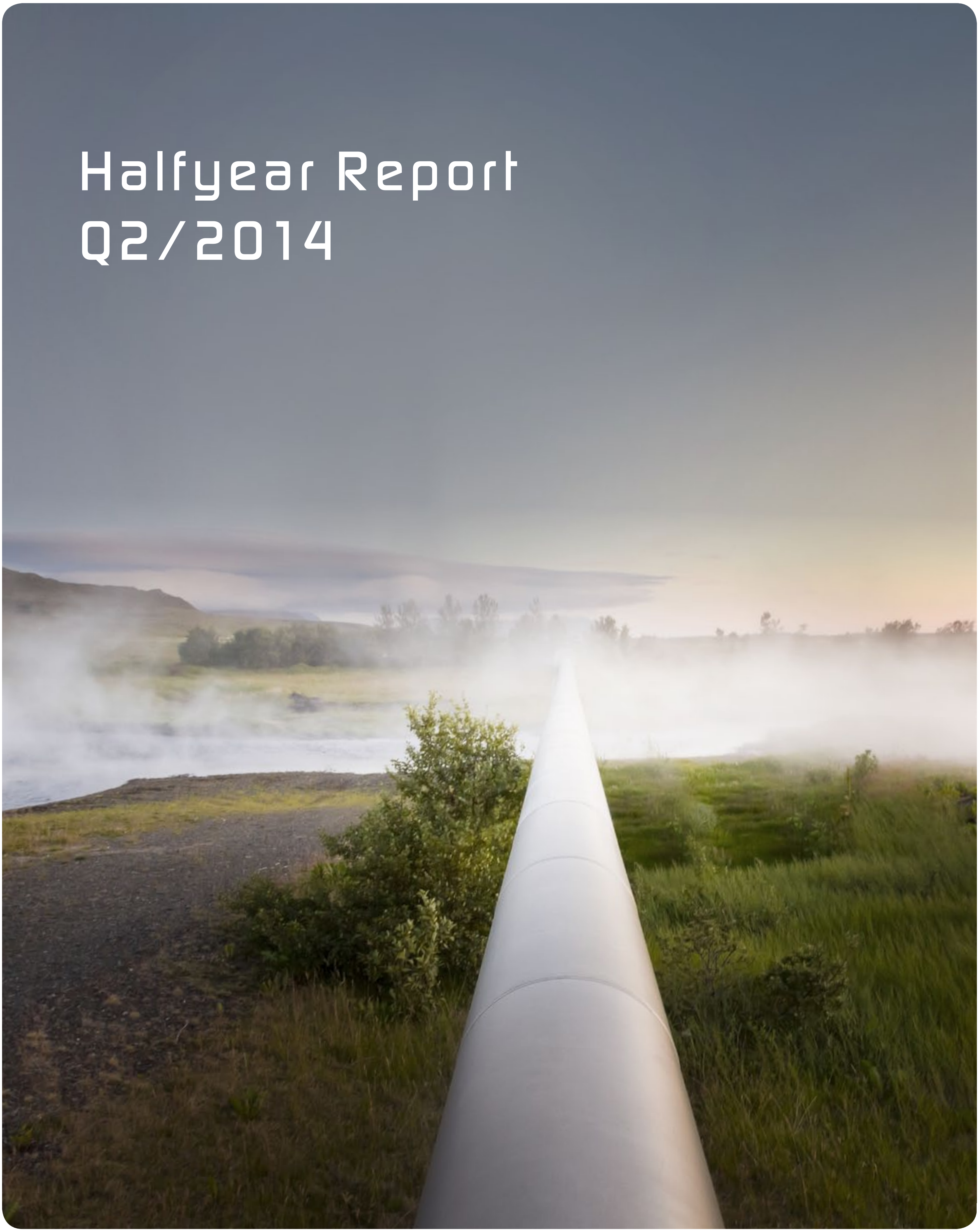
Halfyear Report Q2/2014



SFC ENERGY

SFC ENERGY AG CONSOLIDATED KEY FIGURES

in k €

	1. HY 2014	1. HY 2013	Change in %	Q2 2014	Q2 2013	Change in %
Sales	26,162	13,582	92.6 %	13,226	6,237	>100 %
Gross profit	7,672	4,742	61.8 %	3,826	2,042	87.4 %
Gross margin	29.3 %	34.9 %	–	28.9 %	32.7 %	–
EBITDA	−1,068	−773	−38.2 %	−557	−1,066	47.7 %
EBITDA margin	−4.1 %	−5.7 %	–	−4.2 %	−17.1 %	–
EBITDA underlying	−495	−693	28,6 %	−260	−807	67,8 %
EBITDA margin underlying	−1.9 %	−5.1 %	–	−2.0 %	−12.9 %	–
EBIT	−2,436	−1,726	−41.1 %	−1,233	−1,543	20.1 %
EBIT margin	−9.3 %	−12.7 %	–	−9.3 %	−24.7 %	–
EBIT underlying	−1,299	−1,646	21.1 %	−652	−1,284	49.2 %
EBIT margin underlying	−5.0 %	−12.1 %	–	−4.9 %	−20.6 %	–
Consolidated net loss	−2,684	−1,762	−52.3 %	−1,360	−1,551	12.3 %
Net loss per share, diluted	−0.33	−0.23	−43.5 %	−0.17	−0.21	19.0 %

in k €

	06/30/2014	06/30/2013	Change in %
Order backlog	13,739	5,635	>100 %

in k €

	06/30/2014	12/31/2013	Change in %
Equity	26,407	29,063	−9.1 %
Equity ratio	60.4 %	61.0 %	–
Balance sheet total	43,694	47,650	−8.3 %
Cash (freely available)	4,442	7,143	−37.8 %

	06/30/2014	06/30/2013	Change in %
Permanent employees	247	187	32.1%

DIRECTORS' SHAREHOLDINGS

	06/30/2014
Management Board	
Dr. Peter Podesser	106,800
Hans Pol	116,462
Supervisory Board	
Tim van Delden	0
David Morgan	4,000
Hubertus Krossa	0

CONTENT

INTRODUCTION BY THE MANAGEMENT BOARD

DEAR SHAREHOLDERS,

In the first six months of 2014, we made substantial progress in our growth strategy with revenue increasing by 92.6 % to EUR 26.16m compared to the same period last year. In addition, we have a significant order backlog of EUR 13.74m (2013: EUR 5.64m), which is more than twice as high as what it was at this time last year.

In terms of profitability, EBITDA for the first six months of 2014 was EUR -1.07m which was lower than in the same period last year (EUR -0.77m). This is in line with our expectations and includes one-off cost in relation to the Simark acquisition. Excluding one-off items EBITDA was EUR -0.50m in the first half of 2014 and therefore shows improvement compared to the previous year (2013: EUR -0.69m). The improvement in earnings was more marked in the second quarter, where we reported an underlying EBITDA of EUR -0.26m compared to EUR -0.81m in the corresponding quarter in the previous year.

Revenues in the **Oil and Gas segment** grew strongly in Canada from EUR 0.30m in the first half of 2013 to EUR 14.04m in the first six months of 2014. Our product innovations arouse considerable interest along customers. We have further expanded the portfolio of intelligent, sustainable oil & gas solutions with the new EFOY ProCabinet fuel cell system for extreme weather and temperature conditions. This new system has integrated remote control, support, notification, as well as data acquisition and logging features for EFOY Pro fuel cells. These features open up a broad spectrum of additional applications. The new products are expected to contribute significantly to revenues in the second half of 2014.

In the **Security & Industry segment** revenues fell back from EUR 10.42m in the first half year 2013 to EUR 9.73m in the first six months of 2014. Revenues were still impacted by the cancellation of an order which we reported in the first quarter of 2014. We are happy to report that order intake in this segment has been good and that we are looking forward to a stronger second half of the year.

We are also seeing growing momentum in the defense business from the European markets as well as from the U.S. After our deliveries to the U.S. and the important contract with an international defense organization in the first quarter we are confident that we will be able to report further defense orders over the course of this year.

In the second quarter of 2014, we realized a first project with Windkraft Service GmbH for new integrated EFOY ProCube power systems for obstruction lights of wind turbines. Windkraft Service GmbH, a maintenance, testing, and repair services provider for wind energy plants, leases this fully integrated system to wind energy plant manufacturers for powering the obstruction lights during plant construction phase, complete with a full service package from installation and launch to final dismantling. Operation itself requires almost no effort – fuel cartridges will last from several weeks up to several months. This innovative fuel cell solution is much more cost efficient and environmentally friendly for the wind park developer than the diesel generators which are currently used.

In the **Consumer segment** revenues for the first half of 2014 came in at EUR 2.39m, down on the same period last year (EUR 2.86m). The major reason for this is weakness in the French market, which is traditionally one of the most important markets for the popular EFOY COMFORT fuel cells in motor homes. Among other things, we see this as a result of the weak economic situation in France. Positively, we are seeing growth in the Scandinavian markets and as a result we continue to expect full year sales for this segment to be in line with 2013.

In April SFC Energy's environmental management system was successfully certified according to ISO 14001:2004 by TÜV SÜD Management Service GmbH. The system supports SFC Energy in the development and implementation of environmental policies and in meeting legal requirements. It is also a clear expression of our commitment for protecting the environment sustainably and increasing employee, customer, partner, and investor satisfaction.

The share price of SFC Energy also performed well in the first six months of 2014, closing the first half up by 25.6 percent. The SFC Energy share opened at a price of EUR 3.90 at the beginning of January and finished the first half of the year at EUR 4.90. Average daily trading volume also increased significantly in the second quarter and we are currently seeing a great deal of attention from investors for SFC Energy and for the complete fuel cell sector.

