experience has shown that increased manufacturing costs cannot always or only with a time delay be passed on to our customers through price adjustments.

The majority of the procurement volume of raw materials is not fixed in terms of price.

To reduce purchasing-related risks such as major price fluctuations, we procure important input materials and materials on the basis of long-term supply contracts.

As a result of the global spread of the COVID-19 pandemic, many raw material producers temporarily halted their production partially or completely. This temporary supply shortage, coupled with recovering demand from industrialized countries, led to a sharp rise in raw material prices in 2021 and a procurement situation characterized by unstable raw material supplies and supply bottlenecks. Due to largely unchanged underlying conditions, price fluctuations with uncertain and inconsistent trends are expected for the current financial year. Furthermore, the commodity price level cannot be reliably estimated overall due to the hostilities between Russia and Ukraine and the associated sanctions.

However, it cannot be ruled out that the dispute could lead to higher commodity prices and longer-lasting higher energy prices as well as further fuel inflation.

Platinum and, to a lesser extent, ruthenium are used as catalysts in a key component of the fuel cell. In order to ensure cost certainty for the medium-term demand for precious metals, platinum and ruthenium are purchased from the supplier of the component at the daily rate if certain minimum quantities are not reached and depending on market estimates of price developments, and are managed in a separate account. In addition, precious metals from the component of recycled fuel cell systems are also credited to this account. When the component is delivered, the respective quantities of platinum and ruthenium are used from this account. Both precious metals are tradable at daily rates.

Until they are used in SFC's products, the precious metals are reported as raw materials and supplies in the Consolidated Statement of the Financial Position. The precious metals would only be written down if the product produced with them could not be sold on the market to cover costs. The carrying amount of the platinum and ruthenium held in stock at the balance sheet date was EUR 472k (previous year: EUR 455k). Assuming a volatility of the platinum and ruthenium price of +/– 5%, the effect on expenses amounts to +/– EUR 24k p.a.

Overall, the procurement risk is no longer assessed as possible in terms of its probability of occurrence, but now as probable. The negative impact on the asset, financial and earnings positions is no longer classified as low in individual cases, but as considerable. Overall, this risk is assessed as high.

Human Resources (Human Resources Risks)

For a technology-oriented company like SFC, the achievement of ambitious growth targets and sustainable economic success are supported, among other ways, by a diverse and highly qualified workforce, such as experienced specialists or experts in the fields of software development, digitalization and electrical engineering.

Competition for generally above-average qualified employees in the industries and the regions in which we do business remains intense and is increasing. However, we continuously need highly qualified employees to implement our growth strategy and compensate for staff turnover.

If we are unable to recruit management, specialist and junior staff to fill vacancies who have the commercial, technical or industry-specific skills we are looking for, this could have an adverse effect on the Group, as could inadequate qualifications or low motivation among employees.

We are meeting these challenges, for example, by strengthening the skills and knowledge of our employees in recruitment, the targeted use of employer branding initiatives, competitive remuneration packages with performance-based incentive systems, modern HR management and structured HR development based on a competency model. Technology and digitalization are designed to help us attract and select talent more effectively – also in view of the diversity of our workforce.

Nevertheless, there could be a shortage of qualified employees that affects the Group's business, even if the effects are difficult to assess at present.

Due to the intense competition for qualified specialists, the occurrence of this risk was upgraded from possible to probable in the financial year, with potentially significant negative effects on the asset, financial and earnings positions, and was therefore assessed as a high risk.

Information Technology Risks

The Group's business activities require the right types of software and hardware as well as reliable data backup, data access for authorized persons at all times, redundancy, and network resilience. Digital technologies are therefore deeply integrated into the Group's business processes. Secure protection against unauthorized access to sensitive information from development, sales, purchasing, or to the Group's economic information, for example, is particularly important. There is a risk that such unauthorized access or the unavailability of data could result from a hacker attack, vulnerabilities in the network of Group companies, or the installation of unwanted software by Group employees. These could potentially lead to the disclosure, manipulation or loss of information – as with industrial espionage. They could also lead to deliberate misuse of the Group's information systems or to production stoppages and supply bottlenecks, with possible negative effects on the Group's reputation, competitiveness and business results.

In the fourth quarter of 2021, SFC became aware of having been the victim of a criminal cyber-attack affecting data from its IT systems. With the support of external cyber security experts, SFC located and closed the vulnerability to unauthorised access to its systems. SFC has taken a number of other measures to reaffirm its ongoing efforts and commitment to data privacy and security. The forensic investigations carried out have now been completed and the SFC is confident that it has obtained a comprehensive overview of the extent of the cyber attack.

The affected data has been identified as far as possible and, in accordance with existing national requirements, the authorities have been informed of the incidents. The damage levels of cyber incidents were assessed qualitatively. No significant amount of damage has been identified in the cybersecurity incident.

SFC has its own IT experts; they are supported by external consultants and specialists as needed. The Group counters the increasing IT risks, among other measures, through regular internal and external audits. The cost of protecting the Group's systems and data increased significantly in the financial year. This applies to both personnel expenses and technical equipment. Irrespective of this, the Management Board expects the number of attacks on the IT infrastructure of major German companies and also on SFC to continue to increase.

The threat resulting from IT risks in general is seen as possible overall and is classified as a risk of significant magnitude and therefore represents a high risk.

Risks in the Regulatory Environment

The regulatory density in the Group's business area remains very high. This is due, among other factors, to the production, distribution and marketing of complex technical products and methanol-filled fuel cartridges, sales in markets with high security requirements (e.g., critical communications infrastructure, military organizations), and also to the very complex, sometimes inconsistent legal framework in many markets and countries. In the past, product labeling and distribution channels were occasionally objected to by the authorities in Germany. SFC responded to such objections by issuing statements. If changes are necessary, they will be in principle implemented within the set period. It cannot be ruled out that applicable regulations could become more stringent (e.g. due to stricter legislation against terrorism, new legal regulations under REACH or GHS, or increased visibility of SFC products due to their broader distribution) and that additional requirements for the sale of the Group's products will arise. In order to avoid negative effects on the sale of products, SFC AG offers additional training in end-customer trade to ensure that the respective companies have more extensive expertise.

There is also a risk that countries will once again increasingly seal themselves off and attempt to protect themselves from imports with import duties. This could lead to reduced competitiveness in these countries.

Overall, these risks are assessed as high with a probability that is considered to be possible with a significant impact on the net assets, financial position and results of operations.

Company Development Risks

In order to further develop and expand our existing business and our competitive position, we also pursue external growth opportunities in the form of potential acquisitions or other forms of partnership with companies, such as joint ventures and equity investments. In addition to developing new end-customer markets and regional markets, the focus here is on complementing our product and technology portfolio.

Acquisitions generally entail entrepreneurial risks, as they involve imponderables arising from the integration of employees, technologies, products and processes. Integration processes can prove to be more difficult or more time-consuming and cost-intensive than anticipated. The acquired business may also not develop as successfully as originally expected after integration or the objectives pursued with the acquisition may not be achieved or not to the extent planned. In addition, risks could arise in the course of the operations of the newly acquired business that were not previously identified or were not considered to be significant.

Joint ventures, shareholdings and cooperations entail fundamental risks, as it may not be possible for us to counteract potential negative effects on our business by exerting sufficient influence on management processes or business decisions. In addition, joint ventures also involve risks in connection with the integration of employees, technologies, products and processes. Similarly, collaborations can entail risks for us as we compete with the companies we collaborate with in some business areas. Necessary portfolio or structural measures could result in additional financing requirements.

Securing financing for acquisitions, joint ventures, investments and cooperations could pose a challenge for us.

Acquisitions and the various forms of partnerships can have a considerable impact on the Group's debt/equity ratio and financing/capital structure and lead to an increase in non-current assets including goodwill, as well as (external) financing needs. Charges can result from impairment losses on goodwill due to unforeseen business developments. In addition, such transactions could well result in significant acquisition, administrative and integration expenses.

Through defined due good due diligence processes and closely managed integration processes, we seek to reduce risk exposure. Before any investment decision is made, a careful business assessment and analysis of the commercial, technical, legal, tax and financial framework is carried out (due diligence). For the optimal integration of businesses, we have established the necessary structures and processes and work, for example, according to a standardized post-merger concept. We also benefit from our many years of experience in the successful integration of companies and businesses.

The occurrence of risks from acquisitions, joint ventures, investments and cooperation agreements is generally possible. The associated impact on the asset, financial and earnings positions is estimated to be significant. The risk is therefore classified as high.

Summary of the Risk Report

Overall, the corporate policy is geared towards an innovative and diversified product range, a balanced capital structure and a stable liquidity cushion, and is controlled and monitored with the help of the above-mentioned risk management system.

In the medium term, however, the development of the group depends on the realisation of the current business plan. A significant failure to realise the basic assumptions of the business plan, in particular the increase in sales revenue, the increase in gross profit and EBIT as well as the cash flow from operating activities, could impair the company's solvency and thus cast doubt on the company's ability to continue as a going concern in the medium term and beyond.

According to the information known to us today, no risks are apparent in 2022 financial year due to the Group's liquidity position that could endanger the continued existence of the Group or major Group companies.

Opportunities Report

The Group's risk management involves not only reducing and avoiding risks, but also securing the long-term future of the company by balancing opportunities and risks. For this reason, the Group regularly identifies, analyzes and assesses how it can exploit opportunities to secure and expand its earning power against the backdrop of the continuous development of the company, the markets and the technologies. New opportunities may arise from these developments, while current opportunities could lose relevance, or the significance of opportunities for the Group can change. Management holds regular discussions with key customers and industry and technology experts to identify new opportunities and technological trends at an early stage. Opportunity management is therefore an essential part of SFC's operating business, and its process is continuously being improved. Opportunity management outside the ordinary course of business, e.g. by optimizing the investment of cash and cash equivalents, does not take place.

The most significant opportunities for the Group are described below, but represent only a selection of the opportunities available to us. The assessment of opportunities is also subject to constant change.

Market opportunities

With over 20 years of experience in fuel cell technology, SFC is a leading supplier of fuel cell solutions for stationary and mobile applications. In addition to many years of success in marketing direct methanol fuel cells, the company's hydrogen fuel cell has also gained a lot of attention from customers. In financial year 2021, the Group again supplied hydrogen fuel cell modules to system integrators as emergency power units for the BOSNet digital public safety radio network in Germany.

Key opportunities to improve and accelerate the Group's future development lie above all in measures to exploit sales growth potential. In this context, particular mention should be made of increased penetration of existing core customer markets and regional markets, and the development of new core customer markets and regional markets through a further focus on the supply of system solutions.

Supporting the energy transition and countering climate change

As the world's population grows and industrialization and digitalization increase, so does the global demand for energy. Renewable energies will play a decisive role in limiting CO2 emissions, achieving the decarbonization of the world by the end of this century as agreed at the Paris Climate Summit in 2015, and implementing the climate neutrality of the European Union by 2050 as envisaged in the Fit for 55 initiative and the Green Deal concept. In the meantime, numerous nations and the EU at the supranational level have chosen hydrogen as the element of choice to successfully finalize the energy transition. The expansion of renewable energy production capacity requires the storage and transportability of energy. This is to be achieved by means of hydrogen. Fuel cells from SFC will then enable the clean and efficient conversion of hydrogen into electrical energy in a decentralized manner and close to the user. Fuel cells are increasingly being used as a substitute for conventional power generators (diesel gensets), in off-grid industrial applications and as emergency power generators for telecommunications infrastructure, for example. The Group sees further sales potential here from the many new customers gained and from the replacement of current technologies (replacement of diesel generators that pollute the environment).

Market access and activities in Asia and North America

Both Asia and North America are regions with high sales potential for SFC. Accordingly, the developments and growth opportunities there are of utmost importance and concern the markets served by SFC for industrial applications, including the oil and gas market, as well as for government applications. If we succeed in strengthening our international sales activities and positioning SFC more prominently in the various markets, this could lead to many new opportunities and have a positive effect on the growth and profitability of the business.

Other opportunities

Strategic approach "System solutions"

With the strategic approach "System Solutions," we strive to identify additional customer benefits from our broad technology and product portfolio in the "Clean Energy" and "Clean Power Management" segments at the system level. This will enable us to increase the depth of value added and thus also product sales, and therefore realize our growth and margin targets. This approach also enables us to reduce the integration effort required by customers and thus to shorten the time to market for our products.

Further development of the current product portfolio

SFC Energy AG is constantly developing its product portfolio, taking its cues from customers and target markets. The focus is on products with higher performance classes, additional functionalities, and projects to reduce material costs. In this way, the company seeks to always be prepared for customer needs and at the same time actively creates new needs on the market through innovative and economical solutions. Close networking of the development departments with market research, sales and service as well as the provision of an appropriate R&D budget ensure SFC's innovative strength for the future. The continuous development of the product portfolio can lead to changes in the product mix.

Development and sales partnerships with companies with strategically relevant know-how

SFC Energy AG has a broad product portfolio and many ideas for further developing its products and tapping into new market opportunities. Therefore, internal growth is at the forefront of the strategy. Nevertheless, the company also pursues opportunities for external growth that could result from the acquisition of or partnerships with companies with complementary technology and / or strategically relevant know-how.

External determinants

Additional opportunities could arise from external factors: Falling raw material prices and favorable exchange rate developments could have a positive impact on earnings.

A new prioritization of research & development in Germany could lead to an increase in the receipt of subsidies. The associated increase in funding for development projects of SFC Energy AG would bring a corresponding improvement in earnings.

Forecast Report

Following the deep recession in financial year 2020, many of the Group's key target customer markets recovered or continued to grow in the reporting year. For financial year 2022, experts at the International Monetary Fund (IMF) forecast in January 2022 that the global economy will grow by 4.4%[30] while the OECD expects growth of 5.6%.[31]

The latest economic forecasts are characterized by a high degree of uncertainty, however, as the recovery momentum is weakening and becoming increasingly unbalanced. Risks to the expected recovery in economic growth lie primarily in the uncertainty surrounding the further course of the COVID-19 pandemic, the ongoing disruptions to global supply chains, but also in the still unresolved geopolitical conflicts – with potentially significant effects on energy supply and energy prices, among other areas.

With the technologies it offers, the Group is focusing on growth trends such as decarbonization, expansion of renewable energies and digitalization. Despite the uncertainties surrounding the development of the global economy, market analysts expect the global market for stationary and mobile fuel cells to reach a volume of around EUR 30 billion in 2030, with an extremely positive development and very strong growth. We expect the that the extensive government investment programs and incentives, such as the National Hydrogen Strategy published by the German Federal Ministry for Economic Affairs and Energy (BMWi) in June 2020 and the broad-based European hydrogen initiatives ("Green Deal"), should have a positive impact on demand for fuel cells.

Possible negative or positive effects on the earnings situation from the hostilities between Russia and Ukraine cannot be reliably estimated at present.

However, the armed conflict may lead to higher commodity prices, further fuel inflation and contribute to a worsened business climate and more difficult financing conditions.

The Group expects positive contributions to growth from increasing demand for the new generation of methanol fuel cells and hydrogen fuel cells.

Sales revenues

In view of the expectations described above for growth in the global economy and in the market for fuel cells, which is relevant for SFC, the company expects consolidated sales to grow by 17% to 29% in financial year 2022 compared to the previous year to around EUR 75,000k to EUR 83,000k (financial year 2021: EUR 64,320k), which will be driven primarily by the Clean Energy segment.

Underlying EBITDA

Supported by the expected dynamic development of demand, but depending on the timing of the implementation of planned growth investments, the Management Board expects a slight margin contraction or a

30 IMF (January 2022): World Economic Outlook (Update)
31 OECD (December 2021): OECD Economic Outlook, December 2021

slight margin expansion for financial year 2022. Adjusted EBITDA in financial year 2022 is therefore expected to be approximately between EUR 6,000k and EUR 9,100k (financial year 2021: EUR 6,233k).

Underlying EBIT

Based on the planning of the Clean Energy and Clean Power Management segments, the management expects underlying EBIT for the Group in the year 2022 to be between EUR 1,600k and EUR 2,900k (financial year 2021: EUR 1,925k).

The capitalization rate for research and development costs is expected to be at the level of 2020.

As of the balance sheet date, the Group reported freely available cash and cash equivalents in the amount of EUR 24,623k. If the results of operations for financial year 2021 develop in line with the forecast sales and earnings, the Group will have sufficient cash and cash equivalents to meet its financial obligations.

The actual development of the Group and its segments can deviate either positively or negatively from the forecasts due to the opportunities and risks described (see the Risk Report and the Opportunities Report).

Disclosures relevant to takeovers (Disclosures in accordance with 315a HGB)

As of the balance sheet date, the notional amount of the share capital of SFC Energy AG is EUR 14,469,743.00 and it is divided into 14,469,743 no-par value bearer shares with a notional value of EUR 1.00 per share of the Company's share capital. The share capital has been fully paid up. Each share carries one vote in the annual general meeting. The composition of the subscribed share capital and the rights attached to the Company's no-par value shares issued are also set out in the Company's Articles of Association.

To the knowledge of the Management Board, there are no restrictions affecting voting rights or the transfer of shares, including restrictions between shareholders.

As of December 31, 2021, the Management Board was not aware of any direct or indirect interests in the share capital which exceed 10 per cent of the voting rights.

There are no shares with special rights which confer control rights.

There are no controls of voting rights if employees hold interests in the Company's share capital.

The rules governing the appointment and removal of members of the Management Board of SFC Energy AG follow from Sections 84 and 85 AktG and Article 7 para. 2 of the Articles of Association. According to these rules, the Supervisory Board appoints the members of the Management Board, determines their number and decides on their removal for good cause. Such cause shall include, in particular, a gross breach of duties, inability to manage the company properly, or a vote of no confidence by the Annual General Meeting, unless such vote of no confidence was made for manifestly arbitrary reasons.

Pursuant to Section 179(2) sentence 1 AktG in conjunction with Article 20 para. 2 sentence 1 of the Company's Articles of Association, amendments to the Articles of Association require the majority of votes stipulated by law and, insofar as a majority of the share capital is required, a simple majority of the share capital represented when the resolution is passed, unless the law or the Articles of Association mandatorily prescribe otherwise. Any repeal or amendment of Article 20 para. 2 sentence 1 of the Articles of Association and any amendment of this majority requirement (Article 20 para. 2 sentence 2 of the Articles of Association) require a majority of at least three quarters of the share capital represented when the resolution is passed. Amendments to Article 15a of the Articles of Association require a qualified majority of votes of at least 90% of the share capital represented when the resolution is passed. An amendment to this majority requirement also requires a majority of at least 90% of the share capital represented at the time the resolution is passed (Article 20 para. 2 sentence 3 of the Articles of Association). A resolution of the Annual General Meeting on the dissolution of the Company requires, pursuant to Article 22 of the Articles of Association, a majority of 80% of the Company's entire voting share capital. Pursuant to Article 14 para. 2 of the Articles of Association, the Supervisory Board is entitled to make amendments to the Articles of Association that only concern the wording.

All powers of the Company's Management Board to issue or buy back shares are based on authorization resolutions to this effect passed by the Annual General Meeting.

Authorized capital

Pursuant to Article 5 para. 6 of the Articles of Association, the Management Board is authorized to increase, with the consent of the Supervisory Board, the Company's registered share capital until May 15, 2024 once or repeatedly by up to a total of EUR 3,809,375.00 by issuing new no-par value bearer shares against contributions in cash and/or in kind (Authorized Capital 2019).

Conditional capital

According to Article 5 para. 4 of the Company's Articles of Association, SFC Energy AG has what is known as Conditional Capital 2011 in the amount of EUR 278,736.00. Since the reclassification by the resolution of the Annual General Meeting on May 7, 2015, the conditional capital increase has served to issue no-par value bearer shares to the holders of convertible bonds and/or warrant-linked bonds (or combinations of these instruments) which are issued by the Company or its direct or indirect subsidiaries against payment in cash on the basis of the authorization resolved by the General Meeting held on May 7, 2015 and confer conversion and/or option rights to acquire new no-par value shares of the Company or create a conversion obligation or a right to deliver shares.

Pursuant to Article 5 para. 5 of the Company's Articles of Association, SFC Energy AG has what is known as Conditional Capital 2016 in the amount of EUR 295,300.00. The conditional capital increase served to issue no-par value bearer shares to the holders of convertible bonds and/or warrant-linked bonds (or combinations of these instruments) which are issued by the Company or its direct or indirect subsidiaries against payment in cash on the basis of the authorization resolved by the Annual General Meeting held on June 14, 2016 and confer conversion and/or option rights to acquire new no-par value shares of the Company or create a conversion obligation or a right to deliver shares. By resolution of August 3, 2017, the Management Board, with the approval of the Supervisory Board granted on the same day, made use of the authorization given to it at the Annual General Meeting on June 14, 2016 to issue convertible and/or warrant-linked bonds, profit participation rights and/or participating bonds (or combinations of these instruments) and issued a warrant bond 2017/2022 by way of private placement which offered an option right in relation to 204,700 shares of the Company, excluding the shareholders' subscription rights. The conversion option was exercised in full.

In addition, SFC Energy AG has, in accordance with Article 5 para. 7 of the Company's Articles of Association, so-called Conditional Capital 2019 in the amount of EUR 2,824,503.00. This conditional capital increase serves to issue no-par value bearer shares to the holders of convertible bonds and/or warrant-linked bonds (or combinations of these instruments) which are issued by the Company or its direct or indirect subsidiaries against payment in cash on the basis of the authorizations with a term ending on May 15, 2024 resolved by the General Meetings held on June 14, 2016 and on May 16, 2019 and confer conversion and/or option rights to acquire new no-par value bearer shares of the Company or create a conversion obligation or a right to deliver shares.

Furthermore, pursuant to Article 5 para. 8 of the Articles of Association, SFC Energy AG has Conditional Capital 2020. The Annual General Meeting of the Company passed a resolution on May 19, 2020 to conditionally increase the Company's share capital by up to EUR 1,300,000.00 through issuance of up to 1,300,000 new no-par value shares, each representing a pro rata amount of EUR 1.00 of the share capital. The Conditional Capital 2020/I exclusively serves the purpose of granting the holders of option rights new no-par value shares that may be issued by the Company in accordance with the authorization resolution passed by the Annual General Meeting on May 19, 2020 under agenda item 7 a).

Finally, the Annual General Meeting on May 16, 2019 authorized the Company to acquire treasury shares in the amount of up to 10% of the Company's share capital until May 15, 2024. No use had been made of this authorization by the balance sheet date.

Agreements with Management Board members

Material agreements of the Company which are conditional upon a change of control as a result of a takeover offer do not exist (for compensation agreements of the Company to take effect in the event of a takeover offer, which were concluded with the members of the Management Board or employees, see No 9 below).

The Management Board employment agreements of Management Board members Dr. Podesser and Mr. Saxena provide for the right of the respective Management Board member to resign from office for good cause and terminate the Management Board employment agreement (special right of termination) in the event of a takeover of the majority of the voting rights of the Company by a third party (change of control). The special right of termination of Management Board members Dr. Podesser and Mr. Saxena in the event of a change of control only exists until September 30, 2023 and, at the request of the Supervisory Board of the Company and/or the acquirer of the controlling majority, the termination can only take place with a notice period of six months from the change of control. In the event of early termination of his service on the Management Board until September 30, 2023 due to a change of control, Dr. Podesser generally has a maximum entitlement to payment of the amount of the remuneration for the remaining term of the Management Board employment agreement at the time of resignation; Mr. Saxena in turn has a maximum entitlement to payment of the amount of two years' remuneration, but no more than the remuneration for the remaining term of the Management Board employment agreement. The Management Board employment agreement of Management Board member Pol provides for a special termination right for Mr. Pol in the event of an acquisition of control of the Company within the meaning of Section 29(2) German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz - WpÜG), entitling Mr. Pol to terminate his service agreement within three months of the legal occurrence of the change of control by giving twelve months' notice.

On April 1, 2014, Dr. Peter Podesser was granted, in line with his Management Board employment agreement, 360,000 stock appreciation rights under the 2014-2016 SAR Program with a strike price of EUR 1.00 each. A specified portion of the SARs can expire on three predefined dates depending on the share price of SFC AG. After a vesting period of four to six years, in each case one third of the SARs that have not expired can be exercised at the defined reference price when certain performance targets are reached. In the event of an acquisition of control of SFC Energy AG, the SARs that had not yet expired at the time the takeover offer was made are to be paid out in accordance with specified ranges based on the reference price. In this context, the reference price corresponds to the offer price within the meaning of Section 31(1) WpÜG. The Management Board employment agreement of Dr. Peter Podesser was extended from April 1, 2017 to March 31, 2020. In connection with this extension, Dr. Peter Podesser was granted an additional 360,000 SARs on December 14, 2016 (2017-2020 SAR Program). In all (other) SAR Programs for the Management Board (with the sole exception of the 2014-2016 SAR Program of Dr. Podesser referred to above), the cash payment of SAR not yet expired at the time the takeover offer is made, in addition to the change of control, further depend on the exercise of the extraordinary termination right of such Management Board member stipulated for this case. Furthermore, the Management Board employment agreement of Dr. Peter Podesser was extended from April 1, 2020 to March 31, 2024. In this context, Dr. Peter Podesser was granted an additional 420,000 SARs on May 15, 2019 (2020-2024 SAR Program). This SAR program was transformed into the 2020-2024 Stock Option Program.

Mr. Hans Pol was appointed to the Management Board with effect from January 1, 2014 for a term of office ending on June 30, 2015. His Management Board employment agreement contains a corresponding agreement on the 2014-2016 SAR Program with a term ending on December 31, 2018. On January 1, 2014, Mr. Hans Pol was granted 90,000 SARs. On March 24, 2015, the Management Board employment agreement of Mr. Hans Pol was extended until June 30, 2018. In connection with this extension, Mr. Hans Pol was granted an additional 180,000 SARs on July 1, 2015 (2015-2018 SAR Program). On March 27, 2018, the Management Board employment agreement of Mr. Hans Pol was extended until June 30, 2021. In this context, Mr. Hans Pol was granted an additional 180,000 SARs on July 1, 2018 (2018-2021 SAR Program).

Daniel Saxena was appointed to the Management Board with effect from July 1, 2020 for a term of office ending on June 30, 2024. His Management Board employment agreement contains a corresponding agreement on the 2020-2024 SAR Program with a term ending on June 30, 2027. Mr. Saxena was granted 228,000 SARs.

Corresponding agreements on the SAR programme 2020-2022 were concluded with three employees (Managers) of SFC Energy AG. The employees (Executives) were each allocated 15,750 SARs on 1 January 2020. In the event of an acquisition of a controlling interest in SFC Energy AG within the meaning of § 29 para. 2 WpÜG, the SARs that had not yet expired at the time of the submission of the takeover offer are to be paid out; the amount is determined on the basis of the reference price less the exercise price of EUR 1, multiplied by the number of SARs. The concrete reference price corresponds to the higher of (i) the Offer Price within the meaning of section 31 para. 1 WpÜG and (ii) the value, calculated in accordance with section 7 WpÜG Offer Ordinance, of the Offeror's shares that may have been offered as an elective consideration and that are not admitted to trading on an organised market within the meaning of section 2 para. 7 WpÜG, but only outside the European Economic Area.

As part of the extension of his Management Board employment agreement of February 26, 2021, Mr. Pol was granted a total of 500,000 stock option rights with an exercise price of EUR 24.41 per stock option on March 31, 2021 under the 2021-2025 Stock Option Program with a term until March 31, 2029. A specified portion of the stock options can expire on four predefined dates depending on the share price of SFC Energy AG. After a vesting period of four to seven years from the Grant Date, in each case one quarter of the stock options that have not expired can be exercised at the defined reference price when certain performance targets are reached. In the event of acquisition of control over SFC Energy AG and Mr. Pol's exercise of the extraordinary termination right stipulated for such case, the stock options that had not yet expired at the time the takeover offer was made are to be paid out in the form of a cash compensation in accordance with specified ranges based on the reference price. In this context, the reference price corresponds - as determined by the Supervisory Board - to the offer price within the meaning of Section 31(1) WpÜG or within the meaning of the value calculated pursuant to Section 7 WpÜG Offer Ordinance of the bidder's shares possibly offered as alternative consideration, which are not admitted to trading on an organized market within the meaning of Section 2(7) WpÜG but only outside the European Economic Area, or to a combination of both values.

Corresponding agreements on the Stock Option Program 2021-2024 were concluded with two employees of SFC Energy AG. Both employees were allocated 22,800 stock options each on 1 January 2021 with an exercise price per stock option of EUR 15.50, each with a term of the option plan of seven years from allocation. The stock options may expire to a fixed extent on three defined cut-off dates depending on the share price level of SFC Energy AG. After a waiting period of four to six years from the allocation date, one third of the non-expired volume can be exercised at the defined reference price if certain performance targets are achieved. In the event of an acquisition of a controlling interest in SFC Energy AG within the meaning of § 29 para. 2 WpÜG, the stock options that had not yet expired at the time of the submission of the takeover offer are to be paid out as cash compensation in accordance with defined ranges depending on the reference price; the amount is determined according to the reference price less the exercise price, multiplied by the number of stock options. The concrete reference price corresponds to the offer price within the meaning of section 31 para. 1 WpÜG.

Corporate Governance Statement

The corporate governance statement pursuant to § 289f HGB or § 315d in conjunction with § 289f HGB is published on the website of SFC Energy AG (). § Section 289f HGB is published on the website of SFC Energy AG (**https://www.sfc.com/en/investors/corporate-governance/corporate-governance-statement/**).

Brunnthal, March 16, 2022

The Management Board

Dr. Peter Podesser Chairman of the Board	Hans Pol Board Member	Daniel Saxena Board Member

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Consolidated Income Statement

FROM JANUARY 1 TO DECEMBER 31, 2021 — in EUR

	Notes	2021 01/01 – 12/31	2020 01/01 – 12/31
Sales	(1)	64,320,299	53,222,770
Production costs of work performed to generate sales	(2)	– 41,682,094	– 35,307,390
Gross profit		**22,638,205**	**17,915,380**
Sales costs	(3)	– 15,050,537	– 12,122,424
Research and development costs	(4)	– 3,257,233	– 2,842,861
General administration costs	(5)	– 10,292,380	– 7,125,004
Other operating income	(6)	904,300	156,686
Other operating expenses	(7)	– 47,654	– 289,858
Restructuring costs	(8)	0	– 193,361
Operating result		**– 5,105,298**	**– 4,501,442**
Interest and similar income	(9)	5	0
Interest and similar expenses	(9)	– 409,531	– 443,258
Result before taxes		**– 5,514,825**	**– 4,944,700**
Income taxes	(10)	– 314,633	– 239,354
Consolidated net result		**– 5,829,458**	**– 5,184,054**
Net loss per share			
undiluted	(36)	– 0,40	– 0,39
diluted		– 0,40	– 0,39

Consolidated Statement of Comprehensive Income

FROM JANUARY 1 TO DECEMBER 31, 2021

in EUR

	Notes	2021 01/01 – 12/31	2020 01/01 – 12/31
Consolidated net result		**– 5,829,458**	**– 5,184,054**
OCI items that may be recycled to profit or loss in the future:			
Result from currency translations		492,140	– 459,813
Total other result	(30)	**492,140**	**– 459,813**
Total comprehensive income		**– 5,337,318**	**– 5,643,867**

The amounts are fully attributable to the shareholders of the parent company. There are no deferred tax effects on the changes in value recognized directly in equity.

