2016

2G Energy AG Annual Report

2G. Cogeneration.

Content

Multi-year overview of Group key figures....................4

Foreword of the Management Board 7

2G Energy AG share 13

Report by the Supervisory Board 19

Financial year 2016

Group management report..25

Consolidated balance sheet 77

Consolidated profit and loss account..........................81

Notes to the consolidated financial statements 85

Auditor's report 107

Colophon 110

Multi-year overview of Group key figures

Results of operations

	2016	2015	2014
	TEUR	TEUR	TEUR
Consolidated net income	**1,784**	**2,603**	**6,883**
Operating result	5,393	4,576	11,017
Financial result	-368	-285	-498
Exceptional result	-1,798	0	0
Earnings before interest, tax, depreciation and amortisation (EBITDA)	9,236	8,071	14,032
Earnings before interest and tax (EBIT)	5,649	4,772	11,287
Profitability			
Return on sales	3.2 %	3.1 %	6.0 %
Return on equity	3.4 %	4.9 %	13.2 %
Return on total assets	5.1 %	5.0 %	12.2 %
ROCE[1]	10.1 %	8.6 %	20.6 %
Income structure			
Net sales	174,299	152,884	186,605
Change vs. previous year	14.0 %	-18.1 %	47.9 %
Total operating revenue	183,622	154,713	189,556
Geografical sales distribution			
Net sales Germany	70 %	73 %	79 %
Net sales international	30 %	27 %	21 %
Composition of sales revenues per business unit			
CHP unit /After Sales	67 %	66 %	80 %
Service	33 %	34 %	20 %
Expense structure			
Cost of materials	128,633	100,621	133,972
Materials intensity*	70.1 %	65.0 %	70.7 %
Personnel costs	29,951	29,315	25,458
Average number of employees	579	566	522
Labour intensity*	16.3 %	18.9 %	13.4 %
Depreciation and amortisation	3,587	3,299	2,745
Income tax	1,699	1,885	4,060

Financial position

	2016	2015	2014
	TEUR	TEUR	TEUR
Total assets	**111,389**	**95,855**	**92,617**
Asset structure			
Fixed assets	24,635	23,475	22,691
Tangible fixed assets to total assets ratio**	17,2 %	18,4 %	18,3 %
Current assets	85,346	71,036	68,706
Inventory turnover ratio			
Inventories	4.0	4.7	6.0
Receivables	6.0	6.2	8.5
Capital structure			
Equity	52,916	52,647	52,069
Equity ratio	47.5 %	54.9 %	56.2 %
Share capital	4,430	4,430	4,430
Provisions	12,465	11,697	11,191
Bank borrowings	6,277	5,913	6,144
Working capital[2]	**31,389**	**31,781**	**31,991**
Financing			
Investments in plants	4,837	3,318	3,833
Dividends	1,639	1,639	1,639
Cash inflow/cash outflow from			
Operating activities	6,382	2,062	8,262
As % of sales	3.7 %	1.3 %	4.4 %
Investing activities	-4,544	-1,016	-3,484
Financing activities	-1,703	-1,888	-3,139
Change in liquid assets	135	-842	1,639
Liquidity as of 31 December	10,187	10,128	11,394

2G Share

	2016	2015	2014
Earnings per share before minority interests	0.40 €	0.59 €	1.55 €
Dividend per share	0.40 €[4]	0.37 €	0.37 €
Dividend yield[3]	2.18 %	1.71 %	2.24 %
Price-Earnings-Ratio[3]	45.5	36.8	10.7
Price-Cash-Flow-Ratio[3]	12.7	46.5	8.9

* related to total output | ** related to the balance sheet total | 1 = EBIT / (fixed assets + working capital) | 2 = working capital - short-term liabilities
3 = based on year-end XETRA closing price | 4 = proposal to the Annual General Meeting

2G. Foreword of the Management Board.

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

Foreword by the Management Board

Dear shareholders,

2G presented two important product innovations to the international public at this year's Hannover Trade Fair. These innovations are representative of our development expertise, focus on customer benefit and utility, and our strength as a medium-sized company in setting our own forward-looking benchmarks within dynamic growth markets.

We presented our new aura construction series for the first time. We developed this natural gas driven module based on our 4-series technology in the 100 kW to 550 kW output range. Along with high efficiency and reliable long-term operation – two characteristics typical of 2G – the module boasts very low gas emission rates. Deploying our own Lambda 1 technology, we have succeeded in significantly cutting nitrogen oxide emissions and further boosting heating efficiencies. To supplement this new product series, we have completed the development of our own SCR catalyst technology, enabling 2G systems to already comply with the more stringent limits applied in conurbation centers such as London and Tokyo, and with which we can also equip all other CHP systems in our portfolio for emission-restrictive applications. We assume that demand for CHP modules, technological excellence, economic efficiency, reliability and the low-emission combined generation of heating/cooling and power will increase worldwide especially in major cities and metropolitan regions. 2G can score points against its competitors with its technology and the lead it enjoys as a result of its operative experience.

The second product innovation represents a first in the sector. After 2G successfully launched its rental and lease offerings for CHP power plants on the market in 2015, we are expanding the offering to include the "pay-per-use" variant. Customers only rent (and pay for) their actual use of the CHP power plant, instead of for the entire system. The pay-per-use rental solution enables our customers to enjoy the cost benefits of combined generation of electricity and heating/cooling without them having to make their own investments or enter into long-term capital or contractual arrangements. Initial feedback from the target customer groups of industry, business, the real estate sector and energy supply companies is very good.

Research and development work enjoys a very high priority in-house. Around 40 of our engineers and technical staff devote themselves daily to this task, including in partnership with universities and suppliers. With this innovative strength, we secure the future viability of our company and play a part in shaping new developments – which is important as the energy market is changing at a breathtaking rate. The energy market is in a process of creative destruction (based loosely on Joseph A. Schumpeter) that is breaking up established structures and energy supply companies' oligopolies, and creating room for new technologies, new market participants and efficiency gains through digitalization. The new energy policy direction towards low-emission and predominantly nonfossil energy generation is irreversible: renewables in Germany already account for around half of generation capacities. European coal power plant operators, too, have already been investing in renewables for some years and have recently voluntarily committed themselves in a moratorium not to build any more new coal power plants from 2020.

Energy supplies characterized by decentrality, decarbonization and digital control concepts are enjoying growing acceptance. 2G aims – and is in a position – to accompany this transformation process internationally with its highly efficient, low-emission and economically viable CHP systems. The broad range of our systems enables decentralized energy supply solutions in both urban and rural settings – whether as a stand-alone solution in an industrial operation at the site of consumption, in combination with a virtual power plant together with a large number of wind and solar power systems, or as part of power-to-gas solutions for excess power volumes as part of integrated energy projects.

In the context of the transformation of the energy system over the coming decades, the World Energy Outlook 2016 foresees significant market gains especially for natural gas and renewable energies among the primary energy sources, in order to cover further growth in energy demand. The shares for coal and oil are to fall. 2G is on the right track. Our 2G power plants are operated with biogas, landfill gases, methane, gases from purification plants, natural gas and hydrogen. With more than 4,000 installed systems worldwide and many millions of operating hours, 2G presumably commands the greatest operative experience in deploying gas driven CHP engine technology in the medium output range of 20 kW to 4 MW. 2G is positioned internationally and on a diversified basis today and is technologically focused. We are also well prepared for the next growth and expansion steps in terms of capacity resources at the production sites.

Our balance sheet and financing ratios, which remained good in the year under review, as well as our profitable growth underscore 2G's strength. We also expanded our international business base with the forming of a French subsidiary, and acquired numerous new partners as part of the partnership concept in the USA and in Asia. Our goal is to further pursue this path with consistency. The high order book position in the current financial year, our product innovations and the overall positive business climate in Europe and the rest the world make us confident of achieving good results. Overall, the Management Board appraises the business opportunities for 2G in the current financial year and in subsequent years as promising. Our intention is that our shareholders should participate in the company's continuous and sustainable success and profitability. For this reason, for the first time the Management Board is proposing to the Shareholders' General Meeting an increase in the dividend payment from 37 cents to 40 cents per share.

For 2017, we assume sales revenue between EUR 160 million and EUR 180 million. We aim to expand the result year-on-year with an EBIT margin between 3 % and 5 %.

We owe our special thanks to the 2G Group employees and our recognition for their contribution and commitment. It is our employees who make daily contributions to our performance and success, and support our customers in such a manner that they opt repeatedly for 2G products and services. All of this only works with employees who are performance-oriented and open in their communications, as well as with a stable ownership base. We would like to thank you, our shareholders, for your confidence and support – confidence and support that some of you have given us for many years.

Heek, May 2017
2G Energy AG

Yours sincerely,

Christian Grotholt
Management Board Chairman (CEO)

Ludger Holtkamp
Management Board member

Dietmar Brockhaus
Management Board member

2G. Share.

The 2G Energy AG share

The 2G share started the 2016 stock market year at a price of EUR 21.45. Up to early November, the share price quotation fell gradually to its low for the year of EUR 16.29. Apart from movements in indices, interim rebounds were driven by positive corporate news such as the high order book positions from Germany and abroad published at the end of May and the year-on-year higher revenue and earnings forecast for the 2016 financial year. Announcements in September about presenting the partner concepts for sales abroad and ongoing sales successes deriving from existing partnerships such as those in the United Kingdom and Japan stabilized the share in the meantime.

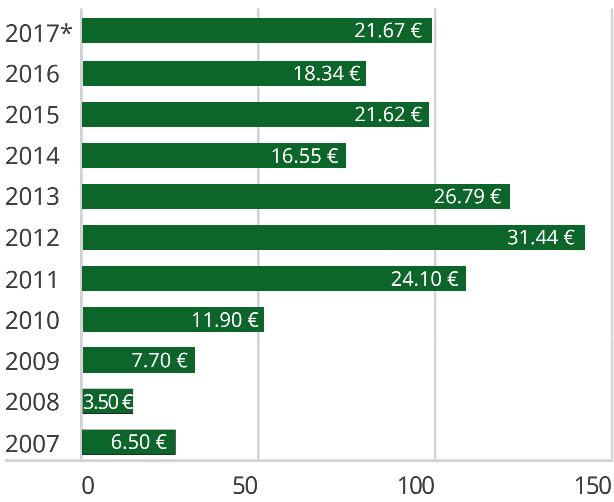
Stock market sentiment reflected overall uncertainty during the first half of 2016. Germany's selection index, the DAX, fell to its low for the year of 8,699 points in mid-February. This performance reflected many causes, including a further reduction in the oil price (WTI), which dropped to below the psychologically important USD 30 per barrel level for the first time in twelve years, a slowdown in the Chinese economy, further simmering of the European financial and banking crisis, the reduction of the ECB's key interest rate to 0 %, and the yield on ten-year German government bonds dipping into negative territory for the first time. Sentiment failed to turn around until after the stock markets had digested the United Kingdom's Brexit decision at the end of June. Donald Trump's election as the 45th president of the USA and the OPEC decision to reduce oil production volumes supported this trend.

The trend in the 2G share also turned with this momentum in early November and reported a solid performance of 12.6 % to EUR 18.34 by the end of the year. At the end of November, the 2G Management Board confirmed that the forecasts that it had issued would be reached and drew attention to fact that the very high order book position that should already extend into the following financial year. On a full-year view, the 2G share nevertheless shed 14.5 % of its stock market value.

The 2G share thereby underperformed the DAX index of leading shares, which ended the 2016 stock market year with a gain of 6.9 % (previous year: 9.6 %). The TecDax was up by 1.0 % (previous year: 33.5 %). The DAXsector All Industrial index that is sector-specific to 2G rose by 19.7 % (previous year: 15.7 %), while the DAXsubsector All Renewable Energies was down by 33.1 % (previous year: +93.9 %).

The market capitalization of 2G Energy AG reduced from EUR 95.8 million in the previous year to EUR 81.2 million as of the financial year-end, on unchanged share capital of EUR 4,430,000.00.

2G Energy AG market capitalization EUR millions



*XETRA closing price 9 May 2017

Market capitalization 2007 to 2016 as of 31 December;
2017 as of 9 May 2017, XETRA closing prices

The trading liquidity of the 2G share decreased year-on-year, although it remained at a satisfactory level in the year under review. Average daily volumes on the XETRA and tradegate trading platforms as well as the German regional stock exchanges amounted to around 4,400 shares (previous year: around 13,000 shares).

The 2G share continued its recovery trend at the start of 2017, climbing successively to above the EUR 20 level. Mid of April it marked its high in the current year at EUR 24.87. The share last reached this level in September 2014.

Investor relations activities

Dialog with the capital market and transparent, continuous reporting on relevant corporate events remained important guiding principles for the investor relations work of 2G Energy AG in 2016. The aim is not only to establish trust and confidence in the company's financial and technological strength, but also to create the transparency required to enable analysts, shareholders and potential investors to appraise and evaluate the company on a regular and understandable basis. 2G endeavors to explain its business model and its growth and earnings potentials to capital market participants in a comprehensible manner. 2G is convinced that this will be reflected in an appropriate valuation of its shares that also takes the company's medium-term growth prospects on the international CHP market into account.

Interest in investing in the 2G share was also evident in many requests for roadshows in Europe and Germany in 2016, as well as invitations to address investor conferences and investor visits to the production site in Heek. The Management Board presented 2G's business model at various capital market events and roadshows, explaining its products, technological development work, market trends and sales strategies on international markets.

Interest among analysts remained strong: with First Berlin, Hauck & Aufhäuser, equinet, and Solventis, four renowned houses monitor and evaluate the company's development. 2G has not extended its mandate for Warburg Research, and WGZ-Bank has discontinued coverage as part of its merger with DZ-Bank. SMC Research initiated coverage of 2G in early 2017. Most of the analysts identify further share price growth potential for the 2G stock based on their valuation models, and recommend it as a “Buy”.

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

2G share switches to the new “Scale” stock exchange segment

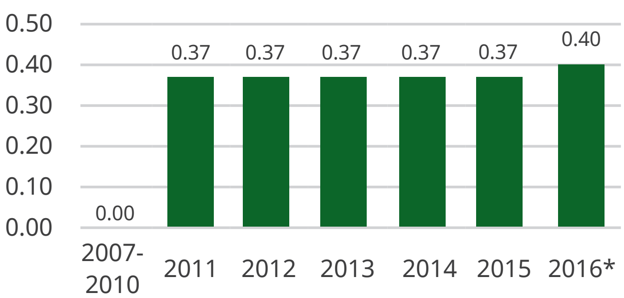
As of March 1, 2017, the share of 2G Energy AG switched to the new “Scale” stock market segment of Deutsche Börse AG. This segment for small and medium-sized companies is anchored within the Open Market (Regulated Unofficial Market). It is a stock exchange regulated segment and not an organized market in the meaning of the German Securities Trading Act (Section 2 (5) WpHG). “Scale” is the successor segment to the Entry Standard, where the 2G share has been listed since 2007. The Management Board anticipates greater attention from investors and the media due to the new “Scale” segment. Inclusion in the “Scale all Share” index (ISIN DE000A2BLGY6), where 2G has been a constituent since March 1, 2017, can also help in this context.

Higher dividend proposed

2G Energy AG pursues the objective of its shareholders participating continuously and long-term in the company's success and profitability through a stable dividend. At the same time, the company's financial and innovative strength is to be maintained and strengthened for further growth. Value and growth-oriented investors are set to benefit in the long term from the continuous appreciation in the company's value as a consequence. Based on the unappropriated profit generated in the 2016 financial year, the Management and Supervisory boards have authorized a proposal to the Ordinary AGM to be held on July 11, 2017 for it to approve a year-on-year 8.1 % higher dividend of 40 euro cents per share for the financial year elapsed (previous year: EUR 0.37 per share). With this first increase in the dividend, the Management Board wishes to signal the strength of the company's finances and balance sheet, and express confidence for the current 2017 financial year.

In relation to the 2016 year-end closing price, this corresponds to a 2.18 % dividend yield (previous year: 1.71 %) and a 99.8 % payout ratio (previous year: 63.00 %).

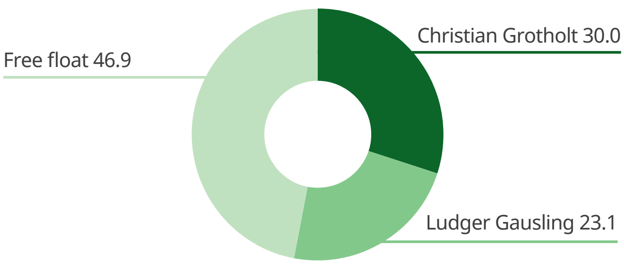
Dividends 2007 - 2016e EUR



* Proposal to the Annual General Meeting

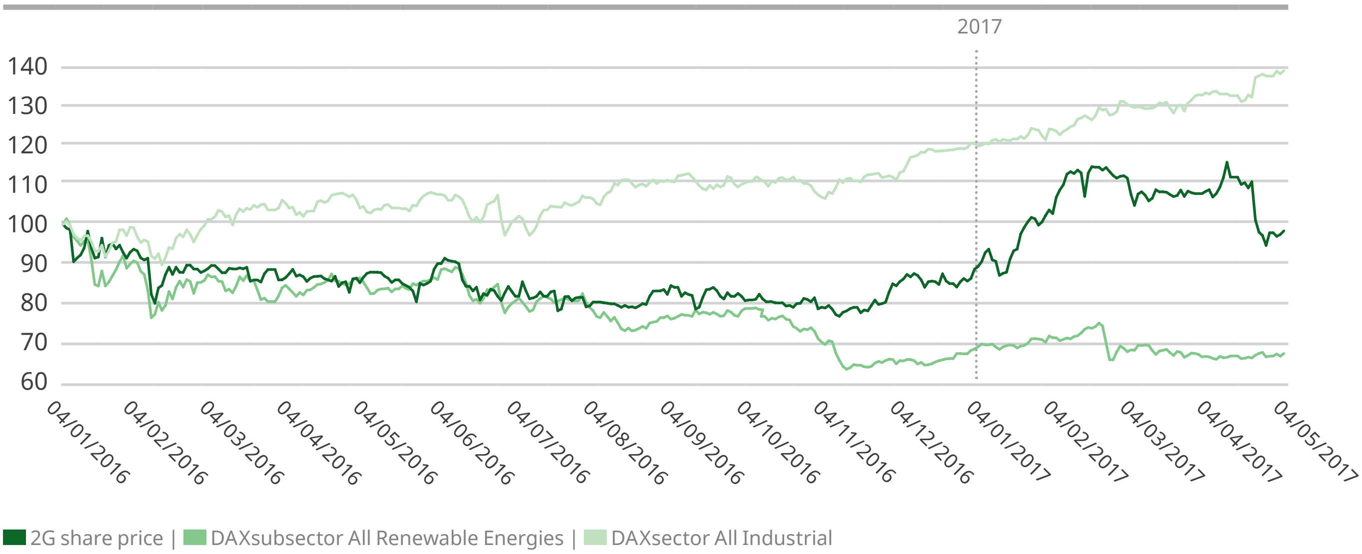
The shareholder structure of 2G Energy AG remained largely unchanged during the reporting year. Company founders Christian Grotholt and Ludger Gausling held 30.0 % and 25.3 % of the shares respectively as of December 31, 2016, and consequently together 55.3 %. The free float consisted of 44.7 % of the shares in issue as of December 31, 2016. In the first quarter of 2017, Ludger Gausling reduced its share to 23.1 %. The below shareholder structure shows the distribution of shares.

2G Energy AG shareholder structure Share %



As of May 9, 2017

2G share price performance and comparative indexes 2016 to May 2017 (indexed) **in %**

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2G. Report by the Supervisory Board.

Report by the Supervisory Board

Dear shareholders,

The joint objective of the Management and Supervisory boards is the sustainable growth of the corporate value of 2G Energy AG and its Group companies. During the reporting year, the Supervisory Board closely accompanied the Management Board in its management of the company, supervised it with care, and was at its side to provide consultative help. The Supervisory Board comprehensively fulfilled the tasks incumbent upon it pursuant to the law, the company's bylaws and the rules of business procedure. It was satisfied that the business was managed in a legally compliant, proper and effective manner. The Management Board informed the Supervisory Board members regularly, promptly and comprehensively in both written and verbal form about all matters of relevance for the company and the Group in relation to strategy, planning, business trends, as well as the business position of the Group and specific subsidiaries. This also included discussions about the risk position and business opportunities. The Supervisory Board received frequent reports about the company's financial position and performance to this end.

The Supervisory Board was also informed between meeting dates about important projects and plans that were of particular significance for the company on the basis of textual reports as well as verbally. This included, for example, the planning, the corporate strategy, and further important transactions for the company, as well as related opportunities and risks. The Supervisory Board was directly involved in all decisions of fundamental significance for the company. Following thorough review and consultation, the Supervisory Board granted its approval to specific business transactions where required by the law, the company's bylaws or the rules of business procedure for the Management Board.

The Supervisory Board Chairman was also in frequent contact with the Management Board outside the scope of meetings, communicating with it about current developments.

Organization of Supervisory Board work

In the reporting year, the Supervisory Board consisted of Dr. Lukas Lenz (Chairman), Heinrich Bertling (Deputy Chairman) and Wiebe Hofstra. The Supervisory Board of 2G Energy AG consists intentionally of three members to thereby enable efficient work and fruitful discussion of both strategic matters and in-depth questions on a plenary basis. The formation of separate supervisory board committees is not considered justifiable or expedient for this reason.

Supervisory Board consultations and resolutions

By way of utilization of the exemptions pursuant to Section 110 (3) Clause 2 of the German Stock Corporation Act (AktG), three regular Supervisory Board meetings were held in the 2016 financial year, on May 25, July 4 and November 17. All Supervisory Board members attended all of these Supervisory Board meetings. The Supervisory Board discussed with the Management Board the transactions that are subject to its approval pursuant to the law and the company's bylaws, and reviewed and approved them. At the meetings during the reporting period, the Supervisory Board utilized the reports and documents submitted by the Management

Board to conduct regular in-depth consultations on the company's business and financial position, its operational and strategic development, and its operating segments. This particularly included the development of the US company as well as significant European markets and the subsidiaries situated there. The Supervisory Board also concerned itself with changes in regulatory conditions, competition on various combined heat and power generation markets, and various optimization and development projects, as well as the sales strategy of 2G Energy AG. The Supervisory Board requested reports on important specific questions relating to the company, its risk position, investment planning and personnel trends, and consulted about them. The Supervisory Board unanimously consulted and approved Management Board resolutions on measures for personnel matters and concerning legal structural changes to domestic and foreign subsidiaries.

