# H1 2015

2G Energy AG Half-year report

# Contents

# 2G. Foreword.

Management Board of 2G Energy AG: Ludger Holtkamp, Christian Grotholt and Dietmar Brockhaus.

# Foreword

Dear shareholders,

Oil and gas prices are currently at a very low level, which is due partly to new exploration methods to tap additional natural gas deposits. As a consequence, the USA has now risen to the status of an energy exporter on the world market. Resources of which we are aware of today should prove sufficient to cover demand for natural gas on a cost-efficient basis for at least the next 200 years. It is likely – and we hope – that we will have switched by then to pure regenerative energy supplies.

Why is the natural gas price so relevant for our medium-term business progress?

This is relatively simple to explain: we utilise natural gas in order to produce electricity and useful heat. In other words, if the fuel for 2G systems remains priced at a low level, and electricity for end-customers becomes relatively stable in value – and even more expensive medium-term – then such factors exert a very positive impact on CHP systems' economic efficiency. We also speak of a spark spread in this context, referring to the relationship between electricity prices and gas prices. In summary, we can say that we will not remain permanently dependent on statutory provisions and support scenarios, but instead on market-based pricing of thermal and electric energy in comparison with the gas price.

As our technical 2G solutions are driven with gases of both fossil and regenerative origin, we look forward to the decarbonisation of energy supplies that awaits us. 2G equipment and systems already enable volatile electricity generation units to be offset with photovoltaic and wind power plants, allowing society and business to enjoy secure supplies. The broader-based application of combined heat and power plants (CHPs) also boosts the targeted rate of expansion of decentralised energy supplies.

CHPs are power plants which can be operated on a heating-managed basis, and which can also be operated on an electricity-managed basis through integrating heat storage devices. Power plants situated at the site of utilisation that can flexibly serve energy demand from industry and business operations, the residential sector, public-sector facilities, and municipal and general utilities. Power plants that offset fluctuating electricity generation from wind and solar plants, thereby contributing to secure supplies. Power plants that can be aggregated to create virtual power plants. Power plants which can be managed and controlled remotely in real time, and which can supply the actual requirements of the energy market by delivering secured output that serves energy systems. Not least, these are power plants that can replace conventional, ageing power plant technology that does not offer heat extraction.

In all modesty, we can add that 2G makes continuous and significant contributions to grid integration capacity and service quality with developments in engine mechanics, control electronics and the digitalisation of CHP systems. 2G CHP power plants prove convincing to our customers today because such systems operate highly efficiently and reliably while providing very high availability at the same time. They are economically efficient, sparing on resources, and can help us achieve the German government's climate protection target with a 40 % reduction of $CO_2$ emissions based on 1990 in the electricity sector, through avoiding 22 million tonnes of $CO_2$ emissions, and save 20 % of primary energy by 2020 – at a fraction of the costs of the climate levy that the German Federal Ministry of Economics and Technology recently introduced into discussions.

Further clarification is needed about the benefits of combining the generation of electricity and heating, however, so that such technology is utilised comprehensively for electricity market design as part of the new energy policy direction, and so that CHP is applied within a broad output spectrum. As part of the amendment to the German Combined Heat and Power Generation Act (KWKG), we demand, firstly, the retention of the CHP expansion target of 25 % of Germany's entire net electricity generation. And secondly, we demand the retention of the subsidy rates for the existing KWKG for self-utilised electricity while taking into account the subsidy budget in line with the experts' draft. We look forward to seeing how the distribution of the increased EUR 1.5 billion budget to promote CHP in Germany for self-utilised and feed-in electricity is presented in the final text of the act. To incentivise investing in CHP, it is important that operations can utilise generated electricity directly for site supplies, receiving a so-called CHP supplement for this, as has been the case to date. Only in this way can the extraction of electricity from nuclear power, lignite and non-cogenerative sources be substituted quickly, and climate targets be achieved. In addition, the competitiveness of the German economy would be bolstered through producing CHP electricity and heating at manufacturing and utilisation sites locally, thereby delivering related energy cost savings. CHP expansion that can already be realised rapidly also comprises a weighty argument. CHP plants can be erected simply and connected to existing infrastructure (gas network, electricity grid).

Above and beyond this, CHP systems can be integrated without problem at the utilisation site into an existing energy management concept (electricity, district heating, and potentially cooling and steam). Major infrastructure projects spanning Germany, such as the costly and laborious expansion of general supply grids, especially power lines, are not required.

Electricity production will also not cope entirely without fossil power plants over the coming decades. For this reason, it is important that such power plants utilise the fuel sources that are deployed as efficiently as possible, and emit as few climate-damaging greenhouse gases as they possibly can. The combined generation of electricity and heat can reduce primary energy input, and also $CO_2$ emissions, by around 40 %. The expansion of CHP forms an important and indispensable component of the new energy policy direction as a consequence. We will also intervene directly in Berlin in the further consultation and legislative process for the new KWKG to this end.

2G has intentionally positioned and oriented itself internationally in order to diversify away from Germany's regulatory environment. We will continue to pursue this strategy stringently so that corresponding dependencies are increasingly neutralised.

Heek, September 2015
2G Energy AG

Yours sincerely,

Christian Grotholt
Management Board Chairman (CEO)

Ludger Holtkamp
Management Board member

Dietmar Brockhaus
Management Board member

2G. Share.

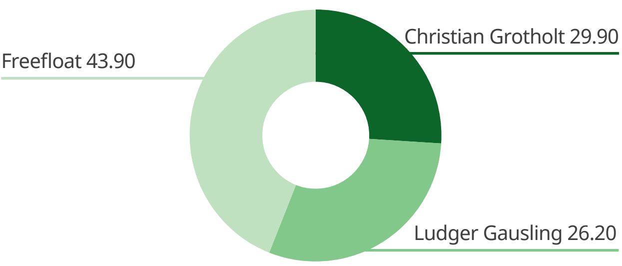
2G Energy AG Half-year report.

# 2G Energy AG share

### 2G Energy share recovers

The 2G share price trended up during the January 1 to June 30, 2015 reporting period. The share started the first half of 2015 at a price of EUR 16.61. The 2G share then reached its low for the period of EUR 13.01 three weeks later. A significant share price recovery was followed at the end of May by the share marking its high for the period of EUR 23.08. This corresponds to a range of 43.6 % between the lowest and highest prices. The 2G share stood at EUR 20.40 as of June 30. A sideways movement between EUR 20 and EUR 22 followed until mid-September 2015. The 2G share appreciated by a total of 22.8 % during the first half of the year. The DAX German equity index was up by 12.1 % over the same period, and the DAXsubsector All Renewable Energies industrial group index to which 2G is also allocated increased by 31.3 %.

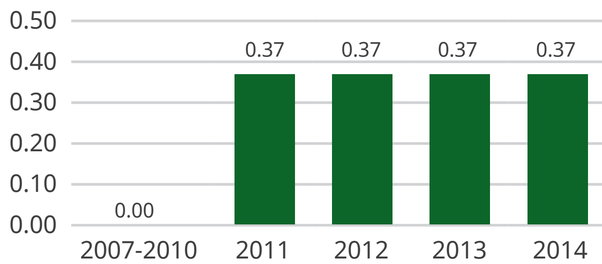
**2G Energy AG shareholder structure** Share %




As of 30/06/2015

Turnover in the 2G share on XETRA, the Frankfurt stock market floor and regional stock exchanges averaged around 14,500 shares per day during the first half of the year (H1 2014: 5,500). Around 82 % of the turnover in the 2G share was traded through XETRA. This was also the case during the comparable prior-year period. A major shift in the shareholder structure within the free float continuing from the second half of 2014 was the reason for the increase in daily liquidity during the first half of 2015. New investors with a focus on the company's continuous growth within a promising international growth environment are gradually replacing investors who invested in 2G shares during the years of the biogas boom that was driven by the German Renewable Energies Act (EEG).

**Dividends 2007 - 2014** EUR



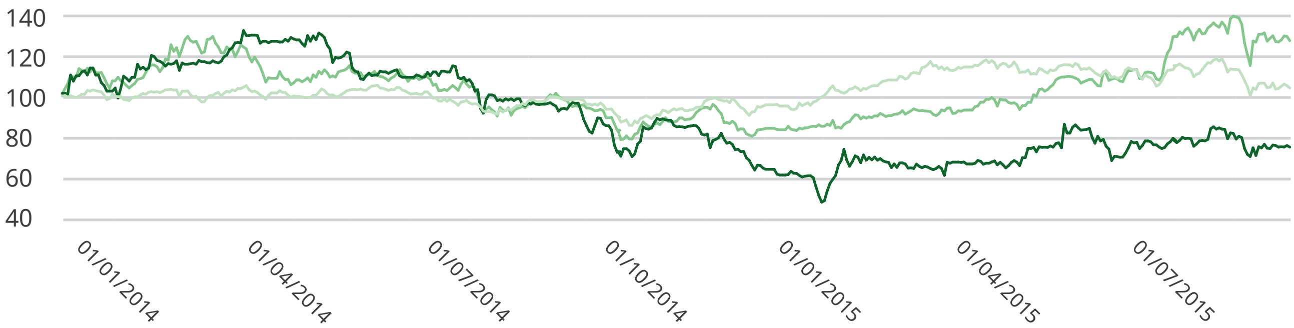

At the Ordinary AGM on July 8, 2015, a large majority of the shareholders approved the payout of a EUR 0.37 dividend for the 2014 financial year. Attendance at the AGM amounted to around 63.1 % share capital.

2G pursues a sustainable dividend strategy that enables shareholders to participate in the company's success and profitability. Dividends should be based on profits, and should avoid distributions from the company's net assets in order to maintain the company's financial and innovative strength for further growth.

During the first half of 2015, the Management Board targeted Central European investors with both longer investment horizons and a more fundamental understanding of CHP technology, its application areas, and European and American markets. The Management Board explained the 2G business model and investment case at roadshows and investor conferences. Attention was also drawn to potential expected fluctuations due to changes in German and international markets, and long-term positive growth indicators and opportunities were presented.

Research about 2G is produced by the investment houses First Berlin, Hauck & Aufhäuser, Warburg, WGZ Bank, equinet, Solventis, and natureo finance.

**Performance of 2G share 2014/2015 (indexed)**




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

# 2G. Group management report.

# Group management report

## 1. The 2G Group

### Business activity and corporate structure

The 2G Energy AG Group is an internationally leading manufacturer and provider of decentralised energy supply systems. With the development, production and technical installation, as well as digital network integration, of combined heat and power systems (CHP systems), the company offers comprehensive solutions on the high growth market for highly efficient combined heat and power generation. Comprehensive after-sales and maintenance services comprise an important additional performance criterion. The product range especially includes CHP modules with an electric output range between 20 kW and 4,000 kW for operation deploying natural gas, biogas, other lean gases and hydrogen. All systems function highly efficiently, conserve resources, and reduce or neutralise $CO_2$ emissions in combined energy production. With more than 4,000 systems in over 35 countries, 2G power plants in various applications supply heating, cooling and electrical energy to a broad spectrum of customers that includes companies in the housing industry, commercial and industrial companies, public energy utilities and local government authorities.

2G Energy AG is a holding company that combines nine subsidiaries under its management.

**2G Energy AG**

| 100 % | 90 % | 80 % | 100 % | 90 % | 100 % | 100 % | 100 % | 100 % |
|---|---|---|---|---|---|---|---|---|
| 2G Energietechnik GmbH | 2G Home GmbH | 2G Drives GmbH | 2G Rental GmbH | 2G Solutions S. L. | 2G Italia Srl | 2G Energy Ltd. | 2G Polska Sp. z o.o. | 2G Energy Inc. |

Diagram 1: 2G Energy AG corporate and ownership structure (as of 18 September 2015)

2G Energietechnik GmbH (2GE), which is based at Group headquarters in Heek, in Germany's western Münster region, comprises the main operating entity. The company combines the planning, sales, production, installation and commissioning of 2G CHP modules. It also centrally manages and coordinates after-sales services for CHP modules. 2GE also maintains dependent branches in Schonstett near Munich, in Hamburg, and in Halle/Saale.