Consolidated Statement of Financial Position

ASSETS AS OF DECEMBER 31, 2021

in EUR

	Notes	12/31/2021	12/31/2020
Current assets		**58,724,007**	**58,447,329**
Inventories	(14)	14,184,541	12,617,145
Trade accounts receivable	(15)	17,608,015	12,362,867
Receivables from contracts with customers	(16)	243,437	668,212
Other short-term assets and receivables	(18)	1,680,439	1,049,386
Cash and cash equivalents	(19)	24,622,648	31,464,099
Cash and cash equivalents with limitation on disposal	(20)	384,927	285,620
Non-current assets		**28,641,235**	**27,882,362**
Intangible assets	(21)	17,698,268	15,999,278
Property, plant and equipment	(22)	8,886,706	9,985,097
Deferred tax assets	(10)	2,056,261	1,897,987
Assets		**87,365,242**	**86,329,691**

Consolidated Statement of Financial Position

LIABILITIES AND SHAREHOLDERS' EQUITY AS OF DECEMBER 31, 2021 — in EUR

	Notes	12/31/2021	12/31/2020
Current liabilities		**20,998,034**	**18,780,476**
Provisions for taxes	(23)	78,710	7,476
Other provisions	(23)	1,941,650	1,575,879
Liabilities to banks	(24)	2,734,888	4,339,954
Liabilities from prepayments	(25)	136,703	39,531
Trade accounts payable	(26)	7,641,959	4,742,006
Liabilities under finance leases	(27)	1,859,824	1,353,289
Liabilities from contracts with customers	(16)	277,157	51,928
Other short-term liabilities	(28)	6,327,143	6,670,413
Non-current liabilities		**16,348,354**	**12,711,252**
Other long-term provisions	(23)	1,529,184	1,407,402
Liabilities to banks	(24)	0	209,446
Liabilities under finance leases	(27)	4,890,839	6,547,750
Other liabilities from financing	(28)	8,005,575	2,752,773
Deferred tax liabilities	(10)	1,922,756	1,793,881
Equity		**50,018,854**	**54,837,963**
Subscribed capital	(30)	14,469,743	14,469,743
Capital surplus	(30)	119,636,548	119,118,339
Other changes in equity non affecting profit or loss	(30)	– 626,568	– 1,118,708
Result brought forward	(30)	– 77,631,411	– 72,447,357
Net loss for the year	(30)	– 5,829,458	– 5,184,054
Liabilities and shareholders' equity		**87,365,242**	**86,329,691**

Consolidated Statement of Cash Flows

FROM JANUARY 1 TO DECEMBER 31, 2021

in EUR

		Notes	2021 01/01 – 12/31	2020 01/01 – 12/31
	Cash flow from ordinary operations			
	Result before taxes		**– 5,514,825**	**– 4,944,700**
+	Net interest income	(9), (37)	409,527	443,258
+	Depreciation/amortization of intangible assets and property, plant and equipment	(12), (21), (22)	4,308,468	3,515,662
+	Income/expenses from Long Term Incentive Plan	(32)	6,709,260	3,447,474
+	Changes in allowances	(14), (15)	43,345	866,530
+/–	Gain / losses from disposal of non-current assets	(21), (22)	– 2,475	24,624
+/–	Other non-cash expenses/income		23,778	102,820
	Changes to operating result before working capital		**5,977,078**	**3,455,668**
+	Changes to provisions	(23)	456,719	407,200
+/–	Changes to trade account receivables	(15)	– 4,954,975	662,970
–	Changes to inventories	(14)	– 1,376,763	– 1,237,248
+	Changes to other receivables and assets	(16(, (17), (18)	– 148,813	– 844,656
+/–	Changes to trade accounts payable	(26)	2,589,191	– 3,151,584
+/–	Changes to other liabilities	(25), (28)	– 1,194,970	270,251
	Cash flow from ordinary operations before taxes		**1,347,467**	**– 437,399**
+/–	Income tax refund/payment	(10), (37)	– 269,133	– 157,978
	Cash flow from ordinary operations		**1,078,335**	**– 595,377**

Consolidated Statement of Cash Flows

FROM JANUARY 1 TO DECEMBER 31, 2021

in EUR

		Notes	2021 01/01 – 12/31	2020 01/01 – 12/31
	Cash flow from investment activity			
–	Investments in intangible assets from development projects	(21)	– 2,492,828	– 3,103,523
–	Investments in other intangible assets	(21)	– 269,311	– 232,572
–	Investments in property, plant and equipment	(22), (27)	– 1,020,970	– 942,690
+	Interest and similar income received	(9), (37)	5	0
–	Cash inflows/outflows from the Cash and cash equivalents with limitation on disposal		– 99,307	0
+	Proceeds from disposal of property, plant and equipment		9,000	0
	Cash flow from investment activity	(21), (22)	**– 3,873,413**	**– 4,278,785**
	Cash flow from financial activity			
+	Payments from capital increase	(30)	0	20,178,917
–	Cash outflows for costs from capital increase	(30)	0	– 513,597
–	Repayment of financial debt	(24)	– 654,115	– 899,953
–	Changes to current account liabilities	(24)	– 1,294,766	– 851,033
–	Repayment of liabilities under finance lease	(27)	– 1,698,876	– 2,053,150
–	Interest paid and other expenses	(9), (37)	– 398,616	– 429,303
	Cash flow from financial activity		**– 4,046,373**	**15,431,881**
	Net change in cash and cash equivalents		**– 6,841,451**	**10,557,719**
	Net change in cash and cash equivalents			
	Cash and cash equivalents at beginning of period	(19)	31,464,099	20,906,380
	Cash and cash equivalents at end of period	(19)	24,622,648	31,464,099
	Cash on the balance sheet		**– 6,841,451**	**10,557,719**

Consolidated Statement of Changes in Equity

FROM JANUARY 1 TO DECEMBER 31, 2021

in EUR

	Notes	Subscribed capital	Capital surplus	Other changes in equity not effecting profit or loss	Net accumulated loss	Total
As of 01/01/2020		**12,949,612**	**100,416,909**	**– 658,895**	**– 72,447,357**	**40,260,269**
Consolidated net loss						
Consolidated net result					– 5,184,054	– 5,184,054
Result from currency translations recognized in equity	(30)			– 459,813		– 459,813
						– 5,643,867
Share-based payments with compensations through equity instruments	(34)		556,241			556,241
Capital increase						
Warrant exercise	(30)	204,700	545,300			750,000
Capital increase	(30)	1,315,431	18,113,485			19,428,916
Less costs from capital increase	(30)		– 513,596			– 513,596
As of 12/31/2020		**14,469,743**	**119,118,339**	**– 1,118,708**	**– 77,631,411**	**54,837,963**
Consolidated net loss						
Consolidated net loss					– 5,829,458	– 5,829,458
Result from currency translations recognized in equity	(30)			492,140		492,140
						– 5,337,318
Share-based payments with compensations through equity instruments	(34)		518,209			518,209
As of 12/31/2021		**14,469,743**	**119,636,548**	**– 626,568**	**– 83,460,869**	**50,018,854**

Consolidated Segment Reporting (Part of Notes)

FROM JANUARY 1 TO DECEMBER 31, 2021 — in EUR

	Clean Energy		Clean Power Management		Consolidated financial statements	
	2021	2020	2021	2020	2021	2020
Sales	42,428,097	32,439,326	21,892,202	20,783,444	64,320,299	53,222,770
Production costs of work performed to generate sales	–25,417,069	–19,958,752	–16,265,025	–15,348,638	–41,682,094	–35,307,390
Gross profit	17,011,028	12,480,574	5,627,177	5,434,806	22,638,205	17,915,380
Sales costs	–13,071,036	–11,084,748	–1,979,501	–1,037,676	–15,050,537	–12,122,424
Research and development costs	–1,446,906	–825,889	–1,810,327	–2,016,972	–3,257,233	–2,842,861
General administration costs	–8,036,529	–5,773,566	–2,255,851	–1,351,438	–10,292,380	–7,125,004
Other operating income	904,300	152,346	0	4,340	904,300	156,686
Other operating expenses	–47,654	–289,858	0	0	–47,654	–289,858
Restructuring costs	0	0	0	–193,361	0	–193,361
Operating result (EBIT)	–4,686,796	–5,341,141	–418,502	839,699	–5,105,299	–4,501,442
Adjustments EBIT	7,030,080	3,728,912	0	193,361	7,030,080	3,922,273
EBIT underlying	2,343,284	–1,612,229	–418,502	1,033,060	1,924,781	–579,169
Depreciation/amortization	–3,195,915	–2,298,935	–1,112,553	–1,216,727	–4,308,468	–3,515,662
EBITDA	–1,490,881	–3,042,206	694,051	2,056,426	–796,830	–985,780
Adjustments EBITDA	7,030,080	3,728,912	0	193,361	7,030,080	3,922,273
EBITDA underlying	5,539,199	686,706	694,051	2,249,787	6,233,250	2,936,493
Financial result					–409,527	–443,258
Operating result (EBIT)					–5,514,825	–4,944,700
Income taxes					–314,633	–239,354
Consolidated net result					–5,829,458	–5,184,054

With regard to the information on Group segment reporting, please refer to Note (38) “Disclosures on Group Segment Reporting” in the Notes to the Consolidated Financial Statements. The adjustments to determine underlying EBIT/EBITDA are mainly the result of the LTI programs (refer to Note (33)) and expenses for transaction efforts.

04

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General policies and scope of consolidation

Company information

SFC Energy AG ("Company" or "SFC AG") is a stock corporation domiciled in Germany. The registered of-fice of the Company is located at Eugen-Sänger-Ring 7, 85649 Brunnthal. The Company is registered in the Commercial Register of the Local Court of Munich under number HRB 144296. The principal activities of the Company and its subsidiaries ("SFC" or the "Group") include the development, production and distribution of products, systems and solutions for stationary and mobile off-grid power supply based on hydrogen (PEMFC) and direct methanol (DMFDC) fuel cells for customers in the private, industrial and public sectors in various end-customer markets, the making of the necessary investments for this purpose and all other related business. For the purpose of managing the Company, the Group is organized by technology platforms and has two reportable segments, "Clean Energy" and "Clean Power Management." The core business of the Clean Energy segment comprises the development, manufacture including complete system assembly, marketing and supply of mobile and off-grid energy solutions based on fuel cells (PEMFC and DMFDC). The Clean Power Management segment focuses on the development, manufacture and marketing of standardized and semi-standardized power management and electronics equipment. For the change in segmentation effective January 1, 2021, refer to the Notes (1) Revenue and (38) Group segment reporting below.

The Company is listed in the Prime Standard of the Frankfurt Stock Exchange (WKN 756857, ISIN: DE0007568578).

Accounting principles

The 2021 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and related Interpretations issued by the International Accounting Standards Board (IASB) and the related Interpretations issued by the IFRS Interpretations Committee (IFRIC or previously SIC prepared as adopted by the European Union). As of December 31, 2021, no standards or interpretations required application that were effective, but had not yet been adopted by the EU and had an effect on the Consolidated Financial Statements. Accordingly, the Consolidated Financial Statements also comply with the IFRSs as published by the IASB.

In addition, the German commercial law provisions set out in Section 315e (1) of the German Commercial Code (HGB) were observed.

The Group's fiscal year corresponds to the calendar year (January 1 to December 31).

The Consolidated Financial Statements have been prepared in euros (EUR). Unless stated otherwise, the figures stated in these Notes to the Consolidated Financial Statements have been rounded to the nearest whole euro (EUR). Please note that the use of rounded amounts and percentages may result in differences due to commercial rounding.

The Consolidated Financial Statements of SFC AG were prepared on the basis of historical cost. This does not apply to certain financial instruments and share-based payments that were recognized at fair value as of the balance sheet date. Historical cost is generally based on the fair value of the consideration paid in exchange for the asset. An explanation of these fair value measurements is provided in the accounting policies.

In addition, SFC AG has consistently applied the following accounting policies to all periods presented in these Consolidated Financial Statements.

The Consolidated Income Statement has been prepared using the cost of sales method. Additional disclosures on cost of materials and personnel expenses are shown separately in the Notes to the Consolidated Financial Statements.

In preparing the Consolidated Financial Statements, the legal representatives of SFC AG are responsible for assessing the Group's ability to continue as a going concern. The legal representatives are also responsible for disclosing, where applicable, matters related to a going concern. In addition, the legal representatives of the Company are responsible for preparing the Financial Statements on a going concern basis unless there is an intention to liquidate or to cease operations of the Group or there is no realistic alternative to continuing as a going concern.

The 2021 Consolidated Financial Statements of SFC AG have been prepared on a going concern basis.

The Management Board is of the opinion that there are no material uncertainties that could cast significant doubt on this assumption. They have concluded that the Group has sufficient funds reasonably available to meet its obligations for the foreseeable future, but at least 12 months after the end of the reporting period.

The Management Board of SFC AG approved the Consolidated Financial Statements for release to the Supervisory Board on March 16, 2022. The Supervisory Board is responsible for reviewing the Consolidated Financial Statements and deciding whether to adopt them.

New accounting standards applied

The following standards and interpretations published by the IASB were applied for the first time in fiscal year 2021:

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

The International Accounting Standards Board (IASB) published an amendment to IFRS 16 in the second quarter of 2020. In March 2021, this amendment to IFRS 16 was extended beyond June 30, 2021. The amendment relates to "COVID-19-Related Rent Concessions." The lessee is to be granted practical relief in accounting for lease concessions as a result of the COVID-19 pandemic. The Group does not make use of the option to change and this will not have any material impact on the Group.

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

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

The amendments in phase 2 of the project relate to the modification of financial assets, financial liabilities and lease liabilities, requirements relating to hedge accounting and disclosure requirements under IFRS 7 to accompany the amendments relating to modifications and to hedge accounting.

The amendment, which is applicable from January 1, 2021, has no impact on the Consolidated Financial Statements.

Amendments to IFRS 4 – "Exemption from the Application of IFRS 9"

The IASB has also published "Extension of the temporary exemption from applying IFRS 9 (Amendments to IFRS 4)" to postpone the specified expiry of the temporary exemption from applying IFRS 9 in IFRS 4 also to fiscal years beginning on or after January 1, 2021.

These amendments to IFRS 4 (regarding the exemption from the application of IFRS 9), which are effective from January 1, 2021, have no impact on the Consolidated Financial Statements.

New accounting standards not yet applied

The following new and revised standards, which were not applied early by SFC for the year 2021, were published by the IASB by the date of preparation of these Consolidated Financial Statements and have been endorsed in part by the EU Commission:

Application of IFRS 17 – "Insurance Contracts"

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

The standard was endorsed by the European Union through publication in the Official Journal of the European Union on November 23, 2021. This means that IFRS 17 is mandatory for reporting periods beginning on or after January 1, 2023. It is not expected to have any material impact on the Consolidated Financial Statements.

Amendments to IFRS 17 – "First-time Adoption of IFRS 17 and IFRS 9 – Comparative Information"

The amendment enables entities to improve the decision usefulness of the comparative information presented on first-time adoption of IFRS 17 and IFRS 9. The main change in the pronouncement relates to a narrowly defined amendment to the transitional requirements of IFRS 17 for entities that apply IFRS 17 and IFRS 9 simultaneously for the first time.

Subject to adoption into European law by the European Union, the amendments are effective for annual periods beginning on or after January 1, 2023. No material impact on the Consolidated Financial Statements is expected.

Amendments to IAS 1 – "relating to the classification of liabilities as current or non-current"

The amendments regarding the classification of liabilities as current or non-current only affect the presentation of liabilities in the presentation of the Group's financial position. This does not affect the amount or timing of the recognition of assets, liabilities, income or expenses or the disclosures that SFC must make concerning these items.

The amendment specifies that:

- The classification of liabilities as current or non-current must be based on the rights that exist as of the balance sheet date. In the course of this, the language wording of all affected text paragraphs is to be adjusted so that reference is made to the "right" to defer settlement of an obligation for at least twelve months and explicit reference is made to the fact that only rights that exist "at the end of the reporting period" have an effect on the classification of a liability;
- The classification does not depend on expectations regarding whether the Group will exercise its right to defer settlement of an obligation; and
- Settlement relates to the transfer of cash, equity securities or other assets or services to the counterparty.

Subject to adoption into European law by the European Union, the amendments are effective for annual periods beginning on or after January 1, 2023. No material impact on the Consolidated Financial Statements is expected.

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

The amendments to IAS 1 require an entity to disclose material information relating to accounting policies rather than its significant accounting policies. The amendments clarify that information concerning accounting policies can be material by its nature even if the related amounts are immaterial.

Furthermore, additional guidance and examples have been added to IFRS Guidance Document 2 to explain and demonstrate how the application of the four-step materiality process is applied to accounting policies to support the amendments to IAS 1.

Subject to adoption into European law by the European Union, the amendments are effective for annual periods beginning on or after January 1, 2023. No material impact on the Consolidated Financial Statements is expected.

Amendments to IAS 8 – "Changes in Accounting Estimates"

The amendments to IAS 8 relate to the revised definition of accounting estimates. According to the new definition, accounting estimates are "monetary amounts in the financial statements that are subject to measurement uncertainty." The amendment clarifies that a change in an accounting estimate resulting from new information or new developments does not constitute the correction of an error.

Subject to adoption into European law by the European Union, the amendments are effective for annual periods beginning on or after January 1, 2023. No material impact on the Consolidated Financial Statements is expected.

Amendments to IAS 12 – "Deferred Taxes Relating to Assets and Liabilities Arising from a Single Transaction"

The main change is an additional re-exception from the first-time adoption exception provided in IAS 12.15 and IAS 12.24. Accordingly, the first-time adoption exception does not apply to transactions that give rise to deductible and taxable temporary differences of equal amounts on initial recognition.

Subject to adoption into European law by the European Union, the amendments are effective for annual periods beginning on or after January 1, 2023. No material impact on the Consolidated Financial Statements is expected.

Amendments to IFRS 3, IAS 16 and IAS 37

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

Amendments to IAS 16 – "Property, Plant and Equipment" prohibit an entity from deducting from the cost of property, plant and equipment amounts received from the sale of items produced during the preparation of the asset for its intended use. Instead, an entity will recognize such sales proceeds and related costs in profit or loss.

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

The amendments were adopted into European law by publication in the Official Journal of the European Union on July 2, 2021. The amendments are effective for fiscal years beginning on or after January 1, 2022. No material impact on the Consolidated Financial Statements is expected.

Annual Improvements to IFRS Standards 2018 – 2020 Cycle

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

The amendments were adopted into European law by publication in the Official Journal of the European Union on July 2, 2021. The amendments are effective for fiscal years beginning on or after January 1, 2022. No material impact on the Consolidated Financial Statements is expected.

Estimation uncertainty and judgments

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make certain assumptions that have an effect on the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual future amounts may vary from estimates. The estimates and underlying assumptions are reviewed by management on an ongoing basis. Changes are recognized in profit or loss when better information becomes available. Furthermore, the carrying amounts of such assets and liabilities on the reporting date are disclosed.

In preparing these financial statements, the significant judgments made by management in the process of applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those uniformly applied in the preparation of the Consolidated Financial Statements for the year ended December 31, 2020.

The assumptions and estimates relate mainly to:

Measurement of provisions

Management estimates are used to measure provisions. The amount of warranty provision is based on the historical development of warranties and a consideration of all possible future warranty cases weighted according to their probability of occurrence. The non-current portion of the provisions determined on the basis of these assumptions is discounted. Note (23) contains information on the interest rates used, the development of present values and the development of present values.

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

The useful lives determined for non-current assets are based on management estimates. SFC reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each fiscal year. There were no changes in the estimates of useful lives during the current fiscal year. In the context of business acquisitions, the useful lives of customer relationships were determined on the basis of statistical analyses incorporating management estimates, and the useful lives of acquired technology were determined on the basis of empirical values relating to the average product lifecycle in the industry (see “Intangible assets” in the section entitled “Accounting policies”).

Mandatory capitalization of self-developed intangible assets

Based on management’s planning and estimates, development costs are capitalized if the recognition criteria under IFRS are met. For the development and capitalized development costs in the fiscal year, please see Note (21) Intangible assets.

Recognition of deferred tax assets, particularly for losses carried forward

Deferred tax assets are recognized on the company’s tax loss carryforwards based on taxable profit projections. Please see Note (10) Income taxes.

Measurement of share-based compensation

The Supervisory Board of the company has implemented a virtual stock option program (SAR/share option program) and a stock option program with the aim of creating alignment of interests between shareholders and the Management Board. This provides for the allocation of virtual stock options to members of the Management Board. Note (34) Share-based compensation contains information on the estimated valuation parameters applied in the valuation model to determine the resulting expenses.

Revenue recognition in the event of order development

SFC carries out contract development under Joint Development Agreements (“JDA”). Likewise, SFC Energy Ltd. also has long-term customer orders that are accounted for using the time-based revenue method in accordance with IFRS 15.

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

Because the Group cannot readily determine the interest rate implicit in the leases. SFC uses its incremental borrowing rate to measure the lease liabilities. The incremental borrowing rate is the interest rate that the Group would have to pay if it borrowed the funds it would need in a comparable economic environment for an asset with a value similar to the right-of-use asset for a comparable term with comparable security. The Group estimates the incremental borrowing rate using observable inputs where available and is required to make certain company-specific estimates.

A number of the Group's leases, particularly of real estate, also contain renewal and termination options. The assessment of whether there is reasonable certainty that the option to extend or terminate the lease will or will not be exercised is subject to judgments. In determining the lease term, all facts and circumstances that provide an economic incentive to exercise renewal or non-exercise termination options are taken into account. In determining the term, such options are only taken into account if they are sufficiently certain.

Impairment of non-financial assets

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

Recoverability of receivables

Allowances for doubtful accounts are estimated by management based on the expected credit loss model and the current economic environment. Please refer to Note (33) Financial instruments.

Scope of consolidation

The Consolidated Financial Statements include SFC Energy AG and all companies directly or indirectly controlled by the company. Control exists when the company has the power to govern the financial and operating policies of an investee, is exposed to variable returns from its involvement with the investee and has the ability to affect the amount of those returns through its power over the investee. The company reassesses whether or not it controls an investee when facts and circumstances indicate that one or more of the above three criteria for control have changed.

If the company does not have a majority of the voting rights, it nevertheless controls the investee if its voting rights give it the practical ability to direct unilaterally the relevant activities of the investee. In assessing whether its voting rights are sufficient to give it power, the company considers all facts and circumstances, including:

- the extent of the voting rights held by the company in relation to the extent of the distribution of the voting rights of other holders of voting rights;
- potential voting rights of the company, other holders of voting rights and other parties;
- rights arising from other contractual arrangements; and
- other facts and circumstances indicating that the company has or does not have the current ability to determine the relevant activities at the times when decisions must be made, taking into account the voting behavior at previous general meetings or shareholders' meetings.

The Consolidated Financial Statements therefore include SFC Energy AG as the parent company, SFC Energy Group B.V. which was acquired in 2011 and includes the subsidiary SFC Energy Power Srl., and SFC Energy Ltd., the company acquired in 2013. The financial statements of the subsidiaries are included in the Consolidated Financial Statements from the date on which control is obtained until the date on which control ceases.

The financial statements of the companies included in the consolidation, which are prepared in accordance with national law, have been reconciled to IFRS and adjusted to the Group's uniform accounting policies. The fiscal year of all consolidated companies corresponds to the calendar year (January 1 to December 31).

The company's direct and indirect shareholdings in subsidiaries included in the scope of consolidation as of December 31, 2021, and its change of name as of January 1, 2021 are shown in the following table.

FULLY CONSOLIDATED SUBSIDIARIES in %

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

In fiscal year 2021, no changes occurred to the ownership interests in the Group that would have resulted in a loss of control. No material limitations exist to the ability of the Group or its subsidiaries to gain access to or utilize the Group's assets or to meet the Group's liabilities.

Accounting Policies

Revenue recognition

As part of a strategic realignment and to strengthen the two core business areas of fuel cells and energy conversion, the Management Board of SFC AG has restructured the responsibilities within the Group. As of January 1, 2021, the Company reports in a new segmentation aligned with its internal reporting structure for management purposes and in accordance with the definition of IFRS 8 'Operating Segments.' The previous four segments "Clean Energy & Mobility," "Oil & Gas," "Defense & Security" and "Industry" are being replaced by the two business segments "Clean Energy" and "Clean Power Management." For further information, please refer to (38) "Group segment reporting".

While the Clean Energy segment covers all hydrogen and methanol fuel cell systems and the automation solutions that are often related, the Clean Power Management segment bundles power electronics and frequency converters.

SFC AG's sales revenues are generated from the sale of fuel cell systems. The EFOY product family is used in the "Clean Energy" segment. This segment includes the leisure market, especially for mobile homes and on boats. In addition, the EFOY Pro is sold in the industrial applications sub-segment for off-grid power supply, e.g. for monitoring systems, measuring stations, oil and gas plants and in many other applications. The Power Manager product is an electronic, general-purpose converter that enables charging and operation of various terminal devices and batteries with different power sources. Revenues are also generated from sales of fuel cartridges and other products for network solutions, as well as from other services and consulting in the military sector.

SFC Energy B.V. (hereinafter SFC B.V.) is assigned to the "Clean Power Management" segment. SFC B.V. develops, manufactures and markets customized high-tech power solutions, from power supplies to complete power systems for industrial plant and equipment manufacturers. SFC B.V. transfers these solutions, partly via platform solutions, into marketable products with the integrated high power platform. This enables reliable qualitative conditioning of grid power exactly according to the specific requirements of the plant. The Power Supplies adjust the electrical power in a modular way to the power required by the plant. SFC B.V. implements demanding customer requirements on the basis of the self-developed SFC B.V. Technology. This compact, scalable power supply technology, which is offered as part of the "Clean Power Management" segment, offers maximum flexibility in the development and manufacture of standardized and semi-standardized high-power and high-precision power supplies for demanding industrial applications, e.g. in laser technology and other high-tech industrial sectors. SFC B.V. products are partly produced at its Romanian subsidiary in Cluj.

SFC Energy Ltd. (hereinafter SFC Ltd.) distributes and designs customer solutions as a product integrator for high-tech power supply, instrumentation and automation products, especially in the Canadian oil & gas industry. SFC Ltd.'s product portfolio includes instrumentation and measurement systems, power supply components and drives for various applications and generates sales in the two segments "Clean Energy" and "Clean Power Management."

The recognition of these revenues is generally based on the point in time (or over what period of time) at which the respective performance obligation is fulfilled, i.e., the power of disposal (control) over the relevant goods or services has been transferred to the customer. This is satisfied when the customer has the ability to use the asset and obtains substantially all of the remaining economic benefits from the asset.

Revenue is recognized when the amount of the expected consideration can be reliably measured, it is probable that the economic benefits associated with the transaction will flow to the entity, and the entity's own costs can be estimated. Therefore, SFC recognizes revenue from the sale of products when control has been transferred to the buyer. The majority of revenue is recognized from the sale of products at a point in time when control of the goods has been transferred (change of control). Customer discounts and rebates as well as returns of goods are generally recognized as a reduction of revenue. Provisions for customer discounts and rebates as well as returns of goods are recognized on an accrual basis in accordance with the underlying sales revenues. In doing so, management uses best estimates. Contracts with customers are also reviewed for separate performance obligations. This is of particular importance for sales that grant an additional warranty beyond the statutory warranty period. In this context, SFC accrues payments for multi-year maintenance contracts for the portion that exceeds the statutory minimum of the first year and recognizes these revenues ratably over the contractual warranty period.

The determination of the transaction price depends on the expected consideration expected from the customer for the service to be provided. To the extent that SFC's contracts can be assumed to have only one performance obligation, the transaction price attributable to the respective performance obligation is recognized as revenue, net of estimated customer discounts and allowances, when the respective performance obligation is satisfied. Upon receipt of payment, revenue is adjusted to reflect the actual payment. Since the performance obligations are generally significantly shorter than one year, the obligations outstanding as of the reporting date are not presented in the notes. SFC makes use of the option under IFRS 15.121, according to which no financing component is to be taken into account for short-term performance periods.

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

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

Long-term development contracts and long-term construction contracts performed by SFC Ltd. are accounted for using the time-based revenue method. Accordingly, performance obligations are satisfied on a continuous basis over a period of time if the Company's performance creates or enhances an asset over which the customer has control, or an asset is created for which the performing entity has no alternative use and the customer receives a benefit at the same time as the services are performed, or another entity would not be required to perform substantially all of the work already performed upon assumption of the performance obligations, or the performing entity has a right to payment for the work already performed and expects to complete the contract. Revenue from continuous performance obligations determined in this way is recognized in accordance with the stage of completion in the sense of the transfer of control of goods or services in the aforementioned sense, provided that this can be reliably determined. The percentage of completion to be recognized for each contract is determined by the ratio of the costs incurred to the expected total costs (cost-to-cost method). Contracts are recognized under assets or liabilities from contracts with customers. If the cumulative contract costs incurred and profits recognized exceed the progress billings in an individual case, the construction contracts are recognized on the assets side of the balance sheet under assets from contracts with customers. If a negative balance remains after deduction of the progress billings, they are reported under liabilities from contracts with customers.

If the outcome of a construction contract can be estimated reliably, the contract revenue and contract costs associated with the construction contract are recognized by reference to the stage of completion of the contract at the reporting date. The stage of completion is determined on the basis of the contract costs incurred for the work performed in relation to the expected contract costs.

Expense recognition

The cost of services rendered and operating expenses incurred to generate revenue are recognized as an expense when the service is utilized or at the time it is incurred.

Fair value measurement

Assets, equity and debt instruments as well as liabilities measured at fair value in accordance with IFRS 9 are measured uniformly in accordance with the provisions of IFRS 13. This does not apply to share-based payments within the scope of IFRS 2 (see (34) Share-based Payment/Stock Appreciation Rights Program), leases within the scope of IFRS 16 (see (27) Leases), and measurement measures that are similar to, but do not correspond to, fair value (e.g. value in use in IAS 36 Impairment of Assets).

Fair value is the price that would be paid to sell an asset or to transfer a liability in an orderly transaction between market participants on the day it is measured on. This applies regardless of whether the price is directly observable or has been estimated using a measurement method.

In measuring the fair value of a non-financial asset, consideration is given to the market participant's ability to generate economic benefits by using the asset in its most economically rational and efficient manner or by selling it to another market participant that will use the asset in its most economically rational and efficient manner.

As the fair value is not always observable as a market price, the Group uses measurement methods that are appropriate under the circumstances and for which sufficient data is available to measure fair value. The use of significant observable input factors is maximized and the use of unobservable input factors is minimized.

All assets and liabilities for which fair value is determined or disclosed are categorized into the hierarchy described below in accordance with IFRS 13, based on the lowest level input factor (level) that is material overall for fair value measurement:

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

Intangible assets

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

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

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

Development costs are capitalized in accordance with IAS 38 "Intangible Assets" if the following evidence can be presented for a newly developed asset:

- The completion of the intangible asset is technically feasible so that it will be available for use or sale.
- There is an intention to complete the intangible asset and it is intended either for the Company's own use or for sale.
- The intangible asset is able to be used or sold.
- Adequate technical, financial and other resources must be available to complete the development.
- It must be sufficiently probable that the development costs will be recovered through future cash inflows, i.e. a corresponding future economic benefit will be generated.
- The ability to reliably determine the expenditure attributable to the development of the intangible asset exists.

Capitalized development costs are amortized on a straight-line basis over the expected useful life of the assets. The useful life of the development costs to be amortized is 5 years for SFC AG and SFC B.V. If the conditions for capitalization are not met, the expenses are charged against income in the year in which they are incurred. Research costs are reported as current expenses in accordance with IAS 38.

In subsequent periods, internally generated intangible assets are measured at cost less accumulated amortization and impairment losses.

Goodwill arising from business combinations is carried at cost less any necessary impairment losses. (Please refer to the section entitled "Impairment of non-financial assets").

Property, plant and equipment

Property, plant and equipment is stated at acquisition or production cost less scheduled depreciation in accordance with their expected useful lives. In addition to direct costs, acquisition costs include all directly attributable costs incurred in bringing the asset to its location and to its working condition.

Depreciation of property, plant and equipment is calculated using the straight-line method.

The depreciation periods are as follows for:

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

Cost of borrowing

If the construction phase of property, plant and equipment extends over a longer period, the borrowing costs incurred until completion are capitalized as part of the cost in accordance with the conditions of IAS 23. No borrowing costs were incurred in this connection in the fiscal year 2021 or in the previous year. To this extent, all borrowing costs were recognized in profit or loss in the period in which they were incurred.

Impairment of non-financial assets

Intangible assets and non-current assets are tested for impairment on the basis of the cash flows expected from the use of the asset (which are discounted at a rate that reflects the relative risk and timing of those cash flows) and on the basis of the fair value less costs to sell (impairment testing), if special events or market developments indicate a possible correction to the estimated useful life or a possible reduction in value. Furthermore, intangible assets that cannot yet be utilized must be tested for impairment annually. If the net carrying amount of an asset is higher than the recoverable amount (higher of value in use and fair value less costs to sell), an impairment loss is recognized. In determining the expected future cash flows, the current and expected future level of earnings as well as business unit-specific, technological, economic and general developments are taken into account. If no recoverable amount can be determined for an asset, the recoverable amount of the cash-generating unit to which the asset in question can be allocated is determined.

If the impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount. The increase in the carrying amount is limited to the amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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

Goodwill is tested for impairment at least annually. If there are indications that a unit may be impaired, it might be necessary to perform impairment tests more frequently. If the carrying amount of the cash-generating unit to which goodwill is allocated, including this goodwill, is higher than the recoverable amount of this group of assets, an impairment loss must be recognized. The recoverable amount is the higher of value in use and fair value less costs to sell.

Leases

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

As of January 1, 2019, SFC as a lessee for leases generally recognizes assets for the right-of-use assets and liabilities for the payment obligations incurred. Exceptions to this are short-term leases (defined as leases with a term of 12 months or less) and leases of low-value assets (e.g. low-value IT equipment). The right-of-use asset is initially measured at the present value of the future lease payments plus initial direct costs and is subsequently depreciated or amortized over the lease term. The lease liability is measured at the inception of the lease at the present value of the lease payments to be made during the lease term. In subsequent measurement, the carrying amount is compounded at the interest rate applied and reduced by the lease payments made. The lease payments of the SFC Group are discounted using the incremental borrowing rate.

The following lease payments are accounted for under lease liabilities:

- fixed payments, less lease incentives to be made by the lessor,
- variable payments linked to an index or interest rate,
- expected residual value payments from residual value guarantees,
- renewal and termination options,
- the exercise price of a call option if exercise is deemed to be reasonably certain, and
- contractual penalties for termination of the lease if its term takes into account that a termination option will be exercised.

The Group remeasures the lease liability and the corresponding right-of-use asset for the following cases:

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

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

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

- lease liability,
- lease payments made at or before the time of provision less lease incentives received,
- initial directly attributable costs.

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

Capitalized right-of-use assets are consequently recognized at amortized cost and amortized on a straight-line basis over the period of the contractual relationship. Based on the contracts currently in place, the amortization periods are as follows:

- Right-of-use assets 3 – 7.5 years

Inventories

Raw materials and supplies are recognized at the time of acquisition at cost plus incidental acquisition costs less purchase price reductions. Finished ¬goods and work in progress are ¬capitalized at cost. In addition to the directly attributable costs, these also include the production and material overheads to be included.

Subsequently, inventories are measured taking into account the net realizable values at the balance sheet date. The weighted average method is used as the consumption sequence method.

Financial assets

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

- debt instruments at amortized cost;
- debt instruments measured at fair value through other comprehensive income (FVOCI) with no effect on profit or loss, whereby the cumulative gains and losses are reclassified to profit or loss when the financial asset is derecognized (with reclassification);
- debt instruments, derivatives and equity instruments that are measured at fair value through profit or loss (FVTPL);
- equity instruments measured at fair value through equity, with gains and losses remaining in other comprehensive income (FVOCI) (without reclassification).

A normal market purchase or sale of financial assets shall be recognized or derecognized either at the trade date or at the settlement date. The method selected must be applied consistently to all purchases and sales of financial assets classified in the same way under IFRS 9. Under IFRS 9, financial assets are recognized initially at fair value, irrespective of the measurement class to which a financial instrument is assigned. This does not apply to trade receivables without a significant financing component. These must be recognized initially at the transaction price. Furthermore, transaction costs must be included in the valuation if financial instruments are subsequently measured at amortized cost or FVOCI.