In particular, the following topics were discussed in detail at the individual meetings:

Important agenda items at the Supervisory Board meeting on May 25, 2016, especially included business trends and Group profitability during the previous 2015 financial year, the progression of business during the first months of the financial year under review, and the company's medium-term liquidity, financial, investment and personnel planning. The Supervisory Board conducted an in-depth discussion of the separate annual financial statements, the consolidated financial statements, the management reports for both 2G Energy AG and the Group for the 2015 financial year, and the external auditor's audit reports, as well as the Management Board's proposal for the application of unappropriated retained earnings. This meeting was attended by both the Management Board and the auditors – specifically by the auditors who signed the audit certificate. Following the conclusive result of the mandatory review conducted by the Supervisory Board, the Supervisory Board determined that it had no objections to raise. The Supervisory Board unanimously approved the annual financial statements and management reports for the 2015 financial year for the company and the Group that the Management Board had submitted. The financial statements were adopted as a consequence. Following in-depth discussion, the Supervisory Board approved the Management Board's proposal for the application of unappropriated retained earnings. By way of conclusion, the Supervisory Board prepared for the 2016 Ordinary AGM, and approved the agenda for it, as well as proposed resolutions to be submitted to the AGM. The board also discussed the restructuring of activities in France and the Iberian peninsular, as well as legal-structure simplifications to the German subsidiaries. In the context of transactions requiring Supervisory Board approval, the Supervisory Board approved the Management Board's proposals.

On July 4, 2016, the Management Board reported to the Supervisory Board at its second meeting on business performance during the first half of the year, new order intake trends and the policymaking environment in Germany.

At the third Supervisory Board meeting on November 17, 2016, the Management Board explained business performance during the third and fourth quarters, and the results as presented in the half-year financial statements, as well as the development of the company's liquidity. The Management Board also provided an outlook of the company's future development. The board consulted concerning modifying the distribution dividend policy, as well as about topics that could be presented as proposed resolutions of the 2017 AGM. The Supervisory Board unanimously approved the Management Board transactions requiring its approval, relating to legal transactions in the financing area as well as in relation to the US subsidiary.

No conflicts of interest arose among the members of the Supervisory Board during the reporting period.

No changes occurred to the composition of either the Management Board or Supervisory Board during the year under review.

Audit of the separate and consolidated financial statements for the 2016 financial year

The Management Board prepared the separate financial statements, the consolidated statements and the Group management report for 2G Energy AG for the 2016 financial year in accordance with the regulations set out in the German Commercial Code (HGB). PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Osnabrück, the auditors of the financial statements elected by the AGM on July 5, 2016, audited the separate financial statements, the consolidated financial statements and Group management report of 2G Energy AG for the 2016 financial year, including the financial accounting, awarding them unqualified audit certificates. Audit focus areas for the 2016 financial year included the valuation of inventories, trade receivables, intragroup deliveries and invoicing, the valuation of provisions, and deferrals relating to the origination of receivables, as well as the realization of revenue and earnings on the reporting date.

The separate financial statements, consolidated financial statements and Group management report, as well as the auditors' reports, were submitted to all Supervisory Board members. The Supervisory Board discussed these documents in detail together with the Management Board and the auditors, who reported on the significant audit results, and were available to provide information and explanations. The auditors gave comprehensive replies to all of the Supervisory Board's questions.

After its own review of the separate annual financial statements, the consolidated financial statements and the Group management report, the Supervisory Board concurred with the result of the audit as conducted by the external auditor. No objections were raised. The Supervisory Board approved the separate annual financial statements and consolidated financial statements at its meeting on May 29, 2017. The separate financial statements for 2G Energy AG for 2016 have thereby been adopted pursuant to Section 172 of the German Stock Corporation Act (AktG).

After its own review and taking into account earnings trends and the financial position, the Supervisory Board concurs with the Management Board's proposal to distribute from the unappropriated profit of EUR 42,071,580.49 – consisting of retained earnings of EUR 40,024,889.37 and net profit for the year of EUR 2,046,691.12 – a dividend of EUR 1,772,000.00, in other words, EUR 0.40 per share, and to allocate the remaining profit of EUR 40,299,580.49 to other retained earnings.

The Supervisory Board would like to thank the Management Board and all employees at 2G Energy AG and its Group companies for their daily commitment to their work.

Heek, May 29, 2017

The Supervisory Board

Dr. Lukas Lenz
Supervisory Board Chairman


2G
2G
2G Sites
2G Sales Partner

Group management report 25
Consolidated balance sheet 77
Consolidated profit and loss account 81
Notes to the consolidated financial statements 85
Auditor´s report 107

2G Energy AG Annual Report.

Group management report

Reservation in relation to forward-looking statements

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

A. The 2G Group

Operating activities and corporate structure

The 2G Energy AG Group is an internationally leading manufacturer and provider of decentralized energy supply systems. With the development, production and technical commissioning, as well as digital network integration, of combined heat and power systems (CHP systems), the company offers comprehensive solutions on the high-growth global market for highly efficient combined heat and power generation systems. 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.

Improved efficiencies, longer maintenance intervals, and grid integration capacity allow 2G‘s customers to generate greater utility and benefits from their CHP power plants. Along with further developing engine mechanics and peripheral equipment, 2G is focusing its research and development work on software development and the digitalization of systems and processes. 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 decentralized CHP units to function on a combined basis as large-scale intelligent power plants (Virtual Power Plants / VPPs).

All systems function highly efficiently, conserve resources, and reduce or neutralize CO_2 greenhouse gas emissions through combined energy production. With more than 4,000 systems in almost 40 countries, 2G power plants in various applications supply electrical energy, heating and cooling internationally to a broad spectrum of customers that includes companies in the housing industry, agriculture, commercial and industrial companies, public energy utilities, and municipal and local government authorities.

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

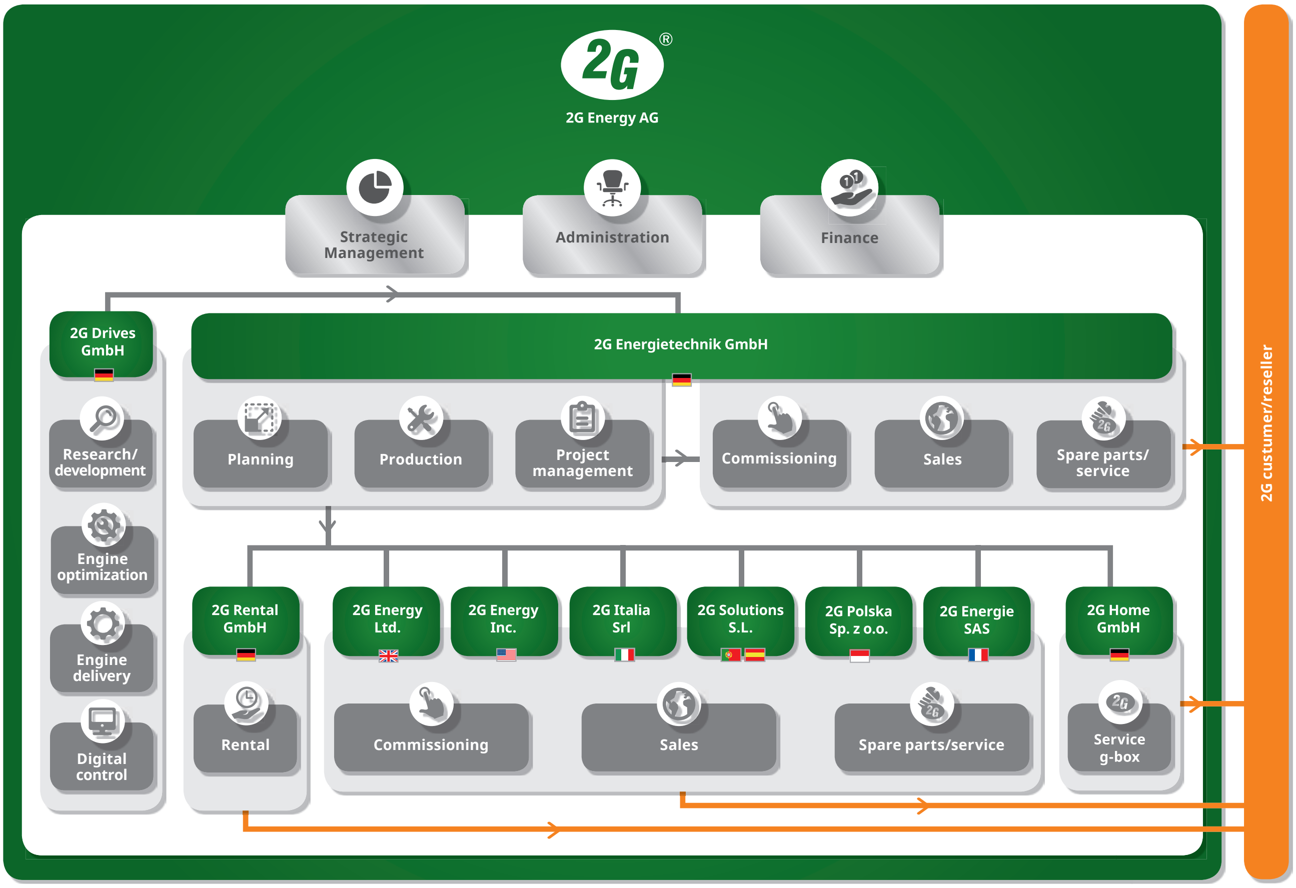


Diagram 1: 2G Energy AG corporate and participating interest structure, subsidiaries' business purposes and value chain (as of December 31, 2016)

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 and commissioning of all 2G systems. It also centrally manages and coordinates after-sales services for CHP modules. Moreover, 2G Energietechnik GmbH operates dependent branches in Schonstett near Munich, in Hamburg, in Halle/Saale, and in Berlin.

Internationally, the 2G Group continued to even the path to further tap important foreign markets during 2016. Following a reorganization in the reporting year of both its corporate structure and organization, 2G in the USA offers its customers all services on a one-stop-shop basis under the 2G Energy Inc. umbrella, and profiles itself to a greater extent as an integral unit on the US market. In Europe, 2G formed an independent French sales and service company based in Nantes in August 2016 to participate to an above-average extent from the expected and promising sales possibilities in the country in the future. 2G Energie SAS assumes responsibility for the French business, which an operating location of 2G Solutions of Cogeneration

S.L. had previously attended to. 2G Solutions of Cogeneration S.L., Vic (Barcelona), which was founded in 2008, will focus in the future on sales and service on the Iberian Peninsula, as well as in the Maghreb states and in South America.

Further foreign subsidiaries exist in Europe that are active in the market as sales and service companies regionally, locally and with native speakers:

- 2G Energy Ltd. based in Sutton Weaver, Runcorn, responsible for the United Kingdom and Ireland,
- 2G Italia Srl based in Verona, responsible for Italy, and
- 2G Polska Sp. z o.o. based in Bielsko-Biala, responsible for Poland and the Baltic States.

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

B. Economic and business environment

Macroeconomic situation

Global economic growth remained subdued overall in 2016

In the 2016/2017 Annual Report it published in November 2016, the German Council of Economic Experts (GCEE) assumed the world economy would record subdued macroeconomic growth over the reporting period, forecasting an increase in global gross domestic product (GDP) of 2.5 % (2015: 3.0 %). The experts believe this economic trend reflects low productivity growth, weak investment activity and global trade growing significantly more slowly than before the financial crisis in 2008.

With regard to the Eurozone, the economic experts noted a continuation of the economic recovery for the third consecutive year, forecasting 1.6 % gross domestic product growth for 2016 (2015: 2.0 %). The economists regard this economic growth as being driven mainly by domestic demand, as well as by capital expenditure. They nevertheless see the economic recovery across the entire Eurozone showing a high degree of heterogeneity in terms of the economic situation in the different member states.

With a look to the German economy, the experts forecast strong gross domestic product growth of 1.9 % (2015: 1.7 %). They forecast that the upturn that started in spring 2013 will continue, driven by significantly higher private and public consumption spending, among other factors. The economy is benefiting from the expansive monetary policy that the European Central Bank (ECB) is pursuing, which is evident in high level of price competition on global markets, among other areas.

In machine engineering, new order intake was down by around 2 % year-on-year. “More could not have been expected given the many political uncertainties in the world,” as the VDMA summarizes. The economic situation in the machine engineering sector nevertheless proved robust overall in the reporting year, according to the association.

Sector trends in Germany

Renewable energies and decentralized energy production are meanwhile a fixed element in the German energy producer market

The 2G Group, with its products and expertise, perceives itself as part of the global energy revolution. 2G contributes to resource conservation and climate protection with its highly efficient gas driven CHP systems that produce electricity and heating/cooling in a combined process on an economical basis. In addition to their high efficiency level as a result of the simultaneous generation of power and heating/cooling, their advantage lies in their very good net CO_2 impact, high number of operating hours – baseload-eligible and irrespective of volatile external input factors – as well as the fact that they can be controlled and regulated, and their resultant ability to offset generation fluctuations from wind farms or solar parks.

Combined heat and power generation

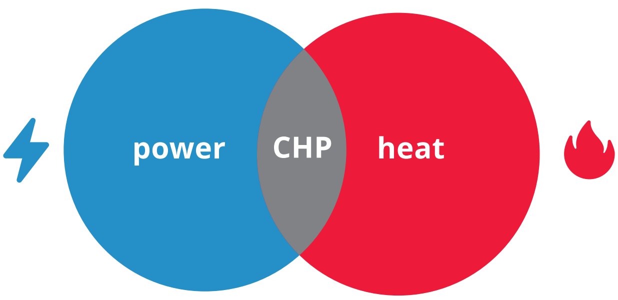


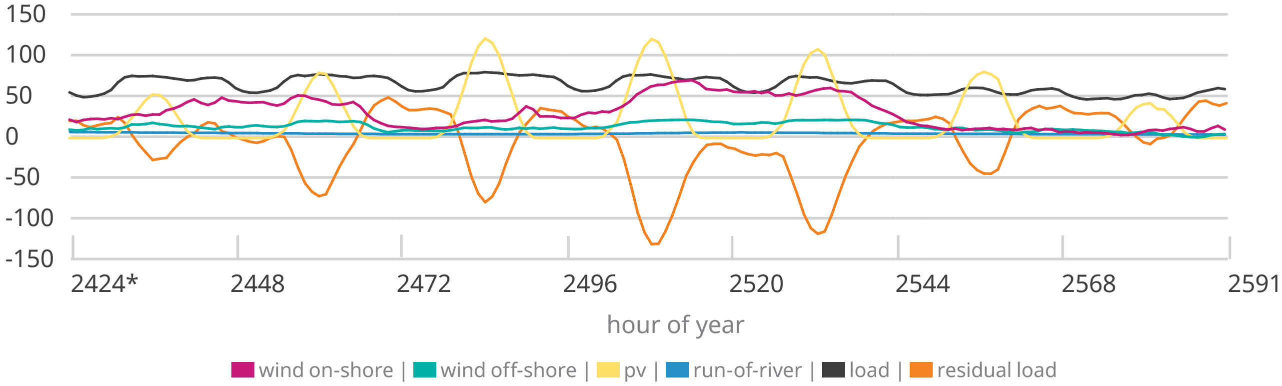
Diagram 2: Economical and environmentally compatible: CHP systems produce electricity and heating at the same time and reduce emissions.
Source: Based on Fraunhofer Institute for Systems and Innovation Research (ISI) in German Federal Ministry for Economic Affairs and Energy (BMWi) "Electricity 2030: Long-term trends – Tasks for the coming years"

The CHP power plants developed and produced by 2G are essential elements of secure, decentralized and increasingly decarbonized energy supplies by renewable and environmentally compatible primary energy sources. 2G power plants are already utilized today for control and system services, and are integrated into existing grids and energy supply infrastructures.

This is because through their flexible operation, digital technology and control electronics, CHP power plants are able both to offset residual load (difference between required electric output (load) and the output that non-controllable power plants such as wind and solar plants generate) against natural generation fluctuations (key word: "Dunkelflaute") and provide balancing energy, which as a reserve offsets (more short-term) fluctuations within the grid network. Flexibility represents the major challenge for the electricity system when transitioning to energy supplies based largely on renewable energies. Demand for flexibility and technologies will increase, as well as the prices for them. Estimates assume that around 10 GW of conventional power plant capacities will be reduced by 2020 and around 18 GW by 2025. Generating capacity in Germany amounted to a total of 204.6 GW at the end of 2015 according to the 2016 monitoring report of the German Federal Grid Agency. Of these, 52.1 % GW were conventional capacities (29.5 % GW from lignite and hard coal as well as nuclear energy) and 47.9 % GW renewable capacities.

Basic principal of electric energy supplies: electricity generation needs to equal consumption

Output in GW



Share of fluctuating electricity generation in the model calculation of the total generation capacity: 83 %
(PV 151 GW, Wind on-shore 82 GW, Wind off-shore 20 GW, Electricity consumption 602 TWh)

Diagram 3: Basic principle of electric energy supplies, load profile and residual load given an 83 % fluctuating energy generation share of total generation.
Sources: Technische Herausforderungen für die Stromversorgung 2050, Prof. Dirk Uwe Sauer, RWTH Aachen, 23.09.2016, Bonn; Wuppertal Institut im Rahmen des Akademienprojekts „Energiesysteme der Zukunft"

*in 2016 that would have been the 10 April, timeline displays a week

Renewable energies' share of gross electricity generation was unchanged year-on-year at 29.0 % in 2016, according to the Energy Balances Working Group (AGEB). Electricity generated from solar, wind, hydropower and biomass reached a new record level of 188.3 billion kWh (previous year: 187.4 billion kWh). While the generation shares of CO_2 intensive primary energy sources and nuclear power all reduced, electricity produced from gas power plants (80.5 billion kWh, previous year: 62.0 billion kWh) rose significantly. This corresponds to a 12.4 % share (previous year: 9.6 %), with the increase being due to reduced wholesale prices for natural gas and the greater use of natural gas in power plants, especially in systems with combined heat and power. Electricity supplies in Germany consist of a broad mix of different energy sources which has changed considerably over the past ten years in favor of renewable energies. Their market share has more than doubled (+ 113 %).

German electricity mix:
10-year trend (gross electricity generation in Germany) by energy sources 2007-2016

in %

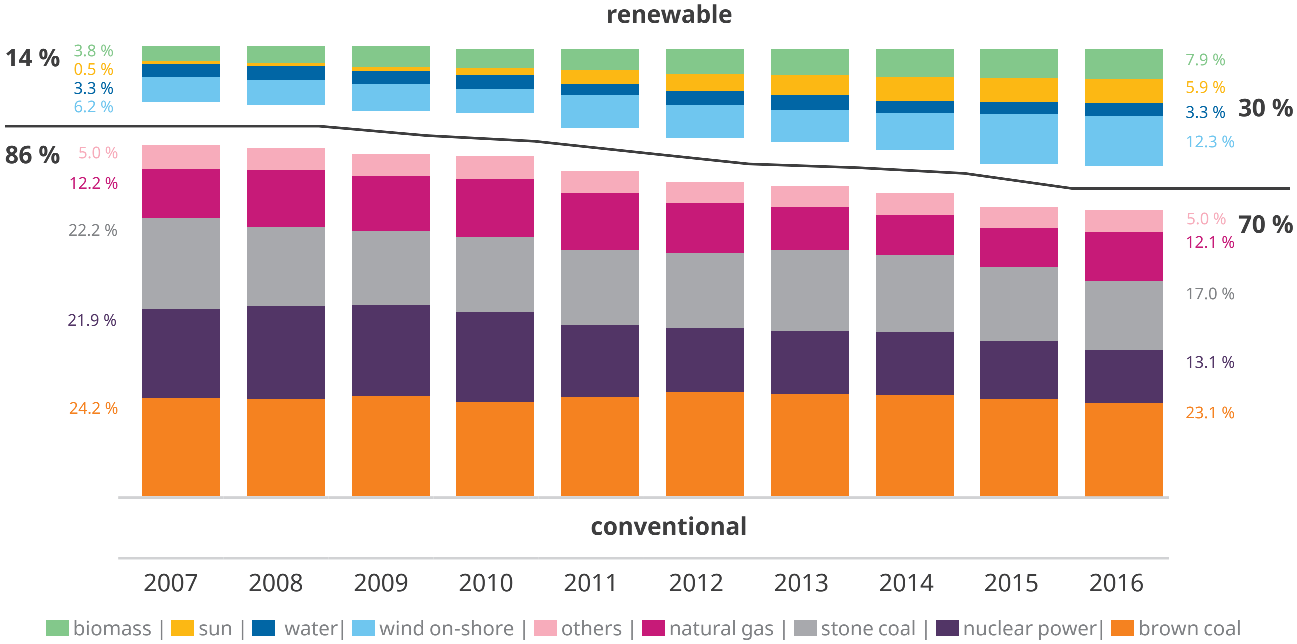
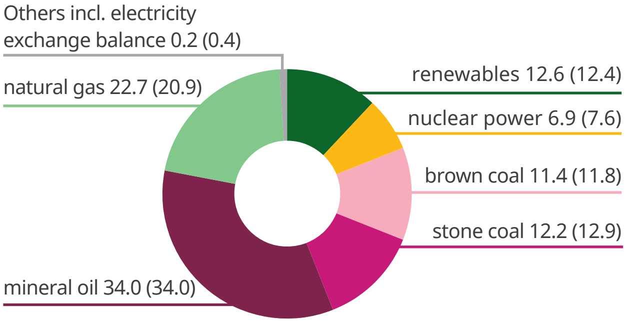


Diagram 4: German electricity mix: 10-year trend (gross electricity generation in Germany) by energy sources 2007-2016.
Source: Arbeitsgemeinschaft Energiebilanzen e.V. (AGEB), 2016, Strom-Report.de

Renewable energies accounted for a 31.7 % share of gross electricity consumption in 2016 (previous year: 31.5 %), according to a survey conducted by the Energy Balances Working Group (AGEB). This stable proportion is chiefly attributable to a weather-related reduction in electricity production – and not to a brake on the expansion of renewable energies. Their share of primary energy consumption stands at 12.6 % (previous year: 12.4 %). Natural gas consumption has also increased considerably in the reporting year, by 10.2 % (previous year: 5.0 %), accounting for a 22.7 % share of the energy mix (previous year: 20.9 %). Diagram 4 shows the structure of energy consumption (energy mix) in Germany in the year under review.

