Annual Report

2018

Multi-year overview of Group key figures

Results of operations

	2018	2017	2016	2015	2014
	TEUR	TEUR	TEUR	TEUR	TEUR
Net Sales	209,783	189,404	174,299	152,884	186,605
Change vs. previous year in %	10.8	8.7	14.0	-18.1	47.9
Total operating revenue	221,149	190,494	183,622	154,713	189,556
Earnings before interest, tax, depreciation and amortisation (EBITDA)	15,371	11,116	9,236	8,071	14,032
Earnings before interest and tax (EBIT)	11,453	7,333	5,649	4,772	11,287
Financial result	-525	-369	-368	-285	-498
Operating result (EBT)	11,233	7,197	5,393	4,576	11,017
Consolidated net income	**7,608**	**4,923**	**1,784**	**2,603**	**6,883**
Sales distribution					
Net sales international in %	35	35	30	27	21
Service in %	37	34	33	34	20
Profitability					
EBITDA margin in %	7.3	5.9	5.3	5.3	7.5
EBIT margin in %	5.5	3.9	3.2	3.1	6.0
Return on equity in %	12.4	8.8	3.4	4.9	13.2
Return on total assets in %	9.2	6.3	5.1	5.0	12.2
ROCE[1] in %	17.9	12.5	10.1	8.6	20.6
Order situation					
Order backlog at year-end	131,497	95,855	91,232	85,472	42,368
Book-to-Bill Ratio[2] as of 31 Dec.	1.22	1.07	1.13	1.31	0.97
Expense structure					
Cost of materials	148,739	126,822	128,633	100,621	133,972
Materials intensity in %*	67.3	66.6	70.1	65.0	70.7
Personnel costs	35,310	32,670	29,951	29,315	25,458
Average number of employees	627	606	579	566	522
Labour intensity in %*	16.0	17.2	16.3	18.9	13.4
Other operating expenses	23,190	20,955	18,901	19,902	19,069
Cost intensity in %*	10.5	11.0	10.3	12.9	10.1
Depreciation and amortization	3,918	3,783	3,587	3,299	2,745
Income tax	3,450	2,041	1,699	1,885	4,060
Tax ratio[3] in %	30.7	28.4	31.5	41.2	36.9

Financial position

	2018	2017	2016	2015	2014
	TEUR	TEUR	TEUR	TEUR	TEUR
Total assets	**124.796**	**116.258**	**111.389**	**95.855**	**92.617**
Asset structure					
Fixed assets	27,527	25,458	24,635	23,475	22,691
Tangible fixed assets to total assets ratio** in %	18.3	17.8	17.2	18.4	18.3
Current assets	93,656	88,816	85,346	71,036	68,706
Inventory turnover ratio					
Inventories	4.5	4.3	4.0	4.7	6.0
Receivables	6.6	6.8	6.0	6.2	8.5
Capital structure					
Equity	61,556	55,711	52,916	52,647	52,069
Equity ratio in %	49.3	47.9	47.5	54.9	56.2
Share capital	4,430	4,430	4,430	4,430	4,430
Provisions	17,170	15,513	12,465	11,697	11,191
Bank borrowings	7,290	6,364	6,277	5,913	6,144
Working Capital[4]	**36,487**	**33,164**	**31,389**	**31,781**	**31,991**
Financing					
Cash inflow/cash outflow from					
Operating activities	4,875	12,845	6,382	2,062	8,262
as % of sales	2.3	6.8	3.7	1.3	4.4
Investing activities	-5,936	-4,878	-4,544	-1,016	-3,484
Financing activities	-1,382	-2,114	-1,703	-1,888	-3,139
Investments in plants	8,255	5,691	4,837	3,318	3,833
Free cash flow[5]	-3,380	7,154	1,545	-1,256	4,429
in % of net sales	-1.6	3.8	0.9	-0.8	2.4
Dividends	1,861	1,772	1,639	1,639	1,639
Change in liquid asstes	-2,443	5,854	135	-842	1,639
Liquidity as of 31 Dec.	13,615	16,092	10,187	10,128	11,394

2G share

	2018	2017	2016	2015	2014
Number of shares (≙ Share capital in EUR)	4,430,000	4,430,000	4,430,000	4,430,000	4,430,000
Share price[6]	21.90	17.70	18.34	21.62	16.55
Earnings per share	1.72	1.11	0.40	0.59	1.55
Dividend per share	0.45[7]	0.42	0.40	0.37	0.37
Dividend yield in %[6]	2.1	2.4	2.2	1.7	2.2
Payout ratio in %[8]	26.2	37.8	99.3	63.0	23.8
Price-earnings ratio[6]	12.8	15.9	45.5	36.8	10.7
Price-cashflow ratio[6]	19.9	6.1	12.7	46.4	8.9

* related to total output | ** related to total assets | 1 = EBIT/(fixed assets + working capital) | 2 = CHP order intake/CHP net sales | 3 = income tax/EBT | 4 = current assets – current liabilities | 5 = cash flow from operating activities – investments in plants | 6 = based on year-end xetra closing price | 7 = proposal to the Annual General Meeting | 8 = dividends/net income

Content

Financial year 2018

Foreword of the Management Board

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

Dear shareholders,

As a 2G team, we are satisfied with the results of the 2018 financial year. We have achieved an annual result at the upper end of our target range. However, it should already be said at this point that we are not sitting back and resting on our laurels but see the successes as a great motivation for the current financial year.