The subsequent measurement of financial instruments continues to depend on their classification. The classification of financial assets depends on the characteristics of the contractual cash flows of the financial assets and the Group’s business model for managing its financial assets. Depending on the category, they are measured at amortized cost, at fair value through profit or loss, or at fair value through other comprehensive income. For instruments measured at amortized cost, the effective interest method is applied.

- Amortized cost: Assets held to collect contractual cash flows that represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is recognized in financial income using the effective interest method. Gains or losses on derecognition are recognized directly in the income statement and reported together with foreign exchange gains and losses in other gains/(losses). Impairment losses are recognized in the operating result (in selling expenses, refer to point 3).

- Fair value through other comprehensive income (FVOCI): Assets held to collect the contractual cash flows and to sell the financial assets, where the cash flows of the assets represent solely principal and interest payments, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are recognized in OCI, except for the recognition of impairment gains or losses, interest income and foreign currency gains and losses, which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to the income statement. Interest income from these financial assets is recognized in financial income using the effective interest method.
- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss (FVPL). A gain or loss on a financial instrument subsequently measured at FVPL is recognized in the income statement in the period in which it arises.

As of December 31, 2021, financial assets were not allocated or designated to the "at fair value through profit or loss" category in the Group.

Financial assets measured at amortized cost using the effective interest method are in particular trade receivables, other financial assets and receivables, and cash and cash equivalents.

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

Impairment of financial assets

SFC applies the simplified approach for determining the expected credit loss model in accordance with IFRS 9 to determine the expected credit loss for trade receivables, according to which the credit loss is calculated on the basis of the remaining term of the financial asset. If there are objective indications of a credit default, a specific allowance is recognized for the corresponding receivables. The calculation of the allowance for expected credit losses on receivables not individually impaired is based on the customer group-specific maturity profile of trade receivables. These are grouped into bands according to the degree of risk and past due. The historical default rates applied for this purpose are adjusted for forward-looking information such as economic market conditions and general future risks. In individual cases, trade accounts receivable continue to be individually impaired if there are significant financial difficulties on the part of customers or a breach of contract such as a default on payments.

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

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

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

If a financial asset's creditworthiness is impaired or a default has occurred, it is assigned to level 3. The expected credit losses over the entire term of the financial asset are recognized as an impairment loss. Objective evidence that the creditworthiness of a financial asset is impaired includes a past due date of 91 days or more and further information about significant financial difficulties of the debtor.

The determination of whether a financial asset has experienced a significant increase in credit risk is based on a continuous assessment of the probabilities of default, taking into account both external rating information and internal information on the credit quality of the financial asset.

A financial asset is transferred to level 2 if its credit risk has increased significantly since its initial recognition. SFC estimates the credit risk on the basis of the probability of default. In levels 1 and 2, the effective interest income is determined on the basis of the gross carrying amount. As soon as the rating of a financial asset is impaired and assigned to level 3, the effective interest income is calculated on the basis of the net carrying amount (gross carrying amount less risk provisioning).

Expected credit losses are calculated using the following factors:

- neutral and probability-weighted amount;
- time value of money; and
- reasonable and supportable information (providing this is available without undue cost or effort) at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are calculated as the probability-weighted present value of all payment defaults over the expected term of the financial asset. The estimation of these risk parameters incorporates all available relevant information. In addition to historical and current information on losses, appropriate and reliable forward-looking information is also included.

Trade receivables are carried at amortized cost less appropriate allowances for identifiable credit risks; this corresponds to fair value. Other financial assets and receivables are also recognized at amortized cost.

Offsetting and derecognition

Financial assets and liabilities are offset and their net amount recognized in the balance sheet only when there is a legal right to do so and it is intended to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

As of the reporting date, the Group has no exposure to financial assets that have been transferred but not derecognized in full.

Government grants

Government grants in the past fiscal year included subsidies for the development activities of SFC AG and SFC B.V. and were granted for the new development of fuel cell systems and power supply solutions.

If development costs are capitalized in accordance with IAS 38 "Intangible Assets," the grants related to assets are recognized as a reduction of the cost of the asset concerned.

If the conditions for capitalization are not met, the grants are recognized directly in income as a reduction of research and development costs and general and administrative expenses.

Grants for investments are deducted from acquisition costs.

In addition, Group companies have received government grants for labor costs as part of government initia-tives to provide immediate financial support regarding the COVID-19 pandemic. The subsidies for labor costs were recognized in the cost of sales, selling expenses, research and development expenses, and general and administrative expenses.

Deferred and actual taxes

Deferred tax assets and liabilities are recognized in accordance with IAS "12Income Taxes" using the balance sheet-oriented temporary concept for all temporary and quasi-permanent differences between the tax base and the IFRS carrying amounts. In accordance with IAS 12.34, deferred tax assets on loss carryforwards may only be recognized to the extent that it is probable that future taxable profits will be available against which these loss carryforwards can be utilized. Deferred tax assets on loss carryforwards are therefore currently recognized by the Group only to the extent that they can be offset against deferred tax liabilities, as future taxable income cannot yet be assumed with sufficient certainty.

Deferred taxes are calculated on the basis of the tax rates that ¬apply under current legislation at the time of realization.

Actual taxes are calculated using the tax rates applicable in the specific country.

Short-term and other long-term employee benefits

For short-term employee benefits, the undiscounted amount of the benefit expected to be paid in exchange for the service rendered is recognized in the period in which the service is rendered by the employee.

The expected cost of short-term employee benefits in the form of compensated absences is recognized, in the case of accumulating entitlements, when the employee performs the work that increases the employee's entitlement to future compensated absences. In the case of non-accumulating entitlements, however, recognition occurs when the absence occurs.

Liabilities from other long-term employee benefits are measured at the present value of the estimated future cash outflows expected by the Group for the services provided by the employees up to the balance sheet date.

Provisions

Provisions are recognized in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" if a current obligation to a third party exists from a past event that will probably lead to a future outflow of resources and can be reliably determined. This means that the probability of occurrence must exceed 50%. Provisions are recognized for identifiable risks and uncertain obligations in the amount of their probable occurrence and are not offset against recourse claims. Non-current other provisions are discounted. The settlement amount also includes cost increases to be taken into account at the balance sheet date.

Provisions for warranty claims are recognized on the basis of past or estimated future claims experience, taking into account future income from the recycling of fuel cells. There are no guarantee or warranty obligations beyond those customary in the business.

A provision for restructuring is only recognized if a detailed, formal restructuring plan exists and a valid expectation has been raised in those affected that the restructuring measures will be implemented.

If a loss is expected to arise from a contract, the Company recognizes the present obligation under the contract as a provision for contingent losses. This is measured at the lower amount by which the expected costs of fulfilling the contract or the expected costs of not fulfilling the contract exceed the expected economic benefits from the contract.

No provisions for onerous contracts had to be recognized in either the past or the previous fiscal year.

A dismantling obligation for leasehold improvements of SFC AG is reported under other provisions.

Other provisions also include provisions for waste disposal and recycling obligations.

Financial liabilities

Financial liabilities are classified either as financial liabilities measured at amortized cost (FLAC) or as financial liabilities at fair value through profit or loss (FVTPL). Financial liabilities are generally classified as FVTPL if they are classified as held for trading (derivatives, for example), if they are contingent consideration from an acquirer in a business combination, or if they are designated as at fair value through profit or loss at the date of addition.

SFC determines the classification of its financial liabilities upon initial recognition. Financial liabilities in the category “financial liabilities measured at amortized cost” are measured on initial recognition at the fair value of the consideration received, less any transaction costs associated with the borrowing. After initial recognition, financial liabilities in the category “financial liabilities measured at amortized cost” are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense between periods. The effective interest rate is the rate that exactly discounts estimated future cash payments – including fees and charges that are an integral part of the effective interest rate, transaction costs and other premiums or discounts - through the expected life of the financial instrument or a shorter period to the net carrying amount on initial recognition.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. The difference between the carrying amount of the derecognized financial liability and the consideration received or receivable is recognized in the Consolidated Statement of Income.

Consolidation

Capital consolidation is performed in accordance with IFRS 10 "Consolidated Financial Statements" by offsetting the carrying amount of the investment against the equity of the subsidiary at the date of initial consolidation.

The effects of all significant intercompany transactions are eliminated. ¬Receivables and liabilities between the companies included in the Consolidated Financial Statements are offset against each other. All income and expenses arising from intercompany transactions are also eliminated.

Results from intercompany deliveries of goods included in the carrying amount of inventories are eliminated. Deferred taxes are recognized on the differences arising from the elimination of intercompany profits.

Foreign currency translation

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

The consolidated companies' single-entity financial statements prepared in foreign currency are translated applying the modified closing rate method on the basis of the concept of functional currency under IAS 21 "Effects of Changes in Foreign Exchange Rates." As SFC's subsidiaries generally conduct business autonomously in financial, economic and organizational terms, the functional currency is identical to the companies' local currency.

Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are to be translated using the exchange rate at the measurement date.

For the purpose of preparing the Consolidated Financial Statements, assets and liabilities are translated at the closing rate, equity is translated at historical rates, and income and expenses are translated at average rates. The difference resulting from currency translation is recognized directly in equity and reported separately in equity as other comprehensive income.

The exchange rates of the major foreign currencies for the Group developed as follows:

EXCHANGE RATES in EUR

	Average rate		Rate on reporting date	
	2021	2020	12/31/2021	12/31/2020
US-Dollar (USD)	1.1828	1.1423	1.1319	1.2273
Canadian Dollar (CAD)	1.4826	1.5300	1.4417	1.5627
Romanian Lei (RON)	4.9204	4.8371	4.9481	4.8694

2. Notes to the Consolidated Income Statement

(1) Sales revenue

The following table presents an overview of sales revenue:

in EUR

	2021	2020
Sales	**64,320,299**	**53,222,770**
thereof from period-related revenue recognition	1,408,177	5,495,281

The Group will report in a new segmentation starting on January 1, 2021. The previous four business units Clean Energy & Mobility, Defense & Security, Industry and Oil & Gas will be replaced by the two business units Clean Energy and Clean Power Management. Specifically, the Clean Energy & Mobility and Defense & Security business areas will be combined in the Clean Energy segment. This business unit will be supplemented by the EFOY products and automation solutions of the Oil & Gas division. The frequency converter business of our partner ABB from the Oil & Gas division will be assigned to the new Clean Power Management segment together with the Industry division.

Compared to the previous year's figure, the Clean Power Management segment recorded sales growth of 5.3% to EUR 21,892,202 (previous year: EUR 20,783,444). The growth was mainly based on recovering demand from the burdens related to the COVID-19 pandemic and the improved market environment and good capacity utilization in the segment's target markets. Sales in the Clean Energy segment increased significantly by 30.8%. Sales increased in all three target sectors for the segment's fuel cell solutions. The strongest absolute contribution to growth came from business with industrial customers, where a number of significant initial and follow-up orders were acquired.

Sales revenue for the period January 1 to December 31, 2021, can be broken down as follows taking into account the segmentation valid since January 1, 2021:

SALES BY SEGMENT in EUR

	Clean Energy		Clean Power Management		Total	
	2021	2020	2021	2020	2021	2020
Region						
North America	16,941,305	11,682,876	7,244,399	7,229,876	24,185,704	18,912,752
Europe (without Germany)	15,717,029	8,063,083	13,308,023	11,200,663	29,025,052	19,263,746
Germany	6,080,483	6,942,275	613,194	1,336,337	6,693,677	8,278,612
Asia	3,492,121	5,478,684	546,791	825,623	4,038,911	6,304,307
Rest of the world	197,159	272,408	179,796	190,945	376,955	463,353
Total	**42,428,097**	**32,439,326**	**21,892,202**	**20,783,444**	**64,320,299**	**53,222,770**
Revenue recognition						
Revenue recognition refer to a certain point in time	41,718,694	31,865,261	21,193,428	15,862,228	62,912,122	47,727,489
Revenue recognition refer to a certain period	709,403	574,065	698,774	4,921,216	1,408,177	5,495,281
Total	**42,428,097**	**32,439,326**	**21,892,202**	**20,783,444**	**64,320,299**	**53,222,770**

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

(2) Production costs of work performed to generate sales

The production costs in 2021 were as follows:

PRODUCTION COSTS in EUR

	2021	2020
Cost of materials	32,102,464	27,576,651
Personnel costs	4,398,253	3,977,213
Cost of premises	312,634	293,724
Transport costs	1,229,070	731,406
Depreciation on capitalized development costs	1,457,186	368,269
Other depreciation and amortization	1,432,532	1,337,631
Consultancy	55,799	99,788
Other	694,156	922,708
Total	**41,682,094**	**35,307,390**

Other manufacturing costs mainly include warranties in the amount of EUR 396,947 (previous year: EUR 208,525).

(3) Sales costs

The costs of sales in 2021 were as follows:

SALES COSTS in EUR

	2021	2020
Personnel costs	12,394,786	8,310,822
Depreciation and amortization	616,957	641,392
Advertising and travel costs	971,297	1,054,978
Consultancy/commissions	283,829	764,690
Cost of materials	120,796	557,054
Additions to allowances for receivables	36,655	534,630
Other	626,217	258,858
Total	**15,050,537**	**12,122,424**

Other selling expenses mainly include vehicle costs in the amount of EUR 155,049 (previous year: EUR 155,727).

(4) Research and development costs

Research and development costs in 2021 were as follows:

RESEARCH AND DEVELOPMENT COSTS		in EUR
	2021	2020
Personnel costs	3,219,930	3,113,518
Consultancy and patents	189,557	821,311
Cost of premises	141,830	67,847
Cost of materials	1,821,092	1,276,727
Other depreciation and amortization	325,435	732,007
Capitalization of self developed intangible assets	– 2,492,828	– 3,103,523
Set-off against grants	– 252,513	– 195,183
Other	304,730	130,157
Total	**3,257,233**	**2,842,861**

Amortization of self-developed intangible assets includes impairment charges on capitalized development costs of EUR 0 (previous year: EUR 294,392).

(5) General administrative costs

General administration costs in 2021 were as follows:

GENERAL ADMINISTRATION COSTS		in EUR
	2021	2020
Personnel costs	6,027,868	3,888,154
Audit and consultancy costs	1,617,399	1,170,271
Investor relations/annual meeting	486,437	362,633
Insurance	250,233	239,135
Depreciation and amortization	476,358	436,363
Recruiting costs	122,326	55,821
Car-operating costs	179,176	31,505
Travel costs	102,183	71,633
Supervisory Board compensation	128,125	112,500
Costs of hardware and software maintenance	215,296	168,443
Set-off against grants	0	– 6,003
Other	686,981	594,549
Total	**10,292,380**	**7,125,004**

(6) Other operating income

Other operating income breaks down as follows in 2021:

OTHER OPERATING INCOME in EUR

	2021	2020
Foreign exchange transaction gains	414,514	118,989
Income from the reversal of SAR liabilities	483,650	0
Other	6,136	37,697
Total	**904,300**	**156,686**

The income from the reversal of liabilities from the SARs program results from the exercise of part of the entitlements of the tranche of Dr. Peter Podesser in the reporting period in the amount of EUR 483,650 (previous year: EUR 0).

(7) Other operating expenses

Other operating expenses were comprised as follows in 2021:

OTHER OPERATING EXPENSES in EUR

	2021	2020
Foreign exchange transaction losses	47,654	289,858
Total	**47,654**	**289,858**

(8) Restructuring costs

Expenses for restructuring measures in the amount of EUR 0 were incurred in fiscal year 2021 (previous year: EUR 193,361).

(9) Financial result

The interest and similar income for fiscal year 2021 can be taken from the following overview:

INTEREST AND SIMILAR INCOME		in EUR
	2021	2020
Interest income from Cash and Cash Equivalents	5	0
Total	**5**	**0**

The interest and similar expenses for fiscal year 2021 can be taken from the following overview:

INTEREST AND SIMILAR EXPENSES		in EUR
	2021	2020
Interest expense on option bond/loan	0	1,181
Other interest and similar expense	185,408	190,341
Interest costs on finance lease	213,208	237,780
Compounding other provisions	10,915	13,956
Total	**409,531**	**443,258**

(10) Income taxes

The composition of income taxes for fiscal year 2021 is shown in the following table:

INCOME TAXES		in EUR
	2021	2020
Actual income taxes on the result for the current year	361,010	192,642
Deferred tax income (-)/expense (+) from:	–46,377	46,712
Total	**314,633**	**239,354**

The assessment rate for trade tax in the municipality of Brunnthal is 330% on the taxable amount of 3.5%. This results in a trade tax rate of 11.55% and a total corporate tax rate for SFC, including corporate income tax at 15% and solidarity surcharge at 5.5% on corporate income tax, of 27.38% (previous year: 27.38%).

For the subsidiaries in the Netherlands, Romania and Canada, income taxes are calculated using the tax rates applicable in the respective countries. Tax rates of 16% to 26.91% (previous year: 16% to 26.91%) were applied.

Deferred tax assets and liabilities for 2021 were as follows:

DEFERRED TAX ASSETS AND LIABILITIES in EUR

	12/31/2021	12/31/2020
Deferred tax assets		
Loss carryforwards	1,805,189	1,665,542
Provisions	51,061	46,249
Inventories	168,924	130,706
Accounts receivables	5,919	45,670
Lease liabilities	96,401	655,366
Other	18,913	12,913
Offsetting deferred tax assets	– 90,146	– 658,459
Total	**2,056,261**	**1,897,987**
Deferred tax liabilities		
Self developed intangible assets	1,878,364	1,691,879
Non-current assets	63,867	625,347
Accounts receivables	9,715	21,463
Other assets	60,956	113,651
Offsetting deferred tax liabilities	– 90,146	– 658,459
Total	**1,922,756**	**1,793,881**

Subject to tax audit, as of the reporting date there were tax loss carryforwards in Germany and the Netherlands in the amount of approximately EUR 76,061,117 (previous year: EUR 68,834,664) for corporate income tax and approximately EUR 68,820,020 (previous year: EUR 62,394,270) for trade tax. Deferred tax assets in the amount of EUR 1,805,189 (previous year: EUR 1,665.542) were recognized on these tax loss carryforwards of SFC AG and its Dutch subsidiary. As of December 31, 2021, no deferred tax assets are recognized for tax loss carryforwards in the Group in the amount of EUR 131,414,716 (previous year: EUR 118,806,937). Deferred tax assets on loss carryforwards are recognized in the Group only to the extent that they can be offset against deferred tax liabilities. For the remaining loss carryforwards, future taxable income cannot be assumed with sufficient certainty. Of these tax loss carryforwards, the entire amount of EUR 127,513,226 (previous year: EUR 115,574,443) can be carried forward indefinitely in Germany; in the Netherlands, the entire amount of EUR 3,901,490 (previous year: EUR 3,232,493) can also be carried forward. The previous year's figures for loss carryforwards were adjusted in accordance with the separate determinations of the remaining loss carryforward.

The reason for not recognizing deferred tax assets on the above loss carryforwards is that, as of the reporting date, it is not probable that sufficient taxable profit will be available against which the deferred tax asset can be at least partially utilized.

There are no deferred tax liabilities on outside basis differences.

The following table shows the tax reconciliation from the income tax income expected in the respective fiscal year to the tax expense (+) or income (-) actually recognized according to the Consolidated Income Statement:

RECONCILIATION OF INCOME TAXES in EUR

	2021	2020
Tax rate	**27.38%**	**27.38%**
Result before taxes	**– 5,514,825**	**– 4,944,700**
Expected tax income	**– 1,509,959**	**– 1,353,859**
Reconciliation to the reported tax income/expense		
Tax ineffective loss carryforwards	0	80,376
Change in write-down of deferred tax assets	1,640,572	1,540,770
Differences in the tax rate	609	10,781
Taxes from permanent differences – non-deductible expenses	171,087	56,587
Capitalisation of costs for capital increase	0	– 140,623
Other	12,324	45,322
Reported tax income/expense in the consolidated income statement	**314,633**	**239,354**

(11) Cost of materials

The cost of materials (before offsetting against grants received and capitalization of internally generated intangible assets) were as follows in fiscal year 2021:

COST OF MATERIALS in EUR

	2021	2020
Raw materials and supplies and related goods	32,776,964	27,026,629
Related services	1,267,388	2,383,803
Total	**34,044,352**	**29,410,432**

(12) Depreciation, amortization and impairments

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

The Consolidated Income Statement was prepared in accordance with the cost of sales method and includes pro rata depreciation and amortization in the production costs of work performed to generate sales, sales costs, research and development costs, and general administrative costs.

(13) Personnel expenses and employees

Personnel expenses for fiscal year 2021 were as follows:

PERSONNEL EXPENSES in EUR

	2021	2020
Wages and salaries	15,287,070	12,562,705
Social security expenses required by law	1,909,678	1,525,435
Variables/bonuses	1,299,811	968,617
Other social security expenses/pensions	343,994	467,711
Expenses for settlements	0	54,000
Expenses/income from SAR/Long Term Incentive Plan	7,192,910	3,447,474
Other	7,374	267,260
Total	**26,040,837**	**19,293,202**

The statutory social security expenses include the contributions to the statutory pension insurance to be borne by the Company of EUR 565,790 (previous year: EUR 529,533). The statutory pension insurance is equivalent to a defined contribution plan according to IAS 19.

In the past fiscal year, the Group received government grants for labor costs in the amount of EUR 884,172 (previous year: EUR 1,502,341) as part of a government initiative for immediate financial support in connection with the COVID-19 pandemic and as a grant for research and development capabilities. There are no future related costs in respect of these grants, which were awarded solely as compensation for costs incurred in the current reporting year. The grants for labor costs have been recognized in cost of sales, selling expenses, research and development expenses and general and administrative expenses.

The average number of permanent employees developed as follows:

EMPLOYEES

	2021	2020
Full-time employees	247	247
Part-time employees	37	33
Total	**284**	**280**

The Company employed an average of 8 (previous year: 15) trainees, graduates and student trainees.

3. Notes to the Consolidated Statement of Financial Position

(14) Inventories

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

INVENTORIES (in EUR)

	12/31/2021	12/31/2020
Finished goods	6,276,761	6,854,921
Unfinished goods	1,250,725	616,091
Raw materials and supplies	6,657,055	5,146,133
Total	**14,184,541**	**12,617,145**

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

INVENTORIES – RAW MATERIALS AND SUPPLIES (in EUR)

	12/31/2021	12/31/2020
Raw materials and supplies – before impairment	7,395,736	5,688,222
Impairment	– 738,681	– 542,089
Net book value	**6,657,055**	**5,146,133**

INVENTORIES – UNFINISHED AND FINISHED GOODS (in EUR)

	12/31/2021	12/31/2020
Unfinished and finished goods – before impairment	8,597,049	8,122,323
Impairment	– 1,069,563	– 651,311
Net book value	**7,527,486**	**7,471,012**

Inventories with a residual carrying amount of EUR 3,614,164 (previous year: EUR 4,390,171) were pledged as collateral for liabilities on the balance sheet date.

In the reporting period, inventories of EUR 34,044,352 (prior year: EUR 29,410,432) were recognized as an expense.

(15) Trade accounts receivable

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

TRADE ACCOUNTS RECEIVABLE in EUR

	12/31/2021	12/31/2020
Trade accounts receivable – gross	18,690,953	13,424,023
Allowances for risk of default	– 1,082,938	– 1,061,156
Total	**17,608,015**	**12,362,867**

All trade accounts receivable are due within less than one year. For information on the development of valuation allowances, please see the section on "credit risk" in Note (33) Financial instruments. The standard payment term for trade accounts receivable is 30 days. For individual customer contracts, the payment term may extend to up to 90 days.

For more information on the risk profile and the impairment matrix of trade accounts receivable, please refer to "credit risk" in Note (33) Financial instruments.

Trade accounts receivable with a residual carrying amount of EUR 7,497,356 (previous year: EUR 4,327,056) are pledged as collateral for liabilities.

(16) Assets and liabilities from contract assets

If the production costs including earnings contributions incurred during the year under review for contracts that are not yet completed exceed the amounts already invoiced (installment payments received), the difference is reported as a contract asset. Conversely, contracts with customers with a negative net balance are reported as contract liabilities.

ASSETS AND LIABILITIES in EUR

	12/31/2021	12/31/2020
Production contracts with a positive balance due from the customer (reported as receivables from contracts with customers)	243,437	668,212
Production contracts with a negative balance due from the customer (reported as liabilities from contracts with customers)	**– 277,157**	**– 51,928**

During the term of the project, changes to the order by the customer with regard to the agreed scope of services to be provided, e.g. changes to the specification of the service or the duration of the contract, can lead to an increase or reduction in contract revenue and costs. The resulting effects for the current period as well as foreign currency effects are recognized in profit or loss.

As of December 31, 2021, the accumulated benefits recognized as contract assets from contracts with customers (contract costs incurred less progress billings) were lower than in the previous year. Conversely, as of the reporting date of December 31, 2021, liabilities from contracts with customers increased compared to the previous year. No significant changes in measurements or estimates with respect to the risk profile of contracts with customers occurred in the past fiscal year.

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

The transaction price for the remaining benefit obligations, which will be met in 2022, is EUR 866,205.

As of the reporting date December 31, 2021, there were no capitalized costs incurred in connection with the initiation or performance of contracts.

(17) Income tax receivables

There were no income tax receivables as of the reporting date December 31, 2021 (previous year: EUR 0).

(18) Other assets and receivables

Other current assets and receivables have a remaining term of less than one year and are comprised as follows:

OTHER ASSETS AND RECEIVABLES in EUR

	12/31/2021	12/31/2020
Deferred income	119,345	128,655
VAT receivables	203,815	445,263
Receivables from grants	325,872	0
Prepayments made	910,370	407,033
Others	121,037	68,435
Total	**1,680,439**	**1,049,386**

Other current assets and receivables include financial assets in the amount of EUR 325,872 as of the reporting date (previous year: EUR 0).

(19) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and current account balances as well as fixed-term and overnight deposit accounts at banks that are due within three months.

(20) Restricted cash and cash equivalents

In connection with the lease agreement for the Company's building at Eugen-Sänger-Ring 7, there is a fixed-term deposit account in the amount of EUR 285,620 (previous year: EUR 285,620) that is blocked in favor of the landlord as of the balance sheet date. In addition, there is a guarantee account in the amount of EUR 99,308 (previous year: EUR 0).

(21) Intangible assets

The intangible assets of the Group developed as follows:

INTANGIBLE ASSETS in EUR

	Software	Patents and licences	Capitalised patents	Development costs	SFC Energy B.V. and SFC Energy Ltd.	Other intangible assets	Total
Acquisition costs							
As of 01/01/2020	**1,134,831**	**422,069**	**571,488**	**9,174,697**	**13,274,329**	**6,824,512**	**31,401,926**
Additions	207,400	25,172	0	3,103,523	0	0	3,336,095
Disposals	– 45,224	0	0	0	0	0	– 45,224
Reclassification	11,401	– 11,401	0	0	0	0	0
Differences arising from currency translation	– 2,783	0	0	0	– 459,736	– 268,745	– 731,264
As of 12/31/2020	**1,305,625**	**435,840**	**571,488**	**12,278,220**	**12,814,593**	**6,555,767**	**33,961,533**
Additions	269,311	0	0	2,492,828	0	0	2,762,139
Reclassification	– 1	0	0	1	0	0	0
Differences arising from currency translation	5,286	0	0	0	560,193	327,468	892,947
As of 12/31/2021	**1,580,221**	**435,840**	**571,488**	**14,771,049**	**13,374,786**	**6,883,235**	**37,616,619**
Depreciation and impairment losses							
As of 01/01/2020	**– 974,242**	**– 266,384**	**– 571,488**	**– 3,882,877**	**– 4,961,138**	**– 6,824,512**	**– 17,480,640**
Scheduled depreciation	– 103,748	– 29,480	0	– 662,661	0	0	– 795,889
Reclassification	23,678	– 23,678	0	0	0	0	0
Disposals	45,072	0	0	0	0	0	45,072
Differences arising from currency translation	458	0	0	0	0	268,745	269,203
As of 12/31/2020	**– 1,008,782**	**– 319,542**	**– 571,488**	**– 4,545,538**	**– 4,961,138**	**– 6,555,767**	**– 17,962,255**
Scheduled depreciation	– 140,682	– 30,320	0	– 1,457,186	0	0	– 1,628,188
Differences arising from currency translation	– 439	– 1	0	0	0	– 327,468	– 327,908
As of 12/31/2021	**– 1,149,903**	**– 349,863**	**– 571,488**	**– 6,002,724**	**– 4,961,138**	**– 6,883,235**	**– 19,918,351**
Carrying amounts							
As of 01/01/2020	**160,589**	**155,685**	**0**	**5,291,820**	**8,313,191**	**0**	**13,921,284**
As of 12/31/2020	**296,843**	**116,298**	**0**	**7,732,682**	**7,853,455**	**0**	**15,999,278**
As of 12/31/2021	**430,318**	**85,977**	**0**	**8,768,325**	**8,413,648**	**0**	**17,698,268**

Development costs

In connection with development activities, grants amounting to EUR 252,513 (previous year: EUR 201,186) were received and recognized as a reduction of research and development costs amounting to EUR 252,513 (previous year: EUR 195,183) and general and administrative costs amounting to EUR 0 (previous year: EUR 6,003).

In the previous year, depreciation and amortization included an impairment loss on development costs at SFC B.V. due to the cancellation of a development and first series order by a customer in the amount of EUR 287,399.

Impairment tests for goodwill

The goodwill included in the Consolidated Financial Statements relates to the differences arising from the business combinations of SFC Energy Group B.V. and SFC Energy Ltd. of the respective purchase prices over the net assets of the acquired businesses measured in accordance with IFRS 3.

As part of the realignment of the segment structure since January 1, 2021, the goodwill of the original cash-generating unit SFC Energy Ltd. was allocated proportionately to the two segments Clean Energy and Clean Power Management on the basis of relative values in accordance with IAS 36.87. The goodwill from the business combination SFC Ltd. amounts to CAD 10,430,435 or EUR 7,234,817 (previous year's figure: CAD 10,430,435, EUR 6,674,624) and is allocated proportionately in the amount of CAD 6,186,153 or EUR 5,801,073 to the Clean Energy segment and proportionately in the amount of CAD 488,471 or EUR 874,000 to the Clean Power Management segment. SFC Ltd. remains the cash-generating unit. Due to this allocation of goodwill, the impairment test for the portion of goodwill allocated to the Clean Energy segment is performed at the level of this entire segment and for the portion allocated to the Clean Power Management segment at the level of this entire segment (including the cash flows of SFC B.V. contained in it).

The goodwill of SFC B.V. in the amount of EUR 1,178,831 thousand was allocated in full to the cash-generating unit SFC B.V. within the Clean Power Management segment. The impairment test for this goodwill continues to be performed at the level of the cash-generating unit SFC B.V., as it does not extend across the boundary of two operating segments.

In both cases, the recoverable amount is determined by calculating the higher of the fair value less costs to sell and the value in use using the discounted cash flow method. Taking into account the significant input factors, the determination of fair value falls overall within Level 3 of the hierarchy under IFRS 13.

The planned cash flows from the five-year plan (2022 to 2026) prepared by the responsible management were used. In addition, the planned values were extrapolated using a growth rate of 0.5% (2027et seqq..), which was also used as the sustainable growth rate.

Goodwill of SFC Energy B.V. Group (SFC B.V.)

The goodwill of the SFC B.V. amounts to EUR 1,178,831 (previous year: EUR 1,178,831).

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

Sales growth and EBIT margin

The assumptions are based on the budget prepared by management, which contains a projection of sales, operating costs, capital expenditure and depreciation and amortization for a period of five years. The cash flows relevant to the valuation result from the sales and earnings planning and supplementary assumptions on working capital.

The revenue growth assumptions are based on the general macroeconomic environment, the development of the relevant markets and the specific development of new target markets in regional terms (Asia) and industry-specific terms (lasers, semiconductors, security), in particular also on the basis of system solutions. Based on these identified potentials, an above-average development is expected, which corresponds to average sales growth (CAGR) of approx. 18.8% p.a. over the entire planning horizon (2022 – 2026).

The planned development of the EBIT margin is based on historically observable gross margins on sales and detailed resource and material cost planning. The expected long-term operating EBIT margin is around 8.0%.

Cost of capital

The cost of capital used to discount the cash flows corresponds to the weighted average cost of capital (WACC), which was determined on the basis of a group of peer companies in the same industry as the SFC B.V. using publicly available data. The WACC indicates the average weighted return required by providers of equity and debt capital based on the ratio of the capital granted in each case to fair values. To determine the WACC, an analysis of the cost of equity as well as the cost of debt and the capital structure at fair values is required. The WACC used in the reporting year was around 7.54% (or around 7.04% after a growth discount in the terminal value).

Based on the foregoing, no impairment loss was recognized in respect of goodwill in the reporting year.

Management has determined that a change in two key parameters that is considered possible could cause the carrying amount of the CGU to exceed its recoverable amount. This situation occurs when:

- the discount rate (WACC) exceeds the amount of 15.31% (previous parameter: 7.54%), or
- the sustainable EBIT margin in the pension year is lower than 2.64% (previous parameter: 8.0%).

The calculations were based on the assumption that the respective other parameter remains unchanged (ceteris paribus).

Clean Energy segment

The Clean Energy cash-generating unit comprises part of SFC Ltd. and the operating part of SFC AG. It was formed for the first time in the reporting year as part of the change in reportable segments.

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

Sales growth and EBIT margin

The assumptions are derived from the budget prepared by management, which contains a projection of sales, operating costs, capital expenditure and depreciation and amortization for a period of five years. The cash flows relevant to the valuation result from the sales and earnings planning and supplementary assumptions on working capital.

The sales growth assumptions are based on the segment-specific market environment and the company's currently observed growth rates. Over the entire planning horizon (2022 – 2026), the average sales growth (CAGR) amounts to around 25.8% p.a..