In July, the Supervisory Board appointed Steffen Schneider as SFC Energy's new CFO. Steffen Schneider, who holds an BA and MBA, will take up his new position effective September 1, 2014. He is an expert in international finance and capital market matters and has supported SFC Energy for many years as a corporate finance consultant. He was also responsible for supporting SFC Energy's various acquisition projects. In 2007 Steffen Schneider managed SFC Energy's successful IPO as Director and Co-Head of Corporate Finance at Citibank in Frankfurt and London. With his appointment we stress the central role of active international capital markets work. Together with SFC Energy's CEO, Dr. Peter Podesser, Steffen Schneider will play an important role in further developing SFC's capital market strategies as well as broadening the company's shareholder base.

In addition to the planned growth in our core markets our continuous innovation policy as well as our well filled product pipeline we will open up attractive growth potentials in new market segments. We are currently working on higher power products for the security and industry markets and on an extension of our consumer product portfolio towards new possibilities in outdoor applications and for emergency home back up. We see significant market potential in back up and emergency power. Our current positive business performance, the order backlog at the end of the second quarter, and the increasing amount of projects reinforce our unchanged positive outlook for the second half of 2014. In addition, normal seasonality should also contribute to a stronger second half of the year, whereupon traditionally the third quarter turns out relatively weaker and the fourth quarter is the strongest. In terms of guidance we continue to anticipate revenues for this year coming in between EUR 55m and EUR 60m and generating a positive underlying EBITDA.

With best wishes

The SFC Energy AG Management Board

Dr. Peter Podesser
Chief Executive Officer

Hans Pol
Chief Sales Officer

THE SHARE

THE SFC ENERGY SHARE DURING THE FIRST SIX MONTHS OF THE YEAR

The international stock markets continued their volatile sideways trend during the second quarter of 2014. This trend was caused, on the one hand, by the recovery of the U.S. economy, lively M&A activity, and signals from the ECB indicating additional monetary measures. Interest rates in the eurozone have moved lower since the beginning of the year. On the other hand, the ongoing crisis in Ukraine continued to put downward pressure on the markets. Yet stock markets in Germany and the U.S. reached new records during the reporting period in spite of the many "hotspots," such as Ukraine, Syria, and Iraq. The variable market segment of the German DAX stock index exceeded 10,000 points for the first time on June 5, and the German leading index passed that mark for the first time on June 9. Geopolitical conflicts slowed such high flying during the second half of June. DAX began its year at 9,598 points on January 2, 2014, and ended the first half of the year at 9,833 points on June 30, up around 2.4%. The TecDAX rose by some 12.3% during the first six months of 2014.

The SFC Energy AG share began trading in 2014 at EUR 3.90, ending at EUR 4.90 on June 30, 2014. Its six-month high was EUR 5.47 on May 5, 2014. Its low during the first six months was EUR 3.40 on February 21, 2014. The average daily trading volume for the SFC Energy share during the first six months was 6,638 shares (Xetra) (previous year: 4,249 shares). SFC Energy AG's market capitalization at the end of the first half of the year rose to EUR 39.3m, based on EUR 8.02m no-par-value shares. The company's stock market value on the 2013 balance sheet date was EUR 31.5m, based on the same number of shares and a closing price of EUR 3.93 at the end of the year (all information based on Xetra prices).

The Management Board informed shareholders about the course of business in 2013 during the Annual General Meeting on May 16, 2014, and took questions from them. The shareholders of SFC Energy AG approved management's proposals under all agenda items by a broad majority. The shareholders also elected Hubertus Krossa as a new member of the Supervisory Board; he will serve on the company's Supervisory Board until the end of the Annual General Meeting that decides on formal approval of the actions of the members of the Supervisory Board for fiscal year 2016. Former member of the Supervisory Board Dr. Jens Thomas Müller resigned from the Supervisory Board of SFC Energy effective at the end of the Annual General Meeting on May 16, 2014. The Chairman and Management Board thank Dr. Müller for his many years of service and his great devotion to SFC Energy AG.

As of the end of the second quarter, there had been no material change in the shareholder structure from the 2013 balance sheet date.

The SFC Energy AG share belongs to the Prime Standard segment of the Frankfurt Stock Exchange. The research houses Close Brother Seydler Research AG, Warburg Research GmbH, and First Berlin Equity Research GmbH published studies about the company during the second quarter. All analysts recommended buying the SFC Energy share at target prices ranging from EUR 5.70 to EUR 7.40. The full studies are available for downloading on the SFC Energy AG website under http://www.sfc.com/en/investors/share.

INTERIM GROUP MANAGEMENT REPORT JANUARY 1 – JUNE 30, 2014

BASIS OF THE GROUP

The Group's Business Model

Organizational structure of the Group and locations

The Group comprises SFC Energy AG, Brunnthal, Germany, and SFC Energy Inc., Rockville, Maryland, USA (SFC); PBF Group B.V., Almelo, Netherlands, and its subsidiaries (PBF); and Simark Holdings Ltd., Calgary, Canada, and its subsidiaries (Simark).

Segments, sales markets, products and services

In 2012, the Group began organizing its management according to the Industry, Defense & Security and Consumer markets. This change made it easier to put the individual markets and customers at the center of management decisions.

Starting in the 2014 financial year, management of the Group and reporting will cover these segments:

- Oil & Gas
- Security & Industry
- Consumer

The Simark acquisition prompted this change. Because of it, around 50% of the Group's business is now conducted in the oil and gas market. Thus, a separate presentation is required in order to effectively and efficiently manage this largest part of the Company's operations.

There will be a transition period during which the Group will also report according to the previous basis of segmentation, i.e., the Industry, Defense & Security and Consumer segments.

The corporate purpose of SFC Energy AG is the development, production and distribution of power generation systems and their components for off-grid and on-grid applications based on fuel cell and other technologies, as well as investment in the equipment and facilities required for these activities and transaction of all other related business. The Group's product portfolio also includes accessories and spare parts, particularly fuel cartridges, solutions for combining fuel cell products with other power sources, power storage units and electrical devices, as well as mechanical, electronic and electrical instruments to monitor and control production and logistics processes.

PBF develops and manufactures reliable high-tech power supply systems. This technology-oriented company works closely with its customers to customize solutions such as switched mode network components, external transformer units, power cabinets and special coils. Its product designs range from relatively simple open frames to extremely complex, efficient power cabinets produced in small to medium-sized series volumes of just a few or tens of thousands of units per year. PBF's products are used in the fields of defense and security, analytical systems, research and science, industry and semiconductors. Most of its products are sold through distribution partners, but some are sold directly to customers.

Simark specializes in distribution, service, and product integration for high-tech power supply, instrumentation, and automation products used in the Canadian oil and gas industry. It has a highly qualified, experienced, diverse distribution and service organization. Simark's product portfolio includes instrumentation and metering systems, power supply components and drives, and security and surveillance technology for a variety of applications in the oil and gas industry, as well as the mining, forestry, and municipal utilities markets. Simark distributes its products directly.

Objectives and strategies

Over the last few years, SFC has systematically expanded its business model to include a comprehensive range of off-grid energy solutions. Looking ahead, the Company will focus increasingly on providing whole-product solutions, with fuel cells continuing to constitute the core technology and core components.

The acquisitions of PBF in 2011 and Simark in 2013 were further major steps in the Group's strategic aim of becoming a system supplier.

Research and development

The focus of SFC's research and development activities was as follows in the first half of 2014:

- The Group continued to make quality improvements to its series products.
- In the defense market, it successfully delivered higher-output portable pre-series products to military customers.
- In order to better meet customer requirements, the Company evaluated and tested individual components of higher-output energy supply solutions for stationary and vehicle-based applications.
- It conducted tests on further reducing unit costs and increasing capacity in order to reduce degradation with increased power density and cut back on the amount of material used.

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

- Existing development projects were continued with success, and some were put into series production.
- PBF also continued its research in the area of buck-boost PFC converters that should lead to greater efficiency over a large input voltage range.
- Two new projects were started.

The following product enhancement was initiated by PBF and SFC together:

- Testing and optimization of a range of energy solutions that help customers use and reliably power a vast array of industrial applications under the harshest of conditions.

SFC and Simark teamed up to start the following project:

- Testing and release of the EFOY ProCabinet as the basis for energy solutions in extreme weather conditions.

ECONOMIC REPORT

Macroeconomic and sector-based background conditions

The economy as a whole

According to the Ifo Institute,[1] growth in the world economy has picked up since summer 2013. The Institute says this is primarily attributable to developments in the advanced economies. The economic recovery in the U.S., Great Britain and Japan has gained momentum, while the euro area has emerged from a recession that lasted almost two years. Although the emerging economies continued to post higher growth rates than advanced countries, the economic expansion in the former remained relatively weak by historical standards and has slowed down even further since summer 2013 in some areas. The Institute anticipates that the pace of global economic expansion will pick up moderately during the second half of 2014. According to the Institute, this will primarily be driven by the advanced economies. The U.S. economy will gain impetus, boosted by an improvement in the asset position of households and companies, further brightening in the labor and real-estate markets, and expansive monetary policy. Economic developments in the euro area will remain plagued by complex structural problems that are still present in several member states and will take some time to solve. The recovery in aggregate economic activity will temporarily stabilize, despite the continued existence of major differences between member states. Growth in the German economy, in particular, will far outstrip the euro area average, particularly in France and Italy. The situation in the crisis-afflicted countries of Ireland, Portugal and Spain is expected to be somewhat more positive, although Greece is still waiting for an economic recovery.