In 2018, we used our lead projects – "Lead to Lean", Digitalization and Internationalization – to make our processes more efficient, to launch new products and product functionalities, and to strengthen our Service business. This has had a clearly positive impact on both net sales and earnings. We grew our net sales to almost

EUR 210 million, an increase of around 11 %. Earnings before interest and tax (EBIT) climbed at an even faster rate of around 56 % to reach EUR 11.5 million. Consolidated net profit for the year rose by a similar proportion to EUR 7.6 million. In short, 2G emerges from the 2018 financial year reflecting further operational and balance sheet strength. This performance formed the basis for the Management and Supervisory boards to propose a further increase in the dividend.

Business with services and spare parts sales formed a major driver of our success during the year under review. Such business continued to outpace our topline growth rate, rising by more than 20 % to EUR 78.0 million, and thereby also making a considerably greater year-on-year contribution to EBIT. We were particularly pleased to achieve more than a quarter of our Service revenue abroad. We are further expanding this base. In Germany, we acquired a 50 % interest in Baden-Württemberg-based HJS Motoren GmbH in the year under review. This enables us to augment the density of 2G's service network in Southern Germany. At the same time, we are expanding our range of services to include other engine concepts and complete solutions for CHP units. In the German biogas market alone, we potentially address a portfolio of more than 9,000 systems. Our very successful subsidiary in France, which has reported strong growth since it was founded in 2016, has established itself in both the biogas and natural gas markets. Our aim is to address this attractive market ourselves. In North America, we intend to focus more intensively than ever on marketing our products and services. We have opened two new offices in Maryland (USA) and Ontario (Canada) in order to provide closer support to customers and partners, and have hired recognized CHP experts in order to strengthen our team there. From 2G's point of view, the North American market offers an annual net sales potential of between EUR 40 million and EUR 60 million medium-term through the sale of new CHP plants and subsequent services.

Our business's positive sales and earnings performance in recent years has benefited substantially from the fact that we invested early in the digitalization of CHP operations as well as in internal service processes. As a consequence, 2G systems can be integrated into combined power plants on a remote-controlled and flexible basis. This makes our systems future-proof for the coming challenges of the energy revolution. Our customers see things the same way, as demand is rising. In 2018, we added the IRIS software (“Intelligent Report Information System” platform), which we developed ourselves, thus going at least two steps further in terms of digitalization: CHP systems' production and status data are aggregated, evaluated and intelligently linked with each other in real time in order to draw logical conclusions about systems' current and future status. In this way, possible malfunctions can be identified and predicted (so-called predictive maintenance) and appropriate countermeasures can be initiated to prevent unplanned downtime. For our customers, this signifies efficiency gains and higher profitability. In addition to better planning for service and the resulting savings, 2G also hopes to gain knowledge about further development opportunities for CHP systems.

Precisely this describes our management team’s guiding lean philosophy principle: how and where can we constantly improve our products, services and not least our processes, make them more efficient and generate added value for our customers – coupled with the claim of utilizing resources sparingly? To this end, we have been implementing an industrial process model gradually since 2018 with direct positive effects in terms of efficiency, quality, throughput times and capacities. As a consequence, 2G today produces more CHP systems of higher quality with the same manpower. For you as a shareholder, this means that the profitability of the company increases sustainably. We will continue along this path in the coming years and will consistently focus on standardizing products and downstream processes and implementing them within our integrated management system. With our employees, the aim is to create the preconditions and instruments that make 2G a self-optimizing and self-learning organization. We also identify great potential in customer acquisition and customer service. A Group-wide customer relationship management system, which we have recently launched, will help us standardize processes and align our products more precisely to the market.

Time-to-market and technological excellence were the drivers that prompted our development team to make production-ready within a short period of time a CHP unit that can be operated with pure hydrogen. For this we have been selected as the winner of the "Handelsblatt Energy Awards 2018/2019" in the "Industry" category for the most innovative project of the energy revolution. The award underlines 2G's pioneering role in the new energy policy direction. Hydrogen is increasingly seen as a seasonal storage medium to reconcile increasing renewable electricity production with existing conventional producers, making it ideal for supplying (surplus) electricity generated from renewable sources to demand-oriented utilization with a time lag – for example, during all-too-familiar periods of dull weather conditions. 2G power plants offer the highest levels of efficiency in conversion back into electricity and heat generation, and are technically proven, robust and economically attractive. In short, they provide a secure generation capacity and can also compensate for grid voltage fluctuations at short notice.