2G Drives GmbH (2GD) is also based at the Heek site. Its business purpose is to conduct research and development in the area surrounding the 2G product range. As a technology services provider, 2GD concentrates mainly on optimising gas engines, control electronics, as well as the new and further development of hightech peripheral components. Improved efficiencies, longer maintenance intervals, and grid integration capacity allow 2G's customers to generate greater utility and benefits. Development of software to maintain, network and control decentralised CHP systems is also of great significance. Very high efficiencies of the products that the company develops itself, and the integrative capacity of CHP systems, comprise important keys to 2G's success, with such USPs generating additional competitive advantages. The link between mechanics and software, as well as rapid availability, reliability and a high level of flexibility, enable decentralised CHP units to function as large-scale intelligent power plants (Virtual Power Plants / VPPs). Two renowned and internationally recognised experts in the field of gas engine development each hold a 10 % interest in 2GD.

2G Home GmbH (2GH) also operates its headquarters in Heek. The company is also represented in the lower output range of heating-manage CHP systems with its core products, the G-Box 20 and the G-Box 50. The G-Box is a profitable small power plant in the electric output range between 20 and 50 kW, and is supplied as a turnkey compact module for small and medium-sized business operations, hospitals, hotels, trading businesses and housing complexes. As OEM (Original Equipment Manufacturer), 2G also produces and supplies the G-Box 20 to renowned heating sector companies.

2G Rental GmbH (2GR) was founded with headquarters in Heek in November 2014. It supplies 2G power plants to energy service providers (contractors) or directly to customers through leases, or for purchase. In a first step initially limited to the German market, 2G has thereby created a proprietary instrument to promote sales of CHP systems produced by 2GE.

Internationally, the 2G Group has met preconditions to further tap important foreign markets during the period under review. At the end of February 2015, 2G Energy AG acquired the remaining 51 % interest in 2G Cenergy Power Systems Technologies Inc., St. Augustine, Florida. It previously held a 49 % interest in the US sales and service company for 2G's CHP systems. 2G also runs its own production facility in the USA through 2G Manufacturing Inc. (2GM), based in St. Augustine, Florida. Self-sourced parts and core components from Heek are fully assembled in St. Augustine into 2G CHP plants for the American market. In a second step, 2G renamed its wholly-owned subsidiary 2G Manufacturing Inc. as 2G Energy Inc. in early August 2015. All sales, production and service activities – including those of a further subsidiary 2G Cenergy Inc. – are being bundled within this entity in the future. This concentration enables

2G Energy Inc. to offer its customers all services on a one-stop-shop basis, and to profile itself to a greater extent as an integral unit on the US market.

Foreign subsidiaries operating regionally as sales and service companies, and with native speakers providing local service, have been established within the Group for several years. In Spain, 2G Solutions of Cogeneration S.L. based in Vic (Barcelona) covers the Iberian peninsular, and also taps the French market through a liaison office in Rennes. While the market in Italy is served by Verona-based 2G Italia Srl., 2G Polska Sp. z o.o., which has its headquarters in Bielsko-Biala, is responsible for the Polish market and the Baltic. 2G Energy Ltd., which is based in Sutton Weaver, Runcorn, is responsible for the markets in the United Kingdom and Ireland.

In addition, important industrial and raw material markets are secured through sales cooperation ventures in Japan, Southeast Asia, Australia, Africa and Russia, for example.

## 2. Economic environment/ Macroeconomic situation

The global economy registered a somewhat weak performance during the first half of 2015, according to the summer forecast produced by the Kiel Institute for the World Economy (IfW). Significant differences emerged on a regional basis, however. While the uptrend continued in Europe and North America, some BRIC nations reported significantly weaker economic trends. In China, indications of weaker economic dynamism have increased recently. Europe benefited from the low external value of the euro, the low oil price, and the continuation of expansive monetary policy. The consequences of the financial and euro crisis continued to prove burdensome to some countries, however. Although interest rates were also not raised in the USA, experts anticipate that they will be increased during the second half of the year.

### Multitalented natural gas supports new energy policy direction

In 2G's opinion, the new energy policy direction cannot succeed without natural gas, and without existing natural gas transmission and distribution systems as storage capacity. This is because natural gas represents a multitalented energy supplier on the electricity and heating markets, and among all fossil fuel sources enjoys a beneficial net carbon dioxide impact in combustion within technical applications, and thanks to its high efficiencies. When being converted into electricity, natural gas releases 50 % less $CO_2$ than lignite. Gaseous primary energy sources also combust with less residue and soot formation than diesel fuels, for example. Overall, gases can be stored underground in large volumes, and can be transported rapidly through pipeline systems. This allows energy that corresponds to German electricity requirements to be stored for three months. Gas can also be produced regeneratively with „power-to-gas" technology: hydrogen or methane fuel gases are generated by means of electrolysis from excess wind and solar electricity, water and $CO_2$. These can be fed into existing natural gas infrastructure, while being converted back into electricity, and also heating, utilising 2G power plants. This allows renewable energies, CHP technology, gas grids, and local and district heating applications to be combined with each other in a way that is beneficial, complimentary, and in line with systems. 2G is already involved in a pilot project with renowned industrial companies to utilise hydrogen to this end, and has collected important empirical data for engine technology with hydrogen fuel.

Natural gas driven CHP systems today no longer deliver just primary heating (heating-managed). Electricity demand is now being applied additionally as a control parameter increasingly frequently. With a software solution and new developments in control technology, 2G has created the „virtual power plant“ operating type as a valuable operating alternative. Overall, the 2G power plant is thereby operated on a basis that is „heating-managed and electricity-oriented“ in order to significantly simplify integration within a grid group. In other words, when demand for electricity increases – for own use or to stabilise the supply grid – 2G power plants can be activated accordingly. The heating that is produced at the same time is also available through storage systems for subsequent consumption-managed utilisation. Natural gas operated CHP systems can be operated with a high degree of efficiency, and can be deployed flexibly. Application examples are manifold: in the supply premises itself (computing centres, healthcare, swimming pools, apartment blocks, retail centres etc) or in industrial and business operations with continuously high heating requirements (process or thermal heat).

Demand for natural gas operated CHP modules continued to rise in Germany during the first half of 2015, as in previous years. The growth trend in natural gas operated CHP systems consequently continued during the period under review. The market share of the natural gas segment for CHP systems remained at a high level of around 60 % (previous year: 67 %), and significantly higher than that of the biogas segment, according to currently available figures from the 2014 survey conducted by Energy & Management / German Institute for Applied Ecology. Greater deployment of natural gas operated CHP systems is being supported through existing assistance provided by the 2012 German Combined Heat and Power Generation Act (KWKG) and Germany‘s Mini CHP Impulse Program, although especially by the economic efficiency of CHP plants, and the possibilities to integrate them into existing local supply infrastructures.

**Gas prices fall**

The price of natural gas has tended to fall over the past quarters. This trend accelerated during the first half of 2015. The sharp fall in the oil price that has been observable since mid-2014 is exerting a delayed effect on natural gas importers‘ long-term supply agreements, and the partial connection with the oil price that exists also affects natural gas price trends. Price swings are generally less than those of oil price changes, as the gas cost portion of the selling price is lower than the portion for transportation and distribution costs, taxes and profit margins. This falling gas price trend is supported by a good supply situation and high supply security.

**Development of prices for natural gas for the industry und households in Germany** (Index 2010 = 100)

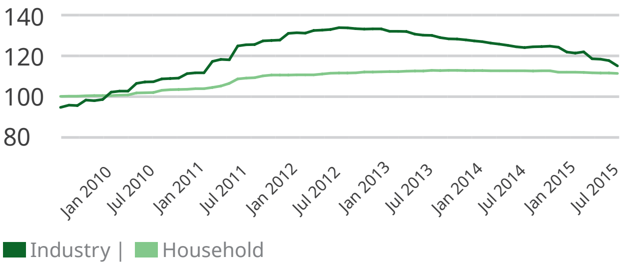



Diagram 2: German Federal Statistical Office, Development of Energy Prices, 27 August 2015

### Electricity prices stagnate at a high level

For the first time in years, average electricity prices for private households and medium-sized industrial operations fell slightly year-on-year during the first half of 2015, by 1.4 % and 0.6 % respectively, according to data produced by the German Energy and Water Sector Association (BDEW). For private households, this represents the first fall since 2000. Along with some state-imposed taxes, surcharges and levies, the German Renewable Energies Act (EEG) levy fell by 1.12 % from 6.24 cents/kWh to 6.17 cents/kWh for both customer groups. For private consumers, the costs for procurement, grid charges and distribution were down by 4.5 %, from 7.38 ct/kWh in 2014 to 7.05 ct/kWh, in the reporting period. For industry, by contrast, such costs rose by 3.5 %, from 6.95 ct/kWh to 7.19 kWh, during the corresponding observation periods. Wholesale prices on the Leipzig EEX electricity exchange continue to fall, being down by between 5 % and 9 % during 2015 to date compared with the 2014 year average, depending on product. This is evident not only in the continued high EEG levy (differential costs between EEG feed-in compensation and electricity market price), but also in a price-reducing effect due to preferential feed-in and marketing of EEG electricity volumes.

It can be noted overall that electricity prices for medium-sized industry as an electricity consumer have remained at a high level since the end of 2012. No trend turnaround has been identifiable to date, including during the course of the current reporting year.

A spark spread (relationship between trends in electricity prices and natural gas prices) of generally 2.5 or greater continues to prevail due to the German gas and electricity market in 2015, as outlined above, as well as on foreign markets of relevance for 2G. This consequently creates the basic preconditions for the economically efficient operation of combined heat and power generation.

**Average electricity price for industrial customers (incl. electricity tax) 2000 - 2015** Euro-Cent per kWh

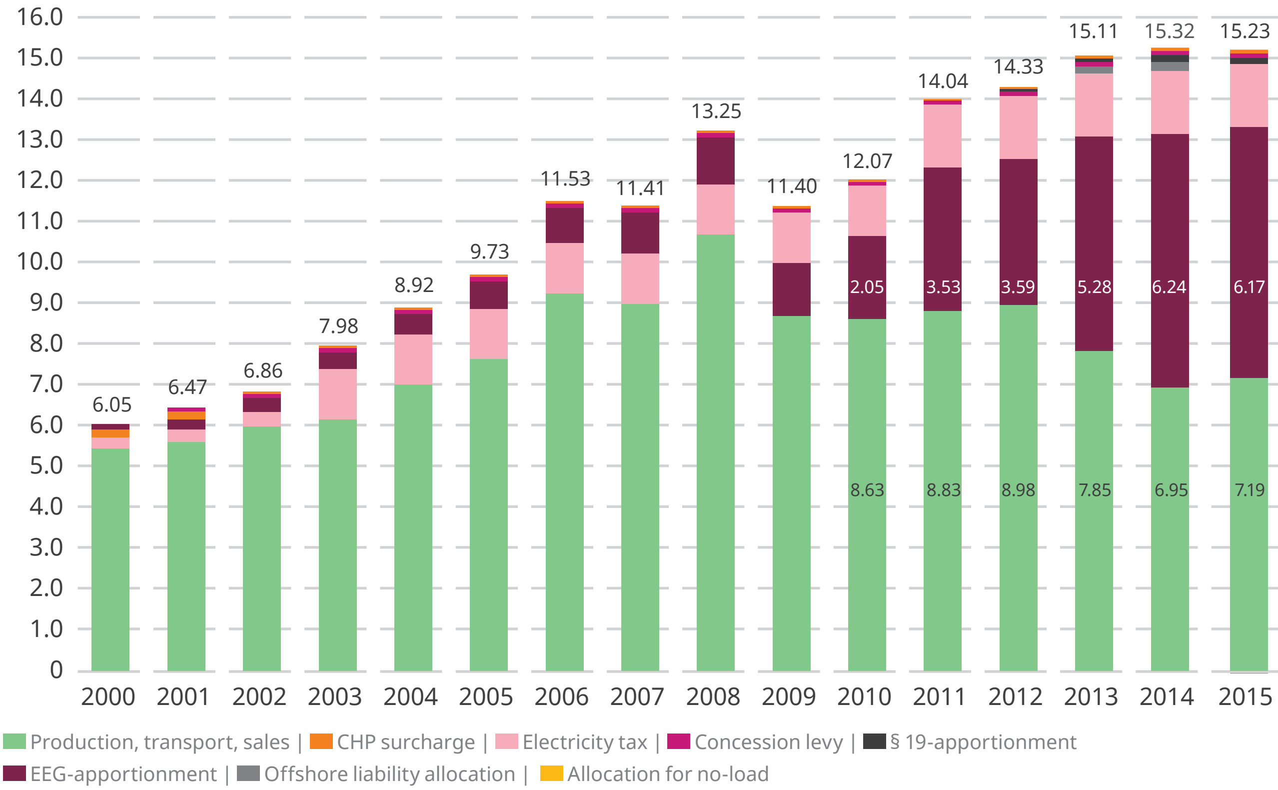



Diagram 3: Average electricity price for industry 2000 – 2014 (including electricity tax) in Germany in cents per kWh (annual consumption 160 to 20,000 MWh), medium voltage supplies (intake 100 kW / 1,600 h to 4,000 kW / 5,000 h)
Source: BDEW Electricity Price Analysis, August 2015