The planned development of the EBIT margin is based on historically observable gross margins on sales and detailed resource and material cost planning. The expected long-term operating EBIT margin is around 12.0%.

Cost of capital

The cost of capital used to discount the cash flows corresponds to the weighted average cost of capital (WACC) determined on the basis of a group of peer companies in the same industry using publicly available data. The WACC indicates the weighted average return required by providers of equity and debt capital based on the ratio of the respective capital granted to fair values. To determine the WACC, an analysis of the cost of equity as well as the cost of debt and the capital structure at fair values is required. The weighted average cost of capital used in the reporting year was approximately 10.84% (or approximately 10.34% after a growth discount in terminal value).

There were no indications of goodwill impairment in the reporting year.

Management has determined that a change in two key parameters that is considered possible could cause the carrying amount of the CGU to exceed its recoverable amount. This situation occurs when:

- the discount rate (WACC) of the Clean Energy segment exceeds the amount of 18.9% (previous parameter: 10.84%), or
- the sustainable EBIT margin of the Clean Energy segment in the pension year is lower than 4.1% (previous parameter: 12.0%).

The calculations were based on the assumption that the respective other parameter remains unchanged (ceteris paribus).

Clean Power Management segment

The cash-generating unit Clean Power Management comprises part of SFC Ltd. and part of SFC B.V.. This was formed for the first time in the reporting year as part of the change in reportable segments.

The key assumptions used to determine the fair value less costs to sell are sales growth, the operating EBIT margin and the cost of capital used.

Sales growth and EBIT margin

The assumptions are based on the budget prepared by management, which contains a projection of sales, operating costs, capital expenditure and depreciation and amortization for a period of five years. The cash flows relevant to the valuation result from the sales and earnings planning and supplementary assumptions on working capital.

The sales growth assumptions are based on the segment-specific market environment and on currently observed growth rates of the Company. Based on the entire planning horizon (2022 - 2026), the average growth in sales (CAGR) amounts to around 15.6% p.a. The development of the EBIT margin is based on the assumptions made in the segment-specific market environment and the currently observed growth rates of the company.

The planned development of the EBIT margin is based on historically observable gross margins on sales and detailed resource and material cost planning. The expected long-term operating EBIT margin is around 6.5%.

Cost of capital

The cost of capital used to discount the cash flows corresponds to the weighted average cost of capital (WACC) determined on the basis of a group of peer companies in the same industry using publicly available data. The WACC indicates the average weighted return required by providers of equity and debt capital on the basis of the ratio of the capital granted in each case to fair values. To determine the WACC, an analysis of the cost of equity as well as the cost of debt and the capital structure at fair value is required. The weighted average cost of capital used in the reporting year was around 7.61% (or around 7.11% after growth discount in the terminal value).

There were no indications of any impairment of goodwill in the year under review.

Management has determined that a change in two significant parameters that is considered possible could cause the carrying amount of the CGU to exceed the recoverable amount. This situation occurs if:

- the discount rate (WACC) of the Clean Power segment exceeds the amount of 13.61% (previous parameter: 7.61%), or
- the sustainable EBIT margin of the Clean Power segment in the pension year is lower than 2.64% (previous parameter: 6.5%).

The calculations were based on the assumption that the respective other parameter remains unchanged (ceteris paribus).

(22) Property, plant and equipment

The Group's property, plant and equipment developed as follows:

PROPERTY, PLANT AND EQUIPMENT in EUR

	Property, plant and equipment	Technical equipment and machinery	Other equipment, fixtures and fittings	Payments in advance and assets under construction	Total
Aquisition costs As of 01/01/2020	**9,282,768**	**2,444,417**	**6,162,391**	**776**	**17,890,352**
Additions	2,754,301	354,579	906,885	0	4,015,765
Disposals	– 1,951,788	0	– 123,549	0	– 2,075,337
Reclassification	0	0	776	– 776	0
Differences arising from currency translation	– 154,907	– 10,184	– 50,580	0	– 215,671
As of 12/31/2020	**9,930,374**	**2,788,812**	**6,895,923**	**0**	**19,615,109**
Additions	– 3	135,992	1,218,798	0	1,354,787
Disposals	0	– 9,000	– 22,025	0	– 31,025
Reclassification	0	– 2	2	0	0
Differences arising from currency translation	219,026	12,886	81,879	0	313,791
As of 12/31/2021	**10,149,397**	**2,928,688**	**8,174,577**	**0**	**21,252,662**
Depreciation and impairment losses As of 01/01/2020	**– 1,902,806**	**– 1,800,572**	**– 4,317,795**	**0**	**– 8,021,172**
Scheduled depreciation	– 1,837,732	– 129,693	– 752,348	0	– 2,719,773
Disposals	946,552	0	99,076	0	1,045,628
Differences arising from currency translation	33,201	3,814	28,290	0	65,305
As of 12/31/2020	**– 2,760,785**	**– 1,926,451**	**– 4,942,776**	**0**	**– 9,630,012**
Scheduled depreciation	– 1,739,516	– 158,496	– 782,269	0	– 2,680,281
Disposals	0	2,475	22,025	0	24,500
Depreciation on reclassification	0	53,419	– 53,419	0	0
Differences arising from currency translation	– 30,849	– 6,815	– 42,499	0	– 80,163
As of 12/31/2021	**– 4,531,150**	**– 2,035,868**	**– 5,798,938**	**0**	**– 12,365,956**
Carrying amounts					
As of 01/01/2020	**7,379,962**	**643,846**	**1,844,596**	**776**	**9,869,180**
As of 12/31/2020	**7,169,589**	**862,361**	**1,953,147**	**0**	**9,985,097**
As of 12/31/2021	**5,618,247**	**892,820**	**2,375,639**	**0**	**8,886,706**

At SFC Ltd., fixed assets with a residual carrying amount of EUR 388,348 (previous year: EUR 439,547) are pledged as collateral for liabilities as of December 31, 2021. At SFC B.V., fixed assets with a residual carrying amount of EUR 73,590 are pledged as collateral as of December 31, 2021 (previous year: EUR 0).

(23) Other provisions and tax accruals

The development of other provisions is shown in the following overview:

OTHER PROVISIONS in EUR

	Warranty provisions	Other miscellaneous provisions	Total other provisions	Tax provisions
As of 01/01/2021	**2,697,419**	**285,861**	**2,983,281**	**7,476**
Differences arising from currency translation	6,181	13,7389	19,919	2,901
Additions	604,660	489,584	1,094,244	217,021
Interest costs	10,915	0	10,915	0
Utilization	– 451,664	–185,861	– 637,525	–148,688
As of 12/31/2021	**2,867,512**	**603,323**	**3,470,834**	**78.710**
thereof with a remaining term between one and five years	**1,422,484**	**106,700**	**1,529,184**	**0**

Warranty provisions

The amount recognized is the present value of the net amount required to settle the obligation. Discounting is based on an interest rate of 0.34% (previous year: 0.47%) on the portion due after 2 years, 0.40% (previous year: 0.54%) on the portion due after 3 years, 0.49% (previous year: 0.64%) on the portion due after 4 years and 0.58% (previous year: 0.74%) on the portion due after 5 years.

Restructuring provision

No restructuring provision for intragroup restructuring was recognized in miscellaneous other provisions in the past fiscal year (previous year: EUR 193,360).

Other provisions

The provisions for other provisions mainly relate to bonus payments in Canada (due to positive business development). Furthermore, provisions for waste disposal and recycling obligations amounting to EUR 20,000 (previous year: EUR 16,000) are included.

(24) Liabilities to banks

Liabilities to banks are shown in the following table:

LIABILITIES TO BANKS in EUR

	12/31/2021	12/31/2020	Interest rate	Duration
Short term loans (interest-bearing)				
Short term loan SFC Energy Ltd.	227,026	620,587	Canadian Variable Rate + 3.5%	May 2022
Current account SFC Energy Ltd.	317,784	1,378,859	Bank´s Prime Lending + 1.25%	until further notice
Current account SFC Energy B.V.	1,384,873	1,729,540	EURIBOR + 2.5%	yearly prolongation
Current account SFC SFC Energy Power Srl.	805,206	610,968	EURIBOR + 2.0%	yearly prolongation
Long term loans (interest-bearing)				
Loan SFC Energy Ltd.	0	209,446	Canadian Variable Rate + 3.5%	September 2022

The following financial covenants exist for the loan and for the credit line of SFC Ltd.:

- “Working Capital Ratio,”
- “Debt Service Coverage Ratio,”
- “Senior Funded Debt to EBITDA Ratio.”

The following financial covenants exist for the credit line of the Romanian entity SFC Energy Power Srl.:

- „Debt Ratio“,
- „Solvency Ratio“

All financial covenants were complied with in the past and the previous fiscal year.

For further information on the categorization of loans, please refer to Note (33) Financial Instruments for further information on the categorization of loans.

(25) Liabilities from advance payments

Liabilities from advance payments relate to advance payments received on orders and have a remaining term of less than one year. These are liabilities from contracts with customers resulting from contracts with time-based realization.

(26) Trade accounts payable

All trade accounts payable have a remaining term of less than one year.

(27) Leases

As a result of the first-time application of IFRS 16 as of January 1, 2019, all leased buildings and other equipment, factory and office equipment were recognized as right-of-use assets with corresponding lease liabilities.

The remaining terms of the contracts are less than 1 year and up to 7.5 years. The contracts contain renewal clauses on a monthly basis and purchase options at the end of the leases. The net carrying amounts of the right-of-use assets capitalized under the leases as of the reporting date are shown in the following table:

LEASES in EUR

	Property, plant and equipment	Other equipment, fixtures and fittings	Total
Acquisition costs			
As of 01/01/2020	**9,282,767**	**665,094**	**9,947,861**
Additions	2,754,303	318,772	3,073,075
Disposals	– 1,951,788	0	– 1,951,788
Reclassifications	0	459,733	459,733
Differences arising from currency translation	– 154,909	-16,473	– 171,382
As of 12/31/2020	**9,930,373**	**1,427,126**	**11,357,499**
Additions	0	367,724	367,724
Differences arising from currency translation	219,023	59,159	278,182
As of 12/31/2021	**10,149,396**	**1,854,009**	**12,003,405**
Depreciation and impairment losses			
As of 01/01/2020	**– 1,902,806**	**– 244,642**	**– 2,147,448**
Scheduled depreciation	– 1,837,732	– 270,443	– 2,108,175
Disposals	946,552	0	946,552
Reclassifications	0	– 358,987	– 358,987
Differences arising from currency translation	33,202	10,243	43,445
As of 12/31/2020	**– 2,760,784**	**– 863,829**	**– 3,624,613**
Scheduled depreciation	– 1,739,516	– 274,602	– 2,014,118
Differences arising from currency translation	– 30,849	– 38,573	– 69,422
As of 12/31/2021	**– 4,531,149**	**– 1,177,004**	**– 5,708,153**
Carrying amounts			
As of 12/31/2020	7,169,589	563,297	7,732,886
As of 12/31/2021	**5,618,247**	**677,005**	**6,295,252**

The capitalized rights of use to leased buildings are depreciated over a period of 3 to 7.5 years as of the reporting date. The depreciation cycles of the rights of use to other equipment, factory and office equipment range from less than one year to seven years depending on the remaining term.

In the Consolidated Income Statement prepared using the cost-of-sales method, pro rata amortization of the leased rights-of-use assets is included in cost of sales, selling expenses, research and development expenses and general and administrative expenses and amounted to EUR 2,014,118 (previous year: EUR 2,108,176) for the past fiscal year.

Proportionate depreciation was recognized in functional costs as follows:

DEPRECIATION in EUR

	Property, plant and equipment	Other equipment, fixtures and fittings	Total
Depreciation for fiscal year January 1st until December 31, 2021 included in			
Production costs of work performed to generate sales	– 821,018	– 125,370	– 946,388
Sales Costs	– 444,143	– 71,448	– 515,591
General administration costs	– 320,916	– 52,908	– 373,824
Research and development costs	– 153,439	– 24,876	– 178,315
As of 12/31/2021	**– 1,739,516**	**– 274,602**	**– 2,014,118**

DEPRECIATION in EUR

	Property, plant and equipment	Other equipment, fixtures and fittings	Total
Depreciation for fiscal year January 1st until December 31, 2020 included in			
Production costs of work performed to generate sales	– 790,919	– 144,152	– 935,071
Sales Costs	– 567,319	– 51,002	– 618,321
General administration costs	– 187,802	– 21,746	– 209,548
Research and development costs	– 291,692	– 53,544	– 345,236
As of 12/31/2020	**– 1,837,732**	**– 270,444**	**– 2,108,176**

The contractually agreed undiscounted lease payments as of December 31, 2021, totaled EUR 7,397,010 (previous year: EUR 8,234,593) and were broken down into the different maturity bands as follows:

LEASE LIABILITIES / MATURITY STRUCTURE in EUR

	12/31/2021	12/31/2020
Lease liabilities/Maturity structure – contractual agreed undiscounted Cash Flows		
Amounts due within 1 year	1,956,661	1,623,717
Amounts due between 1 and 5 years	4,920,480	6,103,047
Amounts due longer than 5 years	519,870	507,829
Total of undiscounted lease payments	**7,397,010**	**8,234,593**

Discounted lease liabilities of EUR 6,750,663 (previous year: EUR 7,901,039) were reported in the Consolidated Statement of Financial Position as of December 31, 2021. These lease liabilities are broken down into current and non-current liabilities as follows:

SHORT-TERM AND LONG-TERM LEASE LIABILITIES in EUR

	12/31/2021	12/31/2020
Lease liabilities/Statement as in group report		
Short-term	1,859,824	1,353,289
Long-term	4,890,839	6,547,750
Total of lease liabilities as in Group Consolidation	**6,750,663**	**7,901,039**

The payments relating to lease liabilities, which have been included in both operating and financing cash flows, can be seen in the following table for both the past and the previous fiscal year:

CLASSIFICATION IN CASH FLOW in EUR

	12/31/2021	12/13/2020
Classification in Cash Flow for the financial year from January 1 to December 31, 2020		
Repayment of liabilities under finance lease in cash flow statement	–1,698,875	–2,053,151
Cash outflow for interests under finance lease in cash flow statement	–213,208	–237,780
Cash outflow for short-term lease liabilities, for low-value asset leases or for variable lease payments that are not included in the measurement of the lease liability and should be recognized under cash flow from operations	–7,253	–4,880
Cash outflows for prepayments on rights of use in investment cash flow	–33,908	0

Interest expense on lease liabilities recognized in the Consolidated Income Statement amounted to EUR 213,208 (previous year: EUR 237,780) for the fiscal year from January 1 to December 31, 2021. Expenses recognized in the Consolidated Income Statement in connection with short-term leases and low-value assets amounted to EUR 7,253 (previous year: EUR 4,880) for the fiscal year from January 1 to December 31, 2021.

LEASE EXPENSES in EUR

	12/31/2021	12/31/2020
Lease expense in Profit & Loss statement		
Interest expense on lease liabilities	– 213,208	– 237,780
Expenses in connection with short-term leases	– 3,895	– 4,880
Expenses in connection with leases of minor assets, excluding short-term leases of minor assets	– 3,358	0

(28) Other liabilities

Current other liabilities break down as follows:

OTHER CURRENT LIABILITIES in EUR

	12/31/2021	12/31/2020
Variables/bonuses	1,507,315	933,482
Outstanding vacation	822,935	566,736
Wage tax	624,320	981,387
VAT	109,369	339,144
Social security	211,087	97,203
Supervisory board compensation	128,125	96,875
13th salaries	18,662	10,296
Contributions to employers' liability insurance association	57,600	51,600
SAR Stock Appreciation Rights	1,660,209	2,930,691
Storage of business documents	0	73,800
Surcharge for non-employment of disabled persons	14,400	13,680
Overtime	163,703	75,040
Customer-related accruals and commissions	275,135	0
Costs from the dissolution of contracts	22,200	54,000
Other	712,083	446,479
Total	**6,327,143**	**6,670,413**

Other current liabilities include financial liabilities in the amount of EUR 185,725 (previous year: EUR 148,475).

Non-current other liabilities break down as follows:

OTHER NON-CURRENT LIABILITIES in EUR

	12/31/2021	12/31/2020
Liabilities from payroll taxes	594,068	0
SAR Stock Appreciation Rights	7,210,198	2,752,773
VAT	201,309	0
Total	**8,005,575**	**2,752,773**

Non-current other liabilities as of December 31, 2021, include the liability recognized under the Stock Appreciation Rights Program (SARs program) for the Management Board members Dr. Peter Podesser, Daniel Saxena and Hans Pol. For details of these agreements, please refer to the Section (34) Share-based Payment / Stock Appreciation Rights Program. Furthermore, liabilities in connection with payroll tax and VAT from the Dutch subsidiary are included, which were deferred due to governmental measures in connection with the COVID-19 pandemic.

(29) Income tax liabilities

There were no income tax liabilities as of the balance sheet date (previous year: EUR 0).

(30) Equity

The change in SFC's equity is presented in the Consolidated Statement of Changes in Equity.

Subscribed capital

The subscribed capital did not change in the past fiscal year and amounted to EUR 14,469,743 (previous year: EUR 14,469,743) as of the balance sheet date.

The warrant bond placed in August 2017 by the Harbert European Growth Fund included an option right to 204,700 shares of the Group with a proportionate amount of the share capital of the company of EUR 1.00 per share, offered at an option price of EUR 3,6639 was exercised in the fiscal year 2020.

SFC placed 1,315,431 shares of the capital increase from authorized capital resolved in November 2020 with institutional investors in a private placement. This volume corresponded to around 10% of the existing share capital. The placement price was set at EUR 14.77 per new share in an accelerated bookbuilding process. The 1,315,431 new shares issued with an arithmetical share in the share capital of EUR 1.00 are entitled to dividend as of January 1, 2021.

In the financial year 2020, the subscribed capital increased from EUR 12,949,612 to EUR 14,469,743. This increase resulted, on the one hand, from the exercise of a warrant bond in January 2020 with gross issue proceeds of EUR 750,000 and, on the other hand, from a capital increase in November 2020 with gross issue proceeds of EUR 19,428,916. As a result of these two equity-changing measures, the Group's share capital increased by EUR 1,520,131. There was no increase in subscribed capital in the financial year 2021.

The 14,469,743 fully paid-up no-par value bearer shares (previous year: 14,469,743) with a notional value of EUR 1 per share carry one voting right each and are fully entitled to dividends (IAS 1.79 (a)).

Capital reserve

The capital reserve amounts to EUR 119,636,548 (previous year: EUR 119,118,339) as of the balance sheet date. In the past fiscal year, the capital reserve increased by a net amount of EUR 518,209, resulting from the share-based payment settled by equity instruments in the amount of EUR 518,209.

Additional paid-in capital increased in the previous fiscal year by a net amount of EUR 18,701,430, resulting from the gross increase in connection with the conversion of the warrant bond in January 2020 in the amount of EUR 545,300, less the costs of the capital increase, which amounted to EUR 6,000, from the gross increase in connection with the capital increase in November 2020 in the amount of EUR 18,113,485, less the related costs, which amounted to EUR 507,596, and from equity-settled share-based payment transactions in the amount of EUR 556,241.

Authorized capital

The Annual General Meeting of May 16, 2019, resolved to cancel the Authorized Capital from May 17, 2017 (Authorized Capital 2017/I), to create new Authorized Capital (Authorized Capital 2019/I) and to amend Article 5 (Authorized Capital) of the Articles of Association.

By resolution of the Annual General Meeting on May 16, 2019, the Management Board was authorized, with the approval of the Supervisory Board, to increase the share capital on one or more occasions on or before May 15, 2024, by a total of up to EUR 5,124,806.00 against cash and/or non-cash contributions, whereby the subscription rights of shareholders may be excluded under certain conditions (Authorized Capital 2019/I).

Pursuant to Section 5 (6) of the Articles of Association, SFC AG still has authorized capital in the amount of EUR 3,809,375.00 (Authorized Capital 2019/I) in fiscal year 2021.

Conditional capital

Based on the resolution of the Annual General Meeting of SFC AG on May 19, 2020, the Management Board was authorized, with the consent of the Supervisory Board, to increase the share capital of the company by up to EUR 1,300,000.00 (Conditional Capital 2020). The Conditional Capital 2020 serves exclusively to grant new no-par value shares to the holders of option rights that can be issued by the company in accordance with the authorization resolution of the Annual General Meeting of May 19, 2020, under agenda item 7 lit. a).

SFC AG also has further Conditional Capital in the amount of EUR 2,824,503.00 (Conditional Capital 2019), in the amount of EUR 295,300.00 (Conditional Capital 2016) and in the amount of EUR 278,736.00 (Conditional Capital 2011) for the granting of no-par value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, profit participation rights and/or participating bonds (or combinations of these instruments).

SFC also has Conditional Capital 2011 in the amount of EUR 278,736 for the granting of no-par value bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, profit participation rights and/or participating bonds (or combinations of these instruments).

Authorization to acquire treasury shares

By resolution of the Annual General Meeting on May 16, 2019, the Executive Board of the Company is not authorized to acquire treasury shares representing up to 10% of the Company's share capital until May 15, 2024. No use had been made of this authorization by the balance sheet date.

Other changes in equity not affecting net income

Other comprehensive income relates to changes from the currency translation of foreign subsidiaries that do not affect profit or loss.

4. Other information

(31) Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events that are outside the control of SFC. Furthermore, present obligations are contingent liabilities if it is improbable that an outflow of resources will be required to settle the obligation and/or the amount of the obligation cannot be estimated with sufficient reliability.

No contingent liabilities were identifiable as of the balance sheet date.

(32) Other financial obligations

Order commitment

As of the balance sheet date, the Group had purchase commitments of EUR 30,239,484 (previous year: EUR 15,583,591). These mainly relate to blanket purchase orders for raw materials and supplies.

Contingent liabilities

There were no contingent liabilities as of the balance sheet date.

(33) Financial instruments

The following overview shows the financial assets and liabilities by measurement category and class:

CARRYING AMOUNTS SHOWN ON THE BALANCE SHEET in EUR

	12/31/2021	12/31/2020
Financial assets		
Loans and receivables		
Trade accounts receivable	17,608,015	12,362,867
Other assets and receivables – short term	325,872	0
Cash and cash equivalents	24,622,648	31,464,099
Cash and cash equivalents with limitation on disposal	384,927	285,620
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks	2,734,888	4,549,400
Trade accounts payable	7,641,959	4,742,006
Liabilities under finance leases	6,750,663	7,901,039
Other liabilities – short term	185,725	148,475

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

Financial assets and liabilities measured at fair value are allocated to the following three hierarchy levels: Financial assets and liabilities are allocated to **Level 1** if a quoted price for identical assets and liabilities is available on an active market. Financial assets and liabilities are allocated to **Level 2** if the parameters on which the fair value is based are observable either directly as prices or indirectly derived from prices. Financial assets and liabilities are reported in **Level 3** if the fair value is determined from non-observable parameters. In fiscal year 2021, there were no financial liabilities or financial assets based on a Level 3 fair value measurement.

The allocation to fair value levels is as follows:

FAIR VALUE-LEVEL in EUR

	12/31/2021		
	Level 1	Level 2	Summe
Financial assets			
measured as at amortized cost			
Trade accounts receivable	0	17,608,015	17,608,015
Other assets and receivables – current	0	325,872	325,872
Cash and cash equivalents	0	24,622,648	24,622,648
Cash and cash equivalents with limitation on disposal	0	384,927	384,927
Financial liabilities			
measured as at amortized cost			
Liabilities to banks	0	2,734,888	2,734,888
Trade accounts payable	0	7,641,959	7,641,959
Lease liabilities	0	6,750,663	6,750,663
Other liabilities	0	185,725	185,725

FAIR VALUE-LEVEL in EUR

	12/31/2020		
	Level 1	Level 2	Summe
Financial assets			
measured as at amortized cost			
Trade accounts receivable	0	12,362,867	12,362,867
Cash and cash equivalents	0	31,464,099	31,464,099
Cash and cash equivalents with limitation on disposal	0	285,620	285,620
Financial liabilities			
measured as at amortized cost			
Liabilities to banks	0	4,549,400	4,549,400
Trade accounts payable	0	4,742,006	4,742,006
Lease liabilities	0	7,901,039	7,901,039
Other liabilities	0	148,475	148,475

The expenses and income from financial instruments by measurement category are as follows:

EXPENSES AND INCOME FROM THE FINANCIAL INSTRUMENTS in EUR

	2021	2020
Financial assets		
measured as at amortized cost		
Trade accounts receivable		
Income from the reversal of valuation allowances	5,795	0
Expense from write-downs of trade accounts receivable	– 36,655	– 534,630
Income from currency translation of trade accounts receivable	411,484	98,593
Expense from currency translation of trade accounts receivable	– 21,490	– 274,382
Cash and cash equivalents		
Interest income	5	0
Net result of loans and receivables at amortized cost	**359,139**	**– 710,419**
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks		
Interest expense	– 186,242	– 163,569
Trade accounts payable		
Income from currency translation of trade accounts payable	3,030	20,396
Expense from currency translation of trade accounts payable	– 26,165	– 15,476
Lease liabilities		
Interest expense	– 213,208	– 237,780
Other shortterm liabilities		
Interest expense	0	– 1,181
Net result of liabilities carried at amortized cost	**– 422,585**	**– 397,610**

Capital management

SFC sees a strong financial profile of the Group as a basic prerequisite for its continued growth. The strategic orientation of SFC and especially the expansive strategy chosen require further investments that need to be financed to ensure future business success – especially in the areas of product development, development of further market segments and new regions, and expansion of existing market segments. The funds received by the company as part of the capital increases carried out in July 2019 and November 2020 and the exercise of the warrant bond in January 2020 were raised for these investments. Until used in the context of the growth strategy, surplus liquidity is invested in low-risk financial securities (e.g. overnight and time deposits) at various banks.

The Group's capital management relates to cash and cash equivalents (see Note (19) "Cash and Cash Equivalents"), equity (see note (30) "Equity") and liabilities to banks (see note (24) "Liabilities to banks").

The following table shows equity and total assets as of the respective reporting dates:

COMPANY'S EQUITY RATIO in EUR

	12/31/2021	12/31/2020
Equity	**50,018,854**	**54,837,963**
As a percentage of total capital	57.3%	63.5%
Long-term liabilities	16,348,354	12,711,252
Short-term liabilities	20,998,034	18,780,476
Liabilities	**37,346,388**	**31,491,728**
As a percentage of total capital	42.7%	36.5%
Total equity and liabilities	**87,365,242**	**86,329,691**

SFC's capital structure did not change in the past fiscal year 2021. Due to the negative consolidated net income for the period, the equity ratio fell to 56.85% (previous year: 63.5%). In the previous year, the equity ratio increased due to the implementation of a capital increase and the exercise of an option bond.

Adjusted operating result

For internal management purposes, the company uses, among other measures, the so-called "adjusted operating result" in fiscal year 2021. The following table shows the reconciliation of the operating result reported in SFC's Consolidated Income Statement to the adjusted operating result:

RECONCILIATION TO UNDERLYING OPERATING RESULT (EBIT) in EUR

	2021	2020
EBIT (earnings before interest and taxes)	**–5,105,298**	**–4,501,442**
Restructuring costs	0	193,361
Reported under research and development costs:		
Expenses for SAR program	202,282	0
Reported as sales costs		
Expenses for the management board SAR Plan	4,293,660	2,011,534
Reported as general administrations costs		
Expenses for the management board SAR Plan	2,696,969	1,435,940
Expenses for acquisition-related costs	320,820	281,438
Reported under other operating income:		
Income from the reversal of SAR liabilities	–483,650	0
Underlying operating result (EBIT)	**1,924,781**	**–579,169**

Financial risks, such as market, default or liquidity risks, may arise in connection with financial instruments and are explained below.

Risks and hedging policy

As a result of SFC's international activities, changes in exchange rates, commodity prices and interest rates have an impact on the Group's asset, financial and earnings positions. Furthermore, there are default and liquidity risks that are related to market price risks or are associated with a deterioration of the operating business or disruptions in the financial markets.

In general, there are still risks in rising raw material and energy costs, which can have a negative impact on product margins. With a volatility of the platinum price of 5%, the impact on expenses amounts to approximately EUR 19,000 p. a.

Default risk

Default risk resulted mainly from trade accounts receivable. This risk consists of the danger of default by a contractual partner, which is characterized by the customer structure with various major customers. In order to prevent the risk of default, credit checks are carried out in the form of inquiries with credit agencies for selected customers and regular status reports with an early warning function are requested. New customers are generally only supplied in exchange for payment in advance. In addition, all overdue receivables are discussed on a weekly basis as part of receivables management and measures are initiated with the responsible sales employees. For the subsidiaries SFC B.V. and SFC Ltd., prevention of the risk of default is carried out in such a way that, due to the manageable number of customers or bad debts, overdue receivables are first looked into by accounting employees and then discussed with the customer by the sales employee responsible.

The amounts reported in the balance sheet are net of the allowance for doubtful accounts estimated by management based on the expected credit loss model and the current economic environment. Specific allowances are established when there is an indication that receivables are uncollectible. The indications are based on intensive contacts in the context of receivables management. Expected losses are determined based on the historical payment behavior of customers. On each balance sheet date, the expected loss is determined over the remaining term as a percentage depending on the length of time overdue.

The Group considers a financial asset to be in default if it is unlikely that the debtor will be able to pay its credit obligation to the Group in full without the Group having to resort to measures such as the liquidation of collateral (if any). The maximum default amount corresponds to the net carrying amount of the receivables. In the reporting period, as in the previous year, no collateral was acquired and recognized from defaulted receivables. The receivables from product sales are secured for SFC by retention of title.

Indicators that a financial asset is credit-impaired include the following observable inputs:

- significant financial difficulties of the customer
- a breach of contract, such as default or overdue by more than 90 days
- restructuring of a loan or credit by the Group that it would not otherwise consider
- it is likely that the customer will enter bankruptcy or other reorganization proceedings, or
- disappearance of an active market for a security due to financial difficulties.

Of the trade receivables of EUR 17,608,015 (previous year: EUR 12,362,867), the 5 largest customers account for EUR 2,361,749, EUR 1,692,049, EUR 823,346, EUR 821,637 and EUR 743,076 respectively, in total EUR 6,441,857 (previous year: the 5 largest customers accounted for EUR 1,711,755, EUR 750,357, EUR 666,868, EUR 633,866 and EUR 571,440 respectively, in total EUR 4,334,286). There are no other significant concentrations of risk.

The following table shows the development of allowances for trade receivables:

DEVELOPMENT OF WRITE-DOWNS OF TRADE ACCOUNTS RECEIVABLES in EUR

	2021	2020
Write-downs as of 01/01/2021	**1,061,156**	**632,132**
Additions	36,655	534,630
Drawdown/utilisation	– 9,078	– 105,606
Release	– 5,795	0
Write-downs as of 12/31/2021	**1,082,938**	**1,061,156**

BREAKDOWN OF EXPECTED CREDIT LOSSES ON TRADE RECEIVABLES in EUR

	2021	2020
As of 01/01/2021	**1,061,156**	**632,132**
Lifetime expected credit losses (collectively assessed)	230,229	890,390
Credit impaired financial assets (lifetime expected credit losses)	852,709	170,766
As of 12/31/2021	**1,082,938**	**1,061,156**

The maturity bands of trade receivables past due but not yet impaired in the amount of EUR 7,018,065 (previous year: EUR 6,541,506) are shown in the following table:

TRADE ACCOUNTS RECEIVABLES

in EUR

	2021	2020
Not past due or impaired	10,589,950	5,821,361
Past due and not impaired		
Up to one month past due and not impaired	2,879,585	651,850
One to three months past due and not impaired	1,170,646	1,052,411
Three to six months past due and not impaired	199,949	59,757
Over six months past due and not impaired	2,767,885	4,777,488
Receivables per balance sheet	**17,608,015**	**12,362,867**

The outstanding receivables that are neither overdue nor impaired are of high credit quality due to the existing customer structure. As of the balance sheet date, there were no indications that payment defaults were to be expected with regard to these receivables.

The expected loss rate per maturity band breaks down as follows:

LOSS RATE

in EUR

	12/31/2021				
	not overdue	overdue less than 30 days	overdue 30 to 90 days	overdue more than 90 days	Total
Expected loss rate (in %)	1%	2%	4%	23%	
Accounts receivables (gross)	10,646,594	2,951,306	1,215,789	3,877,264	18,690,953
Allowance for doubtful accounts	56,644	71,721	45,143	909,430	1,082,938

	12/31/2020				
	not overdue	overdue less than 30 days	overdue 30 to 90 days	overdue more than 90 days	Total
Expected loss rate (in %)	1%	3%	7%	16%	
Accounts receivables (gross)	5,874,758	672,804	1,126,977	5,749,484	13,424,023
Allowance for doubtful accounts	53,397	20,954	74,566	912,239	1,061,156

No valuation allowances were recognized for the other financial assets, which mainly comprise receivables from grants. There were no overdue claims in this regard as of the balance sheet date.

There are also default risks relating to cash and cash equivalents. Cash and cash equivalents mainly comprise short-term time deposits and overnight money and immediately available balances at banks. In connection with the investment of cash and cash equivalents, SFC is exposed to losses from credit risks if financial institutions fail to meet their obligations. To minimize this risk, the financial institutions with which investments are made are carefully selected and the investments are spread across several banks. In addition, only short-term time deposits are arranged that are covered by the deposit insurance of the financial institutions. The maximum risk position corresponds to the carrying amount of cash and cash equivalents as of the balance sheet date.

Liquidity risk

Liquidity risk describes the risk that SFC will not be able to meet its payment obligations to a sufficient extent. This risk was countered by the capital increases in July 2019 and November 2020 and the exercise of the warrant bond in January 2020 as well as all previous capital-increasing measures. In contrast, no further capital increases were carried out in the past fiscal year 2021. Liquidity reserves declined compared to the previous year due to significant cash outflows for investing and financing activities.