Structure of primary energy consumption in Germany 2016

Share %



( ) Previous year

Diagram 5: Structure of primary energy consumption in Germany in 2015.
Source: Arbeitsgemeinschaft Energiebilanzen e.V. (AGEB), press release December 20, 2016

This trend is also evident in Europe (EU 28). Whereas renewable energy sources accounted for just 25 % of installed electricity production capacity in 2005, the share rose to 44 % by 2016. Diagram 5 shows data for the individual energy sources. Measured in terms of primary energy consumption, too, renewable energies' share in the EU has increased from 5 % in 1995 to 13 % in 2014, according to Eurostat. Viewed globally, electricity produced from renewable energies increased from 19.8 % in 1995 (including hydropower) to 22.3 % in 2014.

Energy sources' share of installed electricity generation capacity in the EU 2005 compared with 2016 in %

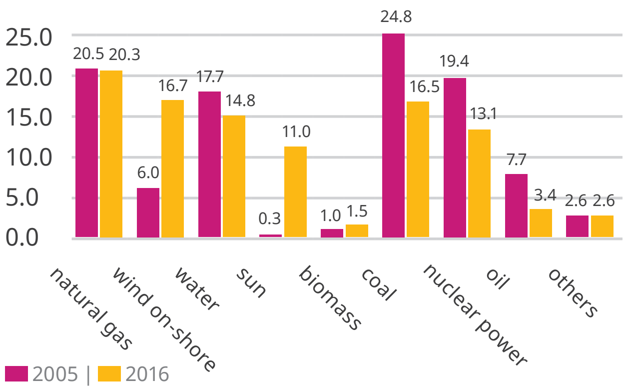


Diagram 6: Energy sources' share of installed electricity generation capacity in the EU, 2005 compared with 2016. Source: de.statista.com, February 26, 2017

National and supranational targets to promote renewable energies and cut greenhouse gas emissions are supporting these trends. To this end, the German government has realized a paradigm shift to the so-called Electricity Market 2.0 over the past years. Given a further increase in renewable energies' shares, too, this regulatory framework aims to ensure safe, inexpensive and environmentally compatible electricity and heating supplies. As part of an energy policy target triangle consisting of economic efficiency, supply security and environmental compatibility, the German Federal Ministry for Economic Affairs and Energy (BMWi) has issued four quantitative goals for the new energy policy direction: renewable energies' share of electricity supplies is to increase to between 40 % and 45 % by 2025, greenhouse gas emissions are to be cut by 40 % (basis year: 1990) by 2020, the last nuclear power plant is to be taken off the grid by 2022, and primary energy consumption is to be reduced by 20 % by 2020 compared with 2008. To date, greenhouse gas emissions have reduced by 27 % between 1990 and 2015, according to the BMWi. The energy sector has contributed the lion's share of CO_2 reduction in this context. In Germany, a total of 158.8 million tonnes of CO_2 equivalents (previous year: 156.4 million tonnes) were avoided through utilizing renewable energies in 2016.

The EU has also set high targets for the expansion of renewable energies and the reduction of CO_2 emissions. By 2020, a total of 20 % of EU member states' energy consumption is to derive from renewable sources, with this figure growing to 27 % by 2030.

The agreement reached at the UN Climate Change Conference in Paris in December 2015 to limit global warming to significantly below 2°C and ring in the exit from fossil fuels can be regarded as a policy target in global terms. The USA and China nevertheless ratified the agreement in September 2016, with further G20 states following. The two aforementioned countries account for 38 % of global greenhouse gas emissions (China: 20.1 % and the USA 17.9 %). The 20 most important industrialized and emerging economies of the world (the G20 states) are responsible for around 75 % of global greenhouse emissions and generate more than 80 % of global gross domestic product.

They play a crucial role in implementing the ambitious Paris targets as a consequence.

Differentiated CHP market offers further expansion potential

The conditions outlined generally represent good business policy preconditions and growth prospects for 2G. The combined generation of electricity and heat using CHP technology based on gas motors enables substantial energy savings and CO_2 reductions to be generated directly.

For decades to come, combined heat and power generation will represent a decisive technology. In a system with long-term growing shares of renewable energies, it can cover rising flexibilization requirements in an increasingly digitalized electricity and heating market.

In this context, it is not only efficiently utilizing nonfossil fuels such as biogas, mine gas, landfill gas, gas from purification plants, and hydrogen, but also fossil gases such as natural gas. Furthermore, 2G has developed a gas mixing system that enables 2G CHP power plants to form a homogeneous gas mixture with two different types of gas sources, such as landfill gas and natural gas, and to vary the mix ratio during operation. This dispenses with the previous need to switch off the CHP system for gas changes, with efficiency being significantly boosted through constant operation and higher output.

German CHP market stands on solid foundation

As a framework for its expansion targets, the amended German Cogeneration Act (KWK-G) that came into force on January 1, 2016 set designated volume targets in absolute terawatt hours (TWh): CHP net electricity generation is to be increased to 110 TWh (corresponding to 19 %) by 2020, and to 120 TWh (corresponding to 20 %) by 2025. Given approximately 6,000 operating hours per year and an output average per system of 500 kWel, these 120 TWh would correspond to around 40,000 CHP systems.

The German Federal Office for Economic Affairs and Export Control (BAFA) constantly registers natural gas operated CHP systems approved for support by the KWK-G. Not all new plants have yet been registered for 2016, or recorded by the BAFA. Applications for approval can still be submitted until December 31, 2017. A trend is nevertheless detectable: a total of 30,000 CHP systems were newly installed in Germany in the years 2012 to 2016 in the output range from 2 kW to over 100 MW. This corresponds to cumulative electric output of 6,397 MW for the 2012 to 2016 period. In other words, the average plant size amounted to around 213 kW in the last five years. To the overall CHP market are to be added CHP plants in Germany operated by biogas, landfill gases and gases from purification plants, which are EEG-supported. In its sector figures for 2015 that it published in July 2016, the German Biogas Association reports construction of an additional 150 systems (2014: 235 plants), with electric capacity of 114 MW (2014: 286 MW). For 2016, the association assumes 168 new systems with 147 MW of electric output.

Sector growth trend continues abroad

The sector‘s positive growth trend over many years abated in 2015, according to the results of an annual survey of CHP plant manufacturers operating in Germany on modules sold that was published in

November 2016 by Germany's Öko-Institut, the German Federal Cogeneration Association (B.KWK) and the magazine Energie & Management. Based on the figures that the surveyed manufacturers forecast for 2016, however, the CHP output that was sold in the 2011 record year – which was affected by the biogas boom preceding the introduction of the 2012 German Renewable Energies Act (EEG) – will be exceeded for the first time (2011: 2,282 MW, 2016e: 2,332 MW). In the previous year, this figure amounted to 1,978 MW. The rising export share of CHP output sold is decisive in this context. This share amounted to just 43.6 % in 2011, but had climbed to 62.6 % by 2015. Companies assume the export share will remain at a high level of 63.6 % for 2016. In the 2011 to 2016e period, the compound annual growth rate (CAGR) for the export share consequently amounted to 8.3 %.

Sale of CHP engines in Germany and abroad in MW

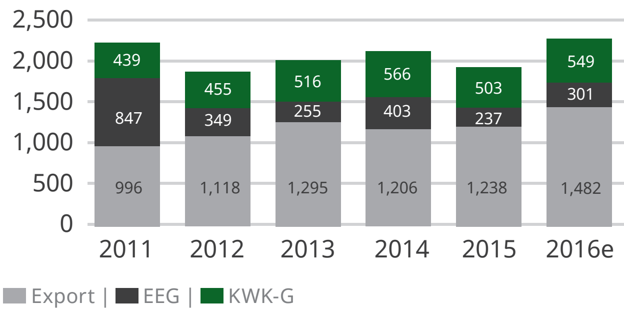
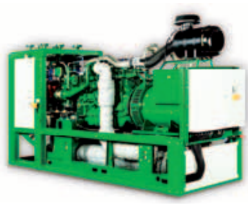


Diagram 7: CHP engine shipments in Germany and abroad in MW.
Source: Energie & Management, Öko-Institut, November 2016

> 20 kW*	**2G CHP modules**	< 4,000 kW**
20 to 50 kW  Standard CHP modules	50 to 550 kW  Modifications developed by 2G • Gas engine • Control electronics, software • Customised solutions	750 to 4,000 kW  Customised solutions, incl. project planning

Plug & Play | Rental & Leasing | Service

*no single-family homes | **no large-scale power plants
Diagram 8: CHP output range of 2G Energy AG
Source: 2G Energy AG

Differentiating features for the gas CHP market in Germany

	Natural Gas	Biogas	Sewage-, landfill- and mine gas	Hydrogen
Customers	Municipal utilities	Farmer	Municipalities	Wind farm operators
	Utilities	Financial investors	Disposal companies	Gas supplier
	Contractors	IPP	Municipal utilities	Municipal utilities
	Industry	Reseller		F & E
	Commercial enterprises			Projektträger Jülich, BMUB
	Municipalities			ZIM
	Housing industry			
Ø size of CHP	100 kW	330 kW		
Market vol. 2015*	503 MW	237 MW	< 10 MW	n. a.
Legal basis	KWK-G	EEG	EEG	EEG/KWK-G

Source: 2G Energy AG, * Öko-Institut, Energie & Management, November 2016

For 2G, the markets for natural gas and biogas operated CHP systems enjoy strategically similar weightings. Practice in Germany and many foreign markets has shown that the state-sponsored utilization of biogas quickly opens up new customer groups, application possibilities and utilization potentials for the technology of gas-driven, efficient and decentrally operated combined heat and power generation. The CHP principle – the combined generation of electricity and heating – is reaching a broader public. In countries that typically already have well expanded natural gas infrastructure, this is then followed by a gradual and continuous upswing in demand for natural gas operated CHP systems in the lower and medium performance range of around 20 kW to 4 MW. This type of effect is evident in Italy and the United Kingdom in the year under review, with a similar development foreseeable for other countries in the future. The economic efficiency of biogas systems depends to a high degree on state support, so it should always be borne in mind that such support can change in terms of structure and level. A demand switch to natural gas operated CHP systems is then often the consequence.

Electric output shipped by 2G 2009-2016 in kW

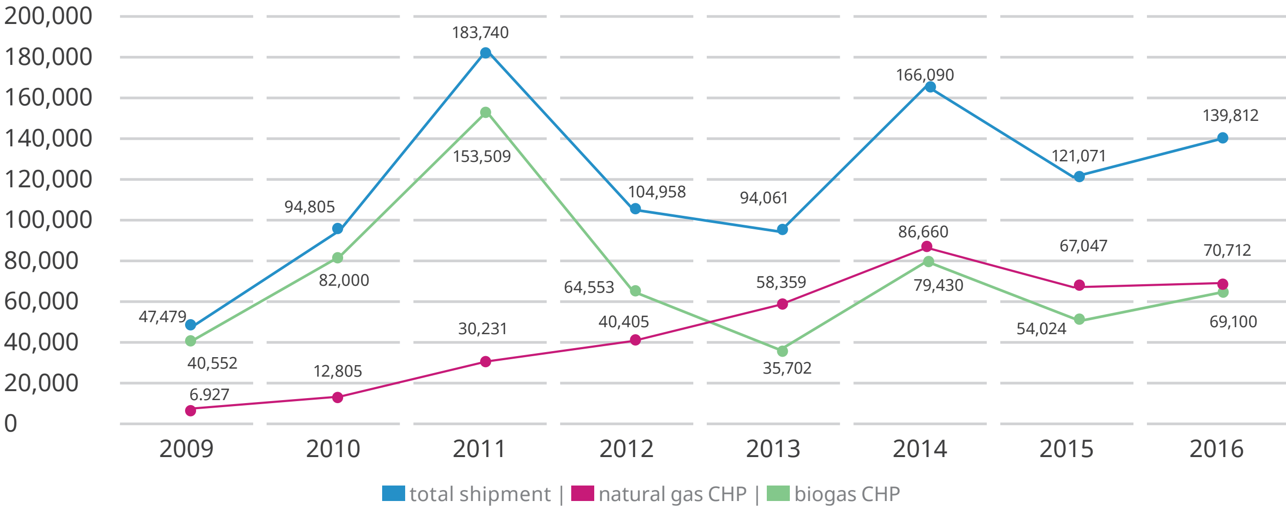


Diagram 9: Electric output (in kWel) shipped by 2G by gas type and total shipment in each case in Germany and abroad 2009 – 2016.
Source: 2G Energy AG

Diagram 9 shows clearly that in the years following the biogas boom, 2G not only succeeded in offsetting the reduction in the biogas CHP business in Germany through expanding its foreign business but also established a further business pillar by expanding natural gas CHP sales. In the year under review, 2G shipped almost as much biogas output as natural gas output. For the first time in three years, shipped output of biogas driven CHP systems is again higher than for natural gas operated CHP systems. This corresponds to an overall continuous organic CAGR (compound annual growth rate) of 6.7 % between 2010 and 2016.

The following section explains the overall conditions for the two segments of natural gas operated CHP systems and biogas operated CHP systems.

Biogas market in Germany

The German biogas market remained under the pressure of the deep cuts to subsidies from the 2014 German Renewable Energies Act (EEG), which included an upper limit for adding new capacities of 100 MW per year. For the year under review, the German Biogas Association even estimates de facto just 14 MW (previous year: 12 MW) of additionally constructed, operationally relevant (actually deployed for electricity generation, in other words) electric output. According to the association, this corresponds to around 150 biogas systems newly connected to the grid, predominantly small systems with maximum electric output of 75 kW. The market for system expansions as part of flexibilization proved more dynamic with around 142 MW (previous year: 111 MW) of installed electric output through superstructuring. For the existing plant market, two influencing factors have combined to stimulate demand for 2G biogas CHP systems: firstly, the need for replacement investments after reaching the technical lifespan of biogas operated CHP modules after around 60,000 operating hours (corresponding to an average of eight years), and, secondly, the modernization of CHP plants due to the requirements of flexibilization and direct marketing to optimize revenues in a changing electricity market with load balancing, and to qualify for follow-on support. Through certification according to the Low Voltage Directive and the Medium Voltage Directive as well as so-called grid codes, 2G CHP modules meet the precondition for future-oriented plant operation for most of the CHP systems it offers. Contractors and energy supply companies can control plants remotely while in operation using 2G's proprietary control software. 2G thereby created the conditions at an early stage to access both the market for new biogas systems as well as the promising market for repowering investments. 2G serves this market, including with its CHP systems from its filius, patruus and agenitor series.

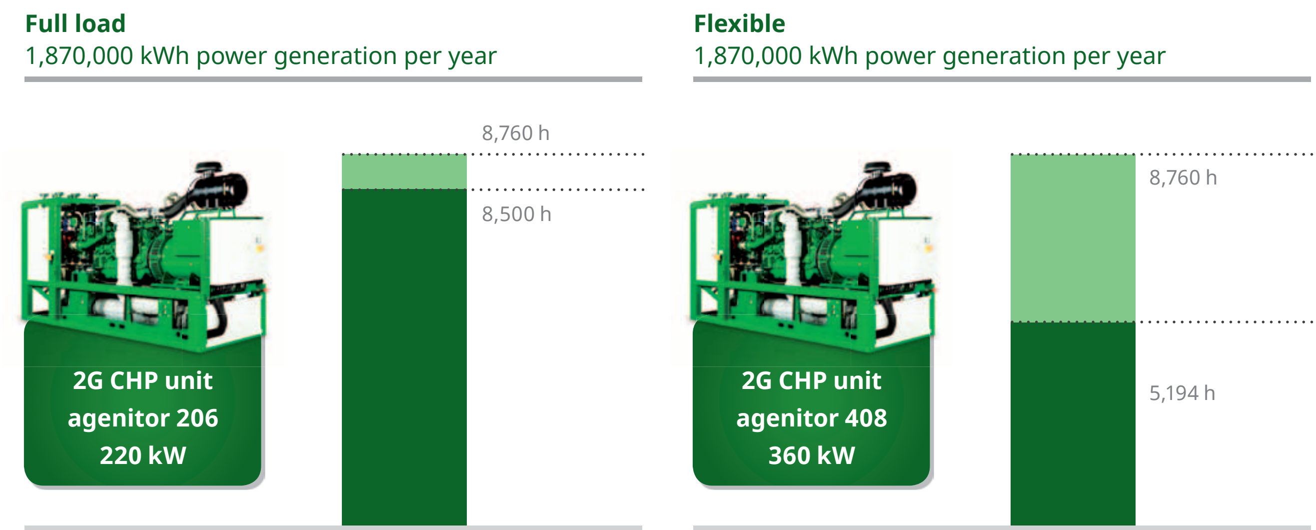


Diagram 10: Repowering a biogas system with a higher performance agenitor CHP system (220 kW to 360 kW) and flexibilizing its operation (from 3 % to 41 %).
Source: 2G Energy AG, 2G calculations

Diagram 9 shows that, given unchanged annual electric output (1.87 million kWh), economic efficiency is increased with repowering through proportional direct marketing, the flexibilization premium and operational performance of the module (less wear and tear, lower servicing costs) within the period eligible for subsidy under the German Renewable Energies Act (EEG). This constellation enables biogas systems to reach the end of the first full 20-year subsidy period and participate with an attractive bid in the tendering process planned in the 2017 EEG. The efficiency and flexibility of systems modified in this manner can be boosted further through heat utilization concepts and storage options for biogas and heat.

As shown in diagram 11, the number of biogas systems in Germany has almost doubled between 2006 and 2010, the period from which biogas operated CHP modules are up for renewal over the coming years. Diagram 9 shows that 2G participated fully in the dynamic market growth at that time (measured in terms of installed electric output). As a consequence, 2G enjoys great potential from repowering installations in its own existing systems. This was already significantly evident in the reporting year for 2G in new order intake for biogas operated CHP systems in Germany from the end of the first half of the year. Approval of the long and much embattled EEG 2017 on 8 July 2016 triggered further demand. 2G provides an assessment of the EEG 2017 in the section entitled "Regulatory environment".

Overall, biogas held its position constant in the energy mix in 2015 and 2016, according to preliminary data from AGEE-Stat. Biogas's share of total regenerative electricity and heating production was almost unchanged year-on-year at 13.9 %. Despite the sector practically stagnating compared with the years before 2014, the base of biogas systems established in Germany for more than 15 years notionally provided 8.4 million households with biogas electricity in 2016 (previous year: 8.4 million), according to the German Biogas Association's forecasts. As a consequence, 19.1 million tonnes of CO_2 emissions have been saved (previous year: 19.0 million tonnes).

Development of number of biogas plants and of total installed electrical power in Germany 2000 - 2016e

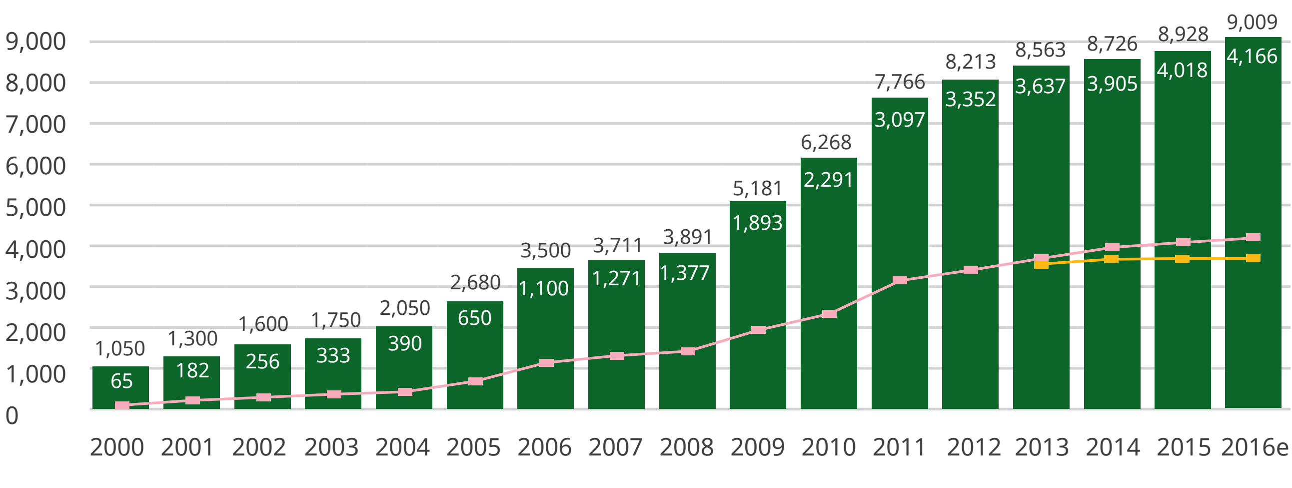


Diagram 11: Development of number of biogas plants and of total installed electrical power in Germany 2000 - 2016e.
Source: German Biogas Association, Industry statistics 2015 and forecasts 2016, July 2016

The German Biogas Association is of the view that biogas – as a decentralized regenerative energy source – can make an important contribution to ensuring that the stability and flexibility required in the Electricity Market 2.0 are available in equal measures. The consistent utilization of heating generated on an environmentally compatible basis when producing electricity in CHP power plants also offers manifold deployment possibilities, forming an important additional metric for the systems‘ economic efficiency.

Demand for biogas modules picks up

In the reporting year, 2G almost reached its forecast shipped output of 70.7 MW of biogas operated CHP modules. This represents an increase of around a third compared with 2015. 2G benefited from a significant demand upswing in Germany, which lifted sales to EUR 28.8 million (previous year: EUR 16.1 million). The company is beginning to benefit tangibly from the overhaul cycle of its CHP modules installed since 2006 predominantly in Western and Northern Germany. The transition regulation in the EEG 2017 for the tender regulation also contributed in this context. Systems that are commissioned in 2018 at the latest and are approved or registered by the end of 2016 are exempt from the tender requirement accordingly. The legal and investment security reattained with the approval of the EEG 2017, the raising of the annual expansion target and the follow-on regulations for existing systems led to a considerable pickup in the order book position.