## Repowering and flexibilisation determine gas business in Germany

During the first half-year, 2G predominantly sold smaller biogas operated combined heat and power systems as part of rendering existing plants more efficient. Flexibilisation forms part of repowering existing biogas plants. Once biogas operated CHP systems have reached the end of their basic life-cycle of around 60,000 operating hours (eight years on average), operators face a choice between a general overhaul, or replacement investments in combination with a technical re-dimensioning and flexibilisation (so-called „superstructure“) of the respective plant. The flexibilisation premium and the market premium for plant operators in direct marketing (participation in regular operations) offer additional incentives to invest. The fact that a plant can be controlled remotely comprises an important precondition for entitlement to payment of the market premium. For repowering, 2G has sold CHP systems from its filius series, in particular. The filius, a high-performing power plant in the 50 to 150 kW output range, is designed especially for smaller biogas plants, and meets remote control regulations. It is generally preassembled as a turnkey compact module in the filius Container, and can be commissioned quickly and simply. The German Biogas Association forecasts around 190 MWe of superstructuring of biogas plants for 2015. The 2014 German Renewable Energies Act (EEG) plans for an aggregate addition of up to 1,350 MWe of electric output to the plant park as part of the flexibilisation premium in Germany.

The compensation entitlement for existing biogas systems was reduced with the fixing of a „maximum rated output“ in the 2014 EEG. This is relevant particularly for plant operators who have expanded their existing plant or have built new plant, and have since been unable to achieve potential „peak plant performance“ (due to technical problems, for example). The commissioning year of the system is decisive to determine maximum rated output. Every kilowatt-hour of electricity that exceeds the plant's maximum rated output is compensated only at the monthly market value (actual monthly average of our contracts (EPEX Spot SE) on the Paris energy exchange).

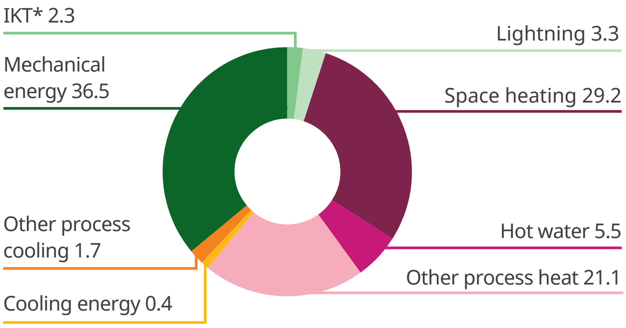
It was also evident during the first six months of 2015, however, that intervention in the status quo through the setting of maximum rated output and additional expected approval regulations unsettled many plant operators in Germany, who have postponed investments for the time being. 2G has developed a very good competitive position for itself in this market through the high level of its technology, plant controls and grid capability. The CHP plants of the filius product range meet the so-called grid codes, are certified in compliance with medium and low voltage guidelines, and can also be controlled remotely in operation through control software for energy service providers (contractors).

On European markets, biogas continues to represent an important fuel for CHP plants, and generally receives state subsidies to varying degrees. Overall, support systems are being modified in many countries, and subsidy levels are tending to fall. France currently comprises an exception. The government has presented plans to increase biogas plant subsidies by 10 % to 20 %. In the USA, too, the expansion of the biogas industry is to be stepped up as part of the Climate Action Plan with the Biogas Opportunity Roadmap that was presented in August 2014. The potential is currently estimated at around 11,000 plants according to a study, with the current base still amounting to fewer than 1,000 systems. A first report with proposals for the implementation of EPA (Environmental Protection Agency), DOE (Department of Energy), the USDA (US Department of Agriculture), and the industry associations involved, is slated for the fourth quarter of 2015.

**CHP's utility lies in heating generation and provision of system output**

The reduction of greenhouse gas emissions by 40 % by 2020 comprises the main goal of Germany's new energy policy direction. In other words, an additional 22 million tonnes of $CO_2$ compared with 1990 must be saved, especially in the electricity sector. This target is to be achieved through boosting energy efficiency, reducing specific $CO_2$ emissions, lowering energy consumption, and through greater deployment of renewable energies. Political and public discussion nevertheless fails to take sufficient account of the heating market. Enormous $CO_2$ reduction potentials, especially in decentralised heating generation, continue to lie unexploited. Around 40 % of total energy consumption flows into heating generation. In other words, major potential exists in the so-called „new heating policy direction“ to reduce $CO_2$ emissions.

**Energy consumption acc. to area of application in Germany in total 2013** Share %




*information & communication technology

Diagram 4: Energy consumption acc. to area of application in Germany total 2013
Source: Energy Balances Working Group (AGEB), BDEW

**Energy consumption acc. to area of application in the industry in Germany 2013** Share %

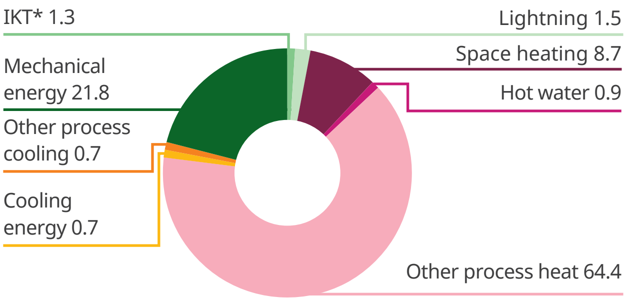



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Diagram 5: Energy consumption acc. to area of application in the industry in Germany 2013
Source: Energy Balances Working Group (AGEB), BDEW

The combined generation of electricity and heating by means of CHP power plants can make a significant contribution to energy and resource efficiency, and to reducing $CO_2$ emissions. In Germany, the preconditions for fossil and biogenic operated CHP plants can be seen as favourable in terms of infrastructure. With a widely branched natural gas network, high regional biogas plant density, and district and local heating lines, the main economic investments up to industrial customers and end-consumers have already been realised – and can be exploited immediately.

The potential of combined heat and power can only unfold, however, if system suitability in both of the generation systems and economic efficiency in local application are taken into account in the cogeneration of electricity and heating. Heating production must serve to cover real heating demand. CHP heating generation without actual replacement of other heating production is not system-suitable, and is not economically efficient. Given the current electricity price situation and the costs of generating electricity from a CHP plant, the decisive factor in an investment decision is the existence of demand for heating.

Insofar as CHP plants adjust the production of electricity and heating to demand – in other words, insofar as they generate flexibly – they can be operated in a manner that serves systems, and that proves economically viable for the operator. Cogenerative electricity production can be released from heating demand for a certain period through the utilisation of heating storage devices. The aim of all operators is to cover or replace the maximum proportion of energy demand with suitable plant configuration and a demand-based regulating strategy, and to achieve a high share of full utilisation hours.

During the past quarters, 2G has successfully realised numerous CHP projects with such specifications for renowned customers such as Merck Pharma, Krombacher Brauerei, Osram, Metro, Nestlé, albi Fruchtsäfte, axel springer, and Enercon. Along with technological expertise, 2G's strong competitive position on this market is also based on its experienced project and plant management.

Flexibly operated and controllable CHP systems – as with the „virtual power plant" operating type that 2G has developed – make an active contribution to supply security by contributing to the covering of electricity demand – including in extreme situations such as during sustained dull weather conditions – and to securing grid stability, as well as through the capability to regulate them, and switch them off. This requirement for flexible operability is increasing every year through renewable energies' growing share within the system. The question concerning capacity cover within the electricity system is also playing a considerably greater role as a consequence: plants that can be operated flexibly and thereby provide secured output are required increasingly urgently in order to offset sustained periods of dull weather conditions that cause fluctuating energies (no electricity from wind and solar plants).

While the electricity feed-in from wind power plants and photovoltaic systems is very volatile, the rotating masses of CHP systems are very important for grid stability due to their physical properties, as well as the holding and regulating of grid frequency within narrow limits. The natural inertia and constant availability of CHP plants exert a stabilising effect within the European integrated grid, and deliver positive balancing energy.

In 2G's assessment, this will lead to a further major increase in the flexibility requirements that are made of CHP plants over the coming years. This demands, firstly, reliable and dependable gas engine mechanics to a greater extent than ever before, and, secondly, plant digitalisation. The latter ranges from electronic access rights for maintenance personnel, and greater plant intelligence, including self-diagnosis when plant operation is interrupted, through to full integration into the electricity market of the future. 2G has already established very high standards within the sector in all of the aforementioned areas. 2G has further underscored its position as technology leader with the development of the series 4 of its agenitor (250 kW, 360 kW) and its avus 500plus (550 kW). The combination of efficient technology with a long service life, high availability and grid integration evens 2G's path to further boosting its market share in existing and new markets.

**Regulatory environment faces changes**

Essentially, no regulatory changes occurred in Germany during the period under review that directly influence the economic efficiency or sale of CHP power plants. The sector, operators and investors were nevertheless occupied by the ongoing consultation process relating to the amendment to the German Combined Heat and Power Generation Act (KWKG). The KWKG is to establish the parameters for the future positioning of CHP within the energy market design. The possibility exists to strengthen the contribution made by flexible and highly efficient CHP plants to the new energy policy direction as a natural partner to fluctuating renewable energies. 2G has participated actively in the opinion forming process at policy consultations in Berlin in hearings with experts, and with opinions.

**2G Rental GmbH makes successful market start with rental business**

For natural gas operated and standardised biogas operated CHP plants, 2G has successfully launched its new rental and lease offerings on the market during the period under review. These offerings are encountering customers' very interested demand for capability to deploy decentralised combined heat and power on a basis that is easy, balance sheet neutral, that saves liquidity, and allows payments by instalment. The ability to avoid investment costs (CAPEX) through plant rental, and „replace" them with operating costs (OPEX) delivers notable benefits for customers: investment decisions and protracted financing considerations are dispensed with, and the economic benefit of energy-saving through deploying 2G CHP systems can be delivered through monthly rental payments in exchange for transfer for use. Transfer of the systems to customers for use includes concluding a full service agreement between the customer and 2G. The first contracts have been signed with energy service providers, municipal utilities (including for purification plants), and industrial companies. 2G secured the refinancing of the 2G Rental GmbH business through its house banks.

Through a cooperation agreement that was concluded in the second quarter with De Lage Landen Leasing GmbH (DLL) – a global provider of leasing and financing solutions for companies, and a vendor finance specialist – 2G has opened up the possibility for its customers in Germany to also access leasing products for natural gas and biogas operated 2G CHP plants on the German market. This cooperation venture enables 2G Rental GmbH to offer its customers simple processing for the financing and refinancing of 2G power plants. Leasing contracts have predominantly been concluded in the 20 kW and 50 kW output range to date.

As a CHP system manufacturer, 2G is thereby now also offering its customers a lease solution to realise combined heat and power generation concepts by way of alternative to direct purchasing and leasing. 2G is the only provider in Germany with this type of sales financing concept.

The German Federal Financial Supervisory Authority (BaFin) has determined that such finance leasing does not require its approval given the business model as presented by 2G Rental GmbH, as a consequence of which 2G is not subject to regulation by the BaFin and the regulations of the German Banking Act.