Responsibility for liquidity risk management ultimately lies with the Management Board, which has established an appropriate concept for managing short-, medium- and long-term financing and liquidity requirements. The Group manages liquidity risks by holding reserves and by constantly monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

SFC incurs cash outflows from the financial liabilities held, which are shown in the schedule below with their earliest possible dates. The cash inflows from financial instruments of current and non-current assets are shown analogously. The remaining net liquidity outflow is covered by current cash and cash equivalents.

NON-DERIVATIVE FINANCIAL LIABILITIES AND ASSETS in EUR

	2021				2020			
	Total	1 year	1 – 5 years	>5 years	Total	1 year	1 – 5 years	>5 years
Non-derivative financial liabilities								
Liabilities to banks	– 2,734,888	– 2,734,888	0	0	– 4,549,400	– 4,339,954	– 209,446	0
Trade accounts payable	– 7,641,959	– 7,641,959	0	0	– 4,742,006	– 4,742,006	0	0
Llease Liabilities	– 6,750,663	– 1,859,824	– 4,467,840	– 422,999	– 7,901,039	– 1,353,289	– 6,055,455	– 492,296
Other financial liabilities	– 185,725	– 185,725	0	0	– 148,475	– 148,475	0	0
Total cash outflow	**– 17,313,235**	**– 12,422,396**	**– 4,467,840**	**– 422,999**	**– 17,340,920**	**– 10,583,724**	**– 6,264,901**	**– 492,296**
Non-derivative financial assets								
Cash and cash equivalents	25,007,575	25,007,575	0	0	31,749,719	31,749,719	0	0
Trade accounts receivable	17,608,015	17,608,015	0	0	12,362,867	12,362,867	0	0
Other financial assets	325,872	325,872	0	0	0	0	0	0
Total cash inflow	**42,941,462**	**42,941,462**	**0**	**0**	**44,112,586**	**44,112,586**	**0**	**0**
Net liquidity from financial instruments	**25,628,227**	**30,519,066**	**– 4,467,840**	**– 422,999**	**26,771,666**	**33,528,862**	**– 6,264,901**	**– 492,296**

Based on an interest rate of 4.43%, which is calculated from the Canadian variable rate plus 3.5% (previous year: 4.50%, Canadian variable rate plus 3.5%), the Group expects interest payments of EUR 6,936 (previous year: EUR 73,579) on the financial liabilities at SFC Ltd. until the end of the remaining term.

Cash and cash equivalents include restricted cash.

Interest rate risk

Interest rate risk results mainly from the debt financing of the subsidiaries SFC Ltd. and SFC B.V., which are based on variable interest rates, and from the short-term investment of cash and cash equivalents. A 50 basis point increase or decrease in interest rates would have improved or worsened the interest result by EUR 13.674 (previous year: EUR 11,479). The Group is not exposed to any significant interest rate risks from variable-rate instruments.

Please refer to the Risk Report in the Group Management Report for information on risk management objectives and measures. Risk measurement is carried out in the course of the rolling year-end forecast.

Currency risk

Due to the business volume of SFC Ltd., SFC generates a significant share of its consolidated sales in Canadian dollars, which are offset by expenses or expenditures in the same currency. Furthermore, SFC AG and SFC Ltd. in North America generate sales in US dollars. In addition, SFC Ltd. purchases some products in US dollars. No forward exchange contracts were entered into in fiscal year 2021.

The currency translation of the assets and liabilities of SFC CA as of December 31, 2021, would have resulted in an effect of EUR –879,336 (previous year: EUR –801,518) if the exchange rate had fluctuated by –5% and in an effect of EUR 879,336 (previous year: EUR 801.518) if the exchange rate had fluctuated by +5%, which would have been reflected in the Group's equity.

The translation of the Romanian subsidiary and the transactions into RON did not have any material impact.

The valuation of the foreign currency receivables and liabilities of SFC AG, SFC B.V. and SFC Ltd. as of December 31, 2021, would have resulted in a foreign currency result that would have changed by EUR 108,836 (previous year: EUR 79,755) if the exchange rate had fluctuated by –5% and by EUR –108,836 (previous year: EUR –79,755) if the exchange rate had fluctuated by +5%.

The objective of foreign currency management is to minimize currency losses compared to budget assumptions. For this purpose, an open foreign currency position is calculated on the basis of actual and planned foreign currency positions and adjusted as part of the rolling year-end forecast. Where larger open positions exist, the open balance is largely hedged using forward exchange contracts if significant deviations from the budgeted assumptions arise from the forecast and market expectations. As of the balance sheet date, there are no open forward exchange contracts. In this respect, there is a foreign currency risk for the unhedged portion of sales.

(34) Share-based payment/Stock Appreciation Rights Program

In the course of the Management Board contracts, an agreement was concluded between the company and the individual Management Board members each on the conclusion of a Stock Appreciation Rights Program (SARs Program). In addition, SARs contracts were concluded for three more executives. The aim of the program is to support a business policy that is primarily aligned to the interests of the shareholders and promotes the long-term increase in value of the shareholders' shareholding.

The program provides for variable compensation in the form of stock appreciation rights (SARs). An SAR grants the holder the right to receive a cash payment equal in value to the valid share price at the time of exercise less the exercise price. The SARs can be exercised after expiry of the respective waiting period within a period of one year, subject to the achievement of performance targets and observance of the so-called blackout periods. The number of SARs that can be exercised depends largely on the average SFC share price over a period of 30 trading days before the end of the respective waiting period (reference price).

In the course of the performance targets, the average stock market price of the company in the 30 trading days prior to the expiration of the respective waiting period must exceed the average stock market price in the 30 trading days prior to the issue of the SARs. The granting of the SARs was classified and measured as cash-settled share-based payment in accordance with IFRS 2.30. The fair value of the SARs was determined on the basis of the fair value hierarchy. The fair value of the SARs is remeasured at each balance sheet date using a Monte Carlo model and taking into account the terms and conditions upon which the SARs were granted.

In fiscal year 2020, further SARs were granted to Daniel Saxena under the new Management Board contract (Tranche DS1/Daniel Saxena Program 5). Furthermore, the waiting periods of tranche PP2 (Dr. Peter Podesser Program 3) were shortened by 7 and 14 months respectively in fiscal year 2020. Furthermore, additional SARs have been granted to three executives (Tranche CB1/program 6, Tranche BL1/program 7 and Tranche FT1/program 8).

Tranche PP3 was replaced in fiscal year 2020 by a stock option program Tranche PP1 (Peter Podesser Stock Option Program 1), which is why there are no longer any entitlements under this SARs program at the end of the fiscal year. Markus Binder's entitlements were redeemed by way of a cash payment in the first half of 2021. Furthermore, part of Dr. Peter Podesser's entitlements under Tranche PP2 (Peter Podesser program 2) were exercised in the reporting period.

SARs developed as follows in the 2021 reporting period:

SAR STATUS 2021 — in EUR

	Tranche HP2	Tranche PP2	Tranche MB1	Tranche HP3	Tranche DS1	Tranche CB1/ BL1/FT1
Number of stock appreciation rights (SARs)	180,000	360,000	180,000	180,000	228,000	47,250
Maximum term (years)	7,00	7,00	7,00	7,00	8,00	7,00
Outstanding number of SARs at the beginning of the 2021 reporting period (01/01/2021)	20,000	220,000	55,000	120,000	228,000	0
During the 2021 reporting period						
SARs awarded	0	0	0	0	0	47,250
SARs forfeited	0	0	55,000	0	0	6,750
SARs exercised	20,000	73,333	0	0	0	0
SARs expired	0	0	0	0	0	0
Outstanding number of SARs at the end of the 2021 reporting period (12/31/2021)	**0**	**146,667**	**0**	**120,000**	**228,000**	**40,500**
Exercisable SARs at the end of the 2021 reporting period (12/31/2021)	**0**	**73,333**	**0**	**0**	**0**	**0**

SARs developed as follows in the prior-year period:

SAR STATUS 2020 — in EUR

	Tranche HP2	Tranche PP2	Tranche MB1	Tranche HP3	Tranche PP3	Tranche DS1
Number of stock appreciation rights (SAR)	180,000	360,000	180,000	180,000	420,000	228,000
Maximum term (years)	7,00	7,00	7,00	7,00	7,00	8,00
Outstanding number of phantom shares at the beginning of the reporting period (01/01/2020)	20,000	260,000	102,500	150,000	420,000	0
During 2020 reporting period						
SAR awarded	0	0	0	0	0	228,000
SAR forfeited	0	40,000	47,500	30,000	420,000[1]	0
SAR exercised	0	0	0	0	0	0
SAR expired	0	0	0	0	0	0
SAR outstanding at the end of the reporting period (12/31/2020)	**20,000**	**220,000**	**55,000**	**120,000**	**0**	**228,000**
Exercisable SAR at the end of the reporting period (12/31/2020)	**0**	**0**	**0**	**0**	**0**	**0**

1 Tranche PP3 was replaced by a stock option program Tranche PP1 (Peter Podesser Stock Option Program 1) in fiscal year 2020.

The following parameters were taken into account in the valuation as of December 31, 2021:

2021 — in EUR

	Tranche PP2	Tranche HP3	Tranche DS1	Tranche CB1 / BL1 / FT1
Measurement date	12/31/2021	12/31/2021	12/31/2021	12/31/2021
Remaining term (years)	2.25	3.50	6.50	5.00
Expected volatility	56.33%	54.73%	68.15%	69.51%
Risk-free interest rate	– 0.70%	– 0.67%	– 0.44%	– 0.46%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Strike price	EUR 1.00	EUR 1.00	EUR 1.00	EUR 1.00
Share price on the measurement date	EUR 28.40	EUR 28.40	EUR 28.40	EUR 28.40

The following parameters were used as a basis for the valuation as of the previous year (December 31, 2020):

2020 — in EUR

	Tranche HP2	Tranche PP2	Tranche MB1	Tranche HP3	Tranche PP3	Tranche DS1
Measurement date	12/31/2020	12/31/2020	12/31/2020	12/31/2020	12/31/2020	12/31/2020
Remaining term (years)	1.50	3.25	3.17	4.50	6.00	7.50
Expected volatility	64.05%	55.05%	54.69%	54.73%	49.68%	48.63%
Risk-free interest rate	– 0.76%	– 0.77%	– 0.77%	– 0.76%	– 0.73%	– 0.69%
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Strike price	EUR 1.00	EUR 1.00	EUR 1.00	EUR 1.00	EUR 1.00	EUR 1.00
Share price on the measurement date	EUR 15.94	EUR 15.94	EUR 15.94	EUR 15.94	EUR 15.94	EUR 15.94

The period from the measurement date to the end of the contract of the respective agreement was taken as the term. The share price was determined via Bloomberg from the closing price in XETRA trading as of December 31, 2021. The volatility was determined as the historical volatility of the SFC share over the remaining term to maturity. The expected volatility taken into account is based on the assumption that future trends can be inferred from historical volatility, so that the volatility that actually occurs may differ from the assumptions made. The yield on German government bonds was taken as the risk-free interest rate. The expected dividend yield is based on market estimates for the amount of the expected dividend of the SFC share in the years 2021 and 2022.

As of December 31, 2021, a liability of EUR 8,870,407 (of which EUR 7,210,198 non-current) was recognized under other liabilities as part of the SARs program (December 31, 2020: EUR 5,683,464; of which EUR 2,752,773 non-current). The expense for the period from January 1 to December 31 2021 amounts to EUR 6,674,701 (prior-year period: EUR 2,891,233).

Stock Option Program

In the course of the Management Board contracts, an agreement on the conclusion of a Stock Option Program (SOP) was concluded between the company and both Dr. Peter Podesser and Hans Pol. Furthermore, contracts were concluded for two more executives. The goal of this program is also to support a business policy that is primarily aligned with the interests of the shareholders and promotes the long-term increase in the value of the shareholders' shareholding.

In fiscal year 2020, Tranche PP1 (Peter Podesser Stock Option Program 1) was granted in exchange for the entitlements from Tranche PP3 (Dr. Peter Podesser SARs Program from fiscal year 2019).

Tranche PP1 (Peter Podesser Stock Option Program 1) provides for variable compensation in the form of so-called stock options. A stock option entitles the holder to subscribe to one no-par value ordinary bearer share of the company with simultaneous payment of the exercise price by the option holder. The stock options can be exercised after expiry of the respective vesting period within a period of one year, taking into account the so-called black-out periods. The number of exercisable stock options depends largely on the average SFC share price over a period of 30 trading days prior to the expiration of the respective waiting period (reference price).

In the reporting period, a Stock Option Program was granted to Hans Pol (Hans Pol, Stock Option Program 2) and to two other executives (Stock Option Program 6; Stock Option Program 7.

Stock Option Program 2 begins on March 1, 2021, and has a maximum term of eight years. The option rights may be exercised in accordance with the option terms and conditions within one year after expiry of a waiting period. The waiting period is four or seven years, in each case starting on the issue date of the tranche (beginning on March 1, 2021). The exercise price is EUR 24.41. Each option right entitles the holder to purchase one SFC share. Subscription rights granted may only be exercised subject to the condition that a stock market price of SFC stock defined in more detail by the Annual General Meeting has reached a certain price target at certain points in time during the four-year waiting period and subscription rights have therefore not lapsed (in whole or in part). The exercise of stock options with respect to each sub-tranche is further conditional upon an average stock market price of the SFC share at the time of exercise, as defined in more detail by the Annual General Meeting, reaching or exceeding thresholds set by the Annual General Meeting.

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

In the reporting period, further Stock Option Programs were granted to executives (SA1 or Stock Option Program 3, MC1 or Stock Option Program 4).

Stock Option Programs 3 and 4 commence on January 1, 2021, and have a maximum term of seven years. The option rights can be exercised in accordance with the option conditions within one year after expiry of a waiting period. The waiting period is four or six years, in each case starting on the issue date of the tranche (beginning on January 1, 2021). The exercise price is EUR 15.50. Each option right entitles the holder to purchase one SFC AG share. Subscription rights granted may be exercised only if a stock market price of SFC stock defined in more detail by the Annual General Meeting has reached a certain price target at certain times during the four-year waiting period and subscription rights have not therefore lapsed (in whole or in part). The exercise of stock options with respect to each sub-tranche is further conditional upon an average stock market price of the SFC share at the time of exercise, as defined in more detail by the Annual General Meeting, reaching or exceeding thresholds set by the AGM.

The granting of the stock options was classified and measured as equity-settled share-based payment in accordance with IFRS 2.10. The fair value of the stock options is measured once using a Monte Carlo model and taking into account the terms and conditions upon which the stock options were granted.
The stock options developed as follows in the reporting period 2021:

STOCK OPTIONS 2021 in EUR

	Tranche PP1	Tranche HP4	Tranche SA1	Tranche MC1
Number of stock appreciation rights (SAR)	504,000	500,000	22,800	22,800
Maximum term (years)	8,00	8,00	7,00	7,00
Outstanding number of phantom shares at the beginning of the reporting period (01/01/2021)	504,000	0	0	0
During 2021 reporting period				
SAR awarded	0	500,000	22,800	22,800
SAR forfeited	0	0	0	0
SAR exercised	0	0	0	0
SAR expired	0	0	0	0
SAR outstanding at the end of the reporting period (12/31/2021)	**504,000**	**500,000**	**22,800**	**22,800**
Exercisable SAR at the end of the reporting period (12/31/2021)	**0**	**0**	**0**	**0**

In fiscal 2020, the stock options developed as follows:

STOCK OPTIONS 2020

	Tranche PP1
Number of stock appreciation rights (SAR)	504,000
Maximum term (years)	8,00
Outstanding number of phantom shares at the beginning of the reporting period (01/01/2020)	0
During 2020 reporting period	
SAR awarded	504,000
SAR forfeited	0
SAR exercised	0
SAR expired	0
SAR outstanding at the end of the reporting period (12/31/2020)	**504,000**
Exercisable SAR at the end of the reporting period (12/31/2020)	**0**

As of December 31, 2021, a capital reserve of EUR 1,074,449 was recognized under the Stock Option Program (December 31, 2020: EUR 556,241). The expense for the period from January 1 to December 31, 2021, amounts to EUR 518,209 (prior-year period: EUR 556,241).

The following parameters were taken into account in the valuation as of December 31, 2021:

2021 in EUR

	Tranche PP1	Tranche HP4	Tranche SA1 / MC 1
Measurement date	09/04/2020	03/01/2021	02/012021
Remaining term (years)	6.53	7.17	6.00
Expected volatility	45.18%	49.49%	50.34%
Risk-free interest rate	– 0.54%	– 0.47%	– 0.69%
Dividend yield	0.00%	0.00%	0.00%
Strike price	EUR 1.00	EUR 24.41	EUR 15.50
Share price on the measurement date	EUR 10.00	EUR 28.50	EUR 22.75

The following parameters were used as a basis for the valuation as of December 31, 2020:

2020

	Tranche PP1
Measurement date	09/04/2020
Remaining term (years)	7.53
Expected volatility	45.18%
Risk-free interest rate	– 0.54%
Dividend yield	0.00%
Strike price	EUR 1.00
Share price on the measurement date	EUR 10.00

(35) Transactions with related parties

Related parties as defined by IAS 24 "Related Party Disclosures" are companies and persons if one of the parties has, directly or indirectly, the ability to control or exercise significant influence over the other party or is involved in the joint control of the company.

Transactions between SFC Energy AG and its subsidiaries that are related parties were eliminated in the course of consolidation and are not explained in these notes.

Related parties are, as persons in key positions at SFC are the members of the Management Board and Supervisory Board and their close family members. The Management Board and Supervisory Board were composed as follows in fiscal years 2020 and 2021:

Members of the Management Board

Dr. Peter Podesser, Simbach am Inn, CEO (Chairman)
Daniel Saxena, Thalwil, Switzerland, CFO
Hans Pol, Ede, Netherlands, COO

Members of the Supervisory Board

Hubertus Krossa, Wiesbaden, active in several supervisory boards (Chairman)
Gerhard Schempp, Kaltental, Management Consultant
Sunaina Sinha, London (UK), Management Consultant (since May 20, 2021)
Henning Gebhardt, Bad Homburg, Fund Manager (since May 20, 2021)
Tim van Delden, Düsseldorf, Fund Manager (Chairman until May 19, 2021)

Companies that are directly or indirectly controlled by key management personnel or under their significant influence are also classified as related parties in accordance with IAS 24 "Related Party Disclosures."

The total compensation of key management personnel is shown below:

COMPENSATION in EUR

	2021		2020	
	Fixed portion	Variable portion	Fixed portion	Variable portion
Management Board	929,828	5,387,279	769,962	3,740,808
Supervisory Board	128,125	0	112,500	0
Total	**1,057,953**	**5,387,279**	**882,462**	3,740,808

As of the balance sheet date, liabilities to key management personnel were recognized in the amount of EUR 5,547,970 (previous year: EUR 3,417,069). The liabilities break down as follows:

- Supervisory Board EUR 128,125 (previous year: EUR 96,875)
- Management Board EUR 5,419,845 (previous year: EUR 3,320,194).

The liabilities for members of the Management Board comprise the SARs programs described below.

Agreements with Management Board members

SFC AG currently has the following agreements with members of the Management Board, some of which are subject to the condition of a change of control following a takeover bid:

In accordance with the Management Board employment contract, Dr. Peter Podesser was granted 360,000 virtual stock options (SARs) for the SARs program 2014 – 2016 with an exercise price per virtual stock option of EUR 1.00 on April 1, 2014. The SARs could expire in a fixed amount on three defined cut-off dates in 2015, 2016 and 2017 depending on the share price of SFC AG. After a waiting period of four to six years, one third of the unvested volume could or can be exercised at the defined reference price if certain performance targets are met. In the event of an acquisition of control of SFC AG, the SARs that had not yet expired at the time a takeover offer was made are to be paid out in accordance with defined ranges depending on the reference price. The reference price corresponds to the offer price within the meaning of Section 31 (1) of the German Securities Acquisition and Takeover Act (WpÜG). The Management Board employment contract of Dr. Peter Podesser was extended from April 1, 2017, to March 31, 2020. As part of this, Dr. Peter Podesser was granted a further 360,000 SARs on December 14, 2016 (SARs program 2017 – 2020). The terms and conditions of the SARs Program 2017 – 2020 were essentially the same as the SARs Program 2014 – 2016 Furthermore, the Management Board employment contract of Dr. Peter Podesser was extended from April 1, 2020 to March 31, 2024. As part of this, Dr. Peter Podesser was granted another 420,000 SARs on May 15, 2019 (SARs program 2020 – 2024). The SARs may be forfeited in a fixed amount on four defined cut-off dates in 2021, 2022, 2023 and 2024 depending on the share price of SFC AG. After a waiting period of four to seven years, a quarter of the unvested volume can be exercised at the defined reference price if certain performance targets are met. The SARs program 2020 – 2024 was converted into a physical Stock Option Program in fiscal year 2020, which essentially contains the terms and conditions of the corresponding SARs program.

Hans Pol was appointed to the Management Board with effect from January 1, 2014, until June 30, 2015. His Management Board employment contract includes a corresponding agreement on the SARs program 2014 – 2016 with a term until December 31, 2018. Mr. Pol was granted 90,000 SARs on January 1, 2014. On March 24, 2015, Hans Pol's Management Board employment contract was extended until June 30, 2018. As part of this, Hans Pol was granted another 180,000 SARs on July 1, 2015 (SARs program 2015 – 2018). On March 27, 2018, Hans Pol's Management Board employment contract was extended until June 30, 2021. As part of this, Hans Pol was granted an additional 180,000 SARs on July 1, 2018 (SARs program 2018 – 2021).

Daniel Saxena was appointed to the Management Board with effect from July 1, 2020, until June 30, 2024. His Management Board employment contract contains a corresponding agreement on the SARs program 2020 – 2024 with a term until June 30, 2027. 228,000 SARs were granted to Mr. Saxena.

Marcus Binder was appointed to the Management Board with effect from March 1, 2017, until February 28, 2020. The Management Board contract was not extended beyond February 28, 2020.

The variable portion includes, among other items, the expense for the Stock Appreciation Rights Program (SARs program) and the Stock Option Program for the members of the Management Board.

COMPENSATION in EUR

	Fixed compensation		Short-term performance based compensation		Long-term performance based compensation		Total	
	12/31/2021	12/31/2020	12/31/2021	12/31/2020	12/31/2021	12/31/2020	12/31/2021	12/31/2020
Dr. Peter Podesser	394,113	386,073	242,000	138,396	953,927	2,295,287	1,590,040	2,819,756
Hans Pol	271,715	218,763	165,000	50,062	2,225,495	735,252	2,662,210	1,004,077
Marcus Binder resigned 02/29/2020	–	33,126	–	3,500	–	398,718	–	435,344
Daniel Saxena since 07/01/2020	264,000	132,000	121,000	0	925,457	119,593	1,310,457	251,593
Summe	**929,828**	**769,962**	**583,317**	**191,958**	**4,803,962**	**3,548,850**	**6,317,107**	**4,510,770**

(36) Earnings per share

Earnings per share are calculated by dividing the consolidated net profit for the year attributable to the equity holders of the parent by the average number of shares outstanding. As of the reporting date December 31, 2021, there were 14,469,743 shares (previous year: 14,469,743 shares) outstanding. The calculation of diluted earnings per share is based on the loss attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjusting for the effects of all dilutive potential ordinary shares. Earnings per share for the reporting period amounted to EUR –0.40 (previous year: EUR –0.39).

In fiscal year 2021, diluted and basic earnings per share are identical due to the existence of anti-dilution protection, as the conversion into common shares would reduce the loss per share from continuing operations.

The weighted average number of common shares as of December 31, 2021, is as follows:

AVERAGE OF ORDINARY SHARES — in EUR

	2021	2020
Number of shares in circulation at the beginning of the period	14,469,743	12,949,612
Effect of the shares issued	0	321,220
Weighted average number of shares at December, 31	**14,469,743**	**13,270,832**

The basic and diluted earnings per share can be found in the Consolidated Income Statement.

(37) Notes to the Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows shows the origin and use of cash flows. In accordance with IAS 7 "Statement of Cash Flows," a distinction is made between cash flows from operating, investing and financing activities. The cash and cash equivalents shown in the cash flow statement correspond to the balance sheet item cash and cash equivalents (without restrictions on disposal). Cash and cash equivalents comprise cash on hand and current account balances in the amount of EUR 24,617,557 (previous year: EUR 31,359,700) as well as time deposits and overnight money in the amount of EUR 489.326 (previous year: EUR 390,018).

Income tax payments and refunds mainly relate to capital gains tax and the solidarity surcharge withheld from interest credits when overnight and fixed-term deposits mature, as well as income tax payments for the Canadian and Romanian subsidiaries.

Since existing liquidity surpluses of SFC are invested in short-term, low-risk financial instruments, the interest received is allocated to cash flow from investing activities. The interest payments are shown in the cash flow from financing activities.

The following table contains a reconciliation of the movements in debt to cash flows from financing activities.

MOVEMENTS IN LIABILITIES 2021

in EUR

	12/31/2020	Payment effective	Payment non-effective				12/31/2021
			Exchange rate change	Interest	Conversion IFRS 16	Allocation of stock option program	Total
Liabilities to banks	– 4,549,400	– 2,134,288	134,369	185,408	0	0	– 2,734,888
Liabilities from financing	– 7,901,039	– 1,912,084	214,683	213,208	333,816	0	– 6,750,663
Subscribed capital and capital surplus	– 133,588,082	0	0	0	0	518,209	– 134,106,291
Total	**– 146,038,521**	**– 4,046,372**	**349,052**	**398,616**	**333,816**	**518,209**	**– 143,591,842**

MOVEMENTS IN LIABILITIES 2020

in EUR

	12/31/2019	Payment effective	Payment non-effective				12/31/2020
			Exchange rate change	Interest	Conversion IFRS 16	Allocation of stock option program	Total
Other Liabilities from financing	– 4,639	– 5,820	0	1,181	0		0
Liabilities to banks	– 6,512,635	– 1,936,688	– 216,887	190,340	0		– 4,549,400
Liabilities from financing	– 8,033,266	– 2,290,931	– 132,552	237,780	2,053,476		– 7,901,039
Subscribed capital and capital surplus	– 113,366,521	19,665,320	0	0	0	556,241	– 133,588,082
Total	**– 127,917,061**	**15,431,881**	**– 349,439**	**429,301**	**2,053,476**	**556,241**	**– 146,038,521**

(38) Disclosures on Group segment reporting

As part of Group segment reporting in accordance with IFRS 8 “Operating Segments,” the segments are broken down according to internal reporting to the Management Board and the Supervisory Board, which serves as the basis for company planning and resource mapping.

The accounting policies of the reportable segments are consistent with the Group accounting policies described.

Since January 1, 2021, the segmentation of the Group has been based on the internal control by the management on the basis of a technology platform or product and service portfolio oriented view and control of the company's activities. The Group's segments are "Clean Energy" and "Clean Power Management." The Group's previous segmentation was based on SFC's target markets. Among other things, the new segment reporting will achieve a stronger focus on two segments and simplify the internal reporting processes. The Clean Energy & Mobility and Defense & Security segments were combined in full in the new Clean Energy segment. The Industry segment was assigned to the new Clean Power Management segment. The Oil & Gas segment was split up and the respective shares were allocated to the new Clean Energy and Clean Power Management segments.

To measure the performance of the Clean Energy and Clean Power Management segments and to manage the Group, the Management Board uses sales, gross profit, underlying EBITDA (adjusted earnings before interest, taxes, depreciation and amortization) and underlying EBIT (earnings before interest and taxes adjusted for special effects) as significant performance indicators – as before. For the reconciliation to adjusted EBIT/EBITDA, please refer to Note (33) Adjusted operating profit in the Notes to the consolidated financial statements.

The Clean Energy segment comprises the broad portfolio of products, systems and solutions for stationary and mobile off-grid power supply based on hydrogen (PEMFC) and direct methanol (DMFC) fuel cells for customers from the private, industrial and public sectors in various end-customer markets. Furthermore, products from our partner Schneider Electric for oil and gas customers are allocated to this segment.

The Clean Power Management segment comprises the entire business with standardized and semi-standardized power management solutions such as voltage transformers and coils, which are used in equipment for the high-tech industry. The segment also includes the business with frequency converters that are used in the upstream oil and gas industry.

The breakdown of sales and non-current segment assets by region is shown below:

SALES AND NON-CURRENT SEGMENT ASSETS BY REGION in EUR

	Sales from transactions with external customers		Long-term Assets	
	2021	2020	12/31/2021	12/13/2020
North America	24,185,704	18,912,752	10,106,838	9,578,428
Europe (not including Germany)	29,025,052	19,263,746	4,720,078	4,509,290
Germany	6,693,677	8,278,612	11,758,058	11,896,657
Asia	4,038,911	6,304,307	0	0
Rest of the world	376,955	463,353	0	0
Total	**64,320,299**	53,222,770	**26,584,974**	25,984,375

The breakdown of sales by region was based on the registered offices of the respective customers. Sales of EUR 6,693,676 (previous year: EUR 8,278,612) were generated in the Group's German domestic market.

In the past fiscal year, no single customer generated sales revenues in excess of 10% of total sales (previous year: 0).

Depreciation and amortization of non-current assets, which are included in cost of sales, can be allocated to the individual segments as follows:

DEPRECIATION OF NON-CURRENT ASSETS in EUR

	2021	2020
Clean Energy	2,194,043	1,202,489
Clean Power Management	695,675	503,411
Total	**2,889,718**	**1,705,900**

Interest expenses are attributable to the Clean Energy segment in the amount of EUR 308,619 (previous year: EUR 312,642) and to the Clean Power Management segment in the amount of EUR 100,912 (previous year: EUR 130,615),

Internal reporting is limited to expense and income items. Accordingly, segment reporting does not include any balance sheet items.

(39) Auditor's fees

The fees are as follows:

AUDITOR'S FEES in EUR

	2021	2020
Financial statements	254,000	191,000

These services are provided exclusively as part of the statutory audit of the annual financial statements and the consolidated financial statements.

(40) Declaration on the German Corporate Governance Code

On March 23, 2021 the Management Board and Supervisory Board issued an updated Declaration of Conformity with the Ger-man Corporate Governance Code pursuant to Section AktG161 and published it on the website of SFC Energy AG (**www.sfc.com/de/investoren/corporate-governance**). The Declaration of Conformity is available on the internet for the next five years and has thus been made permanently accessible to the public.

(41) Significant events after the balance sheet date

On January 27, 2022, Peter Podesser exercised some of his SARS –36,667 from the SAR program 2017–2019 – at the average price of SFC shares over the last 30 trading days (Xetra) at the closing price on January 26, 2022. The resulting total amounted to EUR 880,191. This cash outflow for SFC will be taken into account in the 2022 financial statements.

In all likelihood, SFC will only be indirectly affected by the Ukraine crisis that manifests itself in March 2022. Possible negative or positive effects on earnings from the hostilities between Russia and Ukraine cannot be reliably estimated at present. However, the armed conflict may lead to higher raw material prices, further fuel inflation and contribute to a deteriorating business climate and more difficult financing conditions.

Otherwise, no other events of particular significance expected to have a material effect on the financial po-si-tion, financial performance and cash flows of SFC AG had occurred by the time the financial statements were prepared.

Brunnthal, March 16, 2022

The Management Board

Dr. Peter Podesser
Chairman of the Board (CEO)

Hans Pol
Board Member (COO)

Daniel Saxena
Board Member (CFO)

RESPONSIBILITY STATEMENT

Consolidated Financial Statements and Group Management Report for Financial Year 2021

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Brunnthal, March 16, 2022

The Management Board

Dr. Peter Podesser **Chairman of the Board (CEO)**	**Hans Pol** **Board Member (COO)**	**Daniel Saxena** **Board Member (CFO)**

INDEPENDENT AUDITOR'S REPORT

To SFC Energy AG, Brunnthal

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the Consolidated Financial Statements of SFC Energy AG, Brunnthal, and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as of December 31, 2021, the Consolidated Statement of Income and Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the financial year from January 1 to December 31, 2021, and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. We have also audited the Group Management Report of SFC Energy AG, Brunnthal, for the financial year from January 1 to December 31, 2021. The Corporate Governance Statement in accordance with Section 289f HGB and Section 315d in conjunction with Section 289f of the German Commercial Code (HGB), to which reference is made in the section "Corporate Governance Statement" of the Group Management Report, we have not audited the content in accordance with German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying Consolidated Financial Statements comply in all material respects with IFRSs as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB and give a true and fair view of the financial position of the Group as of December 31, 2021, and of its financial performance for the financial year from January 1 to December 31, 2021, in accordance with these requirements; and

- the accompanying Group Management Report as a whole provides a suitable view of the Group's position. In all material respects, this Group Management Report is consistent with the Consolidated Financial Statements, complies with German legal requirements, and accurately presents the opportunities and risks of future development. Our audit opinion on the Group Management Report does not cover the content of the aforementioned Corporate Governance Statement.

In accordance with Section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations concerning the orderliness of the Consolidated Financial Statements and the Group Management Report.

Basis for the audit judgments

We conducted our audit of the Consolidated Financial Statements and the Group Management Report in accordance with Section 317 HGB and the EU Regulation on Auditors (No. 537/2014; hereinafter "EU-APrVO") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under those provisions and standards is further described in the section "Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Group

Management Report" of our auditor's report. We are independent of the Group companies in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. Furthermore, in accordance with Article 10 (2) (f) EU-APrVO, we declare that we have not performed any prohibited non-audit services as defined in Article 5 (1) EU-APrVO. 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 the Group Management Report.

Particularly important audit matters in the audit of the Consolidated Financial Statements

Key audit matters are those matters which, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements for the financial year from January 1 to December 31, 2021. These matters were considered in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

In the following, we present what we consider to be the most important audit matter, namely the impairment of goodwill.