1 Ifo Economic Forecast 2014/2015, Ifo Institute, June 26, 2014.

German economy picking up speed, but spring pick-up weaker than usual

According to the German Federal Ministry for Economic Affairs and Technology (BMWi),[2] the German economy had a somewhat more sluggish start to the second quarter, following strong growth at the beginning of the year. According to Destatis (the German Federal Statistical Office),[3] during the first quarter of 2014 gross domestic product (GDP) rose 0.8 % on the fourth quarter of 2013 after adjustment for price, seasonal and calendar variations. The last time there was a greater increase was three years ago. According to Destatis, the moderate growth rate of last year (+0.4 % in the last quarter of 2013) has thus increased. However, the extremely mild winter also contributed to the strong growth at the beginning of the year. In a quarter-on-quarter comparison, Destatis sees positive contributions only by domestic demand, primarily due to capital formation: Investments in equipment were 3.3 % higher than during the previous quarter, while capital formation in construction was up as much as 3.6 %. Final consumption expenditures by households were 0.7 % higher than in the fourth quarter of 2013, and government increased its consumption expenditures by 0.4 %. Net exports, by contrast, which are exports minus imports, dampened GDP growth during the first quarter of 2014. Imports of goods and services were up 2.2 %, while total exports were up only slightly (+0.2 %) from the previous quarter. Exports of goods actually decreased (-0.5 %). As a result, net exports are expected to make a negative contribution to GDP growth of -0.9 percentage points. By contrast, there was a considerable buildup of inventories, and calculations indicate that this contributed 0.7 percentage points to GDP.

According to the BMWi, the positive changes in employment and income levels, stable consumer prices and a brighter overall economic outlook lifted consumer confidence in the second quarter to its highest level since the financial crisis. The positive trend on the labor market also continued. In May 2014, the number of unemployed persons fell to 2.88 million. Contrary to this trend, unemployment figures did increase by 24,000 in seasonally adjusted terms due to the weak spring recovery. According to the unadjusted figures, total employment stood at 42.00 million persons (domestic concept) in April, up 398,000 year-on-year.

The Ifo Business Climate Index[4] for industry and trade in Germany fell slightly in June 2014 compared with previous months. Assessments of the current business situation remained good, but companies were less optimistic about future business developments. The German economy fears the potential impact of the crises in Ukraine and Iraq.

According to the Ifo Institute, the upturn in the German economy is poised to continue. The Institute anticipates that real gross domestic product (GDP) will increase by 2.0 % in 2014 and 2.2 % in 2015. As in 2013, the Institute believes that the upturn will be driven by domestic demand and expects accelerated growth in new equipment spending as well as an increasing number of replacement purchases and expansion projects due to high capacity utilization. The Institute expects private consumption to increase at a similar pace to real disposable income levels and that export growth will accelerate as the world economy stabilizes. Imports, however, will grow at an even faster rate due to the strong expansion of domestic demand.

2 BMWi German Federal Ministry of Economics and Technology, press release, The economic situation in Germany in June 2014, June 12, 2014
3 German Federal Statistical Office Wiesbaden, press release 167/2014; May 15, 2014
4 Ifo Business Climate Germany – Results of the June 2014 Ifo Business Survey

Oil & Gas market

For assessing the economic development of the markets in which **Simark** operates (instrumentation and metering systems, power supply components and drives, and security and surveillance technology), we draw on data about the international oil and gas markets. The world oil market is highly complex, according to the U.S. Energy Information Agency (EIA),[5] an independent organization that prepares statistics and analyses on the international energy industry. The world oil market is dominated by government controlled and private economic entities, with government controlled national oil companies controlling 85% of proven oil deposits and 58% of production in 2010. In 2013, the agency estimated proven oil deposits to total about 1.5 trillion barrels and production to total about 89 million barrels per day.

With new stability in conventional crude oil production and almost 3 million b/d in oil sands growth (from a current production in 2013 of 1.9 million b/d to 4.8 million b/d by 2030, this is a growth rate of 250%), the Canadian Association of Petroleum Producers (CAPP)[6] expects Canadian crude oil production to grow by an average of 4% annually over the long-term to 6.4 million b/d by 2030. These supplies will meet the demand of markets located throughout North America and beyond. Canadian oil production growth is driven mainly by the oil sands, as shown above. Total conventional production, inclusive of condensate, grows slightly and will contribute 1.5 million b/d to total production. According to CAPP, multiple markets are ex-pressing growing interest in crude oil from Western Canada. There are opportunities to re-place foreign crude oil imports in Canada and the United States at refineries along the East Coast, West Coast and Gulf Coast. Demand from global markets, such as Asia and Europe, could be met but requires access to tidewater. There are projects in the regulatory process and others being considered to achieve this.

According to *International Energy Outlook 2014,*[7] which was published in July 2014, the EIA anticipates a 56% increase in global energy consumption between 2010 and 2040. Most of that growth (90%) is projected to come from non-OPEC countries. Even if renewables and nuclear power are the fastest-growing energy sources (2.5% growth per year), the agency estimates that fossil fuels will still cover almost 80% of world energy requirements through 2040. The study states that natural gas is the fastest-growing fossil fuel, with world consumption due to grow by 1.7% annually.

According to the EIA, the production of crude oil from coalbed methane and shale has increased four-fold since 2008 thanks to technological advances and improved resources. Total crude oil production is projected to be 9.6 million barrels per day by 2014, 3.1 million barrels above the 2012 level. Most of those figures depend on the extent to which technical progress is made in allowing high-potential coalbed methane and shale deposits to be developed. Robust industrial growth based on the availability of inexpensive natural gas is also expected over the next 19 years.

The need for equipment that can operate, control, and monitor oil and gas extraction and production systems will continue to increase as demand for petroleum and natural gas rises. A stable economic outlook is therefore expected for this market.

5 EIA, Short-term Energy Outlook, January 7, 2014
6 Canadian Association of Petroleum Producers (CAPP), Crude Oil Forecast, Markets & Transportation Report, June 2014
7 EIA, International Energy Outlook, July 7, 2014

Security & Industry market

a) Fuel cells

There is still no official data about the number of electric and electronic devices that are used off-grid for industrial applications, because the markets are extremely diverse. Overall, there has been a continuation of the trend toward applications and devices that are used far from any power outlets. At the same time, demand has grown for integrated, user-friendly power sources that enable such equipment to run reliably under any weather conditions and be controlled remotely. Likewise, demand is growing for autonomous units to charge batteries used on board conventional vehicles with internal combustion engines.

b) Power electronics and switched mode network components

For assessing the economic development of the markets relevant to **PBF** (power electronics and switched mode network components), we draw on information provided about the sub-segment of the electronics industry referred to as "electronic components & systems" in the industry statistics of the German Electrical and Electronic Manufacturers' Association (ZVEI).

- According to the association,[8] the global market for electrotechnical and electronic products grew by 3 % in 2013 to EUR 3,703 billion. The association predicts that growth by the industrial market, one of the largest in the world, will be 5 % and 6 % in 2014 and 2015. The industrialized countries stagnated at a total of EUR 1,723 billion in 2013. However, growth in the group of countries studied by the association is expected to return to about 4 % in each country in 2014 and 2015. Global growth over the past year was again supported by the emerging markets, where the market volume is estimated to have grown by 6 % to EUR 1,858 billion. The increase is expected to be somewhat greater again this year and next year, at 7 %. The estimate indicates that Asia, at EUR 2,121 billion, accounted for 57 % of the global market. The Asian market again experienced the strongest growth at 4 % in 2013, and the association expects it to increase by 6 % both this year and next year. The American market is estimated to have grown by 3 % to € 779 billion in 2013, bringing its share of the global market to 21 %. Its prospects for growth in 2014 and 2015 are expected to be 5 % and 6 %, respectively. There was recently a 1 % decline on the European electronics market to EUR 653 billion. Europe today accounts for 18 % of the world market. The European market is expected to return to growth of 3 % and 4 % this year and next year, but it will grow more slowly than the global market. The German market shrank 5 % last year – due to further declines in imports – but it is still the fifth-largest in the world, after China, the U.S., Japan, and South Korea. Slight increases of 3 % are expected in both 2014 and 2015.

- In the *"Electronic components and systems" (in-house manufacturers and electronic manufacturing services providers) sub-segment,* ZVEI projected in November 2013[9] that the world market would see sales rise a good 3 % to around USD 474 billion for the full year 2013. For 2014, the association expects that the world market for electronic components will grow by 5 % to USD 497 billion. It also predicted an increase for the European market of at least 2 % to sales of around USD 60 billion. In 2014, the European market is projected to enjoy sales growth of at least 3 % to some USD 62 billion, leaving behind the weakness experienced in 2012, when there was a 9 % decline in sales. For Germany, market experts of the ZVEI electronic components group[10] were projecting in November 2013 that there would be an increase of almost 3 % to at least EUR 17 billion for the full year 2013. For 2014, ZVEI anticipates growth in the domestic market for electronic components to be a good 3 %, as the lower demand for industrial electronic components for motor vehicle electronics came to an end in 2013. It appears that the downward trend for renewables has also been overcome.

8 Data: ZVEI "World electronics market – Outlook through 2015," May 2014
9 Data: ZVEI press release 118/2013, November 12, 2013
10 ZVEI press release 118/2013, November 12, 2013

c) Defense & Security

According to "The Military Balance 2014" report by the International Institute for Strategic Studies' (IISS),[11] which analyzes the defense capabilities and budgets of 171 countries all over the world each year, all international defense organizations experienced sharp budget cuts in 2013. The Institute identifies a growing gap between security requirements and the available budgets and capabilities. Given the new U.S. orientation to the Asia-Pacific region, the Institute believes that the European defense organizations in particular will need to take a more multinational approach, particularly with regard to unstable conditions in southern and eastern Europe and the fact that, according to the Institute, defense budgets will not grow in the foreseeable future. By contrast, the Institute expects growth in Asia, where increased development and procurement activities for ultra-modern defense equipment have been observed for some time now. The Institute believes that it is undisputed that the defense industry is experiencing major technological change, in which more intensive networking of all participants will pay a decisive role.