**USA: 2G creates preconditions for sustainable growth**

In the USA, 2G Energy AG acquired the entirety of 2G Cenergy Inc., St. Augustine, Florida, at the end of February. 2G consistently reorganised its businesses during the subsequent months, and has created the preconditions for sustainable growth in its US business. Experienced managers were newly appointed to its management level, the sales team was expanded to include specialists with sector and product experience, and the service function was bolstered to include trained technicians. 2G Cenergy Inc. is being fully consolidated within the 2G Group in the financial statements as of June 30, 2015. The 2G Management Board regularly accompanied the reorganisation of structures and business strategy in the USA in situ. With the aforementioned measures and further, planned adjustments in the third (see report on events after the balance sheet date on page 30) and fourth quarters, 2G is investing in an attractive market, and strengthening its presence.

The market potential of the US business is considerable and derives from many different factors such as significant catchup effects in relation to climate and environmental topics, infrastructure modernisation, the desire for supply security during weather extremes via microgrids and district energy, and general further demand growth for decentralised energy supplies. According to planning at 2G, the US market should develop in the medium term into the largest international sales market for CHP systems outside Germany.

**Overview of the first half of 2015**

Given the challenges facing 2G in the form of economic and regulatory conditions at the start of 2015, sales revenue trends during the first half of the year were satisfactory. A good start was made to the 2015 financial year due to the EUR 42.3 million order book position as of December 31, 2014. The company generated EUR 28.9 million of sales revenue in the first quarter (previous year: EUR 20.0 million), with total operating revenue amounting to EUR 27.4 million due to a lower level of work in progress (previous year: EUR 27.5 million). This trend was further confirmed during the further course of the first six months of the year,  allowing the 2G Group to generate EUR 59.0 million of sales revenue by June 30, 2015 (H1 2014: EUR 52.2 million). The consolidated financial statements as of June 30, 2015 fully consolidate 2G Cenergy Inc. for the first time, which has contributed EUR 4.1 million of sales revenue since its full takeover in February 2015. The following table provides an overview of the distribution of sales revenues:

**Composition of sales revenues acc. to product areas**

| | H1 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Germany | | Abroad | | Total | |
| **Sales revenues**, in EUR millions | 44.3 | 75 % | 14.7 | 25 % | 59.0 | 100 % |
| CHP modules | 19.1 | 32 % | 13.5 | 23 % | 32.6 | 55 % |
| of which biogas | 7.3 | 12 % | 10.5 | 18 % | 17.8 | 30 % |
| of which natural gas | 11.8 | 20 % | 3.0 | 5 % | 14.8 | 25 % |
| Service | 21.9 | 37 % | 1.0 | 2 % | 22.9 | 39 % |
| After Sales | 3.4 | 6 % | 0.1 | 0 % | 3.5 | 6 % |

After new order intake during the first months of the financial year initially proved stronger than expected (EUR 9.5 million of new order intake in January), the further course of the first half of year was characterised by regular business in line with expectations. The order book position for deliveries of CHP systems amounted to around EUR 76 million as of June 30, 2015. As of June 30 of the previous year, the order book position (excluding 2G Cenergy Inc.) stood at EUR 112.3 million, whereby this figure was connected exclusively with last year‘s abnormal market conditions due to the amendment to the German Renewable Energies Act (EEG) with effect as of August 1, 2014.

The verified share of the order book position of the US business, amounting to around EUR 16.4 million, is to be emphasised in this context. The first successes from the measures that 2G has implemented to strengthen its US business are evident. Signals from the American market relating to 2G‘s new sales and service strategy show that considerable sales potentials exist for CHP in both biogas and natural gas applications, and can be leveraged.

Along with the pleasing trend in the United States, the business of UK subsidiary 2G Energy Ltd., in particular, has again proved itself to be a supporting factor for 2G. With around EUR 3.5 million of revenue generated and a EUR 9.4 million order book position as of June 30, 2015, the United Kingdom has again emerged as a reliable foreign market for the 2G Group.

Due to the constant growth in the number of new plants installed over the past years, the Service division meanwhile comprises a significant sales revenue share of 39 % as of the reporting date (previous year: 29 %). Long-term service contracts and the replacement parts business based on installed systems generate predictable and stable cash flows.

Since the start of the second quarter 2015, 2G Rental GmbH has offered the leasing of 2G plants to realise energy generation concepts by means of combined heat and power. Initial approaches show that this business model is arousing the interest of energy service providers, local authority utilities, and industrial customers. No other CHP plant manufacturer has offered this type of sales financing to date. Sales of 15-20 plants worth EUR 6-8 million are anticipated through 2G Rental GmbH in 2015. 2G anticipates that the rental business will become a main pillar of 2G‘s business in Germany in the future.

With its strategic orientation to biogas and, especially, natural gas operated CHP systems in the 20 kWe to 4,000 kWe output range, 2G is correctly positioned both in Germany and abroad, and within its competitive environment. The past years have shown that 2G has been early to adapt its business model to changes in external conditions. The share of natural gas operated systems in relation to total revenue has been raised continuously, for example, thereby more than offsetting a lack of demand in the biogas market. The biogas market continues to offer sales and earnings potentials for 2G due to the repowering or flexibilisation of CHP plants.

Along with diversification in relation to primary energy sources utilised by installed CHP systems, this also achieves continuous diversification on foreign markets. The export ratio stood at 25 % as of June 30, 2015, in relation to total sales revenue. This trend becomes even clearer in terms of revenue generated from the sale of CHP plants: the export ratio in 2G's core business amounted to 41 % as of June 30, 2015.

## 3. Results of operations

While sales revenue grew by EUR 6.8 million year-on-year to reach EUR 59.0 million, total operating revenue was down by an amount of EUR 24.0 million year-on-year to EUR 62.5 million (for reference: H1 2013 total operating revenue: EUR 48.3 million). Work performed by the enterprise and capitalised of TEUR 528 (H1 2014: TEUR 1) arises from the commencement during the first half of the year of the business of 2G Rental, which buys leased CHP systems from 2G Energietechnik GmbH, and recognises them on its balance sheet as owner.

The total operating revenue generated during the first half of 2015 was consequently almost 30 % above the level of the first half of 2013, which is much more comparable with the half-year elapsed in terms of political and economic conditions than the first half of 2014, which was characterised by accelerated purchasing effects due to the 2014 amendment to the German Renewable Energies Act (EEG).

In relation total operating revenue, the cost of materials ratio fell from 75.7 % in H1 2014 to 71.2 %. Comparability is limited as a seasonally strong buildup of work in progress occurred during the first half of 2014. Gross profit stood at EUR 18.0 million in the period under review (H1 2014: EUR 21.0 million).

Analogously, an 8.4 percentage point increase in the personal cost ratio to 22.8 % was registered as of June 30, 2015, due to the year-on-year fall in total operating revenue.

Depreciation, amortisation and extraordinary write-downs increased to EUR 1.6 million due to a higher level of amortisation and extraordinary write-downs applied to intangible assets (H1 2014: EUR 1.3 million). The main reason for this is amortisation of the goodwill of 2G Cenergy Inc. after the full takeover the company in February 2015.

Other selling, operating and administrative expenses amounted to EUR 7.7 million (previous year: EUR 8.8 million).

The market for combined heat and power remains in a realignment process that is accompanied by pressure on selling prices and is reflected in a lower level of gross profit. 2G reports an EBIT loss of EUR 3.9 million as of June 30, 2015. The business seasonality that is typical for 2G should also be noted in this context, entailing a reporting-date-related buildup of work in progress that will not become effective in terms of revenue and earnings until during the course of the second half of 2015.

2G operates in this market environment with regulatory changes and planning uncertainties, and realises countercyclical investments to tap important foreign markets, while at the same time expanding its technology leadership in combined heat and power. High motor efficiencies, intelligent periphery, CHP systems' digitalisation possibilities, and reduced maintenance costs generate competitive advantages that enable 2G to continue to maintain and secure its strong market position in the future.

Among other projects, a software solution named „PowerPlant" was developed to completion and launched during the first half of 2015 to this end.

Operating data and measurement figures (pressures, gas quality, temperatures, operating hours etc) of all CHP modules are stored regularly and centrally in this system. In the case of failure, the CHP module independently sends a message to the 2G control room. An error ticket with a suggested solution is generated automatically within the Service function. With this complete networking of engines into one system, and the connection to the corporate software, the requisites for the future „Industry 4.0“ standard have already been implemented at 2G. This complete remote access allows 70 % of all plant failures to be remedied from Heek. The entire system was developed with just one software platform through deploying a microcontroller that the company has developed itself. The so-called „Air Form“ system was also created and launched within the Service area. This entails the capability to transmit all forms that are utilised on a decentralised basis as part of daily business quickly, in an uncomplicated manner, digitally, and directly to the company‘s headquarters in Heek. The information and data are anchored, utilised and processed further directly within the goods management system. The range of transmittable documents covers commissioning and assembly reports as the basis for invoicing through to service technicians‘ timesheets for internal invoicing. As far as customers are concerned, the only change is that the signing of the assembly report occurs analogously to that of packages or letters delivered on the Airform pad. Following the successful launch of the system in Germany, the first international subsidiaries and service partners are currently being connected to the system in order to exploit the benefits worldwide.

A project to improve internal reporting, referred to as „2G Facts“, was also launched in the reporting period to ensure even more targeted management of 2G‘s business in the future. The aim of the project is to generate decision-making and management-relevant information quickly, reliably and on a standardised basis from the existing mass of structured and unstructured data, so that both operating and strategic decisions can be suggested, implemented, underpinned and controlled more easily. In detail, this relates to a business intelligence tool with data warehouse support.

## 4. Financial position

Maintaining sufficient and permanent liquidity comprises an important precondition for successful business activity and the attainment of the company‘s objectives. An overarching financial management function secures the supply of liquidity to all corporate areas. The Group parent company in Germany conducts central strategic financial management within the 2G Group by supplying the individual Group companies with corresponding liquidity in line with their operating requirements.

The following condensed cash flow statement presents the financial position of the 2G Group:

**Cash flow statement**

| | 30/06/2015 | 30/06/2014 |
|---|---|---|
| | TEUR | TEUR |
| **Net profit** | **-4,307** | **-1,400** |
| Depreciation, amortisation and fixed asset write-downs | 1,632 | 1,306 |
| Change in provisions | 151 | 4,442 |
| Other non-cash income | 0 | -203 |
| Loss/gain from asset disposals | -15 | 15 |
| Increase in inventories | -7,157 | -25,895 |
| Change in trade payables and other liabilities that are not allocable to investing or financing activities | 7,160 | -306 |
| Change in trade payables and other liabilities that are not allocable to investing financing activities | 903 | 24,104 |
| **Cash flow from operating activities** | **-1,632*** | **2,063** |
| **Cash flow from investing activities** | **896** | **-1,485** |
| **Cash flow from financing activities** | **-130** | **-356** |
| **Liquid assets on June 30 ** ** | **10,248** | **10,343** |

* Rounding differences arise

** Reported less short-term bank overdraft drawdowns

The financial position of the 2G Group remains good despite a negative cash flow from operating activities. The operating cash flow amounts to EUR -1.6 million as of the balance sheet date, and arises mainly from the loss that was incurred during the period, and an increase in inventories related to the reporting date. This is particularly due to a normal operating rise in work in progress that tied up EUR 7.2 million of capital in the period under review.

The full takeover and first-time consolidation of 2G Cenergy Inc. generated a net inflow of EUR 2.1 million of cash (after deducting payment of the acquisition price). In addition, EUR 1.1 million was invested in fixed assets in the context of investing activities. A key element here are the investments of 2G Rental GmbH in CHP systems purchased from 2G Energietechnik GmbH for leasing.

As part of financing activities, financial liabilities of EUR 0.5 million were repaid on schedule, while 2G Rental GmbH raised EUR 0.6 million of new loans to refinance CHP plants.

After consideration of currency-related changes in cash assets, cash and cash equivalents on the cut-off date totalled EUR 10.2 million. This liquidity is available in the form of bank balances, and secures the 2G Group's solvency and independence. Free lines of credit were also available from banks if required.