In the following, we present what we consider to be the most important key audit matters:

1. reorganisation of business segments to which goodwill is allocated
2. valuation of stock appreciation rights (SARs) and stock option programmes (SOPs)

We have structured our presentation of these key audit audit matters as follows:

a) Description of the facts (including reference to related disclosures in the Consolidated Financial Statements)

b) Audit procedure

Reorganization of business segments to which goodwill is allocated

a) As the parent company, SFC Energy AG reorganized the Group's reporting and management structure effective January 1, 2021. The previous four segments "Clean Energy & Mobility," "Oil & Gas," "Defense & Security" and "Industry" were replaced by the two business segments "Clean Energy" and "Clean Power Management." The former segments "Clean Energy & Mobility" and "Defense & Security" were assigned to the legal entity SFC Energy AG, the segment "Industry" to the legal entity SFC Energy B.V. (formerly PBF Group B.V.) and the segment "Oil & Gas" to the legal entity SFC Energy Ltd. (formerly Simark Controls Ltd.). The two new business segments "Clean Energy" and "Clean Power Management" will be organized and managed independently according to the nature of the technologies or solutions offered and their different risk and return structures.

As part of the reorganization, the legacy segments "Clean Energy & Mobility" and "Defense & Security" were combined to form the new "Clean Energy" business segment. The legacy "Industry" segment was assigned to the new "Clean Power Management" segment, and the legacy "Oil & Gas" segment was split between the two new operating business segments.

The goodwill recognized in the Consolidated Financial Statements relates to the differences arising from the business combinations of SFC Energy B.V. (referred to as "PBF") and SFC Energy Ltd. (referred to as "Simark"). The goodwill "PBF" (EUR 1,179k) was fully allocated to the cash-generating unit SFC Energy B.V. (congruent with the old segment "Industry"), the goodwill "Simark" (EUR 7,235k) was fully allocated to the cash-generating unit SFC Energy Ltd. (congruent with the old segment "Oil & Gas"). Due to the latest extension of the cash-generating unit SFC Energy Ltd. (referred to as "Simark") to the two new operating segments, the company has allocated the goodwill "Simark" proportionately to the two new business segments with reference to the upper limit in IAS 36.80 (b) in accordance with IAS 36.87. In connection with this, the previous impairment test of goodwill for "Simark" at the level of the cash-generating unit SFC Energy Ltd. will be replaced by two impairment tests at the level of the business segments "Clean Energy" and "Clean Power Management" in accordance with IAS 36.80 (b) in conjunction with IFRS 8.5 and IAS 36.66 et seq. have been replaced (adjustment of test levels). The cash inflows continue to be generated at the level of the legal entities, which is why there is no change with regard to the cash-generating units, which continue to be congruent with the above-mentioned legal entities.

As the reorganization of business segments is an indication of impairment, an impairment test of goodwill based on the previous cash-generating units is generally required. After the change in segment reporting was completed as of January 1, 2021, and thus immediately after the reporting date for the annual impairment test, the company has decided not to perform an (additional) impairment test of the goodwill of SFC Energy B.V. (referred to as "PBF") and SFC Energy Ltd. (referred to as "Simark") as of that date and performed impairment tests on the basis of the new structure as of the Consolidated Financial Statements as of December 31, 2021.

The respective recoverable amount was generally determined by calculating the fair value less costs to sell using the discounted cash flow method.

We determined this to be a particularly important audit matter because the allocation of goodwill and cash-generating units to operating segments or test levels is complex and involves a number of judgments and assumptions on the part of the legal representatives. In addition, further judgments made by the legal representatives, particularly in estimating future cash inflows and selecting the discount rate as well as the long-term growth rate, have a significant influence on the result of the fair value measurement.

The disclosures by the legal representatives on the reorganization of the operating segments and on the reallocation of goodwill in financial year 2021 are included in chapter 3, under item (21), section "Impairment tests for goodwill" of the Notes to the Consolidated Financial Statements. Information on the measurement and impairment tests performed on goodwill can be found in chapter 1, section "Accounting policies" under the items "Intangible assets" and "Impairment of non-financial assets" and in chapter 3, under item (21) "Intangible assets."

b) Firstly, we assessed whether the reorganization and implementation of the new reporting and control structure required a reorganization of the cash-generating units or an adjustment of the test levels. We also assessed whether the individual units or test levels defined as cash-generating units were demarcated in a comprehensible manner, and whether the reallocation of goodwill to the respective test levels followed the new internal reporting and management structure and was performed in accordance with an appropriate procedure.

We then assessed whether the above waiver of an (additional) impairment test of goodwill directly after reallocation was justifiable and whether an appropriate impairment test had been performed for all cash-generating units or test levels as of the Consolidated Financial Statement date.
We examined the test levels identified by the legal representatives and the allocation of goodwill to the test levels or cash-generating units and the definition of the cash-generating units themselves with regard to compliance with the requirements of IAS 36.80 (b) in conjunction with IFRS 8.5 and IAS 36.66 et seq. IFRS 8.5 and IAS 36.66 et seq. We assessed the appropriateness of the test levels at which the impairment tests are performed, the allocation of goodwill to the test levels and to the cash-generating units, respectively, by consulting with and involving our IFRS and valuation specialists.

Subsequently, we obtained an understanding of the methods used by legal representatives in relation to the valuation of goodwill. We also critically analyzed the underlying assumptions and data sources as well as the process of involving the external service provider in this valuation. Furthermore, we understood the process as well as the related reporting and control structures.

Our assessment of the determination of the fair values was based on the five-year planning (2022 to 2026) prepared by the legal representatives and approved by the Supervisory Board as well as the assumptions regarding the expected growth rates in perpetuity. As part of our assessment of the reliability of SFC Energy AG's planning system, we traced and critically examined the key planning assumptions and planned measures with a focus on the development of the sales markets in Canada and in Europe as well as the development of sales and procurement prices and reconciled them with historical market data. Furthermore, against the background of increased forecast uncertainty, we assessed the sensitivity analyses prepared by the legal representatives on the basis of general and industry-specific market forecasts and expectations as well as our own analyses.

In connection with the determination of the discount rates used, we examined, again by involving our valuation specialists, the underlying parameters including the weighted average cost of capital (WACC) and verified the calculation scheme. In addition, we verified the methodological approach used to perform the impairment test and assessed and recalculated the specific application of the discounted cash flow calculation scheme.

As part of our audit of the facts, we assessed whether the methods applied, assumptions made and data used by the legal representatives can be considered reasonable.

Finally, we have audited the completeness and adequacy of the disclosures made by management in the notes to the Consolidated Financial Statements regarding the reorganization of the business segments and the reallocation of goodwill, as well as the measurement and impairment test as of December 31, 2021.

Valuation of Stock Appreciation Rights (SARs) and Stock Option Programs (SOPs)

a) The Consolidated Financial Statements of SFC Energy AG include personnel expenses totaling EUR 7,193k for SARs and SOPs. Furthermore, the consolidated balance sheet as at 31 December 2021 includes a provision of EUR 8,870k for the SARs and a capital reserve of EUR 1,074k for the SOPs.

When SARs are exercised, a cash payment is made in the amount of the difference between the reference price and the respective exercise price. The reference price is the average stock market price of the company's shares (arithmetic mean of the closing prices in XETRA trading) on the last 30 days of trading before the date on which the SARs are exercised. The number of SARs that can finally be exercised also depends on the long-term performance of SFC's share price. The provision for the SARs is measured quarterly by determining the fair value using the Monte Carlo simulation.

In addition to SARs, the company has also granted variable remuneration to individual members of the Management Board in the form of stock options based on SOPs. Such a stock option entitles the holder to subscribe to one ordinary share of the company (no-par value share) with simultaneous payment of the exercise price by the option holder. The stock options can be exercised after expiration of the respective vesting period within a period of one year, taking the so-called blackout periods into account. The number of exercisable stock options depends largely on the average price of SFC stock over a period of 30 trading days prior to the expiration of the respective waiting period (reference price). The fair value of the SOPs is measured at the grant date using a Monte Carlo simulation. As part of the valuation, the legal representatives must make assumptions about the product-specific payoffs, the volatility of the SFC share and the yield curve to be used.

We determined the matter to be a key audit matter because the valuations of the accruals and additional paid-in capital to be recognized for the SARs and SOPs are complex and based on a number of judgmental estimates and assumptions made by management.

Information provided by the legal representatives on the valuation of SARs and SOPs can be found in the Notes to the Consolidated Financial Statements, in particular in chapter 3. under item (34) "Share-based payment."

b) First, we obtained an understanding of the valuation methodology used by the legal representatives and of the identification and evaluation of the relevant data sources. We also considered the contractual basis of the SOPs and SARs and assessed their content. We then examined the appropriateness of the key assumptions and judgments made by the legal representatives. Furthermore, we assessed the procedure for the valuation of provisions and the determination of additional paid-in capital by involving our valuation specialists. In a follow-up analysis, we examined the reliability of past valuation results.

   Our analysis of the assumptions and valuation parameters used by the legal representatives, in particular the product-specific payoff, the volatility of the SFC share and the interest rate curve used for discounting, was performed taking into account our assessment of the reliability of the company's approach to the valuation of the SARs and SOPs, among other things by reviewing the variant of the Monte Carlo simulation applied and by means of a sensitivity analysis of selected valuation parameters performed by valuation specialists. In light of the particular valuation uncertainties relating to the share price development, we have assessed the valuation of the SARs and SOPs performed by the legal representatives with regard to this valuation parameter.

   As part of our audit of the facts, we assessed whether the methods applied, assumptions made and data used by the legal representatives appear reasonable.

   Finally, we have audited the completeness and adequacy of the disclosures made by the legal representatives on the SARs and the SOPs in the Notes to the Consolidated Financial Statements.

Other Information

The legal representatives or the Supervisory Board are responsible for the other information. The other information includes:

- the Report of the Supervisory Board,
- the Corporate Governance Statement pursuant to Section 289f HGB or Section 315d in conjunction with Section 289f HGB, to which reference is made in the Group Management Report in the section "Corporate Governance Statement,"
- the assurance of the legal representatives pursuant to Section 297 (2) sentence 4 HGB or Section 315 (1) sentence 5 HGB on the Consolidated Financial Statements and the Group Management Report, and
- all other parts of the Annual Report, which will be published after this audit opinion has been issued,
- but not the Consolidated Financial Statements, the content of the audited Group Management Report, or our audit opinion thereon.

The Supervisory Board is responsible for the Report of the Supervisory Board. The declaration pursuant to Section 161 AktG on the German Corporate Governance Code, which forms part of the Corporate Governance Statement pursuant to Section 289f HGB or Section 315d in conjunction with Section 289f HGB mentioned in the Group Management Report, is the responsibility of the legal representatives and the Supervisory Board. Otherwise, the legal representatives are responsible for the other information.

Our audit opinions on the Consolidated Financial Statements and the Group Management Report do not cover the other information and, accordingly, we do not express an opinion or any other form of conclusion on it.

In connection with our audit, we have a responsibility to read the other information referred to above and, in doing so, assess whether the other information is

- materially inconsistent with the Consolidated Financial Statements, the content of the audited Group Management Report disclosures or our knowledge obtained in the audit, or
- otherwise appears to be materially misrepresented.

Management's Responsibility for the Consolidated Financial Statements and for the Group Management Report

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with IFRSs as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error. Furthermore, management is responsible for such internal control as management determines is 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, management is responsible for assessing the Group's ability to continue as a going concern. Management is also responsible for disclosing, as applicable, matters related to a going concern. In addition, they are responsible for preparing the financial statements on a going concern basis unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

In addition, management is responsible for the preparation of the Group Management Report, which as a whole provides a suitable view of the Group's position and is consistent in all material respects with the Consolidated Financial Statements, complies with German legal requirements, and suitably presents the opportunities and risks of future development. Furthermore, management is responsible for the arrangements and measures (systems) that it determines are necessary to enable the preparation of a Group Management Report in accordance with the applicable German legal requirements and to provide sufficient appropriate evidence for the statements made 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 the Group Management Report.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Group Management Report

Our objective is to obtain reasonable assurance as to whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group Management Report as a whole provides a suitable view of the Group's position and is consistent, in all material respects, with the Consolidated Financial Statements and the audit findings, complies with German legal requirements, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinion on the Consolidated Financial Statements and the Group Management Report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU-APrVO and in compliance with German generally accepted standards for the audit of financial statements 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 aggregate, they could reasonably be expected to influence the economic decisions of the recipients on the basis of these Consolidated Financial Statements and the Group Management Report.

During the audit, we exercise professional judgment and maintain a critical attitude. Furthermore, we

- identify and assess the risks of material misstatement of the Consolidated Financial Statements and 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 opinion. The risk of not detecting material misstatements is higher in the case of non-compliance than in the case of inaccuracy, as non-compliance may involve fraud, forgery, intentional omissions, misleading representations, or the override of internal controls.

- obtain an understanding of the internal control system relevant to the audit of the Consolidated Financial Statements and the arrangements and actions relevant to the audit of the Group Management Report in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those systems.
- evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of the going concern basis of accounting used by management 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 our auditor's report to the related disclosures in the Consolidated Financial Statements and the Group Management Report or, if such disclosures are inadequate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. However, future events or conditions could result in the Group being unable to continue as a going concern.

- assess the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that the Consolidated Financial Statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs as adopted by the EU, and the additional requirements of German law pursuant to Section 315e para. 1 HGB.

- obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express opinions on the Consolidated Financial Statements and on the Group Management Report. We are responsible for directing, supervising and performing the audit of the Consolidated Financial Statements. We are solely responsible for our audit opinions.

- We assess the consistency of the Group Management Report together with the Consolidated Financial Statements, its compliance with the law and the view it conveys of the Group's position..

- perform audit procedures on the forward-looking statements made by management in the Group Management Report. In particular, based on sufficient appropriate audit evidence, we reproduce the significant assumptions made by management regarding the forward-looking statements and evaluate the appropriateness of the information derived from these assumptions. We do not express an independent opinion on the forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control that we identify during our audit.

We make a declaration to those charged with governance that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and the safeguards that have been put in place to address them.

From the matters we discussed with those charged with governance, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless the law or regulations preclude public disclosure of the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Audit of the Electronic Files of the Consolidated Financial Statements and of the Management Report prepared for Publication pursuant to Section 317 (3b) HGB

Audit Opinion

In accordance with Section 317 (3a) of the German Commercial Code (HGB), we have performed a reasonable assurance audit to determine whether the reproductions of the Consolidated Financial Statements and the Group Management Report (hereinafter also referred to as "ESEF documents") contained in the file provided, which has the SHA-256 value 43F6166B56F0DD3B2AE0AD55B300537EA8E7B36AA83B60C89BC77EB513986D9, and prepared for the purpose of disclosure, comply in all material respects with the requirements of Section 328 (1) of the German Commercial Code regarding the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit extends only to the conversion of the information in the Consolidated Financial Statements and the Group Management Report into the ESEF format and therefore neither to the information contained in these reproductions nor to any other information contained in the aforementioned file.

In our opinion, the reproductions of the Consolidated Financial Statements and the Group Management Report contained in the above-mentioned file prepared for disclosure purposes comply, in all material respects, with the electronic reporting format requirements of Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying Consolidated Financial Statements and the accompanying Group Management Report for the financial year from January 1 to December 31, 2021, contained in the preceding "Report on the Audit of the Consolidated Financial Statements and the Group Management Report," we do not express any audit opinion on the information contained in these reproductions or on the other information contained in the aforementioned file.

Basis for the audit opinion

We conducted our audit of the reproductions of the Consolidated Financial Statements and the Group Management Report contained in the above-mentioned provided file in accordance with Section 317 (3a) HGB and IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3a) HGB (IDW PS 410 (20.2021)). Our responsibility thereafter is ¬further described in the section "Auditor's Responsibility for the Audit of the ESEF Documents¬." Our auditing practice has complied with the quality assurance system requirements of the IDW Quality Assurance Standard: Requirements for Quality Assurance in the Auditing Practice (IDW QS 1).

Responsibility of the legal representatives and the Supervisory Board for the ESEF documents

The company's management is responsible for the preparation of the ESEF documents containing the electronic reproductions of the Consolidated Financial Statements and the Group Management Report in accordance with Section 328 (1) sentence 4 no. 1 HGB and for the markup of the Consolidated Financial Statements in accordance with Section 328 (1) sentence 4 no. 2 HGB.

Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of ESEF documents that are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB regarding the electronic reporting format.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Auditor's Responsibility for the Audit of the ESEF Documents

Our objective is to obtain reasonable assurance as to whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB. During the audit, we exercise professional judgment and maintain a critical attitude. Furthermore, we

- identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

- obtain an understanding of internal control relevant to the audit of ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those controls.

- assess the technical validity of the ESEF documentation, i.e. whether the file provided containing the ESEF documentation complies with the requirements of Delegated Regulation (EU) 2019/815 as amended on the reporting date regarding the technical specification for this file.

- assess whether the ESEF documentation provides a consistent XHTML representation of the audited Consolidated Financial Statements and the audited Group Management Report.

- assess whether the markup of the ESEF documents with inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of Delegated Regulation (EU) 2019/815, as applicable as of the reporting date, provides an adequate and complete machine-readable XBRL copy of the XHTML rendering.

Other information according to Article 10 EU-APrVO

We were elected auditors of the Consolidated Financial Statements by the Annual General Meeting on May 19, 2021. We were engaged by the Supervisory Board on December 9, 2021. We have served as auditors of the Consolidated Financial Statements of SFC Energy AG, Brunnthal, without interruption since financial year 2007. We declare that the audit opinions contained in this audit opinion are consistent with the additional report to the Audit Committee pursuant to Article 11 EU-APrVO (Audit Report).

Other matters – use of the audit opion

Our audit opinion should always be read in conjunction with the audited Annual Financial Statements and the audited Management Report as well as the audited ESEF documents. The Annual Financial Statements and Management Report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited Annual Financial Statements and audited Management Report and do not replace them. In particular, the ESEF opinion and our audit opinion contained therein can only be used in conjunction with the audited ESEF documents provided in electronic form.

AUDITOR IN CHARGE

The auditor responsible for the audit is Dirk Bäßler.

Munich, March 16, 2022

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Dirk Bäßler
Wirtschaftsprüfer
(German Public Auditor)

Oliver Pointl
Wirtschaftsprüfer
(German Public Auditor)

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

In this corporate governance statement, the Management Board and the Supervisory Board provide information on SFC Energy AG's corporate governance pursuant to section 289f of the German Commercial Code (Handelsgesetzbuch – "HGB") or section 315d in conjunction with section 289f HGB and pursuant to Principle 22 of the German Corporate Governance Code as amended on December 16, 2019 (and published in the Federal Gazette (Bundesanzeiger) on March 20, 2020; "GCGC").

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

Declaration of compliance with the German Corporate Governance Code (statement pursuant to section 161 AktG)

Pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz – "AktG"), the management board and the supervisory board of exchange-listed companies must declare annually that the company has complied, and will comply, with the recommendations of the Government Commission on the German Corporate Governance Code published by the German Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) and/or which recommendations the company has not applied and/or will not apply. This declaration has to be kept available to the public on a permanent basis on the company's website.

Relevant companies may depart from the recommendations of the GCGC, but in this case they are obliged to disclose and explain such departures each year. This enables companies to take into account sector- or company-specific needs. The GCGC thus helps to make corporate governance of German companies more flexible and promotes their self-regulation. SFC Energy AG follows all recommendations of the German Corporate Governance Code which only a few exceptions, which are explained in the following declaration of compliance pursuant to section 161 Akt.

On March 16, 2022, the Management Board and the Supervisory Board of SFC Energy AG made the following joint declaration of compliance pursuant to section 161 AktG:

"After due examination, the Management Board and the Supervisory Board of SFC Energy AG declare that, since March 23, 2021 (the date of the last declaration of compliance), the recommendations of the German Corporate Governance Code as amended on December 19, 2019 (and published in the Federal Gazette on March 20, 2020, "GCGC") have been complied with, and are being and will be complied with in the future, with the following exceptions:

- Pursuant to recommendation B.3 GCGC, the first-time appointment of Management Board members shall be for a period of not more than three years. A departure from this recommendation is made insofar as the Supervisory Board decides on the specific term of the initial appointment in each individual case, in order to maintain sufficient flexibility in recruiting particularly qualified candidates for Management Board positions, while also considering the interest in long-term and sustainable corporate management.

- Pursuant to recommendation C.1 GCGC, the Supervisory Board shall determine specific objectives regarding its composition, and shall prepare a profile of skills and expertise for the entire Board while taking the principle of diversity into account. Proposals by the Supervisory Board to the General Meeting shall take these objectives into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the entire Board. The implementation status shall be published in the corporate governance statement. This statement shall also provide information about what the shareholder representatives on the Supervisory Board regard as the appropriate number of independent Supervisory Board members representing shareholders, and the names of these members. The Company departs from the recommendation to determine specific objectives, to prepare a profile of skills and expertise for the entire Board, and to provide information about what the shareholder representatives on the Supervisory Board regard as the appropriate number of independent Supervisory Board members representing shareholders, and the names of these members. The composition of the Supervisory Board must ensure that the Management Board is effectively advised and supervised, guided by the Company's best interests. To ensure compliance with these statutory requirements, the Supervisory Board will continue to base its proposals of candidates primarily on the knowledge, skills and experience of eligible candidates while taking the principle of diversity into account. However, the Supervisory Board does not consider it necessary or reasonable to determine specific targets or quotas in advance beyond the target quota of women for the Supervisory Board required by section 111(5) AktG, as to do so would impose a sweeping restriction on the selection of suitable candidates, particularly for SFC Energy AG as a smaller, stock-listed stock corporation with a Supervisory Board that is composed of only four members. Accordingly, the corporate governance statement does not report on any such objectives. This means a departure from recommendation C.1 GCGC.

- Pursuant to recommendation D.2 GCGC, depending on the specific circumstances of the enterprise and the number of Supervisory Board members, the Supervisory Board shall form committees of members with relevant specialist expertise, and pursuant to recommendation D.3 GCGC an Audit Committee shall be established in particular. The relevant committee members and the committee chairs shall be provided in the corporate governance statement. As a result of amendments made to the Articles of Association and a fourth Supervisory Board member assuming their office on August 12, 2021, the number of the Company's Supervisory Board members was increased from three to four. The Supervisory Board has previously held the view, consistent with the legal literature on this subject, that the efficiency of advisory and monitoring activities of a Supervisory Board consisting of three members cannot be increased by forming committees. Accordingly, the relevant committee members and committee chairs could not be provided in the corporate governance statement to that date. This means that the Company has departed from the recommendations D.2 and D.3 GCGC until the Audit Committee was formed. The fact that no Supervisory Board committees had been formed resulted in further departures from other recommendations of the GCGC pertaining to Supervisory Board committees and their members (recommendations C.10, D.4, D.8, D.11, D.13 and G.17 GCGC). The Supervisory Board established an Audit Committee by resolution of August 18, 2021. The above recommendations have been complied with since that date and will be complied with in the future. As a matter of precaution, the company declares its continued departure from recommendations C.10 sentence 1 and section D.2 sentence 1 GCGC; the Supervisory Board does not consider it necessary to form further committees, including in particular a committee dealing with Management Board remuneration, in order to perform efficient advisory and monitoring activities.

- Pursuant to recommendation D.5 GCGC, the Supervisory Board shall form a Nomination Committee, composed exclusively of shareholder representatives, which names suitable candidates to the Supervisory Board for its proposals to the General Meeting. The Supervisory Board has not formed a Nomination Committee. The Supervisory Board takes the view, consistent with the legal literature on this subject, that a Nomination Committee does not need to be formed if there are no employee representatives on the Supervisory Board. This means a departure from recommendation D.5 GCGC.

- Pursuant to recommendation G.1 GCGC, the remuneration system shall define, in particular, how the target total remuneration is determined for each Management Board member, and the amount that the total remuneration must not exceed (maximum remuneration). The remuneration system resolved on March 23, 2021 complies with this recommendation. As a matter of precaution, we hereby wish to note that existing agreements with Management Board members concluded in the period since the current GCGC has come into force and before the remuneration system was resolved do not provide for total maximum remuneration. However, the limitation to the amounts of short-term and long-term variable remuneration, as agreed with the Management Board members since the current GCGC has come into force, essentially ensures compliance with maximum remuneration in accordance with the remuneration system (except for certain special situations). The ongoing virtual stock option programs from the time before the current GCGC has come into force did not yet provide for any payout limits.

Brunnthal, March 16, 2022

SFC Energy AG

The Management Board
The Supervisory Board"

The current declaration of compliance together with the declarations of compliance for the past five years are available to the general public at any time on the SFC Energy AG website at **https://www.sfc.com/investoren/corporate-governance/#s2**.

Remuneration report/remuneration system

The remuneration report for the most recent financial year 2021 and the auditor's audit opinion pursuant to section 162(3) AktG, the current remuneration system for the Management Board members pursuant to section 87a(1) and (2) sentence 1 AktG approved by the General Meeting on May 19, 2021, and the resolution adopted by the General Meeting on May 19, 2021 pursuant to section 113(3) AktG on the remuneration of the Supervisory Board members are made available to the general public at **https://www.sfc.com/en/investors/corporate-governance/**.

Disclosure of corporate governance practices

SFC Energy AG does not apply corporate governance practices beyond legal requirements.

Structure and procedures of the management and supervisory bodies; diversity

SFC Energy AG believes that a responsible and transparent governance and controlling structure is the foundation for creating value and instilling confidence in the company. SFC Energy AG is subject to German stock corporation law and accordingly has a dualistic governance system consisting of the Management Board as the management body and the Supervisory Board as the supervisory body. Their duties and powers, as well as the requirements for their procedures and composition, are essentially based on the German Stock Corporation Act (Aktiengesetz) and the Articles of Association of SFC Energy AG, as well as their rules of procedure. The structures of the company's management and supervisory bodies are as follows:

Shareholders and General Meeting

The shareholders of SFC Energy AG exercise their co-determination and monitoring rights at the General Meeting, which is held at least once a year. SFC Energy AG regularly informs its shareholders, as well as analysts, shareholders' associations, media representatives, and the interested public through its financial calendar, which is published in the Company's annual report, its quarterly communications, and on its website. In addition, as part of its investor relations activities, the Company regularly meets with analysts and institutional investors. The Company also holds an analysts' conference at least once a year. The last such conference took place on November 22, 2021 at Deutsches Eigenkapitalforum.

The General Meeting of SFC Energy AG is held during the first eight months of each financial year and resolves on all matters reserved for the General Meeting by law, including, inter alia, the appropriation of profits, election and approval of the actions of the Supervisory Board members, approval of the actions of the Management Board members, election of the auditors, and amendments to the Company's Articles of Association. Shareholders exercise their rights and, in particular, their voting rights at the General Meeting. When votes are taken, each share grants one vote.

To facilitate exercising their rights and to prepare for the meeting, shareholders will receive the annual report and the meeting notice in advance of the General Meeting, providing them with in-depth information about the past financial year and the agenda items to be transacted. All of the documents and information pertaining to the General Meeting, including the annual report, will also be published on the Company's website. To facilitate the exercise of shareholders' rights, SFC Energy AG offers any shareholder who is unable to exercise, or chooses not to exercise, their voting rights personally or by proxy the opportunity to exercise their voting rights at the General Meeting through a proxy who is bound by instructions given. In 2021, against the background of the COVID-19 pandemic (as was the case for the first time in 2020), the Annual General Meeting of SFC Energy AG was held as a virtual General Meeting without the physical presence of shareholders or their proxies.

Management Board

The Management Board of SFC Energy AG manages the Company with the goal of creating sustainable value on its own responsibility and in the best interests of the Company, i.e., with the interests of shareholders, employees, and other stakeholders in mind. The Management Board acts without being subject to instructions from any third parties and in accordance with the law, the Company's Articles of Association and the rules of procedure adopted by the Supervisory Board for the Management Board, and taking account of the resolutions adopted by the General Meeting. When making appointments to executive positions in the Company, the Management Board of SFC Energy AG also considers diversity and seeks to ensure, in particular, appropriate representation of women (for more details, see the section headed "Information required by section 289f(2) no. 4 HGB", page 187 below).

Notwithstanding the principle of overall responsibility according to which all Management Board members are jointly responsible for managing the company, each Management Board member has sole responsibility for the business area assigned to them. Its members work together in a spirit of collegiality and keep one another informed about major transactions and measures in their respective business areas. The Chairman of the Management Board has primary responsibility for the overall management and business policy of the Company. He ensures coordination and consistency of business management within the Management Board and represents the Company in public.

The Management Board and the Supervisory Board of SFC Energy AG cooperate closely and on a trust basis to the benefit of the Company. The Management Board reports to the Supervisory Board regularly, without delay and comprehensively on all issues that are relevant to the company, in particular regarding planning, business development, strategy, the risk situation, including risk management and compliance, and on all other major events that are of material importance for the management of the Company; the Management Board regularly coordinates the strategy of SFC Energy AG with the Supervisory Board. Between meetings, the Chairman of the Supervisory Board will be in regular contact with the Management Board – in particular, the Chairman of the Management Board, in order to discuss with them important issues and current events, in particular those regarding strategy, business development, the risk situation, risk management, and compliance of the Company.

In accordance with the law and the rules of procedure laid down by the Supervisory Board for the Management Board, certain material decisions by the Management Board are additionally subject to the approval of the Supervisory Board. The approval of the Supervisory Board is also required for material transactions between SFC Energy AG group companies on the one hand and Management Board members or their related persons or enterprises on the other hand; no such transactions have been made in the reporting period.

Management Board members must inform the Chairman of the Supervisory Board of any conflicts of interest without undue delay; the other Management Board members must be informed thereof. No such transactions or conflicts of interest have occurred in the reporting year. Management Board members may only assume sideline activities, especially supervisory board mandates outside the group, with the approval of the Supervisory Board. In the past financial year, no Management Board member was a supervisory board member of any commercial company or partnership not belonging to the group.

Together with the Management Board, the Supervisory Board ensures long-term succession planning. In the past year, the Supervisory Board, together with the Management Board, discussed long-term personnel planning. When appointing members to the Management Board, the Supervisory Board ensures that the Management Board's composition is most beneficial to the Company, diverse and complementary, and that there is long-term succession planning. When examining candidates for a Management Board position, the Supervisory Board believes that key suitability criteria are the candidates' professional qualifications for the position in question, convincing leadership qualities, previous performance, experience, industry knowledge and knowledge of the Company. The Supervisory Board will not appoint a Management Board member who has reached the age of 65 at the time of appointment. The decision on the appointment of a specific Management Board member is always based on the interests of the Company, taking into account all circumstances of the specific case. The three Management Board members have different professional backgrounds, horizons of experience, and expertise together, including notable international experience. Diversity is an important and lived objective of SFC Energy AG; however, the Company does not have a formal diversity concept for the Management Board for the purposes of section 289f(2) no. 6 HGB, in order to maintain sufficient flexibility.

The Management Board of SFC Energy AG in the 2021 financial year had, and currently has, three members, namely Dr. Peter Podesser as the Chairman of the Management Board/Chief Executive Officer (CEO), Mr. Daniel Saxena as Chief Financial Officer (CFO), and Mr. Hans Pol as Chief Operating Officer (COO). Further information on the Management Board members and their memberships to be disclosed pursuant to section 285 no. 10 HGB are available in the notes to the consolidated financial statements under (35) Related party transactions; more detailed information on the areas of responsibility and curricula vitae of the Management Board members are available on the Company's website at **https://www.sfc.com/en/company/management-team/**.

The Management Board members are covered by directors' and officers' liability insurance (D&O insurance) in accordance with the requirements of section 93(2) sentence 3 AktG.

Supervisory Board

The Supervisory Board appoints the members of the Management Board and supervises the Management Board in the management of SFC Energy AG. The Supervisory Board is directly involved in all decisions of fundamental importance to the Company. Pursuant to applicable law, the Articles of Association and the

Management Board's rules of procedure, or resolutions adopted by the Supervisory Board, certain matters relating to the Company's management require the approval of the Supervisory Board. The Supervisory Board actively assists the Management Board by consultations and discussions, performs the duties incumbent on it by law and under the Articles of Association, and continuously supervises the management of the Company's business on the basis of Management Board reports and joint meetings (see the Supervisory Board report on page 17 et seqq.). Other major responsibilities of the Supervisory Board are the examination and adoption of the annual financial statements and the approval of the consolidated financial statements. The responsibilities and internal organization of the Supervisory Board and its committees result from the law, the Articles of Association, and the rules of procedure of the Supervisory Board, which are available on SFC Energy AG's website at **https://www.sfc.com/wp-content/uploads/sites/4/geschäftsordnung-aufsichtsrat-en.pdf**. The GCGC also contains recommendations for the Supervisory Board's work.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs its meetings and represents its interests externally. He maintains regular contact with the Management Board, particularly the Chairman of the Management Board, discussing in particular the Company's strategy, business development, major transactions, risk management, risk situation, and compliance. The Supervisory Board has adopted its own rules of procedure which, in accordance with the law and the Articles of Association, include provisions regarding, inter alia, Supervisory Board meetings and the adoption of resolutions, the duty of confidentiality and the handling of conflicts of interest.

Composition of the Supervisory Board

In accordance with the resolution adopted by the General Meeting on May 19, 2021, the Supervisory Board of SFC Energy AG was enlarged to four members (§ 10(1) sentence 1 of the Articles of Association). In the 2021 financial year, the Supervisory Board consisted of (i) Mr. Tim van Delden (Chairman), (ii) Mr. Hubertus Krossa (Deputy Chairman), and (iii) Mr. Gerhard Schempp until the General Meeting of SFC Energy AG on May 19, 2021. Since its election by the General Meeting on May 19, 2021 – and with regard to Ms. Sinha Haldea, the entry into force in addition of the amendment to the Articles of Association (enlargement of the Supervisory Board) and the assumption of office by Ms. Sunaina Sinha Haldea on August 12, 2021 – the Supervisory Board now consists of (i) Mr. Hubertus Krossa (Chairman), (ii) Mr. Henning Gebhardt (Deputy Chairman), (iii) Mr. Gerhard Schempp, and (iv) Ms. Sunaina Sinha Haldea. Mr. Hubertus Krossa has been a member of the Company's Supervisory Board since May 16, 2014, and Mr. Gerhard Schempp has been a member of the Company's Supervisory Board since June 1, 2020 (reelected on May 19, 2021).