Consumer market

a) Caravaning

According to the CIVD,[12] the difficult economic situation in Europe also affected the German caravaning industry in 2013: At EUR 6 billion, total sales were down 4.3% from the previous year. However, that was still the second-best overall result in the history of the German caravaning industry. Sales of new vehicles decreased by 9.6% to EUR 3.03 billion, while sales of used vehicles rose 3.4% from the previous year's level to EUR 2.42 billion. During that period, the accessories business shrank by 4.9% to EUR 0.55 billion. The total number of newly registered leisure vehicles was down marginally by 0.5% from 2012 but remained stable overall. The distinction between vehicle classes also made itself felt in 2013. While the number of newly registered RVs broke another record with growth of 3.1% in 2013, new registrations of caravans were down 5.5% from the previous year's level. Both exports and production suffered from declining demand in other countries: Exports of leisure vehicles fell by 12%, and production shrank accordingly by 14%. The association anticipates a stable market trend for the leisure vehicle market in 2014, although with different effects for caravans and RVs. For example, according to the RV manufacturers' association, almost 90% of RV manufacturers expect stable to increasing sales on the German markets. In spite of the difficult economic situation in Europe, 67% of companies also think that demand for exports will be stable or rising, although 33% see a downward trend. Overall, according to the European Caravaning Federation (ECF),[13] the leisure market for Europe as a whole was down 5.5% in 2013, and only Norway, England and Germany managed to remain at the previous year's level. A total of 138,390 new vehicles were sold in Europe in 2013.

According to the association, a trend toward stability could be seen in the first four months of 2014, following the long Easter break. Caravan registrations were down 5.5% – due to considerable declines in England, in particular – but RV registrations increased by 2.1%. This means that the downward movement from last year has now tapered to a slight decrease of 1.5%, from which CIVD concludes that there is stabilization on the European market.

11 International Institute for Strategic Studies (IISS), "The Military Balance 2014," February 5, 2014
12 Data: CIVD Caravaning Industrie Verband e.V., CIVD 2013/2014 annual report, April 15, 2014, and CIVD-Info 06-2014, June 4, 2014
13 Data: ECF European Caravaning Federation, Statistics January 13, 2014

b) Marine
According to the German Marine Industry Association (BVWW),[14] the production figures of the European boat manufacturers were at the previous year's level in 2013, putting them only slightly above the results for crisis year 2009. In the marine equipment and accessories business, the industry expected a total decrease in sales ranging from 3 % to 5 % by the end of the year. Nevertheless, about three-quarters of accessories suppliers report that business has been as good as, or even better than, it was the year before. In line with the trend of using existing yachts for longer periods of time, owners continue to invest in equipping their boats. The industry anticipates a 3 % increase in total sales in 2014. Companies are also increasingly optimistic about the future. According to the national survey on the German economy which the association conducted at the end of 2013, over three-quarters of companies expected business to be as good as it had been or even better over the next two to three years.

EARNINGS AND FINANCIAL POSITION

Important events

Deutsche Prüfstelle für Rechnungslegung DPR e.V. (DPR) conducted a routine audit of SFC's consolidated financial statements for the year ended December 31, 2012, and the 2012 group management report pursuant to section 342b (2) HGB (German Commercial Code) from December 2, 2013, to June 3, 2014.

The result of the audit was that DPR found no accounting errors for fiscal year 2012. This reporting period, we acted on the recommendation for future accounting purposes to report amortization of development costs under production costs instead of under research and development costs on the income statement. The comparison figures in the income statement have been adjusted accordingly.

There have also been changes to the Management Board. Mr. Hans Pol was appointed to the Management Board effective January 1, 2014. Mr. Pol will be Chief Sales Officer with responsibility for SFC and PBF. The Chief Financial Officer, Mr. Gerhard Inninger, resigned for personal reasons at the end of the Annual General Meeting on May 16, 2014.

Earnings position

The SFC Group (the "Group") posted sales of € 26,162k in the first half of 2014, for an increase of 92.6 % from the € 13,582k in sales generated in the same period a year ago.

This figure includes € 14,039k in sales from Simark Controls Ltd., of Calgary, Canada (Simark), which was acquired last summer and initially consolidated as of September 1, 2013. Because of this acquisition, there is only limited comparability with last year's figures, which did not include Simark. A total of € 7,431k of the Simark sales revenues was generated during the second quarter.

SFC had sales revenue of € 5,831k during the first half of 2014, a decrease of 9.8 % from the prior-year period's € 6,464k. SFC's sales of € 2,696k during the second quarter of 2014 exceeded its sales of €2,691k during the second quarter of 2013.

14 Data: Bundesverband Wassersportwirtschaft (BVWW), press releases on the "boot" International Boat Show, January 15, 2014, and spring 2014 economic report, spring 2014

Sales by PBF during the first half of 2014 were € 6,292k, 11.6 % lower than its prior-year sales of € 7,118k. PBF's second-quarter sales were € 3,099k (previous year: € 3,546k).

Consolidated sales during the reporting period, at € 26,162k, were in line with expectations.

EBIT decreased year-on-year from minus € 1,726k to minus € 2,436k during the first half of 2014. It bears noting that the figure for the first half of 2014 reflects € 1,137k in non-recurring effects relating to the Simark acquisition, while the figure for the first half of 2013 reflected € 479k reversed to income from an earn-out liability for PBF, on the one hand, and acquisition-related expenses of € 559k on the other. Without those non-recurring effects totaling € 1,137k, underlying EBIT for the first half of 2014 is minus € 1,299k, which is above the previous year's minus T€ 1,646k.

EBIT improved during the second quarter of 2014 from minus € 1,543k during the previous year to minus € 1,233k.

There was negative EBITDA in the amount of € 1,068k during the first half of 2014, following minus € 773k during the first half of 2013. Underlying EBITDA improved during the reporting period from minus € 693k to minus € 495k.

Second-quarter EBITDA was minus € 557k, versus minus € 1,066k a year ago.

The following earnings effects from the Simark acquisition are not captured in the underlying operating result:

- Personnel expenses relating to the contingent consideration that was agreed upon and to the retention of key employees (€ 573k)
- Depreciation/amortization and expenses relating to the purchase price allocation (€ 564k)

The reconciliation to underlying EBIT and EBITDA and the distribution of the non-recurring effects among items on the income statement were as follows:

		in k€
	EBIT	EBITDA
Result according to the income statement	**–2,436**	**–1,068**
Production costs of work performed to generate sales		
Purchase price allocation, amortisation of order book	47	0
Cash component from the Simark acquisition, personnel costs	96	96
Sales costs		
Cash component from the Simark acquisition, personnel costs	363	363
Purchase price allocation, amortisation of customer relationships	516	0
Bonus for key employees, personnel costs	34	34
General administration costs		
Cash component from the Simark acquisition, personnel costs	96	96
Other operating income		
Earn-out liability from the Simark acquisition	–15	–15
Total one-off effects	**1,137**	**573**
Underlying result	**–1,299**	**–495**

Sales by segment

The following table shows a comparison of segment sales for the first six months and second quarter of 2014 and 2013:

SALES BY SEGMENT (UNAUDITED) in k €

	1st Halfyear			2nd Quarter		
Segment	2014	2013	Change in %	2014	2013	Change in %
Oil & Gas	14,045	298	> 100 %	7,431	178	> 100 %
Security & Industry	9,726	10,420	–6.7 %	4,658	4,872	–4.4 %
Consumer	2,391	2,864	–16.5 %	1,137	1,187	–4.2 %
Total	**26,162**	**13,582**	**92.6 %**	**13,226**	**6,237**	**> 100 %**

Nearly all of the revenues generated in the Oil & Gas segment so far in 2014 have come from Simark. Most of Simark's transactions are in CAD. Sales in the first half of 2014 were CAD 21.1 million or € 14.0 million and came exclusively from the sale and integration of products for the North American oil and gas market.

In the Security & Industry market, the number of fuel cells sold increased from 481 to 504. SFC's sales rose accordingly, up 4.0 % from € 3,302k to € 3,434k. By contrast, sales to defense customers were lower than during the previous year at € 868k (previous year: € 1,113k). All of PBF's sales were generated in the Security & Industry segment. In the first half of 2014 its sales were € 6,292k (previous year: € 7,118k). The decrease at PBF was again attributable to the discontinuation of a serial order in the first quarter of 2014.

In the Consumer market, sales receded by € 473k, or 16.5 %, with the number of fuel cells sold decreasing from 987 to 827. Higher sales in Scandinavia were unable to offset lower sales on the French market related to the economic situation.

The following table shows a comparison of segment sales for the first six months of 2014 and 2013 according to the previous basis of segmentation:

SALES BY SEGMENT (UNAUDITED) in k €

	1st Halfyear			2nd Quarter		
Segment	2014	2013	Change in %	2014	2013	Change in %
Industry	22,903	9,388	> 100 %	11,878	4,387	> 100 %
Consumer	2,391	2,864	–16.5 %	1,137	1,186	–4.1 %
Defense & Security	868	1,330	–34.7 %	211	664	–68.2 %
Total	**26,162**	**13,582**	**92.6 %**	**13,226**	**6,237**	**> 100 %**

Sales by region

SALES BY REGION (UNAUDITED) in k €

	1st Halfyear			2nd Quarter		
Region	2014	2013	Change in %	2014	2013	Change in %
North America	14,877	1,331	> 100 %	7,602	669	> 100 %
Europe and ROW	11,285	12,251	–7.9 %	5,624	5,568	1.0 %
Total	**26,162**	**13,582**	**92.6 %**	**13,226**	**6,237**	**> 100 %**

The increase in North America is attributable to the first-time inclusion of Simark's sales in the Oil & Gas segment, which totaled € 14,039k.