## 5. Net asset position

### Assets

| | 30/06/2015 | 31/12/2014 |
|---|---|---|
| | TEUR | TEUR |
| A. Fixed assets | 23,118 | 22,691 |
| B. Current assets | 77,528 | 68,706 |
| C. Prepayments and accrued income | 557 | 339 |
| D. Deferred tax assets | 567 | 880 |
| **Total assets** | **101,771*** | **92,617*** |

* Rounding differences arise

### Equity and liabilities

| | 30/06/2015 | 31/12/2014 |
|---|---|---|
| | TEUR | TEUR |
| A. Equity | 47,447 | 52,069 |
| B. Provisions | 11,343 | 11,191 |
| C. Liabilities | | |
| I. Bank borrowings | 6,223 | 6,144 |
| II. Other liabilities | 36,758 | 23,213 |
| **Total assets** | **101,771** | **92,617** |

Total assets stood at EUR 101.8 million as of the June 30, 2015 reporting date. This reflects an approximately 10 % year-on-year increase in total assets, which is mainly attributable to a higher level of inventories and trade receivables.

The full takeover of 2G Cenergy Inc. during the first half of 2015 is taken into account by way of first-time consolidation (transition consolidation) in the value of interests in associates, and is reflected in a higher level of goodwill.

The capital tied up within the company due to the stocking of EUR 24.5 million of raw materials and supplies reflects an approximate increase of EUR 1.0 million compared with the December 31, 2014 reporting date, although such capital employed is still at an appropriate and operationally necessary level to take into account the traditionally rising level of production activity over the course of the financial year.

Work in progress measured on the basis of commercial prudence rose to EUR 30.3 million as of June 30, 2015, representing 15 % year-on-year growth. This seasonal rise in assets also corresponds to past years' operating activities that are typical for 2G.

Trade receivables were up by 11 % to EUR 24.4 million as of the reporting date. Factors for this growth include the further internationalisation of operating activities and growing demand from major customers, which has fed through to changes in payment terms and general payment behaviour. The receivables position nevertheless continues to be appraised as intact overall, and it is monitored constantly through enhanced debtor management.

Equity fell year-on-year to EUR 47.4 million due to the consolidated net loss that was incurred as of June 30, 2015. The reporting-date-related increase in total assets fed through to a reduction in the equity ratio to 46.6 % as of the balance sheet date (previous year: 56.2 %).

When forming tax provisions (TEUR 769) and other provisions (EUR 10.6 million), the fixed obligations that are determined according to the related reasons, and fixed obligations and contingent risks (for warranties, for example), are taken into account according to the principle of due commercial prudence.

Bank borrowings increased year-on-year from EUR 6.1 million to EUR 6.2 million. Financial liabilities of EUR 0.5 million were repaid on schedule, while 2G Rental GmbH raised EUR 0.6 million of new loans to refinance CHP plants. Liabilities deriving from prepayments made in relation to orders increased to EUR 24.6 million (previous year: EUR 12.8 million), while trade payables rose to EUR 7.6 million (previous year: EUR 5.6 million). Other liabilities, resulting mainly from current wage and tax liabilities, stood at EUR 4.6 million as of the reporting date (previous year: EUR 4.7 million).

### Overall statement on the business situation

EBIT of EUR -3.9 million was reported as an interim result as of June 30, 2015, in line with the sector-related and seasonal business trend and business position of the 2G Group in 2015. As a result of the investments during the first half of the year that have been described, 2G regards itself as well positioned in a continued attractive CHP market, and has strengthened its internal condition and sales quality in both qualitative and strategic aspects. This has created the necessary preconditions for the company to continue to maintain itself as a technology leader in the face of greater competition.

## 6. Non-financial performance indicators

Pages 57 to 63 of the 2014 Annual Report provide a presentation of non-financial performance indicators. We briefly address the investments realised during the reporting period, research & development, the order book position, and personnel trends.

### Investments

The 2G Group invested a total of EUR 2.2 million in tangible and intangible fixed assets during the first half of 2015. This amount includes EUR 0.9 million of goodwill connected with the first-time consolidation of 2G Cenergy Inc. A total of EUR 1.5 million was invested during the comparable prior-year period.

## Research & development

Through consistent and intensive research and development efforts, 2G has staked out a leading technological position in the market for combined heat and power generation systems in the 20 kWe to 4,000 kWe output class in recent years. Along with engine mechanics, performance areas especially include software and electronic component development, as well as engine controls. The latter were optimised for balancing energy requirements, and equipped with a rapid throttle valve. Rapid deceleration of acceleration curves is critical for participation in the secondary reserve and primary reserve markets. New grid protection requirements also necessitate this type of fast acceleration, which is also important for grid stability. Development of such possibilities enables 2G to qualify its CHP systems for integration into the coming concept of the new energy policy direction. Overall, 2G is further boosting CHP systems' deployment capability, availability, controllability and reliability. This finds expression in CHP systems' thermal and electric efficiencies, which rank among the highest within the international competitive environment, as well as in efficiency, availability and durability. 2G is thereby constantly improving CHP systems' economic efficiency, creating the preconditions for short amortisation periods for investments. 2G systems' technology leadership and availability generates comparatively higher utility and benefit for customers.

## Order book position

The order book position deriving from CHP orders stood at around EUR 76.2 million as of June 30, 2015, thereby below the previous year's level of EUR 112.3 million. The previous year's high level is connected exclusively with last year's abnormal business levels due to the amendment to the German Renewable Energies Act (EEG) that came into effect as of August 1, 2014. Compared with the first half of 2013 (order book position of EUR 58.7 million), this year's balance sheet date position of EUR 76.2 million requires adjustment to reflect the EUR 16.4 million order book position in the USA that arises from the first-time full consolidation of 2G Cenergy Inc. 2G's business strategy is nevertheless clearly evident on the basis of its current order book position. Order book positions from the USA, the United Kingdom and the rest the world underscore 2G's striving for diversification and international growth. The geographic distribution approximately reflects around 54 % from Germany and 46 % from abroad. As far as gas types are concerned, the order book in Germany comprises a preference for natural gas-driven CHPs of around 74 %. The opposite applies abroad where around 62 % of the order book position is for biogas driven CHPs.

**Order book position for CHP systems as per June 30, 2015** million Euro

| Country | Natural gas | Biogas | Value |
|---|---|---|---|
| Germany | 30.9 | 10.6 | 41.5 |
| Rest of Europe | 0.4 | 14.7 | 15.1 |
| USA | 11.5 | 4.9 | 16.4 |
| Rest of world | 1.3 | 1.9 | 3.2 |
| **Total** | **44.1** | **32.1** | **76.2** |

The order book position as presented relates solely to the 2G new equipment area, and consequently comprises no orders from the Service and After-Sales areas.

## Employees

The Group employed a total of 600 members of staff as of June 30, 2015 (H1 2014: 554 employees), of whom 12 were part-time (H1 2014: 10) and 25 were trainees (H1 2014: 28). This nominal hiring occurred mainly through strengthening the service and sales units for CHP systems at the prospectively growing foreign branches in the United Kingdom and the USA. The employees of 2G Cenergy Inc., USA, were included in the calculation for the first time. In Germany, consideration was given to the fact that the service business has grown continuously – and continues to grow – with each 2G system sold. The service organisation is to be restructured as part of an extended project so as to ensure that high quality standards will remain in place, while retaining decentralised proximity to customers at the same time. Greater personnel resources are first required for this purpose. Specialists were also recruited in the research & development area in order to bundle technical knowledge in the area of motor optimisation and the growing technical software requirements for digitalisation and management of 2G systems. 2G is thereby setting standards in the international CHP market, securing its technology leadership, and further expanding its attractiveness for international partnerships and cooperation ventures with utilities, energy service companies, industry and trade.

**Number of employees by subsidiaries, as of June 30, 2015**

| | Number Employees | Of whom: Trainees | Of whom: Part-time staff |
|---|---|---|---|
| 2G Energy AG | 15 | 0 | 1 |
| 2G Energietechnik GmbH | 419 | 24 | 9 |
| 2G Home GmbH | 35 | 1 | 1 |
| 2G Drives GmbH | 45 | 0 | 0 |
| 2G Rental GmbH | 5 | 0 | 0 |
| 2G Solutions S.L. | 7 | 0 | 1 |
| 2G Italia Srl | 9 | 0 | 0 |
| 2G Polska Sp. z o.o | 2 | 0 | 0 |
| 2G Energy Ltd. | 18 | 0 | 0 |
| 2G Manufacturing Inc. | 26 | 0 | 0 |
| 2G Cenergy Inc. | 19 | 0 | 0 |
| **Total** | **600** | **25** | **12** |

## 7. Report on events after the balance sheet date

At the ordinary AGM on July 8, 2015, the owners passed a resolution to distribute a dividend of EUR 0.37 per share, totalling EUR 1.639 million, from the unappropriated net profit for the 2014 financial year.

In August 2015, 2G bundled activities in sales, production and service within its wholly-owned subsidiary 2G Manufacturing Inc., St. Augustine/ Florida, USA. The company was renamed 2G Energy Inc. at the same time. This concentration enables 2G Energy Inc. to offer its customers all services on a one-stop-shop basis, and to profile itself to a greater extent as an integral unit on the American market. Synergies from aggregating previously independently operating units can be leveraged successively.

Following the complete takeover of 2G Cenergy Inc. in the first quarter 2015, the Management Board of 2G Energy AG is thereby consistently implementing its strategy of restructuring its profile on the American market, and of expanding its sales base. The concentration of all tasks and responsibilities within one company, and the aggregation of the various corporate areas, allows synergies to be achieved through a unified management team and targeted operating activity. These synergies are gradually exerting a positive effect on revenue and earnings.

The German Federal Ministry of Economics and Technology (BMWi) produced a consultancy draft version of the German Combined Heat and Power Generation Act (KWKG) at the end of August 2015. This draft comprises a number of changes compared with the currently valid 2012 KWKG. The current stage of proceedings is still too early for a final assessment. It could nevertheless be the case that the amended KWKG generates no impulse for the further expansion of combined heat and power in Germany in 2016 and beyond. According to the consultancy draft document, industrial and business operations supplied with their own electricity are no longer to be supported, and the economic attractiveness would be additionally limited by the existing German Renewable Energies Act (EEG) levy. As a consequence, 2G is of the view that the consultancy draft fails to deliver on policymakers' intention of boosting efficiency in the area of electricity and heating generation, and of enhancing CHP electricity's share of electricity production through an amended KWKG.

If the consultancy draft materialises in its critical aspects, an upturn in orders could emerge short-term due to the planned transition regulations. The transition regulations permit further utilisation of 2012 KWKG support for plants that are commissioned for long-term operation by December 31, 2015. Plants also receive 2012 KWKG support for which approval pursuant to the German Federal Emission Control Act is granted by December 31, 2015, if they are commissioned for long-term operation by June 30, 2016. For plants that do not require approval pursuant to the German Federal Emission Control Act, a binding order must be submitted by December 31, 2015 in order to utilise the aforementioned regulation.

No further events of particular significance occurred after the end of the reporting period.

## 8. Corporate responsibility

### Risk report

Pages 64 to 69 of the 2014 Annual Report provide a presentation of risks and opportunities. Compared with the assessments at that time, no significant changes have occurred to the position of opportunities and risks of the 2G Energy Group.

## 9. Outlook

### Further economic trends characterised by uncertainties

In the autumn forecast produced by the Kiel Institute for the World Economy (IfW), its experts assume that the global economy will continue to report subdued growth – influenced by the weakness of China and emerging economies. Global production growth of 3.3 % this year will be somewhat lower than in the past two years, according to the IfW. Its economists forecast 3.7 % growth for 2016. The IfW's experts see stronger growth occurring primarily in advanced economies. In the USA, gross domestic product (GDP) should grow by 2.5 % this year and by 3 % in 2016.

For the Eurozone, too, the IfW assumes that the moderate recovery will continue during the second half the year, delivering GDP growth of 1.5 % over the course of the full year. The Institute expects the upturn to gain breadth, and – supported by low interest rates and oil prices – be driven by the domestic economy and a beneficial exchange rate for exports. The Institute forecasts 1.7 % GDP growth for 2016.