Trend in 2G‘s market share in German biogas CHP market 2014 – 2016e in %

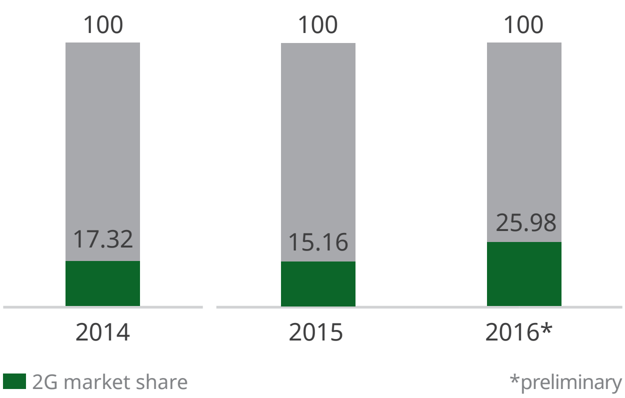


Diagram 12: Trend in 2G‘s market share in German biogas CHP market 2014 – 2016e for biogas operated CHP power plants across all performance ranges.
Source: 2G Energy AG, 2G calculations, German Biogas Association July 2016

Measured in terms of the annual expansion construction of biogas operated CHP modules, 2G significantly extended its market share in Germany to a quarter in the reporting year. These figures relate to data that the German Biogas Association publishes annually on the overall market across all output classes.

In Europe, around 17,358 biogas systems (previous year: 16,817 systems) with electric output of around 8.73 GW (previous year: 8.29 GW) were installed as of the end of 2015, according to the European Biogas Association (EBA). This corresponds to around 3.2 % growth in the number of systems and an increase in installed output of 5.3 %. Biogas continues to represent an important fuel for CHP plants on European markets, and generally receives state subsidies to varying degrees. In the “EBA Biogas Report 2016” it published in December 2016, the EBA notes that this growth is based mainly on significant new installations in individual countries such as the United Kingdom, France, Belgium and the

Netherlands. Similarly to the German market, however, the growth dynamic in many European biogas markets is reducing considerably.

In the United Kingdom, the number of biogas systems in 2015 rose by 17 % year-on-year, according to EBA data. For 2016, the national biogas association (ADBA) assumes the number of systems will grow by around 27 % to 540 systems (including 90 biomethane systems) by the end of the year. The UK operated 617 MW of electric capacity from biogas as of mid-2016, according to the association's data. The British biogas CHP market remained the most important foreign market for 2G in the year under review. In France, overall conditions have also improved for the biogas sector following approval of its new energy act in August 2015 and the publication at the end of May 2016 of directives to implement the act. The aim is to achieve production of 625 MW of electric output through biogas from around 1,000 systems by 2020. France had system output of 274 MW in 2015. With the construction of an additional approximately 350 MW, installed output would more than double by 2020 as a consequence. 2G responded to the market's attractive growth prospects in August of the year under review with the forming of its own subsidiary, 2G Energie SAS. The order book position in France already stood at EUR 7.7 million as of December 31, 2016.

Number of biogas systems and installed electric capacity in Europe 2010-2015

	2010	2011	2012	2013	2014	2015
Number of biogas systems	10,433	12,397	13,812	14,661	16,817	17,358
Installed electric capacity (MW)	4,136	4,823	7,112	7,799	8,288	8,728

Source: European Biogas Association, Biogas Report 2016, Dezember 2016

Outside Europe, particularly the Japanese market is interesting for biogas operated systems. Demand is emanating from the 50 kW to 2 MW performance range for systems for agriculture as well as for landfill and clarification plants. The Japanese regulatory framework for feed-in payments for electricity derived from biogas is proving stable. 2G is well represented on the Japanese market with meanwhile 60 plants and installed output of around 15 MW. The order book position as of December 31, 2016 holds out the prospect of further growth for the 2017 financial year. In the Asia-Pacific region, 2G has also sold biogas operated CHP systems in Australia, South Korea and China through sales partners. In the USA, demand for biogas systems remained weak in the reporting year.

Natural gas as important energy source for the energy revolution

2G is of the view that natural gas is assuming a key role in sustainable energy supplies as part of the new energy policy direction. Natural gas has made a reliable contribution to energy supplies in Germany and Europe for decades. Natural gas supply security in Europe has improved considerably in recent years. Along with expanding import possibilities for Liquefied

Natural Gas (LNG) by ship, the expansion of storage capacities and pipeline connections between member countries, the opening of pipelines for transport in both directions, as well as further plans to build new pipelines are contributing to supply security and performance, as well as a liquid and relatively free market.

The highly varied deployment of multitalented natural gas for energy supplies in the electricity and heating markets is connected with great CO_2 reduction potential that can be tapped quickly and cost-efficiently. Among all fossil fuel sources, natural gas offers a beneficial net carbon dioxide impact when combusted in technical applications with high efficiencies. When converted into electricity, natural gas releases 50 % less CO_2 than lignite and reduces emissions of nitrogen oxide (NOx) and sulfur oxide (SOx). Gaseous primary energy sources also combust with less residue and soot formation than diesel fuels, for example.

In 2G's view, the aforementioned environmental characteristics, infrastructure and prospectively long-term good supply of natural gas (the European sector association eurogas assumed an extent of natural gas reserves of around 54 years in 2014) suggest that this primary energy source will comprise an important pillar to achieve the greatest extent of energy supplies with renewable energies, prospectively for the period after 2050. Important conditions for an attractive growth market for decentralized natural gas driven CHP power plants are also met as a consequence.

Decentralized energy supply comprises a further advantage to the operation of CHP systems with natural gas. Natural gas operated CHP plants can relieve the pressure on power grids to be reconfigured as part of the new energy policy direction on the basis of in general already existing supply logistics for natural gas provision and for feeding excess heat into local and district heating grids. Heating and electricity are generated directly where they are to be utilized, in line with demand. In conjunction with other renewable energy forms – provided they are equipped with modern electronics and software – natural gas operated (and biogas operated) CHP plants make an important contribution as virtual power plants to offsetting the volatilities entailed in generating power from wind and solar power plants. This is recognized politically in the EU and the USA, and is institutionalized as standard in the market through regulatory adjustments for technical operation, such as the EU Medium Voltage Directive and the Low Voltage Directive in Germany.

In the German market – an important market for 2G – business with natural gas operated CHP systems was characterized in the reporting period by uncertainty among manufacturers and investors about the applicable regulations of the 2016 amendment to the German Cogeneration Act (KWK-G). Although the Bundestag, the Lower House of the German Parliament, approved the act on 15 December 2015, ratification by the EU Commission remained outstanding. New order intake in this segment at 2G was also correspondingly subdued for a long period. CHP systems that were ordered and had started to be processed in 2015, and were completed during the first months of 2016, were recognized as sales in the first half of the year. Overall, 2G increased its sales with natural gas operated CHP systems in Germany by 12.4 % to EUR 49.0 million (previous year: EUR 43.6 million). In markets outside Germany, good demand for natural gas driven CHP systems was especially evident in the UK and the USA.

Over the past years, 2G has continuously expanded its market share – in relation to installed electric capacity – in Germany in the area of natural gas operated CHP systems, in its capacity range from 20 kW to 2 MW. Its share in relation to installed output reduced to 15.2 % in the year under review. In its core output ranges between 50 kW and 500 kW and between 250 kW and 500 kW, however, 2G has maintained its market shares in Germany at around a third and above a third respectively in this period. The market share data for 2016 in the diagrams will prospectively be downgraded slightly as the BAFA registration figures up to the end of 2017 still have to be recorded.

Trends in 2G's market share in German CHP market 2012 - 2015 for natural gas operated CHP power plants in the core performance range > 50 - 500 kW in %

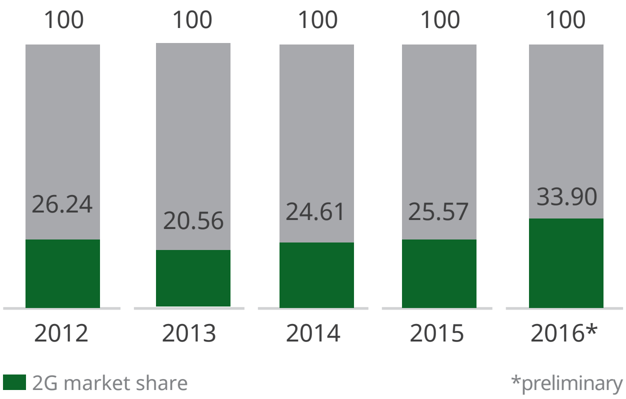


Diagram 13: Trends in 2G's market share in German CHP market 2012 - 2016 for natural gas operated CHP power plants in the core performance range > 50 - 500 kW.
Source: 2G Energy AG. German Federal Office for Economic Affairs and Export Control (BAFA), as of March 22, 2017

Trends in 2G's market share in German CHP market 2012 - 2015 for natural gas operated CHP power plants in the core performance range > 250 - 500 kW in %

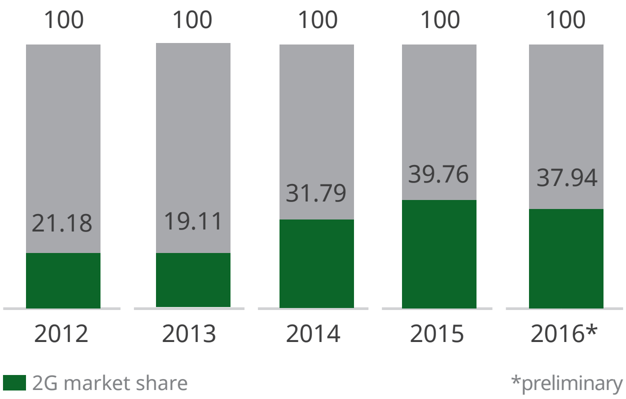


Diagram 14: Trends in 2G's market share in German CHP market 2012 - 2016 for natural gas operated CHP power plants in the core performance range > 250 - 500 kW.
Source: 2G Energy AG. German Federal Office for Economic Affairs and Export Control (BAFA), as of March 22, 2017

Gas prices fall further

The price for natural gas fell in the reporting year, reflecting not only a sharp reduction in the crude oil price but also better supply. The significant reduction in the crude oil price observable since mid-2014 (Brent crude oil: June 20, 2014: USD 114.96, December 30, 2015: USD 36.63, December 30, 2016: USD 56.65) continued at the start of the reporting year to just under USD 30. The price then recovered to just under USD 60 over the course of the year, although it was still almost 17 % lower than in 2015 on average. This price trend also affects natural gas price trends through some natural gas importers' long-term supply contracts and some fixing to the oil price (the natural gas price follows the oil price with around six months' delay). 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.

Development of gas prices for industrial customers and households in Germany
(Index 2010 = 100)

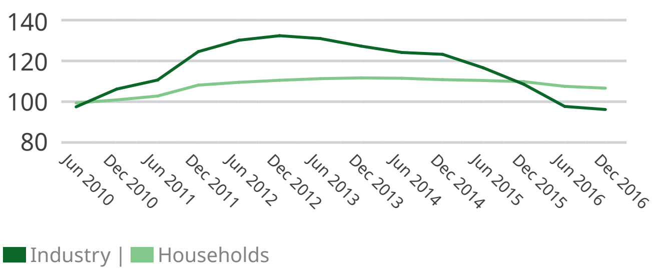


Diagram 15: Development of gas prices for industrial customers and private households in Germany.
Source: Federal Statistical Office, data of energy price development, February 2017

Electricity prices stuck at high level for users

Electricity prices in Germany remain at a high level for consumer households and small and medium sized industrial operations. Average electricity prices for private households and medium sized industrial operations in 2016 increased slightly year-on-year by around 0.3 % to 28.80 cents/kWh and by 1.4 % to 15. 44 cents/kWh respectively, according to calculations from the German Association of Energy and Water Industries (BDEW). In diagram 16 below, the separate components of the total electricity price can be traced. Particularly noteworthy is the increasing share of state levies, premiums, taxes as well as grid charges.

It can be noted overall that electricity prices for medium-sized industry as an electricity consumer have remained at a high level since 2012. A trend turnaround is not identifiable either in the year under review or prospectively.

Average electricity price for industrial customers (incl. electricity tax) 2000 - 2016 Cent per kWh

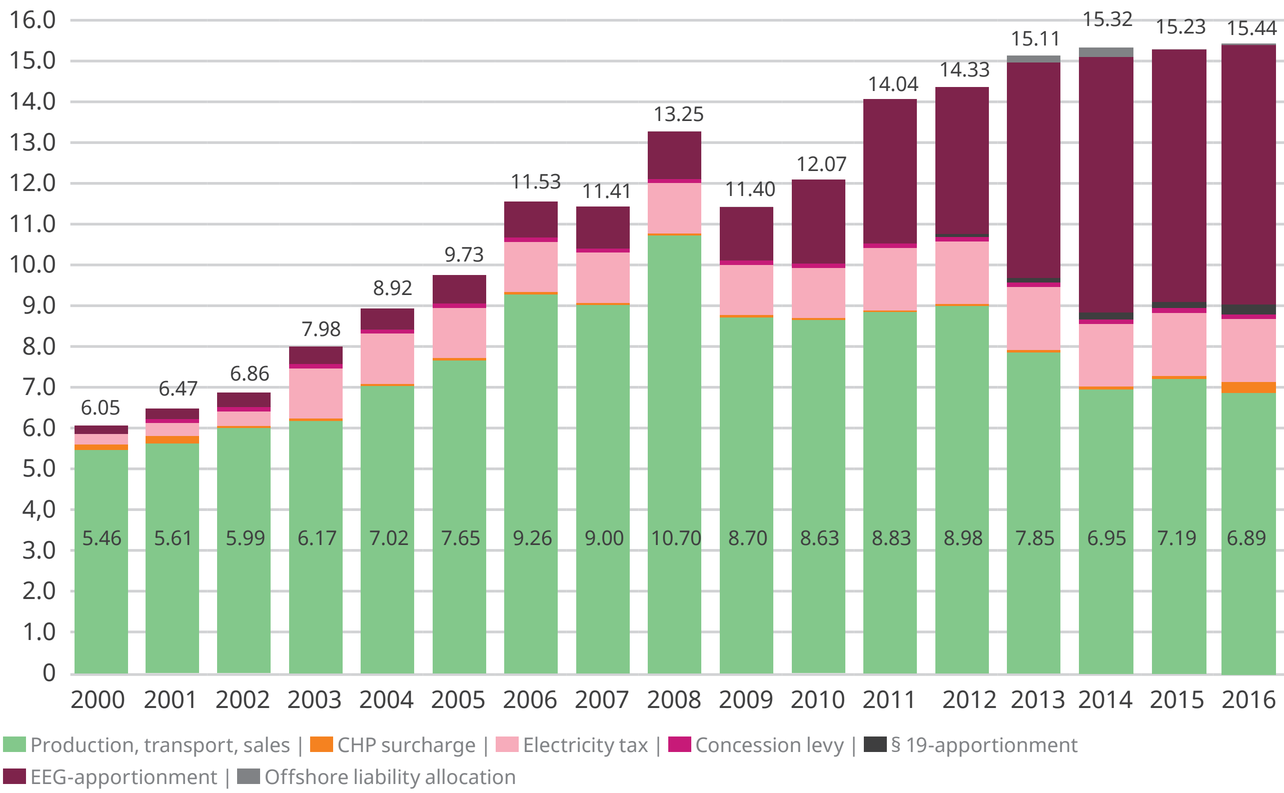


Diagram 16: Average electricity price for industry 2000 – 2015 (including electricity tax) in Germany in cents per kWh (annual consumption 160 to 20,000 MWh), medium voltage supplies (intake 100 kW / 1,600 h to 4,000 kW / 5,000 h).
Source: BDEW, Energy Information, industrial electricity prices, November 2016

As a consequence, due to the outlined trend on both the German market and foreign markets of relevance for 2G, gas and electricity prices performed beneficially for the economic efficiency of 2G CHP power plants in 2016. Generally, potential customers face an economic decision as to whether to invest in a gas operated CHP power plant and thereby become largely more independent of public supplies and save energy costs, or to remain with conventional energy supplies. Assessing this situation is based on the so-called spark spread (relationship between the electricity price and the natural gas price). The experts at Delta-ee assume that market conditions start to become interesting for an investment given a factor greater than 2.5. A factor greater than 3.0 already signals attractive conditions, and a factor above 3.5 promises very attractive terms.

Spark Spread Ratios in Europe and USA 2008 - 2016

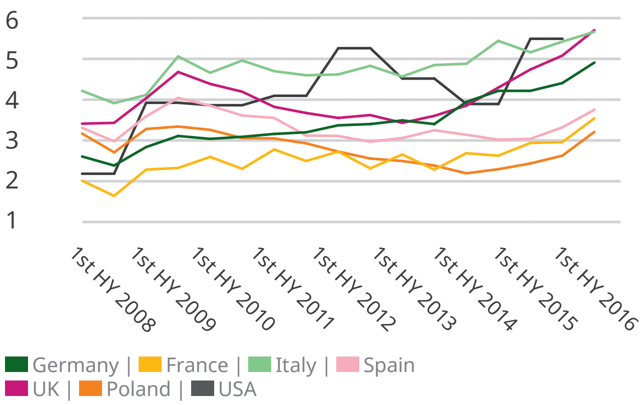


Diagram 17: Spark spread trends in selected European countries and the USA 2008 – 2016.
Source: German Federal Statistical Office, energy price trend data, March 2, 2017; UK Department of Energy & Climate Change, Industrial Electricity & Gas Prices in the IEA, December 22, 2016; 2G calculations

As shown by the graphical presentation of spark spread trends in markets of primary interest for 2G, the underlying conditions have tended to improve continuously for the economic operation of combined electricity and heating generation since 2012/2013 with the gap between electricity and gas prices widening. The spark spread factor in Italy, Germany, the USA and the UK lies near or above five.

CO_2 has not played a role as a production factor to date

To limit global warming due to anthropogenic climate change, targets to reduce greenhouse gases have been defined at international, European and German level. Firstly, these relate directly to limiting climate-damaging greenhouse gas emissions to percentage emission reduction targets. Secondly, supportive systems have been implemented to reach these targets, including through the trading of allowances within the EU through the European Emissions Trading System (ETS), which aims to tap the most cost efficient reduction possibilities.

"Gamechanger CO_2 as a production factor"

The energy sector is of outstanding significance in reducing greenhouse gases. Around 82.5 percent of CO_2 emissions in Germany were attributable to the generation of heating and electricity in 2015, according to the German Environment Agency (UBA). A reduction in CO_2 emissions is to be achieved through boosting energy efficiency, cutting energy consumption, the greater utilization of renewable energies and a decrease in specific CO_2 emissions. The status in Germany today does not enable the German government's target to be met of reducing national greenhouse gas emissions in 2020 to 40 % below their 1990 level. In this context, the German Environment Agency noted at the end of March 2017 that German greenhouse gas emissions have fallen by around 28 % between 1990 and 2016. Compared with the previous year, however, emissions in 2016 increased. The targets that have been set will not be reached without massive and rapid additional efforts. Energy-induced emissions decreased by just approximately 25 % over the same period. The development at international level is nevertheless significantly more negative with a more than 60 % increase in CO_2 emissions compared with 1990.

Due to the much too low certificate price, the European Emission Trading System (ETS) – through an oversupply of emission allowances – also fails to contribute to environmentally compatible investments. Experts are of the view that prices per tonne CO_2 would need to be around 15 times higher than the average of the last five years of 6.17 EUR/tCO_2 in order to have a taxing effect.

In other words, an effective market economy tool to avoid CO_2 emissions is lacking at both national and supranational level. Insufficient incentives exist to invest in energy generation types that sustainably reduce greenhouse gas emissions through the primary energy sources utilized, significant efficiency gains, and/or resource conservation. Emitting greenhouse gases has been more or less free of charge to date, and consequently irrelevant as a production factor alongside labor and capital costs. Innovative technologies and sustainable forms of energy generation would become attractive investment opportunities through effective CO_2 prices. Market-proven combined heat and power technology already offers resource efficiency, high total operating efficiencies and a significant CO_2 reduction in energy production, and can also be operated with regenerative fuels. It is also the means of choice to achieve the climate targets. A look at the fuel-related CO_2 emission factors of primary energy sources in the following table shows the potentials of a CO_2 price, and the advantages that natural gas offers as fuel.

Fuel-related CO_2 emission factors in 2015

in t CO_2/TJ	absolute	advantage natural gas
stone coal	93.5	67.3 %
brown coal	111.0	98.6 %
mineral oil	73.3	31.1 %
natural gas	55.9	–

Source: German Environment Agency (UBA), carbon dioxide emission factors for German reporting of atmospheric emissions 1990-2015

An accelerated exit from coal is also seen as a preferred scenario in public debate about more rapid CO_2 emission reduction. The sector targets in the climate protection plan and the preparation of the German Coal Commission point in the right direction.

Heating market offers further potential for combined heat and power

The heating market is of crucial importance for implementing the new energy policy direction. It includes the provision of space heat (including space cooling), process heat (including process cooling) and hot water. The heating market is consequently significant for all areas of the economy, from industry, trade and retail through to end consumers. A total of 2,466 TWh of final energy was consumed in Germany in 2015. Of this, the largest proportion of 1,056 TWh (42.8 %) was attributable to the conventional heating and cooling market (see diagram 18). Adding the final energy consumption from the energy sources of electricity and renewable for heating and cooling applications generates a figure of 55.7 %. Deploying renewable energies in heating generation has been ascribed significantly less importance in the electricity area to date.