SFC posted a 2.3 % decrease in sales in the region Europe and rest of the world. For PBF, which conducts almost all of its business in the region Europe and rest of the world, the decline was 12.0 %.

Gross profit

Gross profit in the first half of 2014 was € 7,672k, or 29.3 % gross margin. Last year's figures, by contrast, were € 4,742k, or 34.9 % gross margin. The decrease in the margin at Group level is largely attributable to the fact that the Oil & Gas segment accounted for more than half of revenues. The margin in that segment was around 25 % due to Simark's different business model, while the cumulative gross margin of SFC und PBF averages around 35 %.

The gross profit for the second quarter was € 3,826k, or 28.9 % gross margin, versus € 2,042k, or 32.7 % gross margin, in the same period a year ago.

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

GROSS PROFIT (UNAUDITED) in k €

	1st Halfyear			2nd Quarter		
Segment	2014	2013	Change in %	2014	2013	Change in %
Oil & Gas	3,427	163	> 100 %	1,805	102	> 100 %
Security & Industry	3,546	3,671	–3.4 %	1,664	1,596	4.3 %
Consumer	699	908	–23.0 %	357	344	3.8 %
Total	**7,672**	**4,742**	**61.8 %**	**3,826**	**2,042**	**87.4 %**

The gross profit in the Oil & Gas segment was € 3,427k, or 24.4 % gross margin, and therefore in line with expectations both in percentage and absolute terms.

The Security & Industry segment's gross profit was € 3,546k, which was slightly below the previous year's € 3,671k. The gross margin rose from 35.2 % to 36.5 %.

The gross margin in the Consumer segment was 29.2 % (previous year: 31.7 %). The main reason for this was the decrease in sales, accompanied by no change in the overhead structure.

Sales costs

Sales costs rose 83.5 %, from € 2,795k to € 5,129k.

As touched on earlier, part of this was attributable to non-recurring effects totaling € 913k.

As a percentage of sales, sales costs were 19.6 % this year versus 20.6 % this time a year ago.

Research and development costs

Research and development costs rose from € 1,974k to € 2,522k in the first half of 2014. In relation to sales, R&D costs decreased to 9.6 % (previous year: 14.5 %) due to lower R&D expenses in percentage terms at Simark.

SFC's research and development costs increased, from € 734k, or 11.4 % of its sales, to € 961k, or 16.5 % of its sales.

PBF's research and development costs were € 1,372k (previous year: € 1,240k), or 21.8 % of its sales (previous year: 17.4 %)

Development work of € 121k (previous year: € 112k) was capitalized in the first half of 2014. It is important to note that development costs incurred as part of JDAs are reported as production costs of work performed to generate sales and that any subsidies received for government-sponsored development projects are offset against development costs. Adjusted for these two effects and adding back in the capitalized development costs, true research and development expenditure in the first half of 2014 totaled € 2,833k, which represents a decrease of 2.2 % from the previous year's € 2,896k.

General administration costs

General administration costs increased to € 2,519k in the first six months of 2014 (previous year: € 1,679k).

Of note is the € 96k in personnel costs reported as administration costs, representing a cash component from the Simark acquisition.

Nevertheless, general administration costs were 9.6 % this year versus 12.4 % last year when expressed as a percentage of sales.

Other operating income

The largest items in other operating income of € 118k were foreign exchange transaction gains of € 72k and € 15k reversed to income from the earn-out liability for Simark. Last year's figure for other operating income primarily reflected € 479k in income from reversal of the earn-out liability for PBF and foreign exchange transaction gains in the amount of € 124k.

Other operating expenses

The € 56k in other operating expenses predominantly reflects foreign exchange transaction losses of € 50k. The largest items last year were acquisition costs of € 559k and foreign exchange transaction losses of € 92k.

Operating result (EBIT)

Group EBIT decreased from minus € 1,726k to minus € 2,436k in the first half of 2014. The EBIT margin improved from minus 12.7 % to minus 9.3 %.

Adjusted for the one-off effects mentioned earlier, underlying EBIT in the first half was minus € 1,299k (previous year: € 1,646k), or minus 5.0 % of sales.

EBIT in the second quarter of 2014 improved to minus € 1,233k, following minus € 1,543k in the second quarter of 2013.

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

EBITDA deteriorated from minus € 733k to minus € 1,068k in the same period a year ago. The EBITDA margin improved from minus 5.7 % to minus 4.1 %.

Adjusted for the one-off effects mentioned earlier, underlying EBITDA in the first half was minus € 495k (previous year: minus € 693k), or minus 1.9 % of sales.

EBITDA in the second quarter of 2014 improved to minus € 557k, following minus € 1,066k in the second quarter of 2013.

Interest and similar income

Interest and similar income decreased from € 45k to € 9k primarily because of the lower balance of cash and cash equivalents and low interest rates.

Interest and similar expenses

Interest and similar expenses were € 149k (previous year: € 71k) and consisted mostly of interest on liabilities to banks.

Net result

The net result decreased from a loss of € 1,762k during the prior-year period to a loss of € 2,684k.

The net result for the second quarter was a loss of € 1,360k, versus a loss of € 1,551k a year ago.

Earnings per share

Earnings per share under IFRS (diluted) were negative in the first half of 2014 at € 0.33 (previous year: minus € 0.23). Second-quarter earnings per share improved from minus € 0.21 last year to minus € 0.17 this year.

New orders and order backlog

New orders totaling € 22,492k were received in the first half of 2014. New orders of € 9,654k had been received in the same period a year ago. However, Simark was not included at that time.

Altogether, the order backlog stood at € 13,739k as of June 30, 2014 (previous year: € 5,635k).

Of this amount, € 7,971k is attributable to the Security & Industry segment, € 5,739k to the Oil & Gas segment and € 28k to the Consumer segment.

Financial position

Capital expenditures

Development costs of € 121k for SFC and PBF products were capitalized during the first six months of 2014 (previous year: € 112k). Investments were also made in software and hardware (€ 85k) and equipment (€ 50k). Total capital expenditures during the reporting period came to € 308k (previous year: € 417k).

Liquidity

Net cash outflows decreased to € 2,697k in the first half of 2014, compared with € 4,914k a year ago. The reason for this was an increase in the cash flow from ordinary operations, which had been affected in the previous year by a normalization of working capital.

Freely available cash and cash equivalents at the end of June 2014 totaled € 4,442k, lower than the € 17,712k available at the end of June 2013, due to the result in 2014 and the cash outflow from the purchase of Simark.

Cash flow from ordinary operations

The net cash outflow from ordinary operations of € 701 in the first half of 2014 was much lower than a year earlier (previous year: net outflow of € 4,693k).

Cash flow from investment activity

Net cash used for investment activity totaled € 1,248k in the period under review, versus € 375k the year before.

This year, € 950k has been paid in connection with the earn-out from the Simark acquisition.

Cash flow from financial activity

The cash flow from financial activity shows the change in PBF's and Simark's liabilities to banks, particularly due to scheduled payments on the loan from the Simark acquisition, as well as interest paid.

Assets and liabilities

The balance sheet and balance sheet ratios changed as follows during the first half of 2014:

Total assets were 8.3 % lower as of June 30, 2014 at € 43,694k, compared with € 47,650k as of December 31, 2013.

The Group's equity ratio decreased insignificantly from 61.0 % to 60.4 %.

Inventories, trade accounts receivable and receivables from percentage-of-completion were nearly unchanged, up € 171k or 1.0 %.

The most significant intangible assets are the goodwill of Simark in the amount of € 7,153k (€ 7,126k), the goodwill of PBF in the amount of € 4,672k (€ 4,672k), other intangible assets relating to the acquisitions of Simark in the amount of € 3,049k (€ 3,616k) and PBF in the amount of € 1,655k (€ 1,845k) and capitalized development costs in the amount of € 1,182k (€ 1,265k). The decrease in other intangible assets relating to the Simark and PBF acquisitions reflects the amortization of the customer relationships, technology and order books acquired. With respect to capitalized development costs, € 121k was capitalized and € 204k was amortized in the first six months of 2014.

Non-current assets decreased from € 21,715k to € 20,624k. The share of non-current assets in total assets climbed from 45.6 % to 47.2 % because total assets were down more in percentage terms. It should be noted that the buildings occupied by SFC are under long-term lease but are not shown under non-current assets pursuant to IFRS rules.

Liabilities decreased from € 18,587k to € 17,287k. Major factors here were the € 950k payment in connection with the earn-out from the Simark acquisition and the payment of € 641k towards liabilities to banks.

Altogether, liabilities made up 39.6 % of total liabilities and shareholders' equity (December 31, 2013: 39.0 %).

With the net loss for the period, shareholders' equity decreased to € 26,407k at June 30, 2014, against € 29,063k at December 31, 2013. Subscribed capital and the capital surplus were unchanged.

Employees

The number of permanent employees was as follows as of June 30, 2014:

EMPLOYEES

	06/30/2014	06/30/2013	Change
Management Board	2	2	0
Research and development	55	58	–3
Production, logistics, quality management	96	72	24
Sales & Marketing	69	35	34
Administration	25	20	5
Permanent employees	**247**	**187**	**60**

The Group employed 7 (4) trainees, graduates and student trainees as of June 30, 2014. Of the permanent employees, 73 (previous year: 86) worked for SFC, 98 (previous year: 101) for PBF and 76 for Simark.

REPORT ON RISKS AND OPPORTUNITIES

We believe that the Group's opportunities have not changed since the publication of our 2013 annual report.