The IfW is optimistic for economic growth in Germany despite the unsettled global economic environment. GDP growth rates should amount to 1.8 % this year and 2.1 % next year. The organization sees this economic growth being driven by both exports and domestic demand. Other economic expectations have also been expressed, as presented by the Centre for European Economic Research (ZEW) in early September in its financial market test. It sees little likelihood of an improvement to Germany's good economy: „Given the manifold and continued uncertainties, a growing number of companies are adopting a somewhat wait-and-see attitude. Investment projects are increasingly being postponed, which is exerting a negative medium-term impact on growth prospects."

The IfW identifies the main risks to global economic growth in a potential „hard landing" of the Chinese economy, the continued fragile financial environment due to ongoing expansive monetary policy in major currency zones, the fact that the sovereign debt crisis in Greece remains unresolved, and geopolitical tensions such as the conflict in Ukraine.

### Exploiting opportunities in the American market

Both of the local 2G companies have been bundled within 2G Energy Inc. since early August. This concentration now enables 2G Energy Inc. to offer its customers all services and products on a one-stop-shop basis, and to profile itself on an enhanced basis as an integral unit on the market. The bundling is also expected to release internal synergies that exert a positive effect on revenue and earnings trends. This new profiling, reflected in a new management team and a bolstered sales function, is confirmed by a verified higher order book position and a well filled pipeline of offers. To be addressed to a greater extent are customers who invest in natural gas operated 2G systems, and who are exploiting the great economic advantage of decentralised energy supplies utilising CHP technology due to the very beneficial spark spread in the USA. Strategically, 2G continues to regard the American market as the most important future growth market. Operationally, 2G will focus especially in the USA and Canada on forming a powerful sales partner network over the coming quarters, and on exploiting the greater growth dynamism. This particularly includes the observable supported expansion of microgrids on the East Coast area that was heavily affected by Hurricane Sandy. On the West Coast, California has set up a support programme for microgrids. Utilities are also entering the market that no longer regard the CHP solution as a competitor, but instead as an addition to their own offerings.

The structured expansion of the US business forms part of the strategy of bolstering international subsidiaries that 2G is intensively pursuing. The Group is to become significantly less dependent on developments in individual markets, especially the German market. Along with the American market, the focus is on the markets of Eastern Europe and the United Kingdom. The market in the Asia-Pacific region also offers promising potentials that 2G aims to tap further through both existing and new sales partnerships. 2G is aiming to achieve a 50 % export ratio over the coming years.

2G is convinced that it can reach this goal. The Group has invested continuously and systematically over the past years in the quality of its CHP modules and periphery (electronics, software, service), as well as in corporate structures. 2G sets standards within the sector, and is generally always a step ahead in the growing, complex requirements made of CHP modules. In Germany, the company has successfully built the 2G brand on the combined heat and power market, and injected it with life. 2G can present outstanding references from renowned, internationally operating groups from many sectors. With their proprietary engine mechanics, control electronics, software solutions and requisite certification, 2G power plants comply with all requirements for regular grid-integrated operation. Customers invest in 2G power plants because such systems operate highly efficiently and reliably while providing very high availability at the same time. 2G Service supports these quality and confidence claims through remote maintenance and diagnosis instruments that can also intervene in order to manage plant operations on a neuronal basis. This secures plant productivity, and benefits and utility for customers increase. This approach comprises a competitive strength for 2G.

The very high technical quality and service standards of 2G products increasingly constitute barriers to market entry and criteria of competitiveness. 2G assumes that the crowding-out process and redistribution of market shares among existing competitors – including established competitors – will rapidly advance further in these circumstances. An accelerated transformation on the provider side has been evident in different forms since 2013. Insolvencies, corporate reorganisations, short-time working, mergers and acquisitions of smaller CHP manufacturers by large heating and climate technology providers occurred especially in Germany with the end of the biogas market boom up until the end of 2011. This trend is also being accompanied by a certain price pressure in the plant and service business, although 2G regards this factor as temporary.

The standing, opportunities and qualities that 2G has established for itself on the market, and the company's internal strength, have not yet been reflected in its revenue and earnings figures. The Group's structures continue to be burdened by the seasonality of its business and by extraordinary effects triggered on the regulatory side. Both temporary capacity bottlenecks and overcapacities occur during the course of the year. In a manufacturing company for complex, technologically high-end and predominantly customer-specific products, cost structures cannot be made more flexible to the extent that would be desirable from an operating efficiency perspective. The management is striving to smooth capacity utilisation in the medium term through further expanding the service proportion of business volumes, through focusing on the aforementioned foreign markets, and through expanding production of standardised CHP modules in line with the 20 and 50 G-Boxes.

After 2G concluded the 2014 financial year with a pleasing sales revenue and total operating revenue record, the 2015 financial year again faced special challenges with uncertainties in planning the development and progress of business. After the 2014 amendment to the German Renewable Energies Act (EEG), 2G anticipated a fall in demand in Germany, and has also taken uncertainties into account in its planning relating to new order intake as a result of the announced amendment to the German Combined Heat and Power Generation Act (KWKG) in 2016. Overall, this is reflected in sales revenue planning of between EUR 140 million and EUR 160 million for 2015. Major fluctuations in orders in Germany are not yet able to offset the growing business abroad. 2G has invested in expanding its international business and in further optimising its operating and organisational processes in order to achieve this goal more quickly. These measures were accompanied by cost adjustments in the departments, branches and subsidiaries. 2G is thereby strengthening its organisational structures (fewer risks, fewer costs, faster reaction capabilities) and its competitive position in relation to technology, digitalisation and service, as well as further growth, especially abroad. Overall, the future-oriented investments that have been realised, the reorganisation measures that have been implemented, and price movements due to somewhat restrained demand in Germany, have caused costs and burdened profitability.

For this reason, the Management Board is adjusting the earnings forecast for the full 2015 year that it issued at the end of May to a low positive EBIT figure (previous forecast: EBIT margin of 5 % to 7 %), and is confirming its estimate for sales revenue of between EUR 140 million and EUR 160 million.

Heek, September 2015
2G Energy AG

Christian Grotholt
Management Board Chairman (CEO)

Ludger Holtkamp
Management Board member

Dietmar Brockhaus
Management Board member

# 2G. Consolidated balance sheet.

# Consolidated balance sheet of 2G Energy AG

## Assets

| | 30/06/2015 | 31/12/2014 |
|---|---|---|
| | Euro | Euro |
| **A. Fixed assets** | | |
| I. Intangible fixed assets | | |
| Purchased concessions, industrial property rights and similar rights and assets, and licences to such rights and assets | 704,176.66 | 769,967.24 |
| Goodwill | 5,234,070.82 | 4,546,202.51 |
| Prepayments rendered | 163,200.75 | 73,965.00 |
| | **6,101,448.23** | **5,390,134.75** |
| II. Tangible fixed assets | | |
| Land, land rights and buildings, including buildings on third-party land | 8,810,052.46 | 8,794,212.46 |
| Plant and machinery | 1,691,449.52 | 1,222,878.45 |
| Other factory and office equipment | 6,308,373.23 | 6,557,666.63 |
| Prepayments rendered and plants under construction | 197,137.49 | 332,547.77 |
| | **17,007,012.70** | **16,907,305.31** |
| III. Financial fixed assets | | |
| Participating interests in associated companies | 0.00 | 383,980.68 |
| Other participating interests | 10,000.00 | 10,000.00 |
| | **10,000.00** | **393,980.68** |
| | **23,118,460.93** | **22,691,420.74** |
| **B. Current assets** | | |
| I. Inventories | | |
| Raw materials and supplies | 24,538,877.03 | 23,519,340.87 |
| Work-in-progress | 30,337,723.98 | 26,414,612.31 |
| Finished goods and merchandise | 0.00 | 923,737.84 |
| Prepayments rendered | 1,812,008.93 | 635,711.87 |
| Prepayments received for orders | -18,374,402.20 | -20,336,406.57 |
| | **38,314,207.74** | **31,156,996.32** |
| II. Receivables and other assets | | |
| Trade receivables | 24,377,424.26 | 21,983,846.08 |
| Receivables due from participating interests | 0.00 | 738,792.01 |
| Other assets | 4,011,372.40 | 2,934,148.19 |
| | **28,388,796.66** | **25,656,786.28** |

## Assets

| | 30/06/2015 | 31/12/2014 |
|---|---|---|
| | Euro | Euro |
| III. Securities | **0.00** | **30,000.00** |
| IV. Cash in hand and bank balances | **10,825,400.85** | **11,862,712.95** |
| | **77,528,405.25** | **68,706,495.55** |
| C. Prepayments and accrued income | **557,012.01** | **339,390.01** |
| D. Deferred tax assets | **567,173.45** | **879,953.21** |
| **Total** | **101,771,051.64** | **92,617,259.51** |

## Equity and liabilites

| | 30/06/2015 | 31/12/2014 |
|---|---|---|
| | Euro | Euro |
| **A. Equity** | | |
| I. Subscribed share capital | 4,430,000.00 | 4,430,000.00 |
| II. Capital reserve | 11,235,300.00 | 11,235,300.00 |
| III. Equity difference from currency translation | -532,351.03 | -316,729.14 |
| IV. Consolidated net income | 31,712,046.54 | 35,947,762.27 |
| V. Minority interests | 601,850.91 | 772,769.13 |
| | **47,446,846.42** | **52,069,102.26** |
| **B. Provisions** | | |
| Tax provisions | 768,661.70 | 918,775.57 |
| Other provisions | 10,574,018.68 | 10,272,513.05 |
| | **11,342,680.38** | **11,191,288.62** |
| **C. Liabilities** | | |
| Bank borrowings | 6,223,473.93 | 6,144,209.79 |
| Prepayments received for orders | 24,609,687.49 | 12,833,895.94 |
| Trade payables | 7,559,142.69 | 5,616,962.17 |
| Liabilities to participating interests | 0.00 | 62,158.93 |
| Other liabilities | 4,589,220.73 | 4,699,641.80 |
| | **42,981,524.84** | **29,356,868.63** |
| **Total** | **101,771,051.64** | **92,617,259.51** |

# 2G. Consolidated profit and loss account.

# Consolidated profit and loss account of 2G Energy AG

| | 01/01 to 30/06/2015 | 01/01 to 30/06/2014 | 01/01 to 31/12/2014 |
|---|---|---|---|
| | Euro | Euro | Euro |
| **Net sales** | **59,001,166.13** | **52,216,078.44** | **186,605,118.25** |
| Increase in work-in-progress | 2,999,373.83 | 34,328,170.08 | 2,874,472.79 |
| Other own work capitalised | 528,189.30 | 1,368.27 | 76,042.45 |
| | **62,528,729.26** | **86,545,616.79** | **189,555,633.49** |
| Other operating income | 1,718,824.16 | 785,373.39 | 3,204,069.86 |
| | **64,247,553.42** | **87,330,990.18** | **192,759,703.35** |
| Cost of materials | | | |
| a) Costs of raw materials and supplies, and for purchased merchandise | 36,308,202.36 | 54,627,722.95 | 107,636,868.11 |
| b) Costs of purchased services | 8,223,992.33 | 10,886,759.28 | 26,335,215.79 |
| | **44,532,194.69** | **65,514,482.23** | **133,972,083.90** |
| Personnel costs | | | |
| a) Wages and salaries | 11,733,533.77 | 10,162,592.64 | 20,808,896.83 |
| b) Social security, pension and other benefits | 2,519,060.75 | 2,261,163.00 | 4,649,560.43 |
| | **14,252,594.52** | **12,423,755.64** | **25,458,457.26** |
| Depreciation and amortisation, applied to tangible and intangible fixed assets | 1,631,629.86 | 1,305,721.35 | 2,744,673.86 |
| Other operating expenses | 7,735,389.24 | 8,772,597.37 | 19,069,486.39 |
| Income from associated companies | 0.00 | 203,233.86 | -155,168.20 |
| Income from other participating interests | 200.00 | 0.00 | 0.00 |
| Other interest and similar income | 60,690.27 | 33,186.91 | 59,029.61 |
| Interest and similar expenses | 119,407.31 | 198,292.88 | 402,326.88 |
| **Profit on ordinary activities** | **-3,962,771.93** | **-647,438.52** | **11,016,536.47** |
| Taxes on income | 314,323.16 | 715,728.24 | 4,060,361.74 |
| Other taxes | 35,991.86 | 36,837.12 | 72,780.04 |
| **Total consolidated net profit for the year** | **-4,306,633.95** | **-1,400,003.88** | **6,883,394.69** |
| Share of net profit attributable to other shareholders | 70,918.22 | -391,701.57 | -388,691.69 |
| **Consolidated net profit attributable to 2G shareholders** | **-4,235,715.73** | **-1,791,705.45** | **6,494,703.00** |
| Consolidated total unappropriated retained earnings | 35,947,762.27 | 31,092,159.27 | 31,092,159.27 |
| Dividend payment | 0.00 | 0.00 | -1,639,100.00 |
| **Consolidated net retained earnings** | **31,712,046.54** | **29,300,453.82** | **35,947,762.27** |

# 2G. Notes to the consolidated financial statements.

# Notes to the consolidated financial statements of 2G Energy AG

## A. General information about the consolidated statements

### 1. Basic information

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

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

These consolidated financial statements of 2G Energy AG represent the reporting period from 1 January to 30 June 2015. Last years' figures relate to the balance sheet at the end of the previous financial year (31 December 2014) as well as the profit and loss account of the corresponding prior fiscal year period (1 January to 30 June 2014).