Final energy consumption by application areas in Germany 2015 Share %

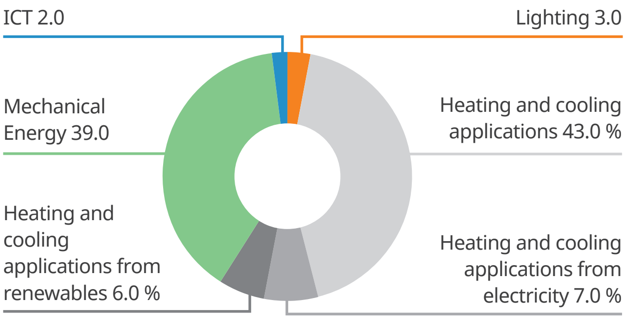
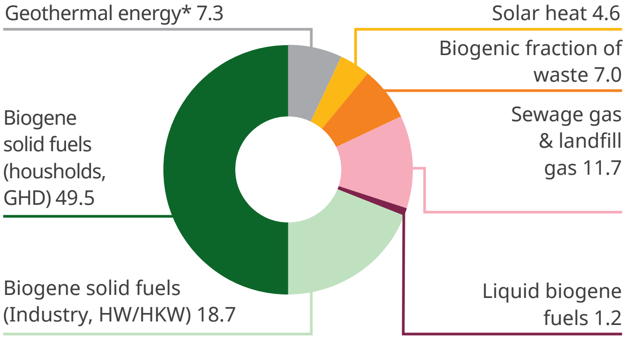


Diagram 18: Final energy consumption by application areas in Germany 2015, ICT = information and communication technology. Source: Arbeitsgruppe Energiebilanzen e.V. (AGEB), Review for the final energy sectors in Germany 2013 to 2015", October 2016, 2G calculations

Use of heat from renewable energies in Germany 2016 Share %



* near surface geothermal energy, geothermal heat, deep geothermal energy

Diagram 19: Use of heat from renewable energies in Germany 2016. Source: Federal Environment Agency (Umweltbundesamt), Renewable Energies in Germany, 2016 Trend Data, status as of February 2017

The German Energy and Water Sector Association (BEDW) assumes that 40 % of carbon dioxide emissions are attributable to heat generation (40 % to electricity generation and 20 % in the transportation sector). In other words, in terms of both its share of final energy consumption and its share of greenhouse gas emissions, heating generation offers great potential to deploy renewable energies and efficient technologies. As already mentioned, important infrastructure foundations are in place for the heating market to play a significantly growing role in a sustainable new energy policy direction in Germany. Based on this, economic benefits can be leveraged from synergies between electricity and heating supplies. The multilevel decentralized utilization of heat for energy supply in the housing industry, in companies as process or thermal heat, or by regional energy providers (such as public utility companies/local authorities) in microgrids or in local and district heating grids is particularly important as a sales market for CHP systems.

Regulatory environment in Germany

Long-awaited amendment to the German Cogeneration Act

The amended German Cogeneration Act (KWK-G) came into force on January 1, 2016. The EU competition commission did not issue its state aid law approval until the end of October 2016, however, exerting a significantly negative effect on sales of natural gas operated CHP systems in Germany. The requirements from the EU subsidy ruling were then implemented in the amendment to the German Cogeneration Act (KWK-G), which the Bundestag approved on December 15, 2016 and the Bundesrat approved on December 16, 2016. It is significant that CHP systems between 1 MW and 50 MW must be subjected to tendering for subsidies, although a statutory base still has to be created for this. The new KWK-G strengthens the feed-in of electricity into the public grid through higher payment rates, depending on the respective performance class. Direct marketing is also mandatory for CHP systems from 100 kW. In 2G's assessment, both these instruments will help to better integrate CHP systems into the demand-led electricity market through energy supply companies and municipal utilities.

EEG 2017 restores prospects for biogas market

The Bundestag approved the amended 2017 German Renewable Energies Act (EEG 2017) on July 8, 2016. The act came into force on January 1, 2017 and the EU commission also granted its state aid law approval at the end of 2016. Firstly, the EEG 2017 is to foster the further expansion of renewable energies by boosting their share of electricity generation to between 40 % and 45 % by 2025. Secondly, the EEG 2017 continues with the transition to the competitive tendering of subsidies. This largely entails converting EC subsidies to a tendering model. Biogas systems that are commissioned in 2018 at the latest and are approved or registered by the end of 2016 are exempted from the tendering requirement. Existing systems participate together with new systems in the tenders and can thereby secure for themselves follow-on subsidies for ten years. Participation is only permitted, however, if the 20-year subsidy claim only exists for a maximum of eight years on the tender date. In other words, systems starting operation in 2004 or earlier can participate in the first tender in September 2017.

Due to the new EEG 2017 provisions, 2G sees a more positive trend in the sale of biogas operated CHP systems on the German market than during recent years. The focus will lie on repowering and flexibilizing existing systems.

Digitalization as an important building block for competitiveness

The growing digitalization of the energy sector also represents a challenge for CHP system manufacturers. CHP systems are embedded within highly differing energy systems and local site supply infrastructures nowadays, requiring them to fulfill complex technical requirements – including maximizing revenue. At an early stage, 2G invested in control electronics and software development, as well as in meeting complementary technical standards, and it equips its CHP systems with fully developed control software. Insofar as CHP plants adjust the production of electricity and heating to demand – in other words, insofar as they generate flexibly and in line with demand – they can be operated in a manner that aligns with systems and is economically viable for operators.

Strong demand for services

In its Service division, too, 2G further progressed the possibilities that digitalization offers in order to realize further efficiency enhancements and cost reductions in the reporting year. 2G Service has developed into an important sales driver within the Group over recent years. Service accounted for around one third of total sales in 2016, as in the previous year. It generates stable and predictable cash flows that are largely independent of the economic and regulatory environment. The gradually growing number of 2G CHP plants in Germany and abroad contributed to the positive trend. Along with natural gas operated CHP systems, biogas driven CHP systems are being sold increasingly abroad with service contracts.

With constantly rising demands made of CHP power plants as system energy suppliers, optimal processes and (digital) capabilities to provide information to customers and utilities comprise an important basis for economically optimized plant availability and market participation. Many customers in Germany and abroad enter into long-term service and maintenance contracts, with 2G managing their systems over their entire lifecycles. 2G further optimized its processes and structures in Service in the reporting year as part of its “Service 2020” project. Along with digitalization and expanding web applications, focus areas included extending a closely intermeshed service network and establishing a “Best in Class” works service. The Service division has thereby made a disproportionally high contribution to the earnings of 2G Energietechnik through the higher number of systems under management, and with cost reductions and efficiency gains.

2G asserts strong market position

The results published by Germany‘s Öko-Institut, the German Federal Cogeneration Association (B.KWK) and the magazine Energie & Management (see table on page 50) underscore the strong market position of 2G among plant manufacturers operating in Germany. In 2015 – more recent data are not available – the company ranked third in terms of megawatt output, with 75.8 MW of annual output (previous year: 123.6 MW), after Caterpillar Energy Solutions (MWM) and GE Jenbacher – both companies forming part of a larger group. 2G differentiates itself from both of the aforementioned engine manufacturers through its extensive CHP system solutions that are tailored to customer wishes in performance classes above 50 kW and up to 4 MW, and are delivered on a turnkey basis.

In the assessment of research house First Berlin, smaller companies will struggle to compete with 2G (see also table on page 50). The study identifies the strength of 2G as lying especially in its technological know-how, international business, expertise in natural gas and biogas operated engines, its established customer relationships with utilities, with municipal operators and with energy service providers, as well as its very solid balance sheet and access to both equity and debt funding through its stock market listing.

Output of selected CHP manufacturers and average module size in MW in Germany

Company (CHP core performance range)	2015		2014		2013	
	Output	Module size	**Output**	Module size	**Output**	Module size
GE Jenbacher (200 kW bis 10 MW)	222.1	1.127	158.6	0.891	158.1	1.163
Caterpillar (MWM) (400 kW bis 4,5 MW)	116.0	1.184	199.5	1.028	158.3	0.920
2G Energy (20 kW bis 550 kW)	75.8	0.230	123.6	0.255	94.1	0.271
Schnell (100 kW bis 525 kW)	67.4	0.411	71.6	0.250	46.4	0.256
MTU Onsite Energy (120 kW bis 2,5 MW)	61.3	0.817	76.8	0.739	95.8	0.833
Elektro Hagl (30 kW bis 530 kW)	42.1	0.212	95.8	0.283	33.5	0.207

Source: Energie & Management, November 2016; 2G calculation; information provided by the companies listed

Boosting international market share with the 2G partner concept

Sales generated abroad reported a marked increase from EUR 41.1 million to EUR 52.8 million in 2016. To even more efficiently exploit business opportunities in the internationally growing CHP market and keep the company's own risks and level of capital employed as low as possible, 2G set up and rolled out an extensive partner concept in the year under review. Partnerships both in Germany and abroad are thereby becoming a central sales and service model. As a consequence, 2G is creating the structural basis for enhanced market presence and penetration by regional partners around the whole world.

2G currently has 127 national and international partners. The spectrum ranges from referring instances through to companies exclusively distributing 2G products outside Germany – the "2G Station" – although without belonging to the 2G Group organizationally or legally. The partner model is established as a win-win concept: the partners benefit from the strong market position, product quality and innovative strength of 2G. 2G benefits from the partners' regional market knowledge and proximity to target groups. 2G deploys various instruments to support its partners. These particularly include training partners' sales and service staff, as well as providing active sales support locally where required.

"my.2-g.com" as digital interface between 2G and its partners

In order to sustainably and successfully expand and establish this partner concept, 2G is also making consistent recourse to digital interfaces and solutions in this area. With the "my.2-g.com" online portal, a professional basis has been created for collaboration between 2G, its partners and their joint end-customers, covering all aspects of CHP system operation.

Specifically, the portal consists of various applications available around the clock for the 2G partner. These include, among other elements, a "Plant Manager", where system status as well the technical data of individual models can be downloaded at any time, a “Service Planner” for the efficient planning of service assignments, as well as a digital replacement parts catalog.

American market still on standby for 2G

For the last year, 2G Energy Inc., USA, has been offering its customers in the American market all services on a single source basis. 2G leveraged synergies by integrating previously independently operating units and stabilized its revenue position in the reporting year. The unified market profile and structured processes are encountering positive feedback from customers, business partners and potential customers.

In the final analysis, however, the results generated in the American market in the reporting year fell short of expectations. Demand growth for CHP technology has not been recorded to date. The market potential for the combined heat and power business in the US has already been presented several times in this section of the annual report over the past years. The potential efficiency gains from combined heat and power generation have featured again in a recent ICF case study: if the share of electricity generated in the USA from CHP were to be increased from today‘s 8 % to 20 %, around half of the entire energy consumption of US households could be saved. The study highlights CHP as a cross-disciplinary technology that not only provides energy but also cuts energy demand. It is estimated that two thirds of the fuel deployed in the USA to generate electricity continues to be lost as heat. ICF summarizes the status of CHP technology in the USA as follows: although the technology is marketed commercially and is understood well, it has remained insufficiently utilized to date. The technical potential for CHP in commercial and industrial applications is considerable, but existing installations cover only a fraction of such demand.

To leverage and further tap opportunities in the US market, 2G is focusing on long-term collaboration with well networked regional sales and service partners.

The year in overview

2G grows profitably in FY 2016 and expands foreign business

With an order book surplus of EUR 85.5 million (39 % of which comprises work in progress), 2G made a good start to the 2016 financial year elapsed. During the first half-year, especially orders for natural gas operated CHP systems remained at a low level, as the EU Commission‘s state aid law approval of the 2016 amendment to the German Cogeneration Act (KWK-G) was long awaited and largely failed to occur until October 2016. This setback was offset by a marked pickup in the German market for biogas driven systems as part of the growing flexibilization of biogas plants (see page 36 et seq.). Overall, sales with biogas driven systems were up by 79.6 % to EUR 28.8 million.

In parallel with the sales growth in Germany, foreign sales also reported a marked year-on-year expansion. Foreign sales grew by 28.4 % compared with the previous year, from EUR 41.1 million to EUR 52.8 million. 2G thereby successfully further advanced its diversification strategy in the year under review. Along with the UK, the strongest foreign markets included mainly France, the USA, Italy and Japan. The realignment of the American business with the bundling of activities within 2G Energy Inc., the reallocation of responsibilities at the subsidiaries in

Western Europe with the formation of the new French company 2G Energie SAS, as well as the roll-out of the global partner concept all contributed in this context. This enabled fruitful business relationships to be initiated initially in the American and Asian regions. 2G has set itself the objective of increasing the export ratio in the sale of CHP systems. With this strategic goal, 2G aims to actively expand its position on growth markets in Europe and overseas, and continuously further diversify its business opportunities and risks.

Along with the diversification in terms of gas types and sales markets, the service business is also helping reduce the volatility of sales revenues. 2G continued to generate around one third of its consolidated sales revenue with its service and replacement parts business in the reporting year elapsed. 2G is thereby reducing its overall dependency on economic and regulatory changes in individual markets.

At the end of November 2016, the Management Board of 2G Energy AG issued a specific sales and earnings forecast for the 2016 financial year, expecting to achieve sales in a range between EUR 150 million and EUR 170 million and an EBIT margin between 3 % and 5 %, in each case at the upper end of these ranges. In the end, the sales target was exceeded, although EBIT reached only the lower end of the range. Related factors included an unexpected negative result contribution of EUR 0.6 million from the UK subsidiary, arising mainly from a postponement of a total of 19 orders worth EUR 7.6 million into the current 2017 financial year.

2G Group
Total output, turnover, EBIT
EBIT margin

EUR millions
in %

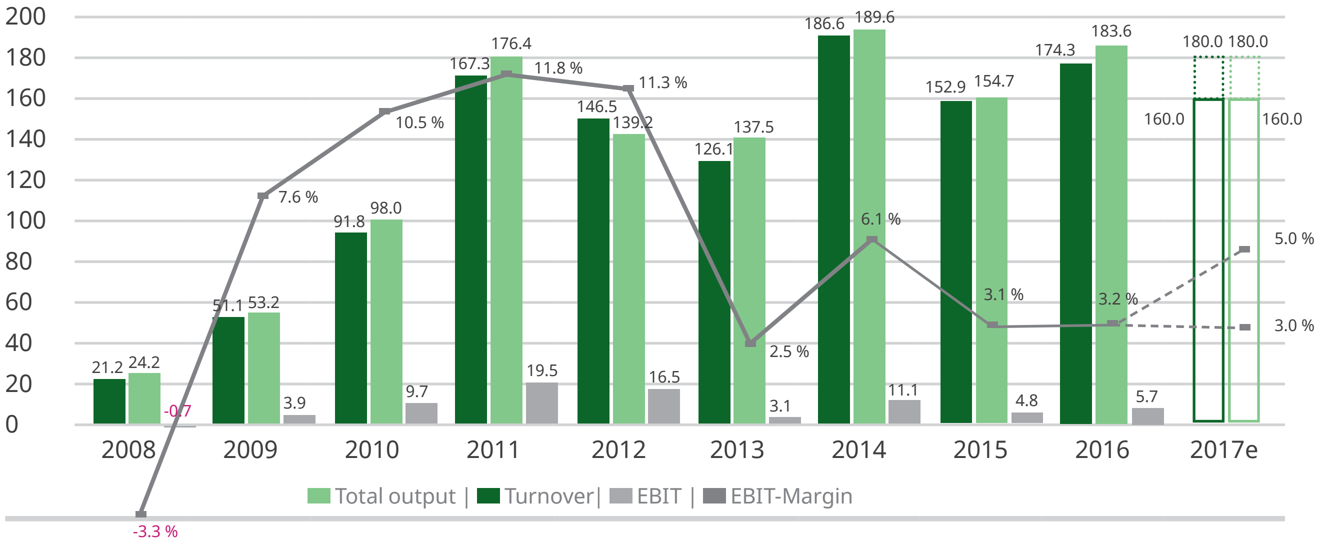


Diagram 20: Trends in sales, total operating revenue, EBIT and EBIT margin of 2G Energy AG between 2008 and 2016 and the 2017 forecast

A revaluation of various large general contractor projects was also necessary. Project costs and subcontractor services exceeding original calculations and amounting to around EUR 2.6 million also burdened the FY 2016 results.

In light of this, the Management Board reappraised the opportunities and risks entailed in the project business of a general contractor nature, and has decided not to take such business any further. Current projects of this type are to be discontinued on a systematic basis. Starting this financial year, 2G is focusing mainly on margin enhancement in its familiar product and service business in Germany and abroad.

C. Results of operations

Net sales

Consolidated sales of EUR 174.3 million in the 2016 financial year exceeded the forecast for the year, reflecting 14 % sales growth compared with the previous year (EUR 152.9 million). Taking into account EUR 7.1 million of inventory changes (previous year: EUR 0.1 million) and EUR 2.3 million of work performed by the company and capitalized (previous year: EUR 1.8 million), total operating revenue increased to around EUR 183.6 million (previous year: EUR 154.7 million).

Distribution of revenues

The following table presents the distribution of revenue in both absolute and relative figures:

Composition of sales revenues and additional key indicators

	2016			2015		
	Germany	Abroad	Total	Germany	Abroad	Total
Sales revenues, in EUR million	121.5	52.8	174.3	111.8	41.1	152.9
CHP systems	77.9**	39.3	117.2	59.7	32.6	92.3
of which biogas	28.8	33.7	62.6**	16.1	27.8	43.8
of which natural gas	49.0	5.6	54.6	43.6	4.8	48.4
Service	43.6	13.5	57.1	43.9	8.2	52.1
After Sales*	0	0	0	8.2	0.3	8.5
CHP systems Units	417	117	534	330	126	456
CHP systems Ø value per unit (EUR/unit)	186,712	335,971	219,414	180,832	258,712	202,351
Electric capacity sold, in kW			139,812			121,071
Electric capacity sold, Ø kW per unit			262			266

* The After Sales division is no longer presented separately. Especially in the case of regenerative operating systems, commissioning is followed by further orders for system peripherals. Sales generated in this manner have been reported as sales from After Sales to date. In terms of content, such sales are to be allocated to the sale of CHP systems.
** Rounding difference

Sales trends in 2016 are characterized as follows:

1. In Germany, sales of EUR 77.9 million from the sale of CHP systems were significantly above the level of the previous year (EUR 59.7 million). This growth is chiefly attributable to a higher level of sales from biogas operated CHP systems (+79.6 %) due to the market trends described on page 36 et seq.
2. Sales generated abroad grew by 28.4 % year-on-year to reach EUR 52.8 million, corresponding to an export component of total sales of around 30 % (previous year: 27 %). Both foreign sales partners and the 2G subsidiaries contributed to the higher level of export sales. As in previous years, the strongest foreign branch operations were 2G Energy Inc. with EUR 12.3 million and 2G Energy Ltd. with EUR 14.4 million.
3. The Service division reported an increase of around 10 % from EUR 52.1 million to EUR 57.1 million in the reporting year. While such sales from this division in Germany remained at the previous year's level, foreign sales reported a marked increase from EUR 8.2 million to EUR 13.5 million. The Service division thereby again represents a significant share of 33 % of total sales (previous year: 34 %).

Per centage composition of sales revenues by product areas

	2016			2015		
	Germany	Abroad	Total	Germany	Abroad	Total
Net sales, in %	70 %	30 %	100 %	73 %	27 %	100 %
CHP systems	45 %	23 %**	67 %	39 %	21 %	60 %
of which biogas	17 %	19 %	36 %	11 %	18 %	29 %
of which natural gas	28 %	3 %	31 %	29 %	3 %	32 %
Service	25 %	8 %	33 %	29 %	5 %	34 %
After Sales*	0 %	0 %	0 %	5 %	0 %	6 %

* The After Sales division is no longer presented separately. Especially in the case of regenerative operating systems, commissioning is followed by further orders for system peripherals. Sales generated in this manner have been reported as sales from After Sales to date. In terms of content, such sales are to be allocated to the sale of CHP systems.
** Rounding difference

Group results

2G achieved EBIT of EUR 5.6 million in the financial year under review (previous year: EUR 4.8 million), corresponding to a 3.2 % EBIT margin (previous year: 3.1 %). The EBIT margin thereby reported only a slight year-on-year increase, coming in below the specific target the company issued in November 2016, as explained above. Earnings before interest and tax (EBIT) are composed as shown in the table.

Group results in TEUR

	31/12/2016	31/12/2015
Consolidated net income for the year	1,784	2,603
+/- Exceptional result on previous financial years' business transactions*	1,798	0
+ Taxes on income	1,699	1,885
= EBT	5,281	4,488
+/- Financial result	368	285
= EBIT	5,649	4,773

* The origin of the exceptional result is presented on page 95 of the notes to the financial statements

The partial results for the individual subsidiaries are presented on page 88 of the notes to the financial statements.

Compared with the previous year, the cost of materials ratio rose from 65.0 % to 70.1 %, reflecting, firstly, a higher inventory of finished goods and work in progress (EUR 7.1 million compared with EUR 0.1 million in the previous year), and, secondly, under cost of materials, the marked increase in expenses for purchased services of EUR 18.8 million (12.2 % of total operating revenue) to reach EUR 28.4 million (15.5 % of total operating revenue) in the reporting year. These purchased services are mainly connected with the project business, as well as with offsetting production capacity utilization peaks at the Group's main site in Heek.

The personal cost ratio reduced from 19.0 % to 16.3 %, benefiting from the good capacity utilization and the 18.7 % year-on-year increase in total operating revenue.

Selling & marketing, operating, administrative and other expenses fell compared with the previous year from EUR 19.9 million to EUR 18.9 million. Compared with the previous year, reductions occurred especially to expenses for receivables losses and costs relating to other accounting periods (by EUR 1.9 million) as well as for warranty provisions (by EUR 0.6 million).

Other expenses include an extraordinary expense item for previous years' business transactions due to a EUR 1.8 million allocation to miscellaneous other provisions. This provision is connected with tax law questions that have not yet been finally clarified relating to foreign supply and service relationships for the 2012-2015 years.

After a net financial result of EUR -0.4 million (previous year: EUR -0.3 million), mainly resulting from EUR 1.7 million of interest on loans and commissions for guarantees of bills, as well as income taxes (previous year: EUR 1.9 million), the Group reports EUR 1.8 million of consolidated net income (previous year: EUR 2.6 million).

Proposal for appropriation of profit

With regard to the 2016 year, 2G Energy AG reports an unappropriated profit of EUR 42,071,580.49 on the basis of German Commercial Code (HGB) accounting regulations. The Management and Supervisory boards propose that the Ordinary Annual General Meeting approve the payment of a dividend of EUR 0.40 per share.

Based on 4,430,000 dividend-entitled shares on December 31, 2016, the cash dividend corresponds to a payout amount of EUR 1,772,000.00. The Management and Supervisory boards will propose that the AGM approve the transfer the remaining amount of EUR 40,299,580.49 to retained earnings. The 2G Group is thereby further strengthening its financial stability and independence.