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

We are of the opinion that the material risks the Group faces have not changed since the publication of our 2013 annual report, with the following exceptions:

Market risks

Macroeconomic developments

The Ifo Institute continues to view the main risk for the world economy as the fragile situation in the euro area. Despite the reform measures recently introduced by several member states, the adjustment process is far from complete, according to the Institute. Many of those countries remain far too expensive to be competitive. The Institute fears that, as in the past three years, crises could erupt at any time. Falling inflation rates in the euro area, which can now be seen in all member states, could lead to a downward revision of long-term inflation expectations by investors, consumers and producers. In extreme cases, a spiral of inflation decreases and successive drops in inflation expectations could arise, resulting in a lasting phase of deflation. However, according to the Ifo Institute's estimates, the positive effects of a correction of relative goods prices continue to prevail. Finally, the Institute sees geopolitical risks in the lasting Russia-Ukraine conflict and the recent outbreak of conflicts in the Middle East. Since both regions are among the world's key oil producers, disruptions there could lead to a spike in oil prices and may trigger a slowdown in global economic momentum.

Oil & Gas market

The economic prospects for the Oil & Gas market are positive, but there is still a risk that the industry will delay its use of innovative technologies for a certain amount of time.

Security & Industry market

Fuel cells: It is anticipated that the developing market of off-grid and mobile industrial systems will continue to grow in view of its increasing strategic importance. However, the degree to which many segments of the industrial market depend on the overall economy, government budgets and economic stimulus plans plays an important role here, as well.

Power electronics and switched mode network components: Power electronic components and systems are needed anywhere power is used. As a rule, the electronics industry develops in sync with the overall economy. The provision, storage and distribution of power play a very important role in the emerging energy markets and markets of the future, such that there is constant and widespread demand for these parts. In this respect, we continue to rate the market risks in this segment as relatively low.

Defense & Security: As discussed previously in this report, current budget cuts and structural changes are having an impact on planning and capital spending decisions at the major defense organizations in Europe and North America. For SFC Energy, this affects the development programs with defense partners and commercial orders.

Consumer

Caravaning: The German caravaning association CIVD and the European Caravaning Federation ECF are maintaining their warning from earlier this year of decreases in demand and the resulting production decreases, along with continued consumer reticence throughout Europe. They view the next six months with cautious optimism because, given the tough economic environment, a stronger sales trend can hardly be expected to follow the unusual record year in 2012. This continues to present a significant risk to sales of EFOY fuel cells in the consumer market.

It is still to be expected that the traditional segment of RV buyers, generally wealthy retirees, will decline. Younger customers tend to prefer other, cheaper vehicle and travel options. On top of that, when economic times are difficult, consumers cut back on their leisure spending before anything else, which likewise contributes to the extreme cyclicality of this market.

Marine: The marine market, in spite of growth over the past few years, is also cyclical in this way, which affects the sale of accessories, the segment of this market which is important to SFC. Even though quality accessories improve comfort, convenience and safety, in addition to adding value, this is the first area where spending is cut in difficult economic times.

Patent risks

There was a risk that we would be asked to pay damages for possible patent infringement in respect of a piece of equipment that is currently out of service. A settlement was reached in this matter in the first quarter of 2014. Therefore, a claim for those damages will not be made.

Liquidity risk

Liquidity risk describes the possibility that SFC may not be able to meet its payment obligations. This risk was counteracted by the capital increase in May 2007. SFC still has cash reserves it can use to finance the further planned growth of the Group. However, liquidity reserves have further decreased from their level at the end of 2013, due to the cash outflow during the first half of 2014.

The ultimate responsibility for liquidity risk management rests with the Management Board, which has formulated an appropriate strategy for managing the short-, medium- and long-term funding and liquidity requirements. SFC manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

FORECAST REPORT

The Management Board is upholding its forecast for fiscal 2014 and still projects that the Group's total sales will be between € 55 million and € 60 million and that underlying EBITDA will be positive for the full year 2014. An average CAD/EUR exchange rate of 1.40 was used in the sales and earnings planning for 2014. If the Canadian dollar remains weak (average CAD/EUR exchange rate around 1.50 in the first half of 2014), sales and earnings could be negatively affected on a euro basis.

REPORT ON MATERIAL TRANSACTIONS WITH RELATED PARTIES

Please refer to the section entitled "Related party transactions" in the Notes.

MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

The Supervisory Board of SFC Energy AG appointed Mr. Steffen Schneider as the Company's new CFO. He will begin his employment as Chief Financial Officer with SFC Energy AG on September 1, 2014.

There were no other material events after the balance sheet date.

Brunnthal, August 4, 2014

Dr. Peter Podesser
CEO

Hans Pol
CSO

INTERIM REPORT IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS AT JUNE 30, 2014

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

INTERIM REPORT IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS AT JUNE 30, 2014

SFC ENERGY AG, BRUNNTHAL, CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO JUNE 30, 2014

in €

	1. HY 2014 01/01 – 06/30	1. HY 2013 01/01 – 06/30	Q2 2014 04/01 – 06/30	Q2 2013 04/01 – 06/30
Sales	26,162,239	13,582,207	13,225,684	6,236,787
Production costs of work performed to generate sales[1]	–18,490,616	–8,840,054	–9,399,354	–4,194,877
Gross profit	**7,671,623**	**4,742,153**	**3,826,330**	**2,041,910**
Sales costs	–5,129,335	–2,794,680	–2,674,124	–1,383,633
Research and development costs[1]	–2,521,553	–1,974,110	–1,178,075	–1,067,533
General administration costs	–2,518,562	–1,679,496	–1,253,329	–838,873
Other operating income	118,083	631,897	75,765	154,261
Other operating expenses	–56,024	–651,635	–29,287	–449,163
Operating loss	**–2,435,767**	**–1,725,871**	**–1,232,719**	**–1,543,031**
Interest and similar income	8,864	45,468	3,911	16,550
Interest and similar expenses	–148,527	–70,881	–77,320	–27,976
Loss from ordinary operations	**–2,575,430**	**–1,751,284**	**–1,306,128**	**–1,554,456**
Income taxes	–108,747	–10,560	–54,031	3,630
Consolidated net loss	**–2,684,177**	**–1,761,844**	**–1,360,160**	**–1,550,827**
NET LOSS PER SHARE				
undiluted	–0.33	–0.23	–0.17	–0.21
diluted	–0.33	–0.23	–0.17	–0.21

1 Adjusted previous year's figures. For further explanations see "accounting principles".

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM JANUARY 1 TO JUNE 30, 2014

in €

	1. HY 2014 01/01 – 06/30	1. HY 2013 01/01 – 06/30	Q2 2014 04/01 – 06/30	Q2 2013 04/01 – 06/30
Consolidated net loss	**–2,684,177**	**–1,761,844**	**–1,360,160**	**–1,550,827**
OCI items that may be recycled to profit or loss in the future				
Result from currency translations	28,400	–16,124	374,108	36,051
Total other results	**28,400**	**–16,124**	**374,108**	**36,051**
Total comprehensive income	**–2,655,777**	**–1,777,968**	**–986,052**	**–1,514,775**

All amounts are attributable in full to equity holders of the parent company.

There are no deferred tax effects on the total results recognized directly in equity.

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2014

		in €
	06/30/2014	12/31/2013
Current Assets	**23,069,743**	**25,934,454**
Inventories	7,407,546	7,713,256
Trade accounts receivable	9,196,361	9,258,049
Receivables from percentage-of-completion	756,016	217,932
Income tax receivables	22,218	110,014
Other short-term assets and receivables	961,066	1,207,667
Cash and cash equivalents	4,441,536	7,142,536
Cash and cash equivalents with limitation on disposal	285,000	285,000
Non-current assets	**20,623,959**	**21,715,222**
Intangible assets	18,233,946	19,053,809
Property, plant and equipment	2,074,595	2,295,999
Deferred tax assets	315,418	365,414
Assets	**43,693,702**	**47,649,676**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2014

		in €
	06/30/2014	12/31/2013
Current liabilities	**11,900,575**	**12,669,182**
Provisions for taxes	38,085	88,466
Other provisions	653,928	713,710
Liabilities to banks	1,680,739	2,139,136
Liabilities from prepayments	8,186	13,894
Trade accounts payable	6,620,150	5,086,833
Liabilities under finance leases	51,963	51,771
Liabilities from percentage-of-completion	110,491	1,172,797
Other short-term liabilities	2,737,033	3,329,640
Income tax liabilities	0	72,937
Non-current liabilities	**5,385,948**	**5,917,537**
Other long-term provisions	1,747,984	1,799,661
Liabilities to banks	2,087,903	2,281,526
Liabilities under finance leases	30,873	30,759
Other long-term liabilities	21,068	70,648
Deferred tax liabilities	1,498,120	1,734,944
Equity	**26,407,180**	**29,062,957**
Subscribed capital	8,020,045	8,020,045
Capital surplus	69,569,925	69,569,925
Other changes in equity not affecting profit or loss	–635,903	–664,303
Consolidated net loss	–50,546,887	–47,862,710
Liabilities and shareholders' equity	**43,693,702**	**47,649,676**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FROM JANUARY 1 TO JUNE 30, 2014