The interim financial statements and the interim management report as at 30 June 2015 have not been audited in accordance with Section 317 of the German Commercial Code (HGB) and have not been reviewed by an external auditor. The consolidated financial statements and the management report of the company as at 31 December 2014 were audited by an auditor in accordance with Section 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) and have been issued an unqualified opinion.

### 2. Line of business

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

### 3. Accounting policies

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

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

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

## B. Consolidation methods

### 1. Consolidation scope and shareholdings

The following financial statements are included in the consolidated financial statements of 2G Energy AG:

**Subsidiary**

| | Interest in % | Subscribed capital in TEUR | Equity in TEUR | Profit/loss for year in TEUR | Initial consolidation |
|---|---|---|---|---|---|
| 2G Energietechnik GmbH Heek, Germany | 100 | 1,000 | 2,832 | 0 | 30/06/2007 |
| 2G Drives GmbH, Heek, Germany | 80 | 25 | 3,551 | 74 | 24/03/2010 |
| 2G Home GmbH, Heek, Germany | 90 | 125 | -1,583 | -1,382 | 31/12/2007 |
| 2G Rental GmbH, Heek, Germany | 100 | 50 | -118 | -166 | 20/10/2014 |
| 2G Solutions of Cogeneration S.L., Vic Barcelona, Spain | 90 | 3 | -266 | -85 | 31/01/2008 |
| 2G Italia Srl. Vago di Lavagno (Verona), Italy | 100 | 10 | -115 | -349 | 15/03/2011 |
| 2G Energy Ltd., Runcorn, United Kingdom | 100 | 1 | -140 | -253 | 19/09/2011 |
| 2G Polska Sp. z o.o., Bielsko-Biala, Poland | 100 | 1 | -59 | 28 | 07/11/2011 |
| 2G Energy Inc. (formerly 2G Manufacturing Inc.), St. Augustine (FL), USA | 100 | 1 | -2,520 | 392 | 27/02/2012 |
| 2G Cenergy Power Systems Technologies Inc., St. Augustine (FL), USA | 100 | 89 | 830 | 253 | 26/02/2015 |
| 2G Real Estate LLC., St. Augustine (FL), USA | 100 | 0 | 0 | 0 | 28/04/2015 |

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

The purpose of the subsidiary company 2G Drives GmbH is to optimise gas engines, and to manufacture and market Otto spark-ignition gas engines.

The purpose of the subsidiary company 2G Rental GmbH is to trade in, and rent, combined heat and power systems.

All of the subsidiaries are included in the consolidated financial statements, as the parent holds a majority of their voting rights.

**Changes in consolidation scope**

Among 2G Real Estate LLC., which has been established in the financial year by 2G Energy Inc., 2G Cenergy Power Systems Technologies Inc., which was equity accounted before, has been first-time initially full consolidated as subsidiary in the consolidated financial statements of 2G Energy AG.

## 2. Consolidation methods applied

**Closing date for consolidated financial statements**

The consolidated financial statements are based on the separate financial statements of 2G Energy AG and the financial statements of the subsidiaries included in the consolidation scope. The financial statements are prepared as at 30 June 2015 closing date.

**Capital Consolidation**

Capital is consolidated according to the revaluation method pursuant to Section 301 (1) of the German Commercial Code (HGB). All balance sheet items at subsidiary level are recognised at fair value on the first-time consolidation date. Share acquisition costs are offset subsequently against revalued proportionate equity. The residual differential amount from capital consolidation (goodwill) is capitalised and depreciated straight-line over a prospective useful life pursuant to Section 309 (1) of the German Commercial Code (HGB). The length of depreciation periods depend on the lifecycle of the acquired companies' products.

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

**Consolidation of liabilities**

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

**Treatment of unrealised results of intragroup transactions**

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

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

**Consolidation of income and expenses**

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

## C. Information on accounting policies

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

The annual financial statements of the companies included in the consolidation scope are prepared in accordance with the regulations set out in the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

Valuation methods were applied unchanged compared with the previous year. Valuation details are as follows:

**1. Intangible fixed assets**

Acquired intangible fixed assets are recognised at acquisition cost and, if they comprise depreciating assets, less straight-line depreciation.

**2. Tangible fixed assets**

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

**3. Financial assets**

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

**4. Inventories**

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

Work-in-progress and finished goods are recognised at the lower of cost or fair value. In addition to directly attributable specific costs of materials and production,

production costs also include materials and production overheads, as well as general administrative costs to the extent that they can be allocated to production. Borrowing costs are not included in production costs.

Merchandise is recognised at the lower of cost or fair value.

Prepayments rendered are recognised at nominal value.

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

**5. Receivables and other assets**

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

**6. Short-term investments**

Other securities are recognised at cost. Where required, the lower fair value on the balance sheet date is recognised in compliance with the principle of lower of cost or market.

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

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

**8. Prepayments and accrued income**

Prepayments and accrued income are recognised at cost.

**9. Equity**

Equity is measured at nominal value.

**10. Tax provisions**

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

**11. Other provisions**

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

**12. Liabilities**

Bank borrowings, prepayments received for orders, trade payables and other liabilities are recognised at the settlement amounts.

**13. Prepayments received**

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

**14. Deferred tax**

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

Offsetting applied as part of consolidation generated a differential amount that is to be reported as goodwill. Deferred tax are not charged on this differential amount (DRS 18 TZ. 25).

**15. Currency translation**

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

## D. Notes to the consolidated balance sheet

**1. Fixed assets**

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

**2. Financial assets**

Financial assets include other participating interests (TEUR 10).

The decrease in interest in associates refers to the acquisition of the remaining shares of 2G Cenergy Power Systems Technologies Inc. and the corresponding initial consolidation (transition consolidation) of the company as of 26 February 2015.

**3. Inventories**

Inventories amounted to TEUR 38,314 as of the balance sheet date. Along with raw materials and supplies (TEUR 24,539), they comprise work-in-progress (TEUR 30,338), and prepayments rendered (TEUR 1,812).

Pursuant to Section 268 (5) of the German Commercial Code (HGB), prepayments received for orders (TEUR 18,374) were deducted openly from the inventories items.

**4. Receivables and other assets**

Specific and general valuation allowances of TEUR 2,477 were applied to trade receivables. All receivables and other assets have a residual term of less than one year.

**5. Deferred tax assets**

Deferred tax receivables of TEUR 567 arise from tax loss carryforwards (TEUR 118) at 2G Polska Sp. z o.o., 2G Home GmbH and 2G Energy Ltd. No deferred tax assets were formed in relation to the loss carryforwards of 2G Italia Srl, 2G Solutions S.L. and 2G Manufacturing Inc. due to their having generated net losses in previous years. In this context, a cautious approach was adopted that does not take into account positive expectations arising from current structural changes. In addition, deferred taxes were formed in relation to eliminated intragroup gains on inventories deriving from intragroup deliveries and services as of the balance sheet date (TEUR 339), and temporary differences (TEUR 110). These temporary differences arise from recognising differing valuations for inventories and provisions in the financial statements and the tax accounts.

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

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

**6. Consolidated equity**

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

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

In a resolution passed at the Annual General Meeting on 2 September 2010, the Management Board was authorised to increase the company's subscribed share capital during the period until 1 September 2015, with Supervisory Board approval, once or several occasions, by up to a total of TEUR 2,215 by issuing new ordinary bearer shares against cash and/or non-cash capital contributions (Approved Capital 2010).

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

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

**7. Other provisions**

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

**Other provisions**, in TEUR

| | 31/12/2014 | Consumption | Release | Addition | 30/06/2015 |
|---|---|---|---|---|---|
| Warranty obligations | 6,414 | 6,334 | 80 | 6,071 | 6,071 |
| Residual work on completed plants/ outstanding invoices | 2,057 | 2,047 | 10 | 2,909 | 2,909 |
| Amounts owed to staff | 1,293 | 1,293 | 0 | 1,119 | 1,119 |
| Professional association contributions | 297 | 274 | 23 | 147 | 147 |
| Costs of preparing and auditing financial statements | 92 | 92 | 0 | 33 | 33 |
| AGM and annual report | 46 | 46 | 0 | 61 | 61 |
| Anticipated losses related to incomplete contracts | 44 | 44 | 0 | 49 | 49 |
| Archiving of business documents | 29 | 29 | 0 | 29 | 29 |
| Litigation costs | 0 | 0 | 0 | 156 | 156 |
| **Total** | **10,273** | **10,159** | **113** | **10,574** | **10,574** |

### 8. Liabilities

Liabilities consist of the following:

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

| | Total | Up to 1 year | 1 to 5 years | More than 5 years |
|---|---|---|---|---|
| Bank borrowings | 6,223<br>(6,144) | 2,619<br>(2,312) | 2,990<br>(3,115) | 615<br>(718) |
| Prepayments received for orders | 24,610<br>(12,834) | 24,610<br>(12,834) | 0<br>(0) | 0<br>(0) |
| Trade payables | 7,559<br>(5,617) | 7,559<br>(5,617) | 0<br>(0) | 0<br>(0) |
| Liabilities to participating interests | 0<br>(62) | 0<br>(62) | 0<br>(0) | 0<br>(0) |
| Other liabilities | 4,589<br>(4,700) | 4,589<br>(4,591) | 0<br>(109) | 0<br>(0) |
| **Total** | **42,982<br>(29,357)** | **39,377<br>(25,416)** | **2,990<br>(3,223)** | **615<br>(718)** |

The following collateral instruments are connected with bank borrowings:

- EUR 2.63 million land charge, Benzstrasse, Heek
- Collateral assignment of a crane system

Other liabilities comprise tax liabilities of TEUR 2,031 (previous year: TEUR 2,674), and social security liabilities of TEUR 10 (previous year: TEUR 72).

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

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

### 1. Net sales

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

**Net turnover,** in TEUR

| | Germany | Abroad | Total |
|---|---|---|---|
| CHP systems | 19,057 | 13,571 | 32,628 |
| Service + replacement parts | 21,855 | 1,014 | 22,869 |
| After-sales + other | 3,402 | 102 | 3,505 |
| **Total** | **44,314** | **14,687** | **59,001** |

### 2. Other operating income

Other operating income comprises TEUR 467 (previous year: TEUR 436) of income related to other accounting periods that consists mainly of insurance compensation payments and loss compensation payments (TEUR 226), the release of provisions (113 TEUR), and investments grants and allowances (TEUR 67).

Other operating income income of TEUR 724 (previous year: TEUR 126) from currency translation.

### 3. Personnel expenses

Social security contributions and pension and benefit expenses include TEUR 402 (previous year: TEUR 198) of pension expenses.

### 4. Other operating expenses

Other operating expenses consist of the following:

**Other operating expenses**, in TEUR

| | 01/01 to 30/06/2015 | 01/01 to 30/06/2014 |
|---|---|---|
| Operating expenses | 2,700 | 2,564 |
| Administration expenses | 1,253 | 990 |
| Sales and marketing expenses | 2,386 | 2,129 |
| Other | 1,396 | 3,089 |
| **Total** | **7,735** | **8,773** |

Other operating expenses comprise TEUR 284 (previous year: TEUR 276) of expenses related to other accounting periods that consists mainly of valuation allowances applied to receivables, the application of specific and general valuation allowances to receivables, and receivable losses.