On May 19, 2021, the Supervisory Board elected Mr. Hubertus Krossa as Chairman and Mr. Henning Gebhardt as Deputy Chairman. The Supervisory Board was formed into a staggered board in the reporting year; accordingly, Supervisory Board members would generally be elected for a term of four years, and two Supervisory Board members would resign from the Supervisory Board every two years. Further information on the Supervisory Board's composition in the reporting period are available in the Supervisory Board report page 193. [Further information on the Supervisory Board members [and their memberships to be disclosed pursuant to section 285 no. 10 HGB] are available in the notes to the consolidated financial statements under (35) Related party transactions; more detailed information on the areas of responsibility and curricula vitae of the Supervisory Board members are available on the Company's website at **https://www.sfc.com/en/company/management-team/**.

Among the Supervisory Board members currently in office, Mr. Krossa and Mr. Gebhardt in particular have expertise in the areas of accounting and auditing. Mr. Krossa has gained the necessary expertise in the many years of his professional career as a member of the management board of Linde AG and as CEO of the KION Group; Mr. Gebhardt has gained such expertise as a long-standing fund manager with DWS Investment and as a board member of Deutsches Aktieninstitut.

The Supervisory Board has not determined specific targets regarding its composition, except for the determination of a target quota of women for the Supervisory Board as required by law (see the section entitled "Information required by section 289f(2) no. 4 HGB"), and has not adopted a diversity concept for the purposes of section 289f(2) no. 6 HGB, in order to maintain sufficient flexibility. In order to ensure the due performance of its statutory duties, the Supervisory Board will continue to base its proposals for candidates to the General Meeting primarily on the knowledge, skills, and experience of eligible candidates. This also involves that the Supervisory Board will appropriately consider the Company's international activities, potential conflicts of interest, the number of independent Supervisory Board members, any age limit laid down in the rules of procedure of the Supervisory Board, and diversity. However, the Supervisory Board does not consider it necessary or reasonable to determine specific targets or gender-specific quotas in advance beyond the target quota of women for the Supervisory Board required by section 111(5) AktG, as to do so would restrict the selection of suitable candidates, particularly for SFC Energy AG as a smaller, stock-listed stock corporation. The Supervisory Board will not consider any persons as candidates who have reached the age of 75 at the time of election. The term of office of Supervisory Board members currently varies between two and five years and, following implementation of the staggered board structure, will regularly be four years in the future.

No former members of the Management Board of SFC Energy AG are members of the Supervisory Board. The Management Board and the Supervisory Board believe that the Supervisory Board has an appropriate number of independent members.

Potential conflicts of interest of Supervisory Board members

Provisions for avoiding and addressing potential conflicts of interest are laid down in the rules of procedure of the Supervisory Board. Each member of the Supervisory Board shall disclose conflicts of interest to the Chairman of the Supervisory Board. Each member of the Supervisory Board is bound to observe the Company's best interests. Material conflicts of interest involving a member of the Supervisory Board that are not merely temporary shall result in the termination of that member's Supervisory Board mandate. Any consultancy or other work or service contracts between a Supervisory Board member and the Company require a resolution by the Supervisory Board to be adopted with qualified majority. In its report, the Supervisory Board will inform the General Meeting of any conflicts of interest that have arisen and how they are addressed; the Supervisory Board has not determined any potential conflicts of interest in relation to a Supervisory Board member in the reporting year.

Supervisory Board committees

The Supervisory Board performs its work both in plenary sessions and in the Audit Committee. In the reporting year, on August 18, 2021, the Supervisory Board established an Audit Committee with the responsibilities laid down in Supervisory Board's rules of procedure (available at **https://www.sfc.com/wp-content/uploads/**

sites/4/geschäftsordnung-aufsichtsrat-en.pdf). The Committee Chairperson reports to the Supervisory Board on the Committee's work at the following meeting.

The Audit Committee comprises three Supervisory Board members. The members of the Audit Committee are Mr. Henning Gebhardt (Chairman), Mr. Hubertus Krossa, and Mr. Gerhard Schempp. In accordance with recommendation D.4 GCGC, the Chairman, Henning Gebhardt, has specific knowledge and experience in applying accounting principles and internal control procedures, is familiar with audits, and is independent.

The Audit Committee addresses in particular the monitoring of the audit and the selection of the auditor, including appointment of the auditor and determining focal points of the audit, the preparation of the audit of the annual and consolidated financial statements, the discussion of semi-annual and quarterly financial reports with the Management Board, the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system, and compliance.

The Supervisory Board takes the view that a Nomination Committee need not be formed because there are no employee representatives on the Company's Supervisory Board.

Training and professional development; self-assessment

Pursuant to recommendation D.12 GCGC, the company shall support Supervisory Board members sufficiently upon their appointment and during training and professional development measures. Ms. Sinha Haldea and Mr. Henning Gebhardt have been introduced to their functions by the other members of the Supervisory Board. Mr. Hubertus Krossa and Mr. Gerhard Schempp have held their offices since 2014 and 2020, respectively, and had to be sufficiently supported in training and professional development measures only.

Pursuant to recommendation D.13 GCGC, the Supervisory Board shall assess, at regular intervals, how effective the Supervisory Board and its committees fulfil their tasks. The Supervisory Board of SFC Energy AG regularly assesses how effective it fulfils its tasks and decides on measures for improvement. The Supervisory Board most recently conducted a self-assessment in 2017, using a questionnaire. The Supervisory Board discussed the material results and, with the involvement of the Management Board, measures for improvement. Due to the continuing, additional burdens caused by the COVID-19 pandemic, the Supervisory Board did not conduct its self-assessment in 2021, but plans to conduct a self-assessment using a questionnaire for the 2022 financial year, involving an external expert as necessary.

The Supervisory Board members are covered by directors' and officers' liability insurance (D&O insurance) which does not provide for a deductible.

Risk management and compliance

Good corporate governance involves a responsible management of risks. The Management Board of SFC Energy AG ensures that the Company's risk management and risk controlling are adequate (Compliance Management System). This ensures that risks are identified in time and potential risks are minimized. More detailed information on risk management can be found in the Report on Risks and Opportunities of the Group Management Report, on pages 58 et seqq.

SFC Energy AG believes that compliance with the provisions of law and internal policies relevant for the Company's activities (hereinafter also referred to as "compliance") is an essential part of corporate governance. Therefore, the governance tasks in all group entities include the duty to ensure compliance with applicable regulations in each area of tasks or responsibilities. Work processes and procedures must be designed in accordance with such rules. In order to ensure this, SFC Energy AG conducts internal business and finance reviews at regular intervals. In addition, the Company gives employees the opportunity to report, in a protected manner, suspected breaches of the law ("whistleblowing"). Since its establishment, the Audit Committee has monitored the effectiveness of the compliance management system in the reporting period on the basis of relevant regular reports by the Management Board.

Transparency

SFC Energy AG aims to ensure maximum transparency and to provide all target groups with the same information at the same time. All target groups can keep abreast of the latest developments at the Company via the internet. Information on the Company's economic situation is also provided in the financial reports (annual report, semi-annual financial report and quarterly statements). SFC Energy AG publishes ad-hoc announcements as well as press releases and other corporate news on its website. The current declaration of compliance with the German Corporate Governance Code and the declarations of compliance for previous years are also available at the Company's website.

Pursuant to Art. 19 of the Market Abuse Regulation (Regulation (EU) No 596/2014, MAR), the members of the Management Board and of the Supervisory Board of SFC Energy AG and certain employees in executive positions, as well as persons closely associated with them, are required to report purchases and sales of shares in the Company and of any financial instruments linked thereto if the value of the transactions within one calendar year reaches or exceeds the amount of EUR 20,000.

All directors' dealings pursuant to Art. 19 MAR are published via the DGAP (Deutsche Gesellschaft für Ad-hoc-Publizität mbH) and can be viewed on the Company's website at **https://www.sfc.com/en/investors/corporate-governance/directors-dealings/**

The total percentage of shares in SFC Energy AG held by all Management Board members as of December 31, 2021 was 1.63%, of which 0.74% were held by the Chairman of the Management Board, Dr. Peter Podesser, 0.87% were held by Management Board member Hans Pol, and 0.02% were held by Management Board member Daniel Saxena. As of this date, among the Supervisory Board members, Hubertus Krossa held 0.05% of the shares issued by the Company.

Accounting and auditing

The consolidated financial statements and interim reports of SFC Energy AG are prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to the guidelines of the International Accounting Standards Board. The annual financial statements of SFC Energy AG are prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The annual financial statements and the consolidated financial statements are prepared by the Management Board and audited by the auditors and the Supervisory Board.

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Munich, was elected by the Company's Annual General Meeting as the auditor for the 2021 financial year and was appointed by the Supervisory Board. The auditor participated in the Supervisory Board's discussions and reported on the material results of its audit. The financial statements and interim reports are available to shareholders and other interested parties on the Company's website.

Information required by section 289f(2) no. 4 HGB

The Supervisory Board is obliged to set targets for the share of women on the Supervisory Board and the Management Board, as well as deadlines for reaching this target. The Management Board is obliged to set targets for the share of women on the two management levels below the Management Board, and deadlines for reaching such targets.

In order to achieve synchronization with the financial year of the Company, which is the calendar year, the Supervisory Board set target quotas on the Supervisory Board and the Management Board, and the Management Board set a target quota for the two management levels below the Management Board, by setting the close of December 31, 2021 as the deadline for reaching each of such targets.

Target quota of women for the Supervisory Boardt

On March 6, 2017, the Supervisory Board set a target of 0% for the share of women on the Supervisory Board for the period up to the close of December 31, 2021. In doing so, the main consideration was that, whilst staffing the Supervisory Board should consider gender diversity, it was recognized to be in the Company's interests to be guided primarily by the knowledge, skills and experience of the candidates. Setting a higher target quota would impose a sweeping restriction on the selection of suitable candidates from the outset. When setting the quota, the Supervisory Board considered that the term of office of all the male Supervisory Board members then in office was ending at the closure of the 2017 Annual General Meeting and that new members would therefore have to be elected.

By the close of December 31, 2021, the Supervisory Board consists of four members, including one woman (share of women of 25%), meaning that the set target of 0% was achieved.

On March 16, 2022, the Supervisory Board set a new target of 25% for the share of women on the Supervisory Board for the period up to the close of December 31, 2025. At the time when this quota was set, the Supervisory Board comprised the same persons as on December 31, 2021. Gender diversity on the Supervisory Board is a key objective of the Supervisory Board of SFC Energy AG. For this reason, as proposed by the Supervisory Board, the General Meeting resolved to enlarge the Supervisory Board by appointing an additional, female member in 2021. The Supervisory Board underlines SFC Energy AG's efforts to increase diversity by raising the target value from previously 0% to 25%. In the opinion of the Supervisory Board, this specific quota ensures sufficient flexibility when filling vacant Supervisory Board positions.

Target quota of women for the Management Board

On March 6, 2017, the Supervisory Board set a target of 0% for the share of women on the Company's Management Board for the period up to the close of December 31, 2021. In doing so, the main consideration here, too, was that, whilst staffing the Management Board should consider gender diversity, it was recognized to be in the Company's interests to be guided primarily by the knowledge, skills and experience of the candidates. Setting a higher target quota would impose a sweeping restriction on the selection of suitable candidates from the outset. When setting this quota, the Supervisory Board took account of its decision of September 16, 2016 to increase the size of the Management Board by one member to three members.

As of the close of December 31, 2021, the composition of the Management Board has remained unchanged in terms of gender diversity (share of women 0%), meaning that the set target quota of 0% was achieved.

On March 16, 2022, the Supervisory Board has set a new target of 25% for the share of women on the Management Board for the period up to the close of December 31, 2025. At the time when this quota was set, the Management Board comprised the same persons as on December 31, 2021. The quota set relates to the end of the target achievement period; it is planned to increase the number of Management Board members to four, comprising at least one woman. Gender diversity on the Management Board is a key objective of the Supervisory Board of SFC Energy AG. Furthermore, while the Supervisory Board in the interests of the Company seeks to be guided primarily by the knowledge, skills and experience of the candidates when making appointments to the Management Board, the Supervisory Board at the same time seeks to strengthen gender diversity on the Management Board. The Supervisory Board intends to appoint a woman to the Management Board in the future and to reflect its continuous endeavors to strengthen diversity by increasing the quota from the previous value of 0% to 25%. In the opinion of the Supervisory Board, the specific quota set also ensures sufficient flexibility when filling Management Board positions.

Target quota of women for the two management levels below the Management Board

With regard to the targets for the share of women in the two management levels below the Management Board, the Management Board defines the relevant criteria as follows: The Management Board determines the Company's management levels based on their direct reporting lines to the Management Board and disciplinary authority. All executives are members of the management team and have authority to steer the conduct of other employees by giving instructions. Only persons employed by the Company are taken into consideration. On the basis of these criteria, the Company continues to have only one management level below the Management Board as of December 31, 2021; it comprises 13 persons, of whom five are female and eight male, meaning that the share of women in the first management level below the Management Board is currently 38%. As the Company does not have a second management level, the share of women in that level cannot be determined. The diversity of the executive personnel is an integral component of the Company's corporate culture, and for the Management Board an important, however non-binding aspect when appointing executive personnel. In order to grant the Company as much scope for flexibility as possible in the appointment of executives, the Management Board on March 6, 2017 set a target quota of 30% for the share of women in the management level below the Management Board for the period up to the close of December 31, 2021.

As of the close of December 31, 2021, the share of women in the first management level was 38%, meaning that the set target quota of 30% was achieved.

On March 16, 2022, the Management Board set a target value of 40% for the share of women in the first management level below the Management Board for the period up to the close of December 31, 2025. At the time when this quota was set, this management level comprised the same persons as on December 31, 2021. A second management level still does not exist. Diversity among the executive personnel is a cornerstone of SFC Energy AG's corporate culture. The Management Board endeavors to further strengthen the share of women in the two management levels below the Management Board. The Management Board has therefore increased this quota from the previous value of 30% to 40% for the first management level below the Management Board in order to reflect the Management Board's ambitions in the area of diversity. Diversity at the first management level can also support the Supervisory Board's endeavors to strengthen diversity on the Management Board by intensively promoting diversity among potential internal successors. At the same time, the Management Board maintains sufficient flexibility when filling executive positions, as the gender of the candidates is one aspect among several in staffing decisions.

REMUNERATION REPORT OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF SFC ENERGY AG

In accordance with section 162 of the German Stock Corporation Act (Aktiengesetz – AktG), this remuneration report presents and explains the remuneration paid to current and former members of the Management Board and members of the Supervisory Board of SFC Energy AG in the 2021 financial year.

The remuneration report was audited by the auditor of SFC Energy AG, Deloitte GmbH, in accordance with section 162(3) AktG. The auditor's opinion is reproduced at the end of this report.

Management Board Remuneration System Pursuant to Section 87a(1) AktG

In accordance with the requirements of section 87a(1) AktG, the Supervisory Board resolved a new remuneration system for the Management Board in the 2021 reporting year and submitted this to the Annual General Meeting on May 19, 2021 for approval. The Management Board remuneration system as presented was approved by the Annual General Meeting with an approval rating of 80%. The new remuneration system for the Management Board and Supervisory Board approved by the Annual General Meeting in 2021 can be found at: **https://www.sfc.com/investoren/corporate-governance/**.

Remuneration Accrued in the 2021 Reporting Year Under the Existing Remuneration System

In addition, the remuneration granted in the 2021 reporting year continued to be based on the existing contractual provisions (existing remuneration system), which, however, largely correspond to the new remuneration system.

Target Remuneration for the 2021 Financial Year

In accordance with the existing remuneration system for Management Board members, the Supervisory Board has set the level of target total remuneration for each Management Board member for the 2021 financial year. To promote the transparency of this report, the following tables show the individual target remuneration per Management Board member and the relative shares of the individual remuneration elements in the target total remuneration for the 2021 financial year.

TARGET TOTAL REMUNERATION FOR THE MANAGEMENT BOARD in EUR

Management Board Members in office as at Dec. 31, 2021		Peter Podesser		Daniel Saxena		Hans Pol	
		2021	in % TTR	2021	in % TTR	2020	in % TTR
Fixed remuneration	Base remuneration	370,000	16.0%	240,000	64.2%	241,434	20.5%
	+ Fringe benefits[1]	14,113	0.6%	24,000	6.4%	30,174	2.6%
	Contribution retirement benefit	10,000	0.4%	0	0.0%	0	0.0%
	Sub-total	**394,113**	**17.0%**	**264,000**	**70.6%**	**271,608**	**23.0%**
Variable remuneration	**+ Short-term variable remuneration**						
	Target bonus for the financial year[1]	220,000	9.5%	110,000	29.4%	138,333	11.7%
	+ Long-term variable remuneration						
	SARs[2]	1,704,992	73.5%	0	0.0%	600,033	50.9%
	Stock Options ("MSOP")[3]	0	0.0%	0	0.0%	169,555	14.4%
	Sub-total	**1,924,992**	**83.0%**	**110,000**	**29.4%**	**907,921**	**77.0%**
Total	**= Target Total Remuneration ("TTR")[4]**	**2,319,105**	**100.0%**	**374,000**	**100.0%**	**1,179,530**	**100.0%**

1 The value corresponds to the variable bonus for 100% target achievement.
2 The value corresponds to the amounts received in the financial year.
3 The value corresponds to the expense recognized in the financial year for option rights granted in the financial year to subscribe to ordinary shares in the Company ("Management Stock Option Program" or "MSOP").
4 The members of the Management Board were promised an additional performance-related special project bonus in the 2021 financial year, which would not be paid out until the 2022 financial year if the agreed targets were achieved. Therefore, this special project bonus will not be reported on until the following financial year if it is paid out. Based on the current forecast, it is not expected that the target will be achieved for this special project bonus.

Determination of Management Board Remuneration by the Supervisory Board

The Supervisory Board determines Management Board remuneration in accordance with AktG requirements. It pays particular attention to the appropriateness of Management Board remuneration. To ensure the appropriateness of the remuneration, remuneration levels are subjected to a market comparison with comparable entities (horizontal comparison). The peer group last used by the Supervisory Board in 2021 consisted of relevant companies with regard to size and/or sector or industry from the SDAX / TecDAX and entities from the hydrogen sector. In order to ascertain whether remuneration is in line with usual levels within the enterprise itself, when setting Management Board remuneration the Supervisory Board also takes into account the relationship between Management Board remuneration and the remuneration of managing directors and/or the top management level of the individual companies in the Group and the workforce as a whole, and how remuneration has developed over time.

Components of Management Board Remuneration in the 2021 Reporting Year

In the 2021 reporting year, remuneration for Management Board members consisted of the components described below:

Base Remuneration

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

The members of the Management Board also received certain market-standard fringe benefits. For example, the Company provides a company car to each member of the Management Board or pays a vehicle allowance if the Management Board member does not use a company car. In addition, fringe benefits include premiums for pension, accident and life insurance policies for members of the Management Board as well as subsidies for health insurance.

Retirement Benefits

In the 2021 reporting year, the members of the Management Board were able to convert current basic remuneration of up to EUR 25,000 into a company pension by paying contributions to external pension providers. To date, this option has not been used.

Dr. Podesser has a contribution-based payment commitment via a support fund. In the event of a pension claim, the support fund will pay the agreed pension benefits to Dr. Podesser. The Company allocates the necessary resources to the support fund. The amount of the pension benefits depends on the actuarial implementation of the pension amount resulting from the agreement reached individually with Dr. Podesser. The pension benefits are reinsured by a life insurance policy. Dr. Podesser will receive a lifelong monthly retirement pension from the support fund if he leaves the Company's service after reaching the age of 65. If Dr. Podesser draws the full amount of his retirement pension from the statutory pension insurance scheme, or if he leaves the Company's service after reaching the age of 60 in order to retire, he may claim the pension benefit from that time onwards. In this case, Dr. Podesser will receive the pension benefits that can be financed from the portion of the support fund assets set aside for him at that time. Upon occurrence of a pension claim, a one-time lump-sum payment may be requested instead of the retirement pension in agreement with the support fund. In the event of Dr. Podesser's death, a survivors' pension has been agreed.

Short-Term Variable Remuneration / Performance-Related Bonus for the 2021 Reporting Year

In the event that certain performance targets are achieved, Management Board members have the opportunity to receive a variable remuneration payment ("bonus") that rewards their contribution to implementing the business strategy during the relevant financial year. The bonus for the relevant financial year is not set by the Supervisory Board, and does not become due, until the following financial year. The bonus for the reporting year will therefore not be reported as remuneration granted (actually paid) /due (due but not paid) until the 2022 financial year.

The bonus for the reporting year is measured according to four performance criteria equally weighted at 25%.

The following financial parameters were set with regard to the reporting year: the amounts budgeted for (i) consolidated sales (based on the budgeted exchange rate for the Canadian dollar to the euro), (ii) gross margin, and (iii) adjusted EBITDA. In the context of the Discretionary Component (weighted at 25% in total), financial or non-financial performance criteria or a combination of both can be set. The Supervisory Board applied the following defined non-financial performance criteria (incl. ESG targets) for the 2021 financial year and assessed them from a qualitative, overall perspective: Implementation of strategic objectives (continued development of target customer markets, broadening of industrial partner base, regional expansion), employee retention (creation and maintenance of attractive jobs), adherence to high quality standards, maintenance of a stable shareholder base with a long-term investment horizon, and operational stability and health protection for employees and business partners in the pandemic. All Management Board members are subject to the same performance criteria and performance weighting for 2021 financial year. The performance criteria which form the basis of the bonus for the reporting year are summarized in the following table to promote the transparency of the report. The STI amount actually achieved will not accrue until the following year and will therefore not be reported until the next remuneration report.

PERFORMANCE CRITERIA FOR THE SHORT-TERM VARIABLE REMUNERATION OF THE MANAGEMENT BOARD MEMBERS in EURk
FOR THE 2021 FINANCIAL YEAR

		Target Achievement			Bonus in EURk		Actually Achieved	
Management Board Member		Weight	Min.	Max.	Min.	Max.	Total Target	Bonus in EURk
Peter Podesser	Revenue (budgeted)	25%	0%	125%	–	69		
	Gross profit margin (budgeted)	25%	0%	125%	–	69		
	EBITDA adjusted (budgeted)	25%	0%	150%	–	69		
	Implementation of strategic objectives Employee retention / High quality standards / Stable shareholder base with a long-term investment horizon / Corporate stability / health protection in the pandemic	25%	0%	125%	–	69	**107%**	**236**
Daniel Saxena	Revenue (budgeted)	25%	0%	125%	–	34		
	Gross profit margin (budgeted)	25%	0%	125%	–	34		
	EBITDA adjusted (budgeted)	25%	0%	150%	–	34		
	Implementation of strategic objectives Employee retention / High quality standards / Stable shareholder base with a long-term investment horizon / Corporate stability / health protection in the pandemic	25%	0%	125%	–	34	**107%**	**118**
Hans Pol	Revenue (budgeted)	25%	0%	125%	–	43		
	Gross profit margin (budgeted)	25%	0%	125%	–	43		
	EBITDA adjusted (budgeted)	25%	0%	150%	–	43		
	Implementation of strategic objectives Employee retention / High quality standards / Stable shareholder base with a long-term investment horizon / Corporate stability / health protection in the pandemic	25%	0%	125%	–	43	**107%**	**149**

Short-Term Variable Remuneration Granted / Performance-Related Bonus Granted in the 2021 Reporting Year

The performance criteria shown in the following table are based on the short-term variable remuneration granted in the 2021 financial year; they were set for the 2020 financial year. The financial performance criteria are the same as those that apply to the 2021 financial year (each with a 25% weighting). The non-financial performance criteria, which are included in their entirety with a weighting of 25% in the assessment of the short-term variable compensation, consisted of: Implementation of additional strategic and long-term objectives (continued development of target customer markets, broadening of industrial partner base, regional expansion), employee retention (creation and maintenance of attractive jobs), high quality standards, and a stable shareholder base with a long-term investment horizon. Because Mr. Daniel Saxena only joined the company in the second half of 2020, a guaranteed bonus, independent of financial and non-financial performance criteria, was agreed with him for the 2020 financial year. For the amount paid out, the proportional share of the guaranteed fixed bonus to the discretionary bonus was 75% to 25%.

PERFORMANCE CRITERIA FOR THE SHORT-TERM VARIABLE REMUNERATION OF THE MANAGEMENT BOARD MEMBERS [1] in EURk
FOR THE 2022 FINANCIAL YEAR

		Target Achievement			Bonus in EURk		Actually Achieved		
Management Board Member		Weight	Min.	Max.	Min.	Max.	Target	Total Target	Bonus in EURk
Peter Podesser	Revenue (budgeted)	25%	0%	125%	–	69	19%	63%	**138**
	Gross profit margin (budgeted)	25%	0%	125%	–	69	0%		
	EBITDA adjusted (budgeted)	25%	0%	150%	–	69	19%		
	Implementation of strategic objectives / Employee retention / High quality standards / Stable shareholder base with a long-term investment horizon	25%	0%	125%	–	69	25%		
Daniel Saxena	Guaranteed	75%	100%	100%		41	104%	75%	
	Discretionary	25%	0%	100%	–	14	100%	25%	**55**
Hans Pol	Revenue (budgeted)	25%	0%	125%		25	19%	63%	**50**
	Gross profit margin (budgeted)	25%	0%	125%	–	25	0%		
	EBITDA adjusted (budgeted)	25%	0%	150%	–	25	19%		
	Implementation of strategic objectives / Employee retention / High quality standards / Stable shareholder base with a long-term investment horizon	25%	0%	125%	–	25	25%		

1 No performance criteria were established and no bonus was paid for the 2020 financial year for former Executive Board member Marcus Binder, who left the Executive Board as of March 2020.

Long-Term Variable Remuneration

As a contribution to the sustainable development of the Company, a significant portion of the Management Board's remuneration is linked to the long-term performance of SFC shares. Various virtual or physical stock option programs were introduced in the past as long-term variable share-based remuneration, on the basis of which virtual stock options ("Stock Appreciation Rights" or "SARs") or Stock Option Programs ("SOPs") were granted to current or former members of the Management Board and which in part also affect remuneration in the 2021 reporting year. By granting SARs or SOPs as a long-term variable remuneration element, the Company is pursuing the goal of incentivizing and promoting a business policy that is primarily aligned with the interests of shareholders, namely increasing the value of the shareholders' investment in the long term.

Virtual Stock Option Program

At the beginning of the financial year 2014, the Supervisory Board of the Company for the first time implemented a SARs program (SAR Program 2014–2016; Program 1) with the aim of aligning the interests of the shareholders with those of the members of the Management Board. Subsequently, other SARs programs were set up: SAR Program 2015-2018 (Hans Pol Program 2), SAR Program 2017-2019 (Dr. Peter Podesser Program 3), SAR Program 2018-2021 (Hans Pol Program 4), and SAR Program 2020-2024 (Daniel Saxena Program 5). The former Executive Board member Marcus Binder was also granted virtual stock options under the SARs program 2017-2019. No SARs were exercised by Mr. Binder in the reporting period. The SARs program was settled in full by payment of a settlement amount by the Company to Mr. Binder on February 4, 2021. Only the SARs programs relevant to the reporting period are described below:

Dr. Peter Podesser was granted virtual stock options (SARs) in 2017 (Dr. Peter Podesser Program 3) and 2020 (Dr. Peter Podesser Program 5), in each case as part of the extension for the next appointment period. The SARs grant under Program 5 was transferred to a (physical) stock option program (Stock Option Program 2020-2024) on July 9, 2020 and thus replaced.

Mr. Hans Pol was granted virtual stock options (SARs) in 2015 (Hans Pol Program 2) and 2018 as part of the extension of his service agreement (Hans Pol Program 4).

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

The basic principles of the aforementioned SARs programs are the same, with differences between the individual programs: A certain number of SARs were granted on a one-time basis for the relevant appointment period of the Management Board member, the quantity of which can be reduced based on the expiration of SARs on certain expiration dates. The portfolio of granted and non-expired SARs (as at a record date one year after the last expiration date) is composed of equal-sized Sub-Tranches for the years of Management Board service for which the grant was made. Starting from the Grant Date of the relevant SARs tranche, a waiting period begins that varies in length for the individual sub-tranches, with a waiting period of four years starting from the Grant Date always applying to the first sub-tranche and an extended waiting period in each case for each of the additional sub-tranches. After expiration of the defined waiting period for the relevant sub-tranche, the SARs of the sub-tranche may be exercised in an exercise period of one year after expiration of the relevant waiting period of the sub-tranche (subject to certain blackout periods), provided they have not previously expired on the relevant, defined expiration dates. The expiration of SARs on the specified expiration dates is based on the average stock exchange price of the Company's shares during the last 30 trading days prior to the relevant expiration date (expiration date price). A certain fixed number of SARs expire depending on the average stock price achieved; no SARs expire if the fixed average stock price target is reached or exceeded before the relevant expiration date. After expiration of the waiting period and subject to forfeiture on the expiration dates, a certain number of SARs may be exercised within the exercise period. The number of exercisable SARs depends on the average stock exchange price of the Company's shares on the last 30 trading days prior to the issue date (known as the Reference Price). For this purpose, certain reference price ranges are defined in the individual SARs programs, which specify a certain maximum number of exercisable SARs. Exercising SARs gives rise to an entitlement to cash compensation, calculated as follows: (Reference Price – Exercise Price) x number of exercisable SARs.

The Hans Pol Programs 2 and 4 additionally stipulate as a prerequisite for the exercisability of SARs that another specific performance target must be achieved prior to the expiration of the relevant waiting period: the average stock market price of the Company's share during the last 30 trading days prior to the expiration of the waiting period must exceed the average stock market price of the Company's share during the last 30 trading days prior to the Grant Date.

The Exercise Price is EUR 1.00 per SAR. The number of SARs granted (and not yet expired or already exercised in previous years) and the number of SARs expired and exercised in the reporting year are shown in the following table (based on section 162(1)(3) AktG):

SARS GRANTED

as of 31.12.2021 for acting and retired Board Members	Peter Podesser	Daniel Saxena	Hans Pol		M. Binder[3]
	Program 3	Program 5	Program 2	Program 4	
Grant Date:	04/01/2017	07/01/2020	07/01/2015	07/01/2018	03/01/2017
Number of Stock Appreciation Rights (SARs)	360,000	228,000	180,000	180,000	180,000
Maximum term (years):	5	8	7	7	7
Number of sub-tranches[1]	3	4	3	3	3
Performance period:	04/01/2017 03/31/2020	07/01/2020 06/30/2024	07/01/2015 06/30/2018	07/01/2018 06/30/2021	07/01/2017 06/30/2020
Expiry of waiting period[2]					
Tranche 1	04/01/2021	07/01/2024	07/01/2019	07/01/2022	03/01/2021
Tranche 2	09/01/2021	07/01/2025	07/01/2020	07/01/2022	03/01/20212
Tranche 3	02/01/2022	07/01/2026	07/01/2021	07/01/2022	03/01/20213
Tranche 4	–	07/01/2027	–	–	–
Success Target	–	–	EUR 5.10	EUR 8.65	EUR 3.07
Exercise Price:	EUR 1.00	EUR 1.00	EUR 1.00	EUR 1.00	EUR 1.00
SARs outstanding as at January 1, 2021	220,000	228,000	20,000	125,000	55,000
SARs expired in the reporting period	–	–	–	–	–
SARs exercised in the reporting period	73,333	–	20,000	–	55,000
SARs outstanding as at December 31, 2021	146,667	228,000	–	125,000	–

1 Number of annual tranches into which the allocated SARs are divided equally.
2 Exercise period is one year for each sub-tranche.
3 The SARs program for the former Executive Board member Marcus Binder was fully settled by payment of a settlement sum by the Company to Mr. Binder under a settlement agreement dated February 4, 2021.

The remuneration granted or owed in the 2021 reporting year (table "GRANTED MANAGEMENT BOARD REMUNERATION 2021 FINANCIAL YEAR") only includes the amounts from SARs that led to a payout in 2021 due to them being exercised.

The performance criteria that led to a payout from SAR tranches in the 2021 reporting year are shown in the table below:

SARS PROGRAM

			Expiration Date					Exercise				
					SARs					SARs		
	Tranche	No. of SARs	Date	Price[1]	Expiration	Remainder	end of waiting period	Date	Price[2,3]	Exercisable	SARs	Cash Comp.
Peter Podesser Progr. 2017-2019	Total Program	360,000			140,000	220,000						
	Tranche 1 (PP3.1)	120,000	04/01/18	7.92	60,000	60,000	04/01/21	Jun 21	24.25	60,000	60,000	1,395,000
	Tranche 2 (PP3.2)	120,000	04/01/19	10.25	40,000	80,000	09/01/21	Jun 21	24.25	13,333	13,333	309,992
	Tranche 3 (PP3.3)	120,000	04/01/20	10.12	40,000	80,000	02/01/22			0	0	
Hans Pol Progr. 2015-2018	Total Program	180,000			160,000	20,000						
	Tranche 1 (HP 3.1)	60,000	07/01/16	3.86	60,000	0	07/01/19					
	Tranche 2 (HP 3.2)	60,000	07/01/17	3.84	60,000	0	07/01/20					
	Tranche 3 (HP 3.3)	60,000	07/01/18	8.64	40,000	20,000	07/01/21	Dec 21	31.00	31,00	20,000	600,033

1 Average market price of the Company's shares (arithmetic mean of the closing prices in XETRA trading) on the last 30 trading days prior to the relevant expiration date of the SARs.
2 Average stock exchange price of the Company's shares (arithmetic mean of the closing prices in XETRA trading) on the last 30 trading days prior to the exercise date of the SARs.
3 For Hans Pol, the following criteria is also required for the SARs to be exercisable: The average market price of the Company's shares on the last 30 trading days before the end of the waiting period exceeds the average market price of the Company's shares on the last 30 trading days before the allocation date.