D. Financial position

Securing sufficient liquidity at all times 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 Group's financial position:

Consolidated cash flow statement

	31/12/2016	31/12/2015
	TEUR	TEUR
Consolidated net profit/loss for the year	**1,784**	**2,603**
Depreciation, amortization and fixed asset write-downs	3,587	3,299
Change in provisions	814	251
Change in inventories	-11,131	-1,091
Change in trade receivables that are not allocable to investing or financing activities	-3,192	-3,106
Change in trade payables that are not allocable to investing financing activities	14,134	-285
Loss/gain from fixed asset disposals	64	27
Others	321	365
Cash flow from operating activities	**6,382****	**2,062**
Cash flow from investing activities	**-4,544**	**-1,016**
Cash flow from financing activities	**-1,703**	**-1,888**
Liquid funds on 31 December*	**10,187**	**10,128**

* Reported including short-term bank overdraft drawdowns
** Rounding difference

Cash flow from operating activities increased to EUR 6.4 million in 2016 (previous year: EUR 2.1 million). The year-on-year significantly higher level of capital employed in inventories (EUR + 11.1 million) was offset by corresponding management of prepayments and suppliers. Overall, the financial position of the 2G Group was good over the full course of the year under review. Solvency was secured at all times.

Expenditures for investments of EUR 4.5 million (previous year: EUR 3.3 million) are comprised as follows:

- EUR 0.3 million to acquire intangible assets (software),
- EUR 2.5 million due to investments by 2G Rental GmbH in CHP systems purchased from 2G Energietechnik GmbH for leasing,
- EUR 0.6 million to purchase a new property in the Heek industrial zone,
- EUR 1.2 million connected with the purchase of machines, vehicles, and operating and office equipment.

As part of financing activities, EUR 1.8 million of borrowings were repaid, as planned, while 2G Rental GmbH drew down EUR 2.2 million of refinancing loans in 2016.

After taking into account currency-related changes in cash equivalents (EUR -0.1 million), the Group reports liquid assets totaling EUR 10.2 million as of the balance sheet date (previous year: EUR 10.1 million), after deducting TEUR 13 of current bank borrowings. Liquidity in the form of bank deposits amounted to EUR 10.2 million as of 31 December. Where required, the company also has at its disposal, and had at its disposal, free credit lines at banks for guarantees, bill guarantees, and commercial letters of credit that are standard in the sector, and as a potential liquidity reserve. Free lines of around EUR 23.5 million were available as of December 31. No significant changes to lending terms were to be recorded in the year under review.

E. Net assets

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

Assets

	31/12/2016	31/12/2015
	TEUR	TEUR
A. Fixed assets	24,635	23,475
B. Current assets	85,346	71,036
C. Prepayments and accrued income	437	381
D. Deferred tax assets	970	963
Total assets	**111,389***	**95,855**

* Rounding difference

Equity and liabilities

	31/12/2016	31/12/2015
	TEUR	TEUR
A. Equity	52,916	52,647
B. Provisions	12,465	11,697
C. Liabilities		
I. Bank borrowings	6,277	5,913
II. Other liabilities	39,731	25,597
Total equity and liabilities	**111,389***	**95,855**

* Rounding difference

The total consolidated assets of the 2G Group grew by 16.2 % to reach EUR 111.4 million as of the December 31, 2016 reporting date. The following factors, among others, contributed to this increase in total assets:

- Inventories on the reporting date were up by 34.5 %, from EUR 32.2 million to EUR 43.4 million. Part of this increase is attributable to the valuation at cost – in accordance with accounting policies pursuant to the German Commercial Code (HGB) – of work in progress and finished goods at EUR 33.3 million (previous year: EUR 26.3 million). Raw materials and supplies also rose from EUR 24.1 million to EUR 30.4 million. This is mainly due to a higher level of warehoused stock of engines, which enables short delivery times and consequently represents a competitive advantage.

- Trade receivables increase from EUR 24.6 million to EUR 29.2 million. The stockbuilding in relation to the reporting date reflects the (final) invoicing as of the year-end due to the acceptance of CHP systems.

- On the equity and liabilities side of the balance sheet, especially prepayments received for orders were up by EUR 11.0 million to EUR 25.7 million.

Working capital (the difference between current assets and current liabilities) reported a slight year-on-year fall, from EUR 31.8 million to EUR 31.4 million.

As a result of the retained earnings as of December 31, 2016, the equity of the 2G Group increased to EUR 52.9 million (previous year: EUR 52.6 million). Due to the higher level of total assets, the equity ratio reduced to 47.5 % on the reporting date (previous year: 54.9 %).

Overall statement on the business situation

Although operating earnings in the 2016 financial year failed to report the growth initially expected, the financial position of the 2G Group can continue to be described as good. Business trends in 2016 proved favorable overall with the sales growth that was achieved and a positive result. The company continues to report a comfortable equity ratio of almost 50 %, as well as stable cash flow. The Management Board is also firmly of the view that through concentrating on margin improvements in the product and service businesses profitability can also be enhanced accordingly in the near future.

F. Non-financial performance indicators

Research & development

Tapping future prospects through innovation

Research and development, which is bundled within 2G Drives, is of strategic significance for the 2G Group. It secures the Group's innovation and technology strength in a market that faces increasingly intense competition due to corporate mergers and acquisitions. It serves 2G Energietechnik GmbH as a technology service provider and as a supplier of gas motors forming the technological core of 2G modules. A team of experienced engineers and developers works in various disciplines to optimize combustion engines in the 50 to 550 kW output range, and to develop new and existing high-tech components, in order to ensure modules are operated highly efficiently. The aim is to generate USPs that create advantages and additional benefits for customers when utilizing a 2G module compared with competitors' products.

The focus of development work surrounding the 2G product program is shifting from realizing the greatest possible electric efficiency, or extraordinary total efficiency, towards service and maintenance applications that cater for better availability, extended service intervals and integration of CHP systems into balancing energy cycles. This particularly ensures that customers enjoy better plant availability and economic efficiency of their 2G systems. In the reporting year, the company made significant investments in product development and the area of “digitalization” with software development and electronic controls, in order to make 2G systems fit for Industry 4.0 applications, and to be able to offer proprietary applications. 2G focused its development work on conceptual frameworks and motors for the newly established 2G “aura” series. These modules are based on 2G‘s own Lambda-1 technology, and are distinguished in terms of customer benefit by high thermal efficiencies and very low gas emission levels, accompanied by low specific investment costs. Total spending on R&D amounted to EUR 4.1 million (previous year: EUR 4.9 million).

Integrated management system

Continuous certification process

With the help of the integrated management system (IMS) that it has introduced and established over the past years, the company plans, structures and monitors all procedures, processes and activities within the 2G holding company, including the subsidiaries as listed within the application scope. The application and validity scope extends to the development, production, sale and service of combined heat and power systems. The IMS aims to

- ensure and enhance customer satisfaction through reliability of the CHP systems,
- improve the energy efficiency of companies and products,
- avoid or reduce risks and burdens in relation to health, occupational safety and environmental protection,
- ensure compliance with statutory and regulatory requirements,
- provide a simple, practically oriented, reproducible and documented system to manage and direct activities (process quality, retraceability) within the 2G Group for all employees,
- ensure documentation of the entire lifecycle of a 2G CHP system, including maintenance intervals and replacement parts planning.

The IMS includes not only quality and process topics but also environmental, energy, and occupational safety topics of relevance for the company‘s operations. At 2G Energy AG, the IMS is managed by the Management Board, and at the respective subsidiary by the managing director. A head of quality management coordinates and supports the managers of the individual management systems, who cooperate very closely within the individual topic areas. 2G operated four application areas within the IMS in the 2016 reporting year. Three of the aforementioned were implemented conclusively and certified in the year under review:

- Quality management system pursuant to the requirements of DIN EN ISO 9001:2015 for 2G Energy AG, 2G Energietechnik GmbH, 2G Drives GmbH,

- Occupational safety management system pursuant to OHSAS 18001 for 2G Energietechnik GmbH; the principles of this occupational safety management system are applied for all corporate units,

- Environmental management system pursuant to DIN EN ISO 14001:2015 confirmed for 2G Energietechnik GmbH; the principles of this occupational safety management system are applied for all corporate units,

- Energy management system pursuant to the requirements of DIN EN ISO 50001:2011 for 2G Energy AG, 2G Energietechnik GmbH including its branch operations in Germany, 2G Rental GmbH, 2G Drives GmbH, 2G Home GmbH; the statutory requirements of the new Energy Service Provider Act (EDL-G) are met as a consequence.

Ongoing assurance of compliance with standards is realized through regular supervisory audits conducted by TÜV NORD CERT GmbH, Essen, of the operating and strategic areas for the relevant Group company 2G Energietechnik GmbH according to the DIN EN ISO 9001 quality management standard in relation to the requirements. The company plans to gradually extend this quality benchmark to other corporate areas and other Group companies. Group parent company 2G Energy AG, the Service areas as well as 2G Drives GmbH are already integrated into the certification.

Internally, audits comprise an important instrument to identify improvement potentials, maintain a high level of awareness for quality, energy, environmental and occupational safety standards, not only as a means to satisfy customer requirements in the meaning of the operational reliability CHP systems, but also to optimize processes and ensure the replicability of products and working processes through standardization and documentation. Externally, 2G is thereby strengthening its expertise on the growing German market for natural gas operated CHP plants, and on international markets in the context of tenders. As a consequence, 2G is also taking into account the change in the customer structure toward energy utilities, energy service providers, and large-scale industrial and commercial companies.

The 2G code of conduct

A code of conduct is in place for the 2G Group that documents for all Group employees as well as for customers and suppliers the values, principles and modes of behavior that guide the business activities of 2G as it aims to achieve its economic objectives and the aforementioned quality, safety and environmental standards. As a binding basis for all 2G Group activities, the code of conduct also provides regulations relating to anticorruption and money laundering prevention, competition, the handling of insider information, as well as how to interact with customers and suppliers. This is because the successful growth and positive image of the 2G Group reflects the joint success of all 2G staff in close and trusting collaboration with our customers, suppliers and service providers. The code of conduct can be downloaded from the 2G website at www.2-g.com/en under “Code of Conduct”.

Order book position, cost and price trends

On the German market, the transformation and realignment process among CHP plant providers and regulatory changes have boosted customers' sensitivity to the price-performance relationship in a market that tended to be a buyer's market, highlighting differences on both submarkets.

The market for biogas operated CHP systems underwent further change with the new subsidy conditions of the 2017 German Renewable Energies Act (EEG 2017). Building new biogas systems in Germany continues to be relatively unattractive, and offers sales potential in just a few individual cases in the area of waste and manure as input substrates. Repowering existing systems, by contrast, offers new sales potentials based on the follow-on subsidy possibilities from the EEG 2017. Good business opportunities arise in this context for 2G due to its systems installed over the past six to ten years. Such existing systems are replaced at the end of their lifecycle with state-of-the-art, flexibly operable and digitally controllable higher performance systems, or expanded with add-on solutions. The prices that can be implemented are based on further guaranteed feed-in payments for the plants to be replaced in the context of viability calculations for CHP systems. In this replacement business, the possibility also exists to displace competitors' plants and acquire new customers.

In the market for natural gas operated CHP systems, projects are also put out for tender by energy suppliers and large companies, in part multinational industrial or commercial enterprises, or are assigned in the context of auctions. As investing in combined heat and power generation is profitable, 2G sets itself apart with its range of services as a quality leader, system supplier and service provider. Customers are afforded a high level of investment, installation and operating security. Due to the convincing technical design of 2G power plants, which also includes the existing infrastructure, consumption parameters and the tapping of efficiency potentials, customers accept the plants' slightly higher price. However, this market will prospectively not be available again until the still outstanding directive on tender modalities in the 1 MW to 50 MW output classes is established. 2G commands a strong market position in the CHP market in the 20 kW to below 1 MW output class, where it can convince customers of economic efficiency through technical equipment, flexibility and efficiencies. Detailed information about order book position trends is presented in the Outlook.

On the purchasing side, as in the previous year, stable conditions prevail due to the price trends for energy and raw materials in general, as well as the US dollar to euro exchange rate. Given its central purchasing department, master agreements with suppliers, as well as order volume bundling, 2G is in a good negotiating position to ensure cost stability.

Employees

Attractive employer

As a result of the company's conviction that committed, professionally competent, loyal, and healthy employees comprise one of the key strengths of 2G, the company fosters a high degree of identification among its staff with its product and services around the globe. 2G employees are the guarantor of the company's long-term success. Employee commitment is also evident in constructive ideas and suggestions to continuously improve products and working processes in the commercial and technical areas. The “2G United” program was also set up in this context in the reporting year, which is especially aimed at promoting the knowledge sharing between staff at different 2G companies.

The training and further training of our workforce in both technical and commercial areas of the company is valued highly. Every year, 2G trains young employees in technical and commercial trainee positions as junior staff. It consequently fulfills its regional and social responsibility to offer good job prospects to young people. The 2G Group had a total of 31 trainees as of December 31, 2016, undergoing training in five different vocational areas. 2G offered employment contracts to all eight trainees who completed their training. In addition to classic apprenticeships, trainees can also take advantage of a dual course of study, in Electrical Engineering (Bachelor of Science) or Business Administration (Bachelor of Arts), for example.

As of December 31, 2016, the Group employed 608 staff (previous year: 607 employees), including 105 female employees in technical and commercial professions. 2G employed 56 part-time workers and temporary staff (previous year: 55 employees). The share of employees at foreign companies decreased to 82 (previous year: 84 employees), representing an approximately 13 % share of the Group total (previous year: around 14 %). Due to the reorientation and strengthening of sales and service units around the 2G power plants and international business alignment, 2G appointed 36 new employees in order to achieve its growth targets. The average age of the workforce in Germany amounts to 35.5 years and is only slightly above previous year's level. 2G remains refreshingly young and open, although (professional) experience also counts, offering young employees important orientation and knowledge input.

G. Events after the reporting date

Events of significance for 2G Energy AG occurring after the December 31, 2016 reporting date are presented on page 96 et seq. of the notes to the financial statements.

H. Corporate responsibility

Business activities are inseparably connected with risks. Corporate success is characterized by the fact that – after giving due in-depth consideration to all important decisions – the respective opportunities outweigh the risks entailed. 2G interprets risk in the broadest sense as the risk of failing to achieve financial and operational targets as planned, and within the narrowest bounds as the risk of jeopardizing the company as a going concern. In this sense, risk management forms an element of all decisions and business processes. Due to increasingly global business activities and the growing number of markets, locations and employees, the timely and detailed procurement, management and processing of information is becoming an increasingly more demanding task. For this reason, 2G is working on the basis of a standardized business intelligence solution with a qualified information system that is gradually being launched at all Group companies under the name of “2G Facts”. The aim is to evaluate and document important corporate figures in order to secure the company‘s long-term success and profitability. This entails having information of relevance to decisions and management available at the right place, at the right time and on a secured basis. It also comprises analyzing risks, and avoiding, minimizing or eliminating them through appropriate measures. The evaluations and reports (so-called dashboards and cockpits) are standardized in presentation for the management level, and provided with further detail in terms of data and information depth. These instruments nevertheless retain the option of a refined analysis of causes. Consequently, 2G's active information management also opens up business opportunities. Risks are explained in the order of their importance. At the time of producing this report, the management was not aware of any risks that might jeopardize the 2G Group as a going concern.

Management of risk and opportunities

2G is involved in business across the world, and is consequently exposed to many external and internal influences. For this reason, all corporate decisions are made against the background of the respective associated risks and opportunities. 2G does not deploy a specialized software system exclusively for risk management. 2G has operated an Enterprise Resource Planning (ERP) system since 2010 to map processes with data analyses to monitor risks to the company. With the exception of 2G Solutions of Cogeneration SL, Spain/France, 2G Polska Sp z o.o., Poland, and 2G Energie SAS, France, all 2G Group companies are integrated into the ERP system. The company plans to gradually fully integrate all Group companies in consideration of cost-benefit aspects, and depending on the scope of operating activities. The live start of the ERP system in the United Kingdom was in summer 2016. The identification of defined risks at the Group companies and reporting on the position of the respective company occurs by demand, and at least quarterly through close involvement of the respective managing director responsible. 2G has not set up a central risk manager position. The Supervisory Board receives important key data for business trends and the risk evaluation as part of quarterly reporting. These include trends in the order book position by country, key income statement data, liquidity planning and employees.

The Management Board, the managing directors of all 2G companies, and relevant department heads, are all defined as risk managers in the company-wide risk management process. These risk managers reappraise the areas that they manage and their risk situations at regular intervals, reporting identified risks to the next higher instance, or as part of regular Group-wide reporting duties. All risks are measured on the basis of their event probabilities and potential financial effect. The current risk portfolio of the Group and the individual companies is determined and made available to the Management Board on the basis of this information. Significant changes in the assessment of known risks as well as new significant risks are reported immediately. Deliberate and controlled handling of opportunities and risks consequently comprises a central management element in the 2G Group. 2G continuously records and evaluates new challenges and opportunities due to internationalization, expanding the depth of vertical manufacturing, and services, such as the rental of 2G power plants. The consistent saving of resources and rising efficiency of 2G power plants, as well as continues optimization of service, have led to improved profitability and greater customer benefits. The identification of opportunities and new business opportunities, in terms of production, sales and service, is equally important for the further development and growth of the 2G Group. At regular conferences, the Management Board and divisional heads develop strategic options, new products and business models for the medium and long-term prospects of 2G Energy AG.

For 2G's business, the management has assessed the following risks as relevant for the company's further development, and measured them as to their event probability and loss level. This mainly entails listing risks whose materialization would have a significantly negative effect on the company's financial position and performance. 2G is potentially exposed to further risks, although these are not yet known, or are currently not yet gauged as significant. The following risks were identified as bearing risk factors as of the reporting date and as of the date of the preparation of this management report, taking existing management and controlling measures into account (in descending order of importance):

Business-related risks

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

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

Corporate growth risks

2G aims to continue its growth both in Germany and abroad particularly through organic growth and, where appropriate, through strategic alliances and acquisitions of companies or parts of companies. The appointment of suitable managers and employees, the selection of strategic partners and takeover candidates, and the raising of the necessary financial resources are required in order to exploit such opportunities. The meaningful expansion of appropriate organizational structures is also required, especially in the areas of financial accounting, controlling, personnel, and sales and marketing. Strong growth, acquisitions and strategic alliances are inherently connected with integration and execution risks. Tools utilized by the management to measure growth opportunities and risks include forward-looking planning, and analyses through regular target/actual comparisons.

Legal risks

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

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

An integrated global insurance program for the 2G Group closes gaps in cover and liability, and provides expanded insurance protection, including through higher or additional limits within the corporate Group, for example. Insurance premiums are adjusted through appropriate and manageable deductibles.

Political and regulatory risks

As an internationally active company, 2G is exposed to political and regulatory changes in many countries and markets. In 2011, after Fukushima, many countries' commitment to exiting nuclear power resulted in an active fostering of alternative and renewable energies. In some countries, however, this trend turnaround in energy policy was brought to a standstill by the continuing euro crisis, and an attendant weakening economy and more restrictive fiscal policy. Uncertainties or complexity surrounding the statutory provisions for subsidizing combined heat and power systems, as well as the modification or significant reduction in subsidies, may have a negative impact on the profitability of 2G products, and may delay or even jeopardize the success of market developments and the sale of new systems. Close communication with policymakers and active measures to explain the advantages of CHP technology serve as preventative risk control instruments. The destabilization of political systems and the potential imposition of trade barriers, as well as changes to currency exchange rates, may also lead to sales problems in certain countries and regions. For 2G, potential risks have arisen in the reporting year due to the "Brexit" and presidential elections in the United States. As far as the political situation in the USA is concerned, it is an advantage for 2G to be established in the market with its own production facility and well-known references for years. Also the upcoming "Brexit" makes itself not noticeable negatively so far. Despite the depreciation of the British pound, the order intake of the British subsidiary continues to be satisfactory. In this case, 2G benefits from the fact that there is no supplier in the United Kingdom who is entirely independent of the development of the exchange rate and thus could offer cogeneration plants with a clear price advantage.

It should be possible to reduce the potential negative impact by diversifying regional sales markets. Entry into developing markets and a withdrawal from saturated sub-markets are considered in the process.

Product quality and availability risks

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

Research and development risks

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

Financial risks

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

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

Default risks can arise both in connection with financial investments, the drawing down of borrowings, financing commitments, or through the rental transfer for use of 2G power plants, and in the case of operating receivables. Inherent credit and default risks are hedged through a credit insurance policy that is in place. This also installs professional ongoing credit monitoring and debt collection. The impact of the Eurozone financial crisis continues to entail a heightened level of default risk. 2G consequently carefully checks all the positions of customers and trade partners in the specific related countries, and takes precautions against default risk where required. 2G minimizes these risks through its active prepayment policy. Only a few significant financial transactions entailing credit risk are concluded, and only with banks with good credit ratings. Moreover, the 2G Group has extremely good liquidity, which significantly reduces its dependency on lenders. As a matter of principle, it cannot be excluded that, in markets that are at times changing extremely rapidly, specific trading partners or customers with CHP rental agreements default, even if such counterparties have excellent credit ratings.

In case of cross-border transactions (procurements and sales), there are deferred tax and liability risks which may arise in case of formal infringements. The exact knowledge of the facts in the respective business areas can lead to an early and correct tax and legal assessment, also by involving external experts. Misjudgements and processing errors cannot be completely excluded despite procedural precautions.

The euro has comprised the main currency within the 2G Group to date. With a few minor exceptions, invoicing and the procurement of goods have not been associated with any noteworthy currency risks. The company will inevitably be exposed to currency and interest risks in the future as it increases its international presence and business activities in different currency and interest rate regions. In addition, both temporary and sustainable currency opportunities can arise through exporting plants and core components at favorable exchange rate (e.g. USD/EUR parity).

As a result of its global group structure, and associated financial transactions, trade receivables and payables, as well as anticipated future cash inflows and outflows from sales and costs denominated in foreign currencies, 2G will also be affected by these market price risks and opportunities. 2G has minimized currency risks due to exchange rate and interest rate fluctuations, especially through forward currency transactions. Financial transactions, outstanding operating receivables, and obligations are to be conservatively exchange-rate hedged in the main.