in €

		01/01–06/30/2014	01/01–06/30/2013
	Cash flow from ordinary operations		
	Result before taxes	**–2,575,430**	**–1,751,284**
+	Net interest income	139,663	25,413
+	Depreciation/amortization and write up of intangible assets and property, plant and equipment	1,367,387	953,225
+	Expenses from Long Term Incentive Plan/SAR Plan	21,068	37,515
–	Changes in allowances	–134,638	–60,039
+	Losses from disposal of property, plant and equipment	5,334	7
–	Other non-cash income	–309,782	–25,271
	Changes to operating result before working capital	**–1,486,398**	**–820,434**
–	Changes to provisions	–154,241	–117,368
+/–	Changes to trade accounts receivable	118,933	–1,568,925
+/–	Changes to inventories	406,134	–26,264
–	Changes to other receivables and assets	–279,507	–210,946
+/–	Changes to trade accounts payable	1,474,929	–166,657
–	Changes to other liabilities	–805,265	–1,711,737
	Cash flow from ordinary operations before taxes	**–725,414**	**–4,622,331**
+/–	Income tax refunds/payments	24,897	–71,027
	Cash flow from ordinary operations	**–700,517**	**–4,693,358**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FROM JANUARY 1 TO JUNE 30, 2014

			in €
		01/01–06/30/2014	01/01–06/30/2013
	Cash flow from investment activity		
–	Investments in intangible assets from development projects	–120,993	–112,118
–	Investments in other intangible assets	–69,948	–83,275
–	Investments in property, plant and equipment	–116,904	–221,490
–	Cash outflows for the acquisition of subsidiaries, acquired in other reporting periods	–949,801	0
+	Interest and similar income	8,352	41,863
+	Proceeds from disposal of property, plant and equipment	1,143	0
	Cash flow from investment activity	**–1,248,151**	**–375,020**
	Cash flow from financial activity		
+	Raising of financial dept	0	170,550
–	Repayment of financial dept	–641,055	0
–	Interest paid and other expenses	–106,879	–16,364
	Cash flow from financial activity	**–747,934**	**154,186**
	Net change in cash and cash equivalents	**–2,696,602**	**–4,914,192**
	Currency effects on cash and cash equivalents	–4,398	829
	Net change in cash and cash equivalents		
	Cash and cash equivalents at beginning of period	7,142,536	22,625,515
	Cash and cash equivalents at end of period	4,441,536	17,712,152
	Net change in cash and cash equivalents	**–2,696,602**	**–4,914,192**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FROM JANUARY 1 TO JUNE 30, 2014

in €

	Subscribed capital	Capital surplus	Other changes in equity not effecting profit or loss	Net accumulated loss	Total
As at 01/01/2013	**7,502,887**	**67,878,818**	**–37,087**	**–38,950,824**	**36,393,794**
Total comprehensive income for the period					
Consolidated net loss 01/01 – 06/30/2013				–1,761,844	–1,761,844
Result from currency translation recognized in equity			–16,124		–16,124
As at 06/30/2013	**7,502,887**	**67,878,818**	**–53,211**	**–40,712,669**	**34,615,825**
Total comprehensive income for the period					
Consolidated net loss 07/01 – 12/31/2013				–7,150,041	–7,150,041
Result from currency translation recognized in equity			–611,092		–611,092
Capital increase					
Issuance of shares for the acquisition of Simark	517,158	1,691,107			2,208,265
As at 12/31/2013	**8,020,045**	**69,569,925**	**–664,303**	**–47,862,710**	**29,062,957**
Total comprehensive income for the period					
Consolidated net loss 01/01 – 06/30/2014				–2,684,177	–2,684,177
Result from currency translation recognized in equity			28,400		28,400
As at 06/30/2014	**8,020,045**	**69,569,925**	**–635,903**	**–50,546,887**	**26,407,180**

NOTES TO THE INTERIM REPORT OF SFC ENERGY AG

Information about the Company

SFC Energy AG (the "Company" or "SFC") is a stock corporation domiciled in Germany. The Company's headquarters 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 (the Group) are the development, production and distribution of power generation systems and their components for off-grid and on-grid applications based on fuel cell and other technologies, as well as investment in the equipment and facilities required for these activities and transaction of all other related business.

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

Accounting principles

This interim report was prepared in accordance with International Financial Reporting Standards (IFRS), as they are to be applied in the European Union. The principal accounting policies used by the Company to prepare its consolidated financial statements for the financial year ended December 31, 2013, were also used to prepare the interim financial statements.

There has been a change compared with the accounting policies applied to the amortization of development costs in the consolidated financial statements for the year ended December 31, 2013. In the previous year, this amortization was reported under research and development costs. Now, it is being shown under production costs. The prior-year figures have been restated accordingly.

The quarterly financial statements of SFC Energy AG for the financial period January 1 to June 30, 2014, have been prepared in accordance with IAS 34 "Interim Financial Reporting" as a set of condensed financial statements. These condensed financial statements do not contain all of the information required for a complete set of financial statements for a full financial year and should, therefore, be read in conjunction with the consolidated financial statements for the year ended December 31, 2013.

In addition to the standards and interpretations applied as at December 31, 2013, the following standards were applicable for the first time, but had no impact on the consolidated financial statements:

- IAS 27 "Separate Financial Statements" (2011)
- IAS 28 "Investments in Associates and Joint Ventures" (2011)
- IAS 32 "Financial Instruments: Presentation" (2011)
- IAS 36 "Impairment of Assets" (2013)
- IAS 39 "Financial Instruments: Recognition and Measurement" (2013)
- IFRS 10 "Consolidated Financial Statements" (2011)

- IFRS 11 "Joint Arrangements" (2011)
- IFRS 12 "Disclosure of Interests in Other Entities" (2011)
- Amendments to IFRS 10 "Consolidated Financial Statements, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" (2012)
- Amendments to IFRS 10 "Consolidated Financial Statements," IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" (2012)
- IFRIC 21 "Levies" (2013)

The Group has not early adopted any other new or amended standards and interpretations that have been published, but are not yet effective.

The interim report is presented in euros (€). Figures stated in this interim report are rounded to whole euros (€) unless otherwise indicated. Please note that small differences can arise in rounded amounts and percentages due to commercial rounding of figures. The consolidated income statement was prepared using the cost-of-sales method. The auditors have neither audited nor reviewed the interim financial statements.

Receivables and liabilities from percentage-of-completion

If the production costs (including earnings contributions) incurred during the quarter under review for contracts that are not yet completed exceed the amounts already invoiced (installment payments), the difference is reported as receivables from percentage-of-completion. Conversely, the difference is reported as liabilities from percentage-of-completion if the prepayments exceed these costs. During the first six months of 2014, there were receivables from percentage-of-completion in the amount of € 756,016 (December 31, 2013: € 217,932) and liabilities from percentage-of-completion in the amount of € 110,491 (December 31, 2013: € 1,172,797).

Other short-term assets and receivables

The Company had other short-term assets and receivables of € 961,066 as of the reporting date (December 31, 2013: €1,207,667). The decrease is mainly due to lower VAT receivables, which stood at € 129,097 (December 31, 2013: € 312,553).

Other liabilities

Other long-term liabilities include the obligation recognized from the Stock Appreciation Rights Plan (SAR Plan) for Management Board members Dr. Podesser and Mr. Pol. The section entitled "Stock appreciation rights plan" contains additional information about the plan.

Long-term incentive plan for Management Board members and top executives

No further tranches were granted from the LTIP in the first half of 2014. The phantom shares awarded during the term of the LTIP were classified and measured as cash-settled share-based payment transactions. The fair value of the liability to be recognized because of the LTIP was determined for all of the sub-tranches using a Monte Carlo model. At June 30, 2014, a liability of € 0 was recognized under other liabilities (€ 0 thereof under other long-term liabilities) (December 31, 2013: € 77,161, with € 0 thereof under other long-term liabilities).

The amount expensed for the period from January 1 to June 30, 2014, was € 0 (prior-year period: € 37,515). The following parameters were used in the measurement:

Measurement date	06/30/2014
Remaining term (in years)	0.5 – 1.5
Expected volatility	32.71 % – 34.71 %
Risk-free interest rate	0.01 % – 0.02 %
Share price as of the measurement date	€ 4.76

Stock Appreciation Rights Plan

As part of the new Management Board employment agreements, the Company entered into a contract for the creation of a stock appreciation rights plan (SAR Plan) with Management Board members Dr. Podesser (tranche PP1) and Mr. Pol (tranche HP1). The goal of the plan is to foster a business policy that is strongly aligned with shareholder interests in order to promote the long-term appreciation of the shareholders' stakes in the Company.

The plan envisages the payment of variable compensation in the form of stock appreciation rights (SARs). One SAR entitles its holder to a cash payment equal to the share price upon exercise less the exercise price. Once vested, SARs can be exercised within one year's time, except on blackout dates, provided certain performance targets are reached. The number of SARs available to exercise largely depends on the average price of SFC's stock for the 30 trading days prior to the end of the vesting period (reference price). The number of SARs for both beneficiaries that will expire as at the respective expiration date is as follows:

Reference price in €	Tranche PP1 SARs expiring on 4/1/2015	Tranche PP1 SARs expiring on 4/1/2016	Tranche PP1 SARs expiring on 4/1/2017	Tranche HP1 SARs expiring on 1/1/2015
< 5.00	120,000	120,000	120,000	90,000
5.00 – 5.99	110,000	110,000	110,000	82,500
6.00 – 6.99	100,000	100,000	100,000	75,000
7.00 – 7.99	90,000	90,000	90,000	67,500
8.00 – 8.99	80,000	80,000	80,000	60,000
9.00 – 9.99	70,000	70,000	70,000	52,500
10.00 – 10.99	60,000	60,000	60,000	45,000
11.00 – 11.99	50,000	50,000	50,000	37,500
12.00 – 13.99	40,000	40,000	40,000	30,000
14.00 – 15.99	30,000	30,000	30,000	22,500
≥ 16.00	0	0	0	0

One of the performance targets involves the requirement that the average share price for the 30 trading days prior to the end of the vesting period exceed the average share price for the 30 trading days prior to the award of the SARs. In addition, the stock price must have outperformed the Frankfurt Stock Exchange's ÖkoDAX as of the end of the vesting period.