Stock Option Programs

The members of the Management Board may receive a number of option rights determined by the Supervisory Board at the beginning of the term of their Management Board service agreement. Option rights may not be exercised by the relevant member of the Management Board during periods determined by the General Meeting or during closed periods within the meaning of the regulations on trading prohibitions (Closed Periods) pursuant to the Market Abuse Regulation and the delegated acts issued in this regard.

The option rights each have a maximum term of eight years from the day the relevant option right arises. The waiting period for exercise is staggered according to tranches issued, meaning that members of the Management Board can each exercise one quarter of the option rights of the relevant tranche (Sub-Tranche). The waiting period for exercising the Sub-Tranches is four, five or six years, starting with the issue date of the tranche in each case.

The subscription rights can be exercised within one year from expiry of the waiting period for the relevant Sub-Tranche (Drawing Period). In accordance with the option terms and conditions to be determined, each option right confers the entitlement to subscribe for one no-par value bearer share (no-par value share) of the Company. The exercise price corresponds to the average stock exchange price of the Company's shares on the last 30 trading days prior to the issue date.

Members of the Management Board may only exercise the subscription rights granted to them to the full extent of the relevant Sub-Tranche during the Drawing Period if the average stock exchange price of the Company's shares reaches a certain stock price target in euros on the last 30 trading days prior to the cut-off date relevant for each Sub-Tranche (Base Price). If the Base Price does not reach at least the stock price target, only a portion of the options may be exercised from the Sub-Tranche in accordance with the Base Price, for which the General Meeting has determined a certain number of exercisable subscription rights depending on ranges of the Base Price. Apart from that, subscription rights shall expire without compensation or substitution as at the relevant effective date.

The exercise of Stock Options is further conditional, in respect of each Sub-Tranche, on the average stock exchange price of the Company's shares for the last 30 trading days prior to the date on which the member of the Management Board makes a subscription declaration in respect of Stock Options granted reaching or exceeding specified thresholds. If the Reference Price does not reach at least the stock price target, only a portion of the options may be exercised from the sub-tranche in accordance with the Reference Price, for which the General Meeting has determined a certain number of exercisable subscription rights depending on Reference Price ranges. For each further exercise of option rights of the Sub-Tranche within the Drawing Period, the option rights already exercised during the Drawing Period will be deducted from the number of option rights that would be exercisable on the further Exercise Date according to the current Exercise Requirement.

The Stock Option Program ensures that, for the relevant Drawing Period, option rights may only be exercised for the relevant drawing period if the sum of the number of option rights exercised multiplied by the closing price n XETRA trading on the exercise date of these option rights less the exercise price and the number of option rights to be exercised multiplied by the closing price on the XETRA trading day preceding the intended date of exercise of the option rights less the exercise price does not exceed the amount of €1 million (Cap); thus, this deviates from, or is less than, the €1.75 million Cap under the Management Board remuneration system.

The Stock Options granted to Dr. Podesser and Mr. Pol are laid out in the following table (unless previously forfeited or exercised). The Stock Options granted in the 2021 reporting year, which grant a direct right to acquire shares, are recorded as remuneration granted in the 2021 reporting year in the table "Remuneration granted and owed to Supervisory Board members".

STOCK OPTIONS

	Peter Podesser		Hans Pol	
	Program 2020		Program 2021	
Grant date		07/09/2020		03/01/2021
Number of SOPs		504,000		500,000
Maximum term:		8 years		8 years
Amount of sub-tranches		4		4
Performance period	07/09/2020	07/08/2024	03/01/2021	28.02.2025
Expiry / end of waiting period for the Sub-Tranches[1]	07/09/2021 07/09/2022 07/09/2023 07/09/2024	07/09/2024 07/09/2025 07/09/2026 07/09/2027	03/01/2022 03/01/2023 03/01/2024 03/01/2025	03/01/2025 03/01/2026 03/01/2027 03/01/2028
Exercise Price:		EUR 1.00		EUR 24.41
SOPs outstanding as at January 1, 2021		504,000		–
SOPs expired in the reporting period		–		–
SOPs exercised in the reporting period		–		–
SOPs outstanding as at December 31, 2021		504,000		500,000

1 Four Sub-Tranches; The subscription rights can be exercised within one year from expiry of the waiting period for the relevant Sub-Tranche.

The performance criteria underlying the Stock Options granted in the reporting year - which only applies to Mr. Pol - are shown in the table below:

STOCK OPTION PROGRAM

	Min. Stock Price Target[1]	Max. Stock Price Target[2]
Hans Pol	27.13	51.54

1 No Stock Options within the Sub-Tranche can be exercised below the minimum Base Price
2 The full amount of Stock Options within the Sub-Tranche can be exercised above the minimum Base Price

Settlement agreement with Mr. Marcus Binder

Mr. Marcus Binder left the Management Board at the end of February 28, 2020. On the basis of a settlement agreement dated February 4, 2021, he was granted the following benefits in connection with his former Management Board activities in the reporting year: EUR 55,317 as a bonus payment for the 2019 financial year and EUR 699,082 as settlement of long-term variable compensation (SARs program 2017-2019).

Promoting the Company's Long-Term Development

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

The short-term variable remuneration (Bonus) of Management Board members - both for the 2020 financial year and the 2021 financial year - is aligned with the economic performance targets of turnover, gross margin and adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) and provides for a discretionary element that was also aligned with sustainability targets for the 2021 financial year. The Bonus is designed to motivate Management Board members to achieve demanding and challenging financial, operational and strategic goals during a given financial year. The targets reflect the corporate strategy and are aimed at increasing the value of the Company. The remuneration system gives the Supervisory Board the opportunity to take into account individual responsibility on the one hand and the performance of the Management Board members as a whole on the other.

In order to align the remuneration of Management Board members with the long-term development of SFC Energy AG, long-term variable stock-based remuneration accounts for a significant proportion of total remuneration. The long-term variable remuneration is granted on the basis of stock options with a four-year performance period. The economic performance target relates to the performance of the SFC Energy AG share price during the performance and exercise period. The Company value and the value for shareholders is increased in the long term by setting ambitious targets that are linked to share price performance.

Compliance with the Maximum Remuneration Cap Under Section 162(1)(7) AktG

The Supervisory Board has also set a maximum remuneration cap, including fringe benefits, for the Management Board members in accordance with section 87a(1)(1) AktG,. The maximum remuneration cap for a given financial year was determined as follows:

- Maximum remuneration pursuant to section 87a(1)(1) AktG for the Chairperson of the Management Board: EUR 2.5m
- Maximum remuneration pursuant to section 87a(1)(1) AktG for ordinary members of the Management Board: EUR 1.5m

The maximum remuneration refers to the sum of all payments resulting from the remuneration provisions for a financial year. Given that the remuneration from Mr. Pol's stock option rights for the 2021 financial year cannot be determined until they have been exercised, it is not yet possible to provide a conclusive report on compliance with the maximum remuneration cap.

Compliance with the maximum remuneration cap for Mr. Pol is expected to be ensured in the reporting year by the specific caps that generally apply to Mr. Pol's variable remuneration components (maximum target achievement of 125% for performance-related bonus and basic exercise cap per Sub-Tranche of the Stock Option Program of EUR 1 million).

In all other cases the agreements were entered into under the legacy system, which did not have a maximum remuneration cap within the meaning of section 87a(1)(1) AktG.

Commitments in the Event of Premature Termination of a Management Board Member's Service

In the event of premature termination of a Management Board member's service without good cause, any payments to be agreed upon for Management Board members, including fringe benefits, shall not exceed the value of one year's remuneration (**Severance Payment Cap**) and shall not exceed the value of the remuneration for the remaining term of the Management Board service agreement. The Severance Payment Cap is to be calculated on the basis of the total remuneration for the previous financial year and, where appropriate, also on the basis of the expected total remuneration for the current financial year.

If the service agreement ends as a result of termination by the Company for good cause, the Management Board members are not entitled to continued payment of the variable remuneration ("performance-related bonus").

In the event Management Board members should die during the term of their service agreement, their widow(er) and children, provided they have not attained the age of 25 years and are still in vocational training, shall have a claim, as joint and several creditors, to the continued payment of the monthly base remuneration for the month of death and the six subsequent months.

If Management Board members become permanently incapacitated for work during the term of their service agreement, the relevant service agreement shall terminate at the end of the quarter in which the permanent incapacity has been established, with the earliest point for said termination being the expiry of the continued remuneration period (duration of the current month and the six subsequent months, and until termination of the service agreement, at the latest), and the latest point being the expiry of the relevant member's term of office on the Management Board.

Daniel Saxena

The SARs under Daniel Saxena Program 5 shall expire without consideration in the event of termination by the Company for good cause (exceptions: vote of no confidence at the General Meeting or a loss of the Supervisory Board's confidence) and in the event of a termination by Mr. Saxena for good cause before July 1, 2024 for reasons for which the Company is not responsible. In the event of a departure from the Company for any other reason, the SARs expire on a pro rata basis calculated over the entire contractual term of 48 months (e.g.: departure after 24 months results in the expiry of 50% of the SARs held at the time of departure).

In the event of a change of control (understood to mean a third-party acquisition of the majority of voting rights in the Company) up to September 30, 2023, Mr. Saxena may, at the request of the Supervisory Board of the Company and/or the acquirer of the controlling majority, only exercise his right of termination for good cause subject to a notice period of twelve months from the date on which the change of control becomes takes legal effect. In the event of the premature termination of his service on the Management Board due to a change of control up to September 30, 2023, Mr. Saxena generally has a maximum entitlement to payment of the amount of two years' remuneration, with said amount not being permitted to exceed the amount of remuneration for the remaining term of the Management Board service agreement. However, in the event of a change of control after September 30, 2023, the change of control will not trigger a right on the part of Mr. Saxena to terminate his agreement for good cause; no severance payment will be made in such a case.

In the event of an acquisition of control over the Company within the meaning of section 29(2) of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz - WpÜG) and the exercise of the right to termination by Mr. Saxena for good cause, the SARs under Daniel Saxena Program 5 that have not yet expired at the time of the submission of the takeover offer shall be paid out in the form of cash compensation at the time at which the termination of the service agreement becomes legally valid as follows: (number of SARs to be paid out x (Reference Price – Exercise Price)), provided that in this case the Reference Price shall be equal to the offer price within the meaning of section 31(1) WpÜG or within the meaning of the value calculated pursuant to section 7 WpÜG Offer Ordinance of the bidder's shares possibly offered as alternative consideration that are not admitted to trading on an organized market within the meaning of section 2(7) WpÜG but only outside the EEA, or to a combination of both values. No maximum cap or amount applies with regard to the cash compensation.

Hans Pol

The option rights under the Stock Option Program 2021-2025 shall expire without consideration in the event of termination by the Company for good cause (exceptions: vote of no confidence at the General Meeting or a loss of the Supervisory Board's confidence) and in the event of a termination by Hans Pol for good cause before Expiry Date for reasons for which the Company is not responsible. In the event of a departure from the Company for any other reason, the option rights expire on a pro rata basis calculated over the entire contractual term of 48 months (e.g.: departure after 24 months results in the expiry of 50% of the option rights held at the time of departure).

The SARs under Hans Pol Program 4 shall expire without consideration in the event of termination by the Company for good cause (exception: vote of no confidence at the General Meeting) and in the event of a termination by Hans Pol for good cause before June 30, 2021 for reasons for which the Company is not responsible. In the event of a departure from the Company for any other reason, the SARs expire on a pro rata basis calculated over the entire contractual term of 36 months (e.g. departure after 18 months results in the expiry of 50% of the SARs held at the time of departure).

The SARs under Hans Pol Program 2 shall expire without consideration in the event of (i) a conduct-related dismissal by the Company or (ii) termination by the Company for good cause (exception: vote of no confidence at the General Meeting or a loss of the Supervisory Board's confidence) and (iii) termination with notice by Hans Pol before June 30, 2018 for reasons for which the Company is not responsible. In the event of a departure from the Company for any other reason, the SARs expire on a pro rata basis calculated over the entire contractual term of 36 months (e.g. departure after 18 months results in the expiry of 50% of the SARs held at the time of departure).

In the event of an acquisition of control of the Company within the meaning of section 29(2) WpÜG, Mr. Pol is entitled to terminate his service agreement within three months of the change of control taking legal effect subject to a twelve-month notice period.

In the event of an acquisition of control over the Company within the meaning of section 29(2) WpÜG and the exercise of the right to termination by Mr. Pol for good cause, the option rights under the Stock Option Program 2021-2025 that have not yet expired at the time of the submission of the takeover offer shall be paid out in the form of cash compensation at the time at which the termination of the service agreement becomes legally valid, provided that in this case the Reference Price shall be equal to the offer price within the meaning of section 31(1) WpÜG or within the meaning of the value calculated pursuant to section 7 WpÜG Offer Ordinance of the bidder's shares possibly offered as alternative consideration that are not admitted to trading on an organized market within the meaning of section 2(7) WpÜG but only outside the EEA, or to a combination of both values. No maximum cap or amount applies with regard to the cash compensation.

In the event of an acquisition of control over the Company, the SARs under Hans Pol Program 2 that have not yet expired at the time of the submission of the takeover offer shall be paid out immediately as follows: (number of SARs to be paid out x (Reference Price – Exercise Price)), provided that in this case the Reference Price shall be equal to the offer price within the meaning of section 31(1) WpÜG.

In the event of an acquisition of control over the Company within the meaning of section 29(2) WpÜG and of Mr. Pol exercising the special right of termination given to him for such an event, the SARs under Hans Pol Program 4 that have not yet expired at the time of the submission of the takeover offer shall be paid out at the time at which the termination of the service agreement becomes legally valid as follows: (number of SARs to be paid out x (Reference Price – Exercise Price)). In such a case, the Reference Price corresponds to the higher value of either (i) the offer price within the meaning of section 31(1) WpÜG or (ii) the value calculated pursuant to section 7 WpÜG Offer Ordinance of the bidder's shares possibly offered as alternative consideration that are not admitted to trading on an organized market within the meaning of section 2(7) WpÜG but only outside the EEA. In the event of acquisition of control after termination of the service relationship, the same payment rules and principles shall apply, with the exception that payment is made immediately upon acquisition of control.

Dr. Peter Podesser

The option rights under the Stock Option Program 2020-2024 shall expire without consideration in the event of termination by the Company for good cause (exceptions: vote of no confidence at the General Meeting or a loss of the Supervisory Board's confidence) and in the event of a termination by Dr. Podesser for good cause before Expiry Date for reasons for which the Company is not responsible. In the event of a departure from the Company for any other reason, the option rights expire on a pro rata basis calculated over the entire contractual term of 48 months (e.g.: departure after 24 months results in the expiry of 50% of the option rights held at the time of departure).

The SARs under Dr. Peter Podesser Program 3 shall expire without consideration in the event of termination by the Company for good cause (exception: vote of no confidence at the General Meeting or a loss of the Supervisory Board's confidence) and in the event of a termination by Dr. Podesser for good cause before April 1, 2020 for reasons for which the Company is not responsible. In the event of a departure from the Company for any other reason, the SARs expire on a pro rata basis calculated over the entire contractual term of 36 months (e.g. departure after 18 months results in the expiry of 50% of the SARs held at the time of departure).

In the event of a change of control (understood to mean a third-party acquisition of the majority of voting rights in the Company) up to September 30, 2023, Dr. Podesser may, at the request of the Supervisory Board of the Company and/or the acquirer of the controlling majority, only exercise his right of termination for good cause subject to a notice period of six months from the date on which the change of control becomes takes legal effect. In the event of the premature termination of his service on the Management Board due to a change of control up to September 30, 2023, Dr. Podesser generally has a maximum entitlement to payment of the amount of remuneration for the remaining term of the Management Board service agreement as at the time of departure. However, in the event of a change of control after September 30, 2023, the change of control will not trigger a right on the part of Dr. Podesser to terminate his agreement for good cause; no severance payment will be made in such a case.

In the event of an acquisition of control over the Company within the meaning of section 29(2) WpÜG and the exercise of the right to termination for cause by Dr. Podesser, the option rights under the Stock Option Program 2020-2024 not yet expired at the time of submission of the takeover offer shall be paid out in the form of a cash compensation at the time at which the termination of the service agreement becomes legally valid as follows: (number of option rights to be paid out x (Reference Price – Exercise Price)), provided that in this case the Reference Price shall be equal to the offer price within the meaning of section 31(1) WpÜG. No maximum cap or amount applies with regard to the cash compensation.

In the event of an acquisition of control over the Company and the exercise of the right to termination for cause by Dr. Podesser, the SAR under Dr. Podesser Program 3 not yet expired at the time of submission of the takeover offer shall be paid out at the time at which the termination of the service agreement becomes legally valid as follows: (number of SAR to be paid out x (Reference Price – Exercise Price)), provided that in this case the Reference Price shall be equal to the offer price within the meaning of section 31(1) WpÜG.

For the contribution-based payment commitment for the benefit of Dr. Podesser, the pension entitlement is maintained in the amount of the benefit that can be financed from the portion of the assets of the support fund set aside for him if Dr. Podesser leaves the service of the Company before a pension claim occurs. If Dr. Podesser becomes unable to work before a pension claim occurs and the inability to work lasts until his death or a pension claim occurs, the pension entitlements are retained in full. In the event that he is no longer unable to work, this date shall be deemed the departure date.

Commitments in the Event of Regular Termination of a Management Board Member's Service

As described above, Dr. Podesser has a defined contribution plan via a provident fund. The provident fund provides the agreed benefits to Dr. Podesser in the event of a pension claim. The Company allocates the necessary funds of EUR 10,000 p.a. to the provident fund (see also below in the table Executive Board compensation granted and owed in the financial year 2021).

No further benefit commitments have been made in the event of the regular termination of the service of a Management Board member (within the meaning of section 162(2) nos. 2 and 3 AktG).

Commitments and grants to Management Board members who left in the reporting year

No Management Board members terminated their service in the reporting year.

Payments from Third Parties

At no time during the reporting period were any payments from third parties promised or granted to Management Board members in connection with their work as members of the Management Board.

Malus and Clawback Provisions for Short-Term Variable Remuneration (Bonus)

The Supervisory Board has the option, both under the existing remuneration system and on the basis of the new remuneration system resolved in 2021, to withhold or reclaim the short-term variable remuneration (Bonus) at its reasonable discretion if a member of the Management Board seriously and intentionally violates the duties of care under section 93 AktG, an obligation under this Management Board service agreement or another material rule or principle of conduct at the Company, e.g. under its compliance rules.

In exercising its reasonable discretion, the Supervisory Board shall, after careful investigation of the facts, take into account the seriousness of the violation, the degree of culpability of the member of the Management Board and the material and immaterial damage, if any, suffered by the Company. Before making its decision, the Supervisory Board of the Company shall give the member of the Management Board the opportunity to comment within a reasonable period of time. The timing of the repayment shall be determined by the Supervisory Board of the Company after consultation with the member of the Management Board, with an appropriate term and, if necessary, partial payments, taking into account existing cases of hardship. Reclaiming remuneration already paid shall not be permitted if the infringement in question occurred more than five years ago. In cases of continuous infringements, the end of the continuous infringements shall be decisive. Claims for damages against the Management Board member remain unaffected.

No variable remuneration components were reclaimed from Management Board members in the 2021 reporting year due to a lack to establish the aforementioned prerequisites for a clawback.

Deviations from the Remuneration System

The new remuneration system did not yet apply to the Management Board members Dr. Podesser and Saxena in the 2021 reporting year, meaning that no deviations requiring reporting existed. The remuneration granted to Mr. Pol in the reporting year for the 2021 financial year was made in accordance with the remuneration system.

Individualized Management Board Remuneration in the 2021 Reporting Year

The remuneration granted/ owed in the 2021 reporting year includes the annual fixed remuneration granted in the reporting year, the value of fringe benefits granted in the reporting year, the short-term variable remuneration granted in the reporting year (Bonus for 2020), and the long-term variable remuneration in the form of payout amounts from the SARs programs granted in 2021, as well as the fair market value of options granted in the reporting year under the Stock Option Program. This total includes all remuneration payments granted (i.e. paid out) and owed in 2021. The remuneration granted and remuneration owed is shown in the following table:

MANAGEMENT BOARD REMUNERATION GRANTED AND OWED IN 2021 AND 2020 FINANCIAL YEAR in EUR

Management Board Member in office as at Dec. 31, 2021		Peter Podesser Chairman of Management Board since 11/01/2006			
		2020	in % TR	2021	in % TR
Fixed remuneration	Base Remuneration	365,000	33.8%	370,000	16.5%
	+ Fringe benefits	11,073	1.0%	14,113	0.6%
	+ Contribution provident fund [1]	10,000	0.9%	10,000	0.4%
	Total [5]	**386,073**	**35.7%**	**394,113**	**17.6%**
Variable remuneration	**+ Short-term variable remuneration**				
	Bonus [2]	137,896	12.8%	138,042	6.2%
	+ Long-term variable remuneration				
	SARs („SARS“) [3]	0	0.0%	1,704,992	76.2%
	Stock Option (“MSOP”) [4]	556,241	51.5%	0	0.0%
	Total [5]	**694,137**	**64.3%**	**1,843,034**	**82.4%**
Total	**= Total Remuneration (“TR”)**	**1,080,210**	**100.0%**	**2,237,147**	**100.0%**

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MANAGEMENT BOARD REMUNERATION GRANTED AND OWED IN 2021 AND 2020 FINANCIAL YEAR

in EUR

Management Board Member in office as at Dec. 31, 2021 — **Daniel Saxena** Board Member since 07/01/2020

		2020	in % TR	2021	in % TR
Fixed remuneration	Base Remuneration	120,000	90.9%	240,000	75.2%
	+ Fringe benefits	12,000	9.1%	24,000	7.5%
	+ Contribution provident fund [1]	0	0.0%	0	0.0%
	Total [5]	**132,000**	**100.0%**	**264,000**	**82.8%**
Variable remuneration	**+ Short-term variable remuneration**				
	Bonus [2]	–	0.0%	55,000	17.2%
	+ Long-term variable remuneration				
	SARs („SARS") [3]	–	0.0%	–	0.0%
	Stock Option ("MSOP") [4]	–	0.0%	–	0.0%
	Total [6]	**–**	**0.0%**	**55,000**	**17.2%**
Total	**= Total Remuneration ("TR")**	**132,000**	**100.0%**	**319,000**	**100.0%**

Management Board Member in office as at Dec. 31, 2021 — **Hans Pol** Board Member since 01/01/2014

		2020	in % TR	2021	in % TR
Fixed remuneration	Base Remuneration	199,767	72.2%	241,663	22.1%
	+ Fringe benefits [1]	18,996	6.9%	30,174	2.8%
	+ Contribution provident fund	0	0.0%	0	0.0%
	Total [5]	**218,763**	**79.0%**	**271,837**	**24.9%**
Variable remuneration	**+ Short-term variable remuneration**				
	Bonus [2]	58,062	21.0%	50,197	4.6%
	+ Long-term variable remuneration				
	SARs („SARS") [3]	–	0.0%	600,033	55.0%
	Stock Option ("MSOP") [4]	–	0.0%	169,555	15.5%
	Total [6]	**58,062**	**21.0%**	**819,785**	**75.1%**
Total	**= Total Remuneration ("TR")**	**276,825**	**100.0%**	**1,091,622**	**100.0%**

former Management Board Member — **Marcus Binder** Board Member until 02/28/2020

		2020	in % TR	2021	in % TR
Fixed remuneration	Base Remuneration	29,483	89.0%	0	0.0%
	+ Fringe benefits	1,977	6.0%	0	0.0%
	+ Contribution provident fund	0	0.0%	0	0.0%
	Total [9]	**31,459**	**95.0%**	**0**	**0.0%**
Variable remuneration	**+ Short-term variable remuneration**				
	Bonus [7]	1,667	5.0%	55,317	7.3%
	+ Long-term variable remuneration				
	SARs („SARS") [8]	–	0.0%	699,083	92.7%
	Stock Option ("MSOP") [4]	–	0.0%	–	0.0%
	Total [9]	**–**	**0.0%**	**699,083**	**92.7%**
Total	**= Total Remuneration ("TR")**	**33,126**	**100.0%**	**754,000**	**100.0%**

1 Administrative expenses and the PSV contribution are not included here as they constitute obligations of the Company.
2 The short-term variable compensation received in the financial year for the respective previous financial year.
3 The value corresponds to the amount received from SARs exercised in the fiscal year.
4 The value corresponds to the fair market value for option rights granted in the financial year to subscribe to ordinary shares in the Company ("stock option program" or "MSOP"). This corresponds to the value of the total option rights granted.
5 These disclosures represent the total fixed compensation granted and owed.
6 This information represents the total variable compensation granted and owed.
7 The value corresponds to the amounts received in the respective fiscal year relating to the bonus for fiscal year 2019. In fiscal year 2021, the value of the payment is based on a settlement agreement reached between Mr. Markus Binder and the Company on February 4, 2021, following his departure from the Executive Board, as comprehensive compensation for the bonus payment for fiscal year 2019.
8 The value corresponds to the payment pursuant to a settlement agreement between Mr. Markus Binder and the Company dated February 4, 2021 as full settlement for the redemption of the 2017-2019 SARs program.
9 These figures represent the total of fixed and variable compensation granted and owed.

Individualized Remuneration of the Supervisory Board

The members of the Supervisory Board solely receive annual fixed remuneration of EUR 25,000 each, with the Chairperson of the Supervisory Board receiving EUR 50,000 and their Deputy receiving EUR 37,500. In the event of changes in the composition of the Supervisory Board during a year, the remuneration is granted pro rata temporis. In addition, an annual fixed remuneration amounting to EUR 10,000 is paid to the Chairperson of the Audit Committee, EUR 5,000 is paid to their Deputy, and EUR 2,500 to each member of the Committee. The maximum annual base remuneration is limited to EUR 50,000 for the Chairperson of the Supervisory Board and EUR 37,500 for the Deputy. This also covers the expenses for memberships and chairpersonships of committees.

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

The remuneration of the individual Supervisory Board members in the 2021 financial year was as follows:

REMUNERATION GRANTED AND OWED TO SUPERVISORY BOARD MEMBERS
FOR THE FINANCIAL YEARS 2020 and 2021 — in EUR

		Base remuneration		Committee remuneration		Total
Members of the Supervisory Board		in EUR	in % TR	in EUR	in % TR	in EUR
Hubertus Krossa (since 05/2014, Chairperson since 05/2021)	2021	42,428	100.0%	–	0.0%	45,833
	2020	32,292	100.0%	–	0.0%	32,292
Henning Gebhardt (since 05/2021, Deputy Chairperson)	2021	21,892	100.0%	–	0.0%	25,000
	2020	–	–	–	–	–
Gerhard Schempp (since 06/2020)	2021	25,000	92.3%	2,083	4.0%	27,083
	2020	14,583	100.0%	–	–	14,583
Sunaina Sinha (since 08/2021)	2021	10,417	100.0%	–	0.0%	10,417
	2020	–	–	–	–	–
resigned or former Members of the Supervisory Board						
Tim van Delden (until 05/2021 Chairperson)	2021	20,833	100.0%	–	0.0%	20,833
	2020	50,000	100.0%	–	–	50,000
David Morgan (until 06/2020 Deputy Chairperson)	2021	–	–	–	–	–
	2020	15,625	100.0%	–	–	15,625
Total	2021	**120,570**	**98.3%**	**2,083**	**1.7%**	**122,653**
	2020	**112,500**	**100.0%**	**–**	**0.0%**	**112,500**

The remuneration system determined for the Supervisory Board does not provide for any malus or clawback provisions. As a result, no variable remuneration components were reclaimed from the Supervisory Board members in the 2021 reporting year.

Comparative Presentation Within the Meaning of Section 162(1)(2) AktG (Vertical Comparison)

The following table illustrates the development over time (over the last five financial years) of the remuneration of the board members compared to the average remuneration of the total workforce of SFC Energy AG in Germany on a full-time equivalent basis within the meaning of section 162(1)(2) AktG. In addition, the development of the earnings of SFC Energy AG and the Group as a whole is presented. The development of the Company's earnings is shown on the basis of the Group's key figures for revenues and adjusted EBITDA. Given that both are key performance indicators, they are also part of the financial targets for the Management Board's short-term variable remuneration (Bonus) and thereby have a significant influence on the amount of remuneration paid to the members of the Management Board. Additionally, the development of SFC AG's net income for the year is presented in accordance with section 275(3)(16) of the German Commercial Code (Handelsgesetzbuch - HGB).

The remuneration granted and remuneration owed to the members of the Management Board and Supervisory Board each financial year is presented within the meaning of section 162(1) AktG.

The presentation of the employees' average remuneration is based on the total workforce of SFC AG in Germany. The average remuneration of employees includes personnel expenses for wages and salaries, for fringe benefits, for employer contributions to social security, and for any short-term variable remuneration components attributable to the financial year. Furthermore, remuneration relating to share plans is calculated on the basis of the amounts received during the financial year. As such, the remuneration of employees is in line with the definition of remuneration granted and remuneration owed, as is the case with the remuneration of the Management Board and the Supervisory Board.

DEVELOPMENT OF THE COMPANY'S EARNINGS in EURk

Financial year	2017	2018		2019		2020		2021	
			Change		Change		Change		Change
Eearnings development									
AG net income for the year (HGB)	3,547	– 1,892	n/m	– 7.814	n/m	– 8,418	n/m	– 8,418	0%
Group revenue	54,292	61,704	13.7%	58,538	7.8%	53,223	– 9.1%	64,320	20.9%
Group EBITDA adj.	1,454	3,705	154.8%	3,614	148.6%	2,936	– 18.7%	6,233	112.3%
Group profit for the period	– 2,072	– 1	– 100.0%	– 1,927	– 7.0%	– 5,184	169.0%	– 6,232	20.2%
Group - Equity	13,895	18,204	31.0%	40,260	189.8%	87,365	117.0%	49,616	– 43.2%
Average employee remuneration									
SFC AG - Employees	–	–	–	–	–	64	n/a	65	2%
Management Board remuneration									
Dr. Peter Podesser	524	543	3.6%	697	32.9%	524	– 24.8%	2.237	327.0%
Hans Pol	198	271	37.0%	369	86.3%	277	– 24.9%	1.092	294.3%
Daniel Saxena	–	–	–	–	–	132	n/a	319	141.7%

DEVELOPMENT OF THE COMPANY'S EARNINGS

in EURk

Financial year	2017	2018	Change	2019	Change	2020	Change	2021	Change
former Members of the Management Board									
Markus Binder 03/01/2017–02/28/2020	170	259	52.8%	269	58.6%	33	−87.7%	0	n/m
Steffen Schneider 09/01/2014–05/25/2017	111	0	n/m	0	n/m	0	n/m	0	n/m
Supervisory Board remuneration									
Hubert Krossa (since 05/2014, Chairperson since 05/2021)	25	25	0.0%	26	2.6%	38	46.2%	46	22.2%
Henning Gebhardt (since 05/2021, Deputy Chairperson)	0	0	n/m	0	n/m	0	n/m	25	n/m
Gerhard Schempp (since 06/2020)	0	0	n/m	0	n/m	15	n/m	26	78.6%
Sunaina Sinha (since 08/2021)	0	0	n/m	0	n/m	0	n/m	10	n/m
former and resigned Members of the Supervisory Board									
Tim van Delden (until 05/2021, Chairperson)	50	50	0.0%	50	0.0%	50	0.0%	21	−58.3%
David Morgan	38	38	0.0%	39	3.3%	0	n/m	0	n/m

Approval by the Annual General Meeting

The remuneration report was to be prepared for the first time for the 2021 financial year. It will therefore be submitted to the 2022 Annual General Meeting for approval (section 120a(4) AktG). An explanation pursuant to section 162(1)(6) AktG regarding the discussion of the report at the Annual General Meeting could therefore not yet be provided in the 2021 Remuneration Report.

FINANCIAL CALENDAR 2022

APRIL 8, 2022	WARBURG RENEWABLE CONFERENCE
APRIL 28, 2022	ANNUAL GENERAL MEETING, VIRTUAL
MAY 17, 2022	Q1 REPORT 2022
AUGUST 18, 2022	HALF-YEAR REPORT 2022
AUGUST 24, 2022	HIT HAMBURG INVESTOR DAY, HAMBURG
NOVEMBER 15, 2022	Q3 REPORT 2022
NOVEMBER 28 – 30, 2022	EKF GERMAN EQUITY FORUM, FRANKFURT (MAIN)

SHARE INFORMATION

Bloomberg symbol	F3C
Reuters symbol	CXPNX
WKN	756857
ISIN	DE0007568578
Number of shares as of 12/31/2020	14,469,743
Stock category	No-par value shares
Stock segment	Prime Standard, Renewable Energies
Stock exchange	Frankfurt, FWB
Designated sponsors	mwb fairtrade Wertpapierhandelsbank AG

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Statements about the future
This annaul report contains statements and information about the future. Such passages contain such word as "expect", "intend", "plan", "believe", "aim", "estimate", etc. Such statements about the future are based on current expectations and certain assumptions. They therefore also contain a number of risks and uncertainties. A multitude of factors, many of which are beyond the control of SFC, affect our business, our success, and our results. These factors can lead the Group's actual results, success, and performance to deviate from the results, success, and performance in the statements made explicitly or implicitly about the future. SFC assumes no obligation to update any forward looking statements.

This is a translation of the German "Geschäftsbericht 2021 der SFC Energy AG". Sole authorative and universally valid version is the German language document.