Human resource risks

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

The regional talent markets relevant to 2G are characterized by intensive competition. Competition is additionally intensified by the scarcity of qualified specialists in the sectors in which 2G operates and by demographic challenges in global markets. As a consequence, sourcing, recruiting and retaining qualified specialists and talents within 2G represents one of the key priorities for the company. 2G is extremely committed to training its own staff and recruiting qualified specialists to supervise training. In addition, 2G offers its employees a catalog of voluntary social benefits in order to additionally boost its attractiveness as an employer.

IT risks

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

Data protection violations due to incorrect authorizations generate a negative external impression. Increasing dependency on IT, as well as the growing networking of IT landscapes, requires companies to invest heavily in maintenance and upgrades. As the complexity of the IT landscape increases, so do the potential risks, despite efficient processing and programming. Significant risk scenarios for 2G include the failure of central IT systems, the publication of confidential research and development and business development data, as well as the manipulation of IT systems.

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

Based on the measures adopted, we can assume that the probability that a serious IT risk materializes is low. 2G works with external data protection officers to back up and protect personal information.

Environmental and safety risks

2G is a company maintaining production operations and is exposed to risks of possible personal injury, as well as damage to property and its image. We minimize the risks to individuals and the environment by auditing, advising and training in matters of environmental protection, as well as occupational health and safety. Safety officers manage these risks both at individual sites and on our customers' building sites to protect the company's interests. 2G ensures the preservation of its goods and assets by adhering to high technical standards, strict codes of conduct, and all legal requirements for environmental protection and occupational health and safety. 2G itself is also committed to saving resources, and will certify the introduction of a qualified energy management system on the basis of ISO 50001:2011.

Overall statement on risk situation

The risk strategy has the character of that of a medium-sized company, and is deliberately opportunity-orientated. The company's management focuses on organizational and especially financial stability, whereby plans can be diverged from in the company's interest. Taking existing steering and controlling measures into account, neither one of the specific risks is gaged as a going concern risk, nor does the company identify an aggregate going concern risk given the simultaneous occurrence of several individual risks, and, from today's perspective, it does not identify any such going concern risks for the future. The listed risks nevertheless exert a negative effect on the company's financial position and performance.

Significant changes in the risk situation result in particular from the increasing internationalization of the business. As indicated above, there is a correlation between international growth and the associated risks. Foreign sales rose by 28.4% from EUR 41.1 million to EUR 52.8 million in the year under review. This also increases the complexity of the managerial task.

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

Opportunities

2G implemented a number of measures to create the basis for the Group's further, growth and earnings-based development, to identify and measure business opportunities, and to put them into practice on a controlled basis. Some of such measures are medium- to long-term in orientation, and consequently extend over several years. Other measures described here were relaunched in the year under review.

1. Greater business involvement in the core foreign markets of North America, the United Kingdom, France, Italy, Eastern Europe and Japan, as well as expanding the 2G partner concept worldwide. In establishing its partner concept, 2G has relied on the potentials offered by digitalization from the outset. With its comprehensive online platform "my.2-g.com", the company provides all relevant information to its sales and service partners, as well as plant operators. An electronic replacement parts catalog is also integrated, supporting fast replacement parts supplies. 2G is also further advancing the

digitalization of CHP systems in terms of control, maintenance and operational availability through creating interfaces to energy utilities, contractors and investors, among other measures.

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

3. Further expanding and systematizing sales instruments through rental and lease options for 2G power plants. With the launch of a pay-per-use solution, for the first time 2G is offering just the use of a CHP power plant as a rental solution – instead of the entire system. Customers from the industrial, commercial, real estate and energy supply sectors can thereby enjoy the benefits of CHP technology without the need for them to make their own investment and without being tied long-term. From the customer's perspective, this addresses the important question as to how their investments can be secured financially after the legally planned subsidy period of 30,000 full utilization hours (for systems above 50 kW).

4. The consistently advanced technical further development of CHP modules. The new "aura" series for natural gas operation, which will be ready for production in the coming quarters, is mainly geared in its operation to very low emission levels, making the product very suitable for the constantly growing requirements set by emission regulations worldwide. Both modules, aura 404 and aura 406, are the result of the company's own motor development, being based on 2G's proprietary Lambda-1 technology. This technology is distinguished by low emissions and high heating efficiencies. The new series can also present economic arguments: compared with its competitors, the aura series achieves 15 percent higher specific output with the same cylinder capacity, and can reach efficiencies above 100 percent.

5. The constant adjustment of the corporate organization to growing requirements in international competition, and in terms of qualifying environmental, compliance, technology and quality standards, secure market access for 2G in Germany, in the EU and in many American and Asian markets, generate competitive advantages, and improve manufacturing and product quality, as the economic attractiveness and market conformity of 2G CHP products strengthen the Group's competitiveness.

6. The development of overall conditions for the international energy sector is also increasingly supporting the business model of 2G in general. The world agreed on a joint climate protection target in December 2015 in Paris. The energy generation measures to be derived at national level promote technologies and energy production forms that deliver efficiency gains, considerably reduce resource consumption, and significantly diminish greenhouse gas emissions. In other words, the establishment of energy production capacities from renewable energies is being encouraged. The reduction of coal as a primary energy source and greatest source of greenhouse gases will also require technologies that ensure energy supplies in accordance with fluctuating renewables

in terms of flexibility, supply security and economic efficiency. This represents one of the strengths of CHP technology from which great potential demand can grow in the future.

7. The listing of 2G Energy AG in the new “”Scale” segment of the unregulated market of the Frankfurt Stock Exchange. The stock market listing gives the company access to growth and investment capital where required. The transparency requirements that are made contribute to tangible confidence among customers in deciding to invest in 2G CHP power plants and help the company to set itself apart from its competitors through reliability and transparency.

Overall, the Management Board identifies attractive opportunities for 2G on both the German and foreign markets. This assessment is based on the trend on the spark spread that is important for CHP systems‘ economic viability: the electricity price is tending to rise, or stay at a high level, and the gas price is moving sideways at a low level.

I. Outlook

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

Group focus over the next two financial years

As an internationally leading manufacturer of gas driven combined heat and power systems, 2G is continuing to vigorously pursue its objective of strengthening its brand and expanding its market shares on a profitable basis. The strategic guiding principles for growth and profit are:

- internationalizing sales of CHP systems and services,
- a focus on the product and service business,
- diversifying primary energy sources for CHP utilization,
- research and development to maximize utility and benefits,
- keeping costs low through an optimized, streamlined and automated process structure,
- consistently digitalizing CHP engine management, as well as service and maintenance.

These guiding principles will determine business activities over the next two years. The company is further advancing its organic growth in all of the markets, customer groups and regions that it addresses, focusing on the regions of North America, Japan and Asia, as well as Central and Eastern Europe. To supplement its positioning as a technologically leading developer and producer of CHP systems, 2G is to increasingly establish itself as a supplier of CHP systems that can be integrated and controlled digitally for high-end balancing energy operation. The company is also meeting growing requirements in terms of very low emissions with its own developments, such as a low-charging combustion concept and 2G SCR catalyst technology. Additionally, 2G regards itself as a service provider and product partner in the context of customers‘ energy generation concepts. 2G is thereby positioning itself within the new competitive framework of the Electricity Market 2.0.

Future macroeconomic situation

In its survey of macroeconomic trends in Germany that it updated at the end of March 2017, the German

Council of Economic Experts forecast 1.4 % GDP growth for this year. Gross domestic product reported 1.9 % growth in real terms over the full course of 2016. This reflects the continuation of the moderate uptrend.

The Council also expects the economic recovery in the Eurozone to progress further. It sees the total Eurozone growth rate in 2017 at the same level as the year under review of 1.7 % (2017 forecast: 1.7 %. 2018: 1.6 %).

Overall, the Council paints a slightly positive picture for the expected growth rates for global GDP. The uncertainty about economic policies created by the Brexit vote and the outcome of the US presidential elections does not appear to have had any evidently negative effects on financial markets or the real economy to date. This arises mainly from the fact that growth dynamics in major industrialized countries have proved somewhat stronger than expected.

The Council sees the forecasts for Germany, the Eurozone and the world economy as subject to high medium-term risks. The Council cites such risks as including a crisis-type worsening of the economic situation in some emerging economies, a faster slowdown in Chinese economic growth, potential turbulence on international financial markets, latent uncertainty about the consequences of Brexit, the US president's trade and economic policy, and an intensification of geopolitical conflicts. A renewed flareup of the euro crisis due to a marked slackening in the will to institute reforms and to implement fiscal consolidation, and the difficult political situation in many Eurozone countries, cannot be excluded.

Future sector situation

The International Energy Outlook (IEO) 2016 assumes global growth in energy consumption for the 2012 to 2040 period, driven mainly by demand from non-OECD countries, especially in Asia. In 2040, energy consumption there will be higher than in OECD countries. For non-OECD countries, the IEO forecasts an increase in energy consumption of 71 % up to 2040, while the growth in OECD countries is predicted at 18 %. In the World Energy Outlook 2016, the changes that are predicted in the energy landscape up to 2040 are summarized as follows: renewable energies and natural gas are the winners in the transformation of the global energy system occurring over the coming decades, reconcile growing demand for energy with the CO_2 reduction targets from the Paris Climate Agreement.

In this regard, 2G is well positioned for the future market development and growth with its diversification strategy across different gas types and its growing international presence with its own subsidiaries and sales and service partners.

World energy consumption by country grouping 2012-2040 in quadrillion Btu

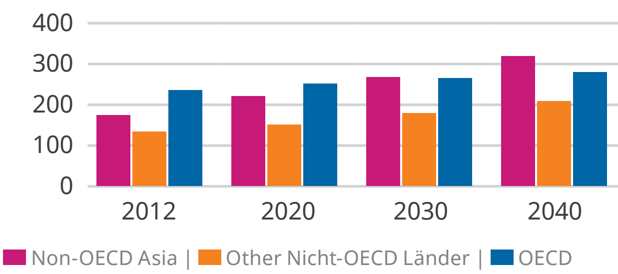


Diagram 21: Global energy consumption by country groups 2012-2040 in quadrillions of British thermal units (Btu).
Source: U.S. Energy Information Administration, International Energy Outlook 2016, Executive Summary, pp. 1-2

Total world energy consumption by energy source, 1990-2040 in quadrillion Btu

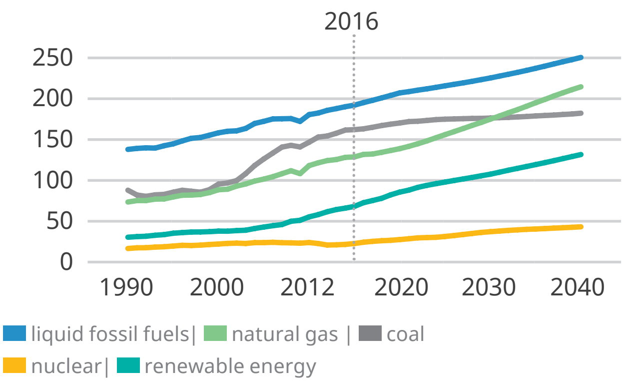


Abb. 23: Global energy consumption by primary energy sources 1990-2040 in quadrillions of British thermal units (Btu).
Source: International Energy Agency, World Energy Outlook 2016, November 16, 2016

On both German and foreign CHP markets, the Management Board identifies good conditions for the company's further growth, although such conditions might prove challenging in some sub-segments. Conditions for the biogas CHP market are also good overall. Although country-specific subsidy frameworks remain of great significance for business with new systems, the installed base of plants is meanwhile sufficiently large for the service business and the flexibilization of biogas systems to also offer attractive possibilities. Moreover, it is anticipated that 2G's own offerings in terms of the rental and refinancing CHP systems in Germany will boost sales. Along with existing CHP systems, the possibility to acquire new customers exists within and beyond this environment.

Also with a look to the structure of the Electricity Market 2.0 – with a growing proportion of renewable energies – the Management Board identifies further growth potentials for 2G CHP systems, as 2G power plants comprise essential elements of safe, decentralized and increasingly decarbonized energy supplies through various renewable and environmentally compatible primary energy sources, and because – through their flexible operation, digital technology and control electronics – 2G CHP systems can not only offset residual load from natural generation fluctuations but also provide balancing energy to act as a reserve to offset fluctuations in the electricity grid. Demand for flexibility will grow.

Sales of CHP systems exposed to more intense competition

Subsidies for CHP systems have declined gradually over the past years, and the – in any case – attractive economic efficiency of operating CHP systems have moved to the fore as an important argument for purchase and investment decisions. Especially in combination with heating utilization concepts to supply sites and their surrounding areas, investments in gas operated CHP systems with relatively short amortization periods remain very profitable. As a consequence, the highly efficient combined generation of electricity and heating is, and remains, an attractive alternative, including for supplying industrial and commercial operations, as well as the residential sector. New business models also arise for the utilities and contractors customer group. Competition for customers and the sale of CHP systems is becoming more intense overall. The effect of past years' consolidation and concentration process among manufacturers and providers of CHP systems is being felt here on an international scale. 2G is well positioned within this environment and has set clear targets for the company.

Marketing and market penetration to sell gas operated CHP systems both nationally and internationally remains a key task for the management for the coming years. In the Asia-Pacific region and in the USA, a positive new order intake trend in collaboration with the sales partners is emerging in the current financial year. The market in the United Kingdom also offers good prospects.

2G has established an extensive partner concept to efficiently exploit business opportunities in the internationally growing CHP market and keep the company's own risks and level of capital employed as low as possible. Partnerships both in Germany and abroad are thereby becoming a central sales and service model. 2G will expand and refine this concept as a structural base for customer acquisition and market penetration worldwide over the coming years. Overall, 2G regards itself as well positioned in the international market with its subsidiaries in Europe and USA, as well as its sales partnerships in Asia, some of which have existed for years.

Sales revenue to grow further continuously

During the first three months of the current 2017 financial year, 2G recorded significantly higher year-on-year new order intake of EUR 29.4 million (previous year: EUR 13.3 million). The order book position as of March 31, 2017 amounted to EUR 106.0 million (previous year: EUR 86.9 million). The order book position is divided half-half between domestic and foreign orders. The UK (EUR 16.7 million), the USA (EUR 16.5 million) and France (EUR 8.6 million) are currently the strongest international markets in this connection. In Germany, demand for biogas operated CHP systems as part of flexibilizing biogas systems according to the German Renewable Energies Act (EEG) is currently dominant. Around 80 % of the German order book position derives from this area.

Given this order book position, and taking the market and competitive situation in Germany and abroad into account, the Management Board expects to report a solid business trend again. For the current financial year, the Management Board is very confident overall of generating sales in a range between EUR 160 million and EUR 180 million. As in previous years, the Service business, combined with replacement parts sales, will make a decisive contribution of around EUR 60 million in this context.

Prospective earnings trend

The earnings forecast for the 2017 financial year comprises an EBIT margin of 3 % to 5 %, thereby within the previous year's range. In particular, the Management Board is confident of significantly improving the margin on the Service business through organizational modifications implemented in the past two years, and advanced digital service and maintenance tools.

Heek, May 19, 2017

Christian Grotholt
Management Board Chairman (CEO)

Ludger Holtkamp
Management Board member

Dietmar Brockhaus
Management Board member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2G. Consolidated balance sheet.

Group management report..25
Consolidated balance sheet.................................. 77
Consolidated profit and loss account 81
Notes to the consolidated financial statements 85
Auditor´s report 107

Consolidated balance sheet of 2G Energy AG

Assets

	31/12/2016 Euro	31/12/2015 Euro
A. Fixed assets		
I. Intangible fixed assets		
Purchased concessions, industrial property rights and similar rights and assets, and licenses to such rights and assets	784,501.12	792,774.34
Goodwill	4,620,896.75	4,959,166.71
Prepayments rendered	24,975.90	41,904.53
	5,430,373.77	**5,793,845.58**
II. Tangible fixed assets		
Land, land rights and buildings, including buildings on third-party land	8,695,112.94	8,883,877.17
Plant and machinery	1,264,809.54	1,373,795.33
Other factory and office plant	8,615,586.66	7,402,807.76
Prepayments rendered and plants under construction	619,457.03	10,659.03
	19,194,966.17	**17,671,139.29**
III. Financial fixed assets		
Other participating interests	10,000.00	10,000.00
	10,000.00	**10,000.00**
	24,635,339.94	**23,474,984.87**
B. Current assets		
I. Inventories		
Raw materials and supplies	30,446,606.22	24,064,791.40
Work-in-progress	33,341,019.03	26,276,421.51
Finished goods and merchandise	1,115,658.86	1,133,840.46
Prepayments rendered	2,021,179.09	1,640,313.87
Prepayments received for orders	-23,544,590.28	-20,866,890.59
	43,379,872.92	**32,248,476.65**
II. Receivables and other assets		
Trade receivables	29,239,393.87	24,631,376.70
Other assets	2,527,227.44	4,006,108.19
	31,766,621.31	**28,637,484.89**

Assets

	31/12/2016	31/12/2015
	Euro	Euro
III. Cash in hand, bank balances	**10,199,770.32**	**10,149,730.55**
	85,346,264.55	**71,035,692.09**
C. Prepayments and accrued income	**437,258.28**	**380,835.93**
D. Deferred tax assets	**969,980.40**	**963,428.11**
Total	**111,388,843.17**	**95,854,941.00**

Equity and liabilities

	31/12/2016	31/12/2015
	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. Consolidated net income	37,243,642.69	37,085,299.94
IV. Minority interests	656,447.25	499,049.63
V. Equity difference from currency translation	-649,469.98	-602,681.20
	52,915,919.96	**52,646,968.37**
B. Provisions		
Tax provisions	952,260.02	998,458.87
Other provisions	11,512,919.32	10,698,960.01
	12,465,179.34	**11,697,418.88**
C. Liabilities		
Bank borrowings	6,276,666.10	5,913,451.26
Prepayments received for orders	25,746,843.28	14,786,642.66
Trade payables	6,786,437.50	5,387,208.80
Other liabilities	7,197,796.99	5,423,251.03
	46,007,743.87	**31,510,553.75**
Total	**111,388,843.17**	**95,854,941.00**


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2G. Consolidated profit and loss account.

Group management report......................................25
Consolidated balance sheet 77
Consolidated profit and loss account 81
Notes to the consolidated financial statements 85
Auditor´s report 107

Consolidated profit and loss account of 2G Energy AG

	01/01/2016 to 31/12/2016	01/01/2015 to 31/12/2015
	Euro	Euro
Net sales	**174,298,902.96**	**152,883,663.32**
Increase / decrease in work-in-progress and finished goods	7,064,597.52	71,911.82
Other own work capitalized	2,258,187.74	1,757,695.59
	183,621,688.22	**154,713,270.73**
Other operating income	1,412,999.06	3,284,036.34
	185,034,687.28	**157,997,307.07**
Cost of materials		
a) Costs of raw materials and supplies, and for purchased merchandise	100,214,539.70	81,789,422.45
b) Costs of purchased services	28,418,513.44	18,831,604.39
	128,633,053.14	**100,621,026.84**
Personnel costs		
a) Wages and salaries	24,832,942.94	24,109,166.74
b) Social security, pension and other benefits	5,118,183.73	5,205,623.67
	29,951,126.67	**29,314,790.41**
Depreciation and amortization applied to tangible and intangible fixed assets	**3,587,245.02**	**3,298,519.49**
Other operating expenses	18,900,590.19	19,902,184.17
Income from other participating interests	0.00	200.00
Other interest and similar income	68,246.52	79,322.09
Interest and similar expenses	436,283.93	364,088.47
Taxes on income	1,699,129.42	1,884,865.39
Profit after taxes	**1,895,505.43**	**2,691,354.39**
Other taxes	111,434.07	88,436.22
Consolidated net profit/loss for the year	**1,784,071.36**	**2,602,918.17**
Share of net profit/loss attributable to other shareholders	13,371.39	173,719.50
Consolidated net profit/loss	**1,797,442.75**	**2,776,637.67**
Retained earnings	37,085,299.94	35,947,762.27
Dividend payment	-1,639,100.00	-1,639,100.00
Consolidated net retained earnings	**37,243,642.69**	**37,085,299.94**


2G
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2G. Notes to the consolidated financial statements.

Group management report 25
Consolidated balance sheet 77
Consolidated profit and loss account 81
Notes to the consolidated financial statements ... 85
Auditor´s report 107

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 listed on the trading segment Scale, a part of the Open Market (Regulated Unofficial Market) of the Frankfurt Stock Exchange (FWB), as operated by Deutsche Börse AG, which is consequently not an 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.

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.

4. First application of German Accounting Law Modernization Act

In its consolidated financial statements as of December 31, 2016, the company adopted the provisions of the German Commercial Code (HGB), as amended by the German Accounting Law Modernization Act (BilRUG) for the first time.

In the profit and loss statement, the interim result 'profit/loss on ordinary activities' has been eliminated due to BilRUG. Another change in the structure of the profit and loss statement is the insertion of an interim result 'profit after taxes' between the items 'taxes on income' and 'other taxes'.

Due to the extended definition of 'net sales' by the new version of section 277 (1) of the German Commercial Code (HGB) as amended by BilRUG (HGB-BilRUG), the item 'net sales' now also includes revenues, which had previously been reported in other revenue items, especially in 'other operating income'.

Since the financial year 2016, the following revenues which have been recorded in 'other operating income' before are now reported in the item 'net sales':

- rent and lease revenues
- revenues from passing on of services within the scope of warranty processing.

Due to the revision of section 277 (1) HGB-BilRUG, the previous year's figures for net sales are not fully comparable with the year under review. The previous years' net sales were not adjusted. In application of section 277 HGB-BilRUG, net sales for the previous year would have amounted to TEUR 153,884.

In application of section 277 HGB-BilRUG, other operating income for the previous year would have amounted to TEUR 2,284.