The SARs awards have been classified and measured as cash-settled share-based payment transactions pursuant to IFRS 2.30. Their fair market value will be remeasured on each balance sheet date using a Monte Carlo model, taking into account the terms on which the SARs were awarded.

The status of the SARs in 2014 is shown in the following table:

	Tranche PP1	Tranche HP1
Number of stock appreciation rights	360,000	90,000
Maximum term (years)	7.00	7.00
Outstanding phantom shares at the beginning of the reporting period (1/1/2014)	0	0
Phantom shares awarded during the reporting period	360,000	90,000
Phantom shares forfeited during the reporting period	0	0
Phantom shares exercised during the reporting period	0	0
Phantom shares expired during the reporting period	0	0
Outstanding phantom shares at the end of the reporting period (6/30/2014)	360,000	90,000
Phantom shares available for exercise at the end of the reporting period (6/30/2014)	0	0
The following parameters were used in the measurement at 6/30/2014:		
Measurement date	06/30/2014	06/30/2014
Remaining term (in years)	6.75	6.50
Volatility	42.64 %	42.16 %
Risk-free interest rate	0.67 %	0.62 %
Expected dividend yield	0.00 %	0.00 %
Exercise price	1.00 €	1.00 €
SFC's share price as of the measurement date	4.76 €	4.76 €

For the term, the length of time from the measurement date to the end of the respective agreement was used. The share price given was the closing price in XETRA trading for 6/30/2014, as reported by Bloomberg. The volatility shown is based on the historical volatility of the SFC share over time frames matching the respective remaining terms. Volatility expectations are based on the assumption that historic volatility is indicative of future trends. Therefore, the actual volatility that occurs may differ from the assumptions. The expected dividend yield is based on market estimates for SFC's dividend per share in 2014 and 2015.

At June 30, 2014, a liability of € 21,068 was recognized under other liabilities (€ 21,068 thereof under other long-term liabilities) (December 31, 2013: € 0, with € 0 thereof under other long-term liabilities). The amount expensed for the period from January 1 to June 30, 2014, was € 21,068 (prior-year period: € 0).

Sales costs

Sales costs were as follows in the first half of 2014:

		in €
	01/01–06/30/2014	01/01–06/30/2013
Personnel costs	3,148,814	1,428,916
Depreciation and amortization	620,489	116,414
Advertising and travel costs	524,673	443,981
Consultancy/commissions	267,342	417,511
Cost of materials	13,523	49,907
Other	554,495	337,951
Total	**5,129,335**	**2,794,680**

Research and development costs

Research and development costs were as follows in the first half of 2014:

		in €
	01/01–06/30/2014	01/01–06/30/2013
Personnel costs	1,735,952	1,474,620
Consultancy and patents	309,212	305,149
Cost of premises	222,328	186,820
Other depreciation and amortization	200,056	173,208
Cost of materials	163,283	255,608
Depreciation and amortization of self produced intangible assets	9,261	13,725
Other	125,926	118,105
Capitalization of self-produced intangible assets	–120,993	–112,118
Set-off against grants	–123,472	–441,007
Total	**2,521,553**	**1,974,110**

General administration costs

General administration costs were as follows in the first half of 2014:

		in €
	01/01 – 06/30/2014	01/01 – 06/30/2013
Personnel costs	1,253,442	864,505
Audit and consultancy costs	318,587	217,196
Investor relations/annual meeting	233,152	118,483
Insurance	97,413	83,157
Depreciation and amortization	77,143	70,869
Travel costs	76,842	49,501
Car-operating costs	63,082	56,613
Supervisory Board compensation	56,250	56,250
Costs of hardware and software support	33,032	26,335
Other	342,226	260,052
Set-off against grants	–32,605	–123,465
Total	**2,518,562**	**1,679,496**

Other operating income and expenses

The figure for other operating income in the first half of 2014 predominantly reflects the € 14,914 (previous year: € 0) in income from reversal of the earn-out liability (contingent consideration) from the Simark acquisition as well as foreign exchange transaction gains of € 71,607 (previous year: € 124,260). The other operating income in the previous year mostly reflected the reversal of the earn-out liability of € 479,077 from the PBF acquisition.

Other operating expenses predominantly reflects foreign exchange transaction losses of € 49,634 (previous year: € 91,880) during the first half of 2014. Last year's figure mostly reflected expenses of € 558,631 in connection with targeted acquisitions.

Income taxes

As was the case in the consolidated financial statements as of and for the year ended December 31, 2013, deferred tax assets are recognized on tax loss carryforwards of SFC and its subsidiaries only in such an amount as can be offset against deferred tax liabilities, after subtraction of the other deferred tax assets, since it cannot yet be shown with reasonable certainty that a future economic benefit will be drawn from these carryforwards.

Segment report

Internally, the Management Board uses sales, gross profit and EBITDA when steering the Group and implementing the realignment of its business with the core markets "Oil & Gas," "Security & Industry" and "Consumer." The segment reporting for the first half of 2014 and prior-year figures were adjusted to fit the new internal reporting structure.

Sales, gross profit, EBITDA and the reconciliation of EBITDA to the operating result (EBIT) as reported in the consolidated income statement were as follows in the first half of 2014:

in €

Segments	Sales		Gross profit		EBITDA	
	01/01 – 06/30/2014	01/01 – 06/30/2013	01/01 – 06/30/2014	01/01 – 06/30/2013	01/01 – 06/30/2014	01/01 – 06/30/2013
Oil & Gas	14,044,725	297,518	3,427,149	163,208	–60,232	–824,904
Security & Industry	9,725,983	10,420,300	3,545,571	3,670,683	–852,956	–107,395
Consumer	2,391,531	2,864,389	698,903	908,262	–155,192	–159,653
Total	**26,162,239**	**13,582,207**	**7,671,623**	**4,742,153**	**–1,068,380**	**–772,646**
Depreciation/amortization					–1,367,387	–953,225
Operating loss (EBIT)					**–2,435,767**	**–1,725,871**

The “Oil & Gas” market covers distribution and service as well as product integration for power supply, instrumentation and automation products for the oil and gas market.

The “Security & Industry” market is highly diversified and could include any area of industry, except oil and gas, where professional users run electrical equipment away from the grid and use SFC’s EFOY Pro fuel cell. This includes applications in security and surveillance, traffic management, wind power and environmental technology, as well as defense and security applications for military organizations and government authorities. The product portfolio for this market also includes the JENNY 600S, the vehicle-based EMILY 3000, the EMILY Cube 2500, the SFC Power Manager and network solutions. Additionally, PBF sells its high-performance electronic components for integration into precision defense equipment as well as into testing and metering systems in this segment.

In the “Consumer” market, SFC’s EFOY COMFORT fuel cells are used to supply power to RVs, vacation cottages and sailboats.

Related party transactions

There have been changes in the group of related parties since preparation of the consolidated financial statements for the year ended December 31, 2013. Mr. Gerhard Inninger resigned from the Management Board, and Mr. Hans Pol was appointed to the Management Board during the reporting period. There were no significant related party transactions in the first half of 2014, just as there were none in the first half of 2013.

Employees

SFC employed the following personnel as of the reporting date:

	06/30/2014	06/30/2013
Full-time employees (incl. Management Board)	214	159
Part-time employees	33	28
Total	**247**	**187**

There were also a total of 7 (previous year: 4) trainees, graduates and student trainees at the end of June 2014.

Earnings per share

Earnings per share are calculated by dividing the net income for the year that is attributable to shareholders of the parent by the average number of shares in circulation. The number of outstanding shares, 8,020,045 at the balance sheet date of June 30, 2014 (previous year: 7,502,887) did not change during the first half of 2014. As during the prior-year period, there were no dilutive effects to be taken into account in determining the number of outstanding shares or any dilutive effects on SFC's earnings.

Material events after the balance sheet date

The Supervisory Board of SFC Energy AG appointed Mr. Steffen Schneider as the company's new CFO. He will begin his employment as Chief Financial Officer at SFC Energy AG on September 1, 2014.

There were no other material events after the balance sheet date.

Brunnthal, August 4, 2014

Management Board

Dr. Peter Podesser
CEO

Hans Pol
CSO

SFC ENERGY AG, BRUNNTHAL RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim 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 for the remaining months of the financial year.

Brunnthal, 4 August 2014

Dr. Peter Podesser
CEO

Hans Pol
CSO

FINANCIAL CALENDAR 2014

November 13, 2014 Q3 Report
November 26, 2014 Equity Capital Forum, Frankfurt/M.

SHARE INFORMATION

Bloomberg Symbol	F3C
Reuters Symbol	CXPNX
WKN	756857
ISIN	DE0007568578
Number of shares	8,020,045
Stock Category	No-par value shares
Stock segment	Prime Standard, Renewable Energies
Stock exchange	Frankfurt, FWB
Designated Sponsor	Close Brothers Seydler

INVESTOR RELATIONS

SFC Energy AG
Eugen-Saenger-Ring 7
85649 Brunnthal
Germany
Phone: +49 (0) 89 / 673 592 – 378
Fax: +49 (0) 89 / 673 592 – 169
E-mail: ir@sfc.com

CROSS ALLIANCE communication GmbH
Susan Hoffmeister
Phone: +49 (0) 89 / 89 82 72 27
E-mail: sh@crossalliance.com

IMPRINT

SFC Energy AG
Eugen-Saenger-Ring 7
85649 Brunnthal
Germany
Phone: +49 (0) 89 / 673 592 – 0
Fax: +49 (0) 89 / 673 592 – 369

Responsible: SFC Energy AG
Editing: SFC Energy AG
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