Other operating expenses include expenses of TEUR 122 (previous year: TEUR 65) from currency translation.

### 5. Taxes on income

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

**Income from deferred taxes**, in TEUR

| | 01/01 to 30/06/2015 | 01/01 to 30/06/2014 |
|---|---|---|
| Deferred tax expenses | 313 | 41 |
| Deferred tax income | 0 | 188 |
| Of which attributable to loss carryforwards (net balance) | -88 | 158 |
| **Income from deferred taxes** | **-313** | **148** |

## F. Additional information

### 1. Cash flow statement

Cash and cash equivalents shown in the cash flow statement include cash at bank and in hand, less short-term liabilities of TEUR 577 (previous year: TEUR 468).

### 2. Contingent liabilities

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

### 3. Management Board

The Management Board is currently composed as follows:

**Management Board**

| | Period |
|---|---|
| Mr. Dipl.-Ing. Christian Grotholt, (Chairman) Business executive, Ahaus | since 17/06/2007 |
| Mr. Ludger Holtkamp, Business executive, Gronau | since 17/06/2007 |
| Mr. Dipl.-Betriebsw. (FH) Dietmar Brockhaus, Business executive, Havixbeck | since 01/07/2013 |

### 7. Supervisory Board

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

**Supervisory Board**

| | Period |
|---|---|
| Dr. Lukas Lenz (Chairman) Lawyer, Hamburg | since 17/07/2007 |
| Mr. Heinrich Bertling (Deputy Chairman) Tax adviser, Gronau | since 28/08/2012 |
| Mr. Wiebe Hofstra Senior Manager van der Weil Holding BV, Drachten/NL | since 17/07/2007 |

Heek, 29 September 2015

Christian Grotholt
Management Board Chairman (CEO)

Ludger Holtkamp
Management Board member

Dietmar Brockhaus
Management Board member

# Consolidated statement of changes in fixed assets

| | Cost | | | | | | |
|---|---|---|---|---|---|---|---|
| | 31/12/2014 | Currency translation | Addition from consolidation | Additions | Transfers | Disposals | 30/06/2015 |
| **Intangible fixed assets** | | | | | | | |
| Purchased concessions, industrial property rights and similar rights and assets, and licences to such rights and assets | 1,684,516.04 | 311.10 | 0.00 | 116,943.64 | 0.00 | 6,284.92 | 1,795,485.86 |
| Goodwill | 7,269,303.32 | 0.00 | 0.00 | 931,715.25 | 0.00 | 0.00 | 8,201,018.57 |
| Prepayments rendered | 73,965.00 | 0.00 | 0.00 | 89,235.75 | 0.00 | 0.00 | 163,200.75 |
| | **9,027,784.36** | **311.10** | **0.00** | **1,137,894.64** | **0.00** | **6,284.92** | **10,159,705.18** |
| **Tangible fixed assets** | | | | | | | |
| Land, land rights and buildings, including buildings on third-party land | 9,805,032.83 | 0.00 | 0.00 | 32,913.04 | 135,410.28 | 0.00 | 9,973,356.15 |
| Plant and machinery | 1,618,918.21 | 5,471.88 | 0.00 | 560,301.15 | 0.00 | 933.63 | 2,183,757.61 |
| Other factory and office equipment | 11,175,649.52 | 88,028.22 | 196,226.87 | 504,493.92 | 0.00 | 153,582.03 | 11,810,816.50 |
| Prepayments rendered and plant under construction | 332,547.77 | 0.00 | 0.00 | 0.00 | -135,410.28 | 0.00 | 197,137.49 |
| | **22,932,148.33** | **93,500.10** | **196,226.87** | **1,097,708.11** | **0.00** | **154,515.66** | **24,165,067.75** |
| **Financial fixed assets** | | | | | | | |
| Participating interests in associated companies | 301,538.10 | 0.00 | 0.00 | 0.00 | 0.00 | 301,538.10 | 0.00 |
| Other participating interests | 10,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 10,000.00 |
| | **311,538.10** | **0.00** | **0.00** | **0.00** | **0.00** | **301,538.10** | **10,000.00** |
| **Total** | **32,271,470.79** | **93,811.20** | **196.226.87** | **2,235,602.75** | **0.00** | **462,338.68** | **34,334,772.93** |

| Depreciation, amortisation and extraordinary write-downs | | | | | | Book value | |
|---|---|---|---|---|---|---|---|
| 31/12/2014 | Currency translation | Addition from consolidation | Additions | Disposals | 30/06/2015 | 31/12/2014 | 30/06/2015 |
| 914,548.80 | 214.42 | 0.00 | 176,982.98 | 437.00 | 1,091,309.20 | 769,967.24 | 704,176.66 |
| 2,723,100.81 | 0.00 | 0.00 | 243,846.94 | 0.00 | 2,966,947.75 | 4,546,202.51 | 5,234,070.82 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 73,965.00 | 163,200.75 |
| **3,637,649.61** | **214.42** | **0.00** | **420,829.92** | **437.00** | **4,058,256.95** | **5,390,134.75** | **6,101,448.23** |
| 1,010,820.37 | 0.00 | 0.00 | 152,483.32 | 0.00 | 1,163,303.69 | 8,794,212.46 | 8,810,052.46 |
| 396,039.76 | 1,184.93 | 0.00 | 95,083.40 | 0.00 | 492,308.09 | 1,222,878.45 | 1,691,449.52 |
| 4,617,982.89 | 27,916.16 | 21,126.91 | 963,233.22 | 127,815.91 | 5,502,443.27 | 6,557,666.63 | 6,308,373.23 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 332,547.77 | 197,137.49 |
| **6,024,843.02** | **29,101.09** | **21,126.91** | **1,210,799.94** | **127,815.91** | **7,158,055.05** | **16,907,305.31** | **17,007,012.70** |
| -82,442.58 | 0.00 | 0.00 | 0.00 | -82,442.58 | 0.00 | 383,980.68 | 0.00 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 10,000.00 | 10,000.00 |
| **-82,442.58** | **0.00** | **0.00** | **0.00** | **-82,442.58** | **0.00** | **393,980.68** | **10,000.00** |
| **9,580,050.05** | **29,315.51** | **21,126.91** | **1,631,629.86** | **45,810.33** | **11,216,312.00** | **22,691,420.74** | **23.118,460.93** |

# Consolidated cash flow statement

| | | 01/01 to 30/06/2015 Euro | 01/07 to 31/12/2014 Euro | 01/01 to 30/06/2014 Euro |
|---|---|---|---|---|
| | **Net profit for the year** | **-4,306,633.95** | **8,283,398.57** | **-1,400,003.88** |
| + | Depreciation, amortisation and fixed asset write-downs | 1,631,629.86 | 1,438,952.51 | 1.305,721.35 |
| ± | Other non-cash expenses/income | 0.00 | 358,402.06 | -203,233.86 |
| ± | Loss/gain from fixed asset disposals | -15,370.87 | 25,767.11 | 14,842.18 |
| ± | Change in provisions | 151,391.76 | -3,260,079.20 | 4,441,931.61 |
| ± | Change in inventories | -7,157,211.42 | 22,812,273.35 | -25,894,513.29 |
| ± | Change in trade receivables and other assets not attributable to investment or financing activity | 7,160,310.97 | 1,581,560.36 | -306,020.53 |
| ± | Change in trade payables and other liabilities not attributable to investment or financing activity | 903,494.16 | -25,126,320.57 | 24,103,857.40 |
| = | **Cash flow from operating activities** | **-1,632,389.49** | **6,113,954.19** | **2,062,580.98** |
| + | Proceeds from fixed asset disposals | 47,918.54 | 104,369.99 | 51,123.67 |
| - | Payments for investments in intangible fixed assets | -206,179.39 | -427,049.63 | -57,753.40 |
| - | Payments for investments in tangible fixed assets | -1,097,708.11 | -1,869,832.03 | -1,478,226.79 |
| + | Cash inflows due to acquisition of consolidated entities | 2,121,899.79 | 0.00 | 0.00 |
| + | Cash inflows/cash outflows due to financial investments as part of short-term cash management | 30,000.00 | 0.00 | 0.00 |
| = | **Cash flow from investing activities** | **895,930.83** | **-2,192,511.67** | **-1,484,856.52** |
| - | Payments to company owners | 0.00 | -1,639,100.00 | 0.00 |
| - | Payments to minority shareholders | -100,000.00 | 0.00 | 0.00 |
| + | Proceeds from raising of loans | 510,000.00 | 0.00 | 0.00 |
| - | Loan repayments | -539,944.48 | -864,879.12 | -356,276.31 |
| = | **Cash flow from financing activities** | **-129,944.48** | **-2,503,979.12** | **-356,276.31** |
| = | **Net change in cash and cash equivalents** | **-866,403.14** | **1,417,463.40** | **221,448.15** |
| | Currency-related change in cash and cash equivalents | -280,117.58 | -366,348.77 | 11,759.54 |
| + | Cash and cash equivalents at start of period | 11,394,371.84 | 10,343,257.21 | 10,110,049.52 |
| = | **Cash and cash equivalents at end of period** | **10,247,851.12** | **11,394,371.84** | **10,343,257.21** |

| | 01/01 to 30/06/2015 | 01/07 to 31/12/2014 | 01/01 to 30/06/2014 |
|---|---|---|---|
| | Euro | Euro | Euro |
| **Composition** | | | |
| Liquid assets | 10,825,400.85 | 11,862,712.95 | 10,374,547.68 |
| Short-term bank borrowings | -577,549.73 | -468,341.11 | -31,290.47 |
| | **10,247,851.12** | **11.394.371.84** | **10,343,257.21** |

# Consolidated statement of changes in equity

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

| | Parent company | | | |
|---|---|---|---|---|
| | Subscribed share capital | Capital reserves | Adjustment item from foreign currency translation | Other accumulated consolidated earnings |
| **Balance on 01/01/2014** | **4,430,000.00** | **11,235,300.00** | **10,825.34** | **6,375.40** |
| Consolidation-related currency differences | | | -327,554.48 | |
| Payments to shareholders | | | | |
| Consolidated profit for the year | | | | |
| **Balance on 31/12/2014** | **4,430,000.00** | **11,235,300.00** | **-316,729.14** | **6,375.40** |
| **Balance on 01/01/2015** | **4,430,000.00** | **11,235,300.00** | **-316,729.14** | **6,375.40** |
| Consolidation-related currency differences | | | -215,621.89 | |
| Payments to shareholders | | | | |
| Consolidated profit for the year | | | | |
| **Balance on 30/06/2015** | **4,430,000.00** | **11,235,300.00** | **-532,351.03** | **6,375.40** |

| | | Minority shareholders | | | Consolidated equity |
|---|---|---|---|---|---|
| Retained earnings | **Total** | Minority capital | Retained earnings attributable to minority interests | **Total** | |
| **31,085,783.87** | **46,768,284.61** | **4,991.42** | **379,086.01** | **384,077.44** | **47,152,362.05** |
| | **-327,554.48** | | | | **-327,554.48** |
| -1,639,100.00 | **-1,639,100.00** | | | **0.00** | **-1,639,100.00** |
| 6,494,703.00 | **6,494,703.00** | | 388.691.69 | **388,691.69** | **6,883,394.69** |
| **35,941,386.87** | **51,296,333.13** | **4,991.42** | **767,777.70** | **772,769.13** | **52,069,102.26** |
| **35,941,386.87** | **51,296,333.13** | **4,991.42** | **767,777.70** | **772,769.13** | **52,069,102.26** |
| | **-215,621.89** | | | | **-215,621.89** |
| | **0.00** | | **-100.000.00** | **-100,000.00** | **-100,000.00** |
| -4,235,715.73 | **-4,235,715.73** | | -70,918.22 | **-70,918.22** | **-4,306,633.95** |
| **31,705,671.14** | **46,844,995.51** | **4,991.42** | **596,859.48** | **601,850.91** | **47,446,846.42** |

# Colophon

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