Values, in TEUR

	01/01/2016 to 31/12/2016	01/01/2015 to 31/12/2015
Net sales in the old version of section 277 of the German Commercial Code (HGB)	173,557	152,884
Rent and lease revenues	1	1
Revenues from passing on of warranty processing services	741	999
Net sales in the version of section 277 HGB-BilRUG	**174,299**	**153,884**

B. Consolidation methods

1. Consolidation scope and shareholdings

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

Subsidiary

	Interest in %	Subscribed capital in TEUR	Equity in TEUR	Profit/loss for year in TEUR	Initial consolidation
2G Energietechnik GmbH* Heek, Germany	100	1,000	2,832	0	30/06/2007
2G Drives GmbH, Heek, Germany	80	25	3,252	-135	24/03/2010
2G Home GmbH, Heek, Germany	100	125	-2,389	70	31/12/2007
2G Rental GmbH, Heek, Germany	100	50	-341	5	31/12/2014
2G Solutions of Cogeneration S.L., Vic Barcelona, Spain	90	3	-68	82	31/01/2008
2G Energie SAS, Carquefou (Nantes), France	100	200	152	-48	24/08/2016
2G Italia Srl, Vago di Lavagno (Verona), Italy	100	10	483	336	15/03/2011
2G Energy Ltd., Cheshire, United Kingdom**	100	1	316	-557	19/09/2011
2G Polska Sp. z o.o., Bielsko-Biala, Poland**	100	1	-136	-104	07/11/2011
2G Energy Inc., St. Augustine (FL), USA**	100	1	3,234	264	27/02/2012

* On July 5, 2007, a control and profit assumption agreement was contracted with 2G Energietechnik GmbH.

** Converted at reporting date’s exchange rate.

The purpose of the subsidiaries 2G Energietechnik GmbH, 2G Home GmbH, 2G Solutions of Cogeneration S.L., 2G Energie SAS, 2G Italia Srl, 2G Energy Ltd., 2G Polska Sp. z o.o. and 2G Energy 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 optimize gas engines, and to manufacture and market Otto spark-ignition gas engines.

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

All of the companies are included as subsidiaries in the consolidated financial statements due to the parent company owning the majority of their voting rights.

During the financial year under review, 2G CENERGY Power Systems Technologies Inc., whose shares were held by 2G Energy Inc. and therefore were indirectly attributable to 2G Energy AG, was dissolved.

2G Energie SAS was newly established by the company in the year under review.

2. Consolidation methods applied

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

The consolidated financial statements are based on the separate financial statements of 2G Energy AG and the financial statements of the subsidiaries included in the consolidation scope. The financial statements are prepared as of the December 31, 2016 closing date.

Capital consolidation

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

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

Consolidation of liabilities

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

Treatment of unrealized results of intragroup transactions

Unrealized results of intragroup transactions are eliminated pursuant to Section 304 (1) of the German Commercial Code (HGB). Accordingly, assets that are based fully or partly on deliveries or services between the companies included in the consolidated financial statements must be recognized at the amount at which they could be recognized in the annual balance sheet for the respective company prepared on the closing date of the consolidated financial statements, if the companies included in the consolidated financial statement were also to form a single entity in legal terms. The consolidated profit and loss account is adjusted to reflect profit or loss contributions from intragroup transactions as part of consolidating income and expenses in accordance with Section 305 of the German Commercial Code (HGB).

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 about accounting policies

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

The annual financial statements of the companies included in the consolidation scope are prepared in accordance with the regulations set out in the German Commercial Code (HGB) and the 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 recognized at acquisition cost and, if they comprise depreciating assets, less straight-line amortization. Prepayments rendered are recognized at normal value.

2. Tangible fixed assets
Tangible fixed assets are recognized at acquisition cost and, if they are subject to wear and tear, less scheduled depreciation. Depreciation is applied straight-line according to the assets’ prospective useful lives. Prepayments rendered are recognized at normal value.

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

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

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

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

Prepayments rendered are recognized at nominal value.

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

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

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

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

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

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

9. Equity
Equity is measured at nominal value.

10. Tax provisions
Tax provisions 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 judgment, and taking into account all identifiable risks and contingent liabilities.

12. Liabilities
Liabilities are recognized at the settlement amounts.

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

contracts are recognized in sales revenues according to percentage of completion. Any surplus prepaid amount is accrued as a prepayment received.

14. Currency translation

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

D. Notes to the consolidated balance sheet

1. Fixed assets

For information about changes in fixed assets during the financial year under review, please refer to the corresponding presentation in the statement of changes in fixed assets. This statement also presents depreciation, amortization and extraordinary write-downs applied for each balance sheet item during the financial year.
Fixed assets include TEUR 3,705 (previous year: TEUR 1,850) of rental plants from the operating activities of 2G Rental GmbH.

2. Inventories

Inventories amounted to TEUR 43,380 (previous year: TEUR 32,248) as of the balance sheet date. Along with raw materials and supplies (TEUR 30,447), they comprise work-in-progress (TEUR 33,341), finished goods and merchandise (TEUR 1,116), and prepayments rendered (TEUR 2,021).

Pursuant to Section 268 (5) of the German Commercial Code (HGB), prepayments received for orders (TEUR -23,545) were deducted openly from the inventories item.

3. Receivables and other assets

Specific and general valuation allowances of TEUR 3,361 (previous year: TEUR 3,030) were applied to trade receivables.

All receivables and other assets have a residual term of less than one year.

4. Deferred tax assets

Deferred tax receivables of TEUR 970 (previous year: TEUR 963) arise from tax loss carryforwards (TEUR 229) at 2G Drives GmbH, 2G Rental GmbH, 2G Solutions S.L., 2G Energie SAS and 2G Polska Sp. z o.o. No deferred tax assets were formed in relation to the loss carryforwards of 2G Home GmbH, 2G Italia Srl. and 2G Energy Inc. due to their having generated net losses in previous years. In this context, a cautious approach was adopted that does not take into account positive expectations arising from current structural changes. In addition, deferred taxes were formed in relation to eliminated intragroup gains on fixed assets (TEUR 312) and inventories (TEUR 324) deriving from intragroup deliveries and services as of the balance sheet date, and on temporary differences (TEUR 105). These temporary differences arise mainly from recognizing differing valuations for inventories and provisions in the financial statements and in the tax accounts.

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

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

5. 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 increases at 2G Energy AG.

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

An amount of TEUR 37,244 is available to shareholders for distribution in the year under review. Notional dividend payout restrictions exist in relation to deferred taxes of TEUR 970.

No restricted amounts that cannot be distributed exist in the separate financial statements of 2G Energy AG. For more information about changes in consolidated equity during the financial year under review, please refer to the corresponding presentation in the consolidated statement of changes in equity.

6. 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

	31/12/2016	31/12/2015
Warranty commitments	6,073	6,965
Residual work on completed plants /outstanding invoices	2,966	1,952
Amounts owed to staff	1,136	1,274
Taxable fringe benefits	872	0
Professional cooperative contributions	263	301
Costs of preparing and auditing financial statements	122	119
AGM and annual report	43	47
Archiving of business documents	29	29
Litigation costs	10	13
Total	**11,513**	**10,699**

7. Liabilities

Liabilities consist of the following:

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

	< 1 year	> 1 year	of which > 5 years	Total
Bank borrowings	1,761 (1,961)	4,516 (3,953)	1,346 (947)	6,277 (5,913)
Prepayments received for orders	25,747 (14,787)	0 (0)	0 (0)	25,747 (14,787)
Trade payables	6,786 (5,387)	0 (0)	0 (0)	6,786 (5,387)
Other liabilities	7,198 (5,423)	0 (0)	0 (0)	7,198 (5,423)
Total	**41,492 (27,558)**	**4,516 (3,953)**	**1,346 (947)**	**46,008 (31,511)**

The following collateral instruments are connected with bank borrowings:

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

Other liabilities comprise tax liabilities of TEUR 4,247 (previous year: TEUR 3,059), and social security liabilities of TEUR 67 (previous year: TEUR 49).

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

Due to a revised version of § 277 sec. 1 HGB-BilRUG the previous year's turnover figures are not comparable with the currents year's figures. 2G decided to forego to adjust the previous year's turnover figures. Would 2G have applied § 277 sec. 1 HGB-BilRUG previous year's turnover figures stood at TEUR 153,884.

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

Net turnover, in TEUR

	Germany	Abroad	Total
CHP systems/ After Sales	77,859 (67,852)	39,309 (32,901)	117,167 (100,753)
Service	43,633 (43,905)	13,498 (8,226)	57,132 (52,131)
Total	**121,492 (111,757)**	**52,807 (41,126)**	**174,298 (152,884)**

2. Other operating income

Other operating income comprises TEUR 695 of income related to other accounting periods (previous year: TEUR 789) that consists mainly of insurance compensation payments and loss compensation payments (TEUR 284), the release of provisions (TEUR 192), and the elimination of specific and general valuation allowances on receivables (TEUR 122).

Other operating income includes income of TEUR 243 from currency translation (previous year: TEUR 1,347).

3. Other operating expenses

Other operating expenses consist of the following:

Other operating expenses, in TEUR

	2016	2015
Operating expenses	5,990	5,845
Administration expenses	2,349	2,709
Sales and marketing expenses	5,065	5,312
Miscellaneous	5,495	6,035
Total	**18,901**	**19,902**

Other operating expenses comprise TEUR 736 of expenses related to other accounting periods (previous year: TEUR 2,666) that consist mainly of non-period credits and losses incurred on receivables.

Other operating expenses include expenses of TEUR 294 from currency translation (previous year: TEUR 122).

Remaining other operating expenses include extraordinary expenses of TEUR 1,798 (previous year: TEUR 0) resulting from possible back tax payments and related taxable fringe benefits.

4. Personnel costs

Social security contributions and pension and benefit expenses include TEUR 437 of pension expenses (previous year: TEUR 406).

5. Taxes on income

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

Income from deferred taxes, in TEUR

	2016	2015
Deferred tax income	126	244
Deferred tax expenses	-120	-161
of which attributable to loss carryforwards (net balance)	64	-41
Income from deferred taxes	**6**	**83**

F. Additional information

1. Consolidated cash flow statement

The cash flow statement is prepared in compliance with German Accounting Standard/DRS 21. Cash and cash equivalents shown in the cash flow statement include cash at banks and in hand, less short-term liabilities of TEUR 13 (previous year: TEUR 22).

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

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

Ludger Gausling notified the company in accordance with Section 20 of the German Stock Corporation Act (AktG) that he does not own more than one quarter of the shares in 2G Energy AG any more. This notification was published in the electronic Federal Gazette (Bundesanzeiger) on January 27, 2017.

3. Events of key significance after the reporting date

The following events of key significance for 2G Energy AG occurred after the December 31, 2016 balance sheet date. They are of major importance for the assessment of the companys' assets, financial position and results of operation:

On March 16, 2017, Agraferm Technologies AG (Agraferm) applied for the initiation of insolvency proceedings in self-management at the district court of Ingolstadt.

As at the balance sheet date, 2G Energietechnik GmbH (2G) reports trade receivables from Agraferm of TEUR 40, which had fully been offset by incoming payments on the date of Agraferm applying for the initiation of insolvency proceedings in self-management. Trade receivables from 2G against Agraferm as of March 16, 2017 amount to EUR 0.

There are open orders with Agraferm with an order volume of TEUR 8,397, to which Agraferm has paid a prepayments of TEUR 7,687 towards 2G.

4. Derivative financial instruments

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

Financial instruments, in TEUR

	Scope	Maturity	Fair value
Forward exchange transaction EUR – GBP	267	17/02/2017	-11
Forward exchange transaction EUR – GBP	267	24/02/2017	-11
Forward exchange transaction EUR – GBP	267	03/03/2017	-11
Forward exchange transaction EUR – GBP	267	10/03/2017	-11
Forward exchange transaction EUR – GBP	267	17/03/2017	-11
Forward exchange transaction EUR – GBP	267	24/03/2017	-11
Forward exchange transaction EUR – GBP	267	18/04/2017	-11
	1,867		**-77**

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

5. Contingent liabilities

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

6. Other financial obligations

Other financial obligations existed in relation to contracts as follows:

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

	Up to 1 year	1 to 5 years
Rental contracts	377 (216)	1,021 (480)
Lease contracts	44 (58)	62 (44)
Total	**421** **(274)**	**1,082** **(524)**

7. Average number of employees during the financial year

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

Number of employees

	2016	2015
Wage earners	298	288
Salaried staff	281	278
	579	**566**
of whom part-time employees	53	49

8. Management Board

The Management Board is currently composed as follows:

Management Board

	Management Board member since	Appointed until
Mr. Dipl.-Ing. Christian Grotholt Ahaus-Alstätte CEO of 2G Energy AG Strategy, Sales, Service, Research & Development	17/07/2007	16/07/2017
Mr. Ludger Holtkamp Gronau COO of 2G Energy AG Procurement, Production, Project Management	17/07/2007	16/07/2017
Mr. Dipl.-Betriebsw. (FH) Dietmar Brockhaus Havixbeck CFO of 2G Energy AG Finance, Human Ressources, Law, Investor Relations	01/07/2013	31/12/2021

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

9. Supervisory Board

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

Supervisory Board

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

The Supervisory Board members are appointed until the end of the AGM that passes a resolution concerning the discharge of the directors for the 2016 financial year.

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

10. Directors' compensation

Compensation of TEUR 646 was paid to the Management Board in the financial year under review (previous year: TEUR 651), and compensation of TEUR 20 to the Supervisory Board (previous year: TEUR 20).

11. Auditor's fee

Other operating expenses include the fees expensed for the auditor of the financial statements. The auditor's fees totaled TEUR 138 (previous year: TEUR 75) and is composed as follows:

Auditor's fee, in TEUR

	2016	2015
Audit services	78	75
Tax advisory services	18	0
Other consultancy services	42	0
	138	**75**

The unappropriated profit of EUR 42,071,580.49 reported in the annual financial statements of 2G Energy AG as prepared according to the German Commercial Code (HGB), consisting of net profit of EUR 2,046,691.12 for the year and EUR 40,024,889.37 of net retained profits, are to be distributed in an amount of EUR 1,772,000.00, and to allocate in an amount of EUR 40,299,580.49 to other retained earnings.

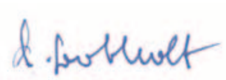
12. Proposed appropriation of profits

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

13. Exemption rules

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

Heek, May 19, 2017



Christian Grotholt
Management Board Chairman (CEO)

Ludger Holtkamp
Management Board member

Dietmar Brockhaus
Management Board member

Consolidated statement of changes in fixed assets

	Cost					
	01/01/2016	Currency translation	Additions	Transfers	Disposals	31/12/2016
Intangible fixed assets						
Purchased concessions, industrial property rights and similar rights and assets, and licenses to such rights and assets	2,034,963.41	123.23	285,836.61	22,689.65	0.00	2,343,612.90
Goodwill	8,201,018.57	0.00	230,769.01	0.00	0.00	8,431,787.58
Prepayments rendered	41,904.53	0.00	5,761.02	-22,689.65	0.00	24,975.90
	10,277,886.51	**123.23**	**522,366.64**	**0.00**	**0.00**	**10,800,376.38**
Tangible fixed assets						
Land, land rights and buildings, including buildings on third-party land	10,002,871.39	87,294.29	50,039.68	0.00	0.00	10,140,205.36
Plant and machinery	1,981,318.80	-23,870.87	103,914.66	0.00	13,937.28	2,047,425.31
Other factory and office equipment	13,809,565.18	-71,719.27	3,782,521.03	0.00	911,731.19	16,608,635.75
Prepayments rendered and plants under construction	10,659.03	14.72	608,783.28	0.00	0.00	619,457.03
	25,804,414.40	**-8,281.13**	**4,545,258.65**	**0.00**	**925,668.47**	**29,415,723.45**
Financial fixed assets						
Other participating interests	10,000.00	0.00	0.00	0.00	0.00	10,000.00
	10,000.00	**0.00**	**0.00**	**0.00**	**0.00**	**10,000.00**
Total	**36,092,300.91**	**-8,157.90**	**5,067,625.29**	**0.00**	**925,668.47**	**40,226,099.83**

Depreciation and amortization					Book value	
01/01/2016	Currency translation	Additions	Disposals	31/12/2016	31/12/2015	31/12/2016
1,242,189.07	122.73	316,799.98	0.00	1,559,111.78	792,774.34	784,501.12
3,241,851.86	0.00	569,038.97	0.00	3,810,890.83	4,959,166.71	4,620,896.75
0.00	0.00	0.00	0.00	0.00	41,904.53	24,975.90
4,484,040.93	**122.73**	**885,838.95**	**0.00**	**5,370,002.61**	**5,793,845.58**	**5,430,373.77**
1,118,994.22	700.90	325,397.30	0.00	1,445,092.42	8,883,877.17	8,695,112.94
607,523.47	-10,833.15	195,443.64	9,518.19	782,615.77	1,373,795.33	1,264,809.54
6,406,757.42	-26,836.12	2,180,565.13	567,437.34	7,993,049.09	7,402,807.76	8,615,586.66
0.00	0.00	0.00	0.00	0.00	10,659.03	619,457.03
8,133,275.11	**-36,968.37**	**2,701,406.07**	**576,955.53**	**10,220,757.28**	**17,671,139.29**	**19,194,966.17**
0.00	0.00	0.00	0.00	0.00	10,000.00	10,000.00
0.00	**0.00**	**0.00**	**0.00**	**0.00**	**10,000.00**	**10,000.00**
12,617,316.04	**-36,845.64**	**3,587,245.02**	**576,955.53**	**15,590,759.89**	**23,474,984.87**	**24,635,339.94**

Consolidated cash flow statement

		01/01/2016 to 31/12/2016	01/01/2015 to 31/12/2015
		Euro	Euro
	Consolidated net profit/loss for the year	**1,784,071.36**	**2,602,918.17**
+	Depreciation, amortization and fixed asset write-downs	3,587,245.02	3,298,519.49
±	Change in provisions	813,959.31	250,861.70
±	Change in inventories	-11,131,396.27	-1,091,480.33
±	Change in trade receivables that are not allocable to investing or financing activities	-3,192,111.06	-3,105,619.43
±	Change in trade payables that are not allocable to investing financing activities	14,133,975.28	-284,705.68
±	Loss/gain from fixed asset disposals	64,237.32	26,788.94
+	Interest and similar expenses	436,283.93	364,088.47
-	Other interest and similar income	-68,246.52	-79,322.09
-	Other income from participating interests	0.00	-200.00
+	Taxes on income	1,699,129.42	1,884,865.39
±	Income tax payments	-1,745,328.27	-1,805,182.09
=	**Cash flow from operating activities**	**6,381,819.52**	**2,061,532.54**
+	Proceeds from fixed asset disposals	284,475.62	70,501.08
-	Payments for investments in intangible fixed assets	-291,597.63	-332,596.84
-	Payments for investments in tangible fixed assets	-4,545,258.65	-2,985,063.35
+	Cash inflows from acquisition of consolidated companies	0.00	2,121,899.79
-	Payments for acquisition of consolidated companies	-60,000.00	0.00
+	Cash inflows due to financial investments as part of short-term cash management	0.00	30,000.00
+	Interest received	68,246.52	79,522.09
=	**Cash flow from investing activities**	**-4,544,134.14**	**-1,015,737.23**

		01/01/2016 to 31/12/2016	01/01/2015 to 31/12/2015
		Euro	Euro
+	Proceeds from raising of loans	2,174,000.00	1,735,000.00
-	Outgoing payments for redemption of loans	-1,801,756.23	-1,519,459.01
-	Interest paid	-436,283.93	-364,088.47
-	Dividends paid to parent company shareholders	-1,639,100.00	-1,639,100.00
-	Dividends paid to other shareholders	0.00	-100,000.00
=	**Cash flow from financing activities**	**-1,703,140.16**	**-1,887,647.48**
=	**Net change in cash and cash equivalents**	**134,545.22**	**-841,852.17**
	Currency-related change in cash and cash equivalents	-75,476.52	-424,830.71
+	Cash and cash equivalents at start of period	10,127,688.96	11,394,371.84
=	**Cash and cash equivalents at end of period**	**10,186,757.66**	**10,127,688.96**

	01/01/2016 to 31/12/2016	01/01/2015 to 31/12/2015
	Euro	Euro
Composition		
Liquid assets	10,199,770.32	10,149,730.55
Short-term bank borrowings	-13,012.66	-22,041.59
	10,186,757.66	**10,127,688.96**

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 01/01/2015	**4,430,000.00**	**11,235,300.00**	**-316,729.14**	**6,375.40**
Consolidation-related currency differences			-285,952.06	
Payments to shareholders				
Consolidated profit for the year				
Balance on 31/12/2015	**4,430,000.00**	**11,235,300.00**	**-602,681.20**	**6,375.40**
Balance on 01/01/2016	**4,430,000.00**	**11,235,300.00**	**-602,681.20**	**6,375.40**
Consolidation-related currency differences			-46,788.78	
Payments to shareholders				
Consolidated profit for the year				
Miscellaneous changes				
Balance on 31/12/2016	**4,430,000.00**	**11,235,300.00**	**-649,469.98**	**6,375.40**

		Minority shareholders			Consolidated equity
Retained earnings	**Total**	Minority interests	Retained earnings attributable to minority interests	**Total**	
35,941,386.87	**51,296,333.13**	**4,991.42**	**767,777.71**	**772,769.13**	**52,069,102.26**
	-285,952.06				**-285,952.06**
-1,639,100.00	**-1,639,100.00**		-100,000.00	**-100,000.00**	**-1,739,100.00**
2,776,637.67	**2,776,637.67**		-173,719.50	**-173,719.50**	**2,602,918.17**
37,078,924.54	**52,147,918.74**	**4,991.42**	**494,058.21**	**499,049.63**	**52,646,968.37**
37,078,924.54	**52,147,918.74**	**4,991.42**	**494,058.21**	**499,049.63**	**52,646,968.37**
	-46,788.78				**-46,788.78**
-1,639,100.00	**-1,639,100.00**			**0.00**	**-1,639,100.00**
1,797,442.75	**1,797,442.75**		-13,371.39	**-13,371.39**	**1,784,071.36**
	0.00	309.18	170,459.83	**170,769.01**	**170,769.01**
37,237,267.29	**52,259,472.71**	**5,300.60**	**651,146.65**	**656,447.25**	**52,915,919.96**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2G. Auditor’s report.

Group management report.......................................25
Consolidated balance sheet 77
Consolidated profit and loss account 81
Notes to the consolidated financial statements 85
Auditor´s report 107

Auditor’s report

We have audited the consolidated financial statements prepared by the 2G Energy AG, Heek, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § (Article) 317 HGB (“Handelsgesetzbuch”: “German Commercial Code”) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with (German) principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with (German) principles of proper accounting. The group management report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Osnabrück, May 19, 2017

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