We have identified seven market drivers that will support the prosperous development of decentralized CHP technology in the medium output range in the long term:

- Lack of availability of electricity line capacity at both transmission and distribution level
- Phasing out power and heat generation from nuclear and coal-fired power plants
- Growing concerns about grid instability with increasing share of renewable energies
- Growing importance of natural gas and green gas as primary energy sources
- Increasing electricity demand (eMobility, heat pumps, etc.)
- Unrestricted acceptance of CHP systems as decentralized supply units
- Rising prices for CO_2 certificates

We are convinced that we are well prepared for the challenges ahead and that 2G is well positioned internationally. The annual report gives you an overview with its illustrations of our CHP systems, as they reflect the resource-saving, flexible and largely climate-neutral production of electricity and heat. Our CHP technology stands for a conflict-free energy policy triangle: it offers security of supply, cost-effectiveness, and is both climate and environmentally compatible. To put it another way: it is high time to move away from outdated modes of thinking. This is because the expansion of renewable energies does stand in the path of supply security and affordable energy if CHP is widely deployed as a producer of residual and control energy. We are making every effort to pave this way for 2G's CHP technology and to grow profitably with challenges as they arise.

We can already state today that the 2G Group's profitability will very likely continue to grow in the current financial year. Such confidence derives from the increased capacity utilization and the associated economies of scale, from the efficiency gains from the "Lead to Lean" process and from further increases in margin contributions from our Service business. Furthermore, at the end of the first quarter of 2019 we can already point to a very high order book position of over EUR 156 million. Moreover, the signals from our subsidiaries in the USA, France and the UK as well as from our licensed partner companies in Asia are very encouraging. We are also registering a pickup in demand for natural gas CHP plants in the German market.

Based on this sustainable sales and earnings trend, the Management Board assumes net sales between EUR 210 million and EUR 230 million and an EBIT margin between 5.5 % and 7 % for the 2019 financial year.

We would like to thank all our employees who continue to develop 2G with their commitment on a daily basis. We would like to thank you, our shareholders, for your confidence in our work and for your critical involvement. Our wish is that our shareholders should participate appropriately in the profitable growth. As a consequence, the Management and Supervisory boards propose to the Ordinary Annual General Meeting to be held on June 25, 2019, the payment of a dividend of EUR 0.45 per share.

Heek, May 2019
2G Energy AG

Yours sincerely,

Christian Grotholt
Management Board Chairman (CEO)

Ludger Holtkamp
Management Board member

Friedrich Pehle
Management Board member

Report by the Supervisory Board

Dear shareholders,

During the past financial year, the Supervisory Board of 2G Energy AG accompanied, supervised and gave advisory support to the Management Board in its management of the company and the 2G Group, and fulfilled its tasks in accordance with statutory regulations, the company's bylaws and the rules of business procedure. The Supervisory Board was informed by the Management Board about important strategic and operative decisions as well as deviations from the annual budget, and was involved in decisions of particular significance for the 2G Group. This did not require committees to be formed.

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

Organization of the Supervisory Board

The members of the Supervisory Board in the year under review included 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. This also applies to an Audit Committee, whose tasks the plenary Supervisory Board continues to perform.

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 Supervisory Board meetings were held in the 2018 financial year, on May 17, July 3 and November 15. All Supervisory Board members attended these Supervisory Board meetings. The Supervisory Board discussed with the Management Board the transactions requiring its approval pursuant to the law and the company's bylaws, and reviewed and approved them unanimously in all cases. At the meetings, the Supervisory Board utilized the reports and documents submitted by the Management Board to conduct consultations on the company's business and financial position, its operational and strategic development, its business divisions and its subsidiaries in Germany and abroad. These especially included the development of the partner concept (internationalization), the "Lead to Lean" flagship project and the further digitalization of CHP systems and the service offerings, as well as target attainment in relation to the annual budget. The Supervisory Board also concerned itself with trends in the overall regulatory environment and competition in various markets. The Supervisory Board requested reports on important specific questions relating to the company, its risk position, investment planning and personnel trends, and consulted about them.

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

Important agenda items at the Supervisory Board meeting on May 17, 2018, especially included the business policy and corporate planning, as well as Group profitability during the previous 2017 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 also discussed the annual financial statements, the Group management report and the auditor's reports. The Supervisory Board adopted and approved the separate annual financial statements as well as the consolidated financial statements for the 2017 financial year. Furthermore, the Supervisory Board granted its unanimous approval to the Management Board in relation to business requiring its consent.

On July 3, 2018, the Management Board reported to the Supervisory Board on business progress and new order in-take trends for the first half-year, and provided an outlook of expected full-year trends.

At the Supervisory Board meeting on November 15, 2018, the Management Board explained the results of the half-year financial statements, business progress in the third and fourth quarters, and the company's liquidity trends. The meeting also focused on monitoring the financial accounting process and the effectiveness of the internal control system. In addition, the Management Board gave an outlook of corporate trends in 2019. The Supervisory Board unanimously approved Management Board business requiring its consent, including the purchase of shares in 2G Drives GmbH.

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

Separate and consolidated financial statements for the 2018 financial year

The Management Board prepared the separate financial statements, the consolidated statements and the Group management report for 2G Energy AG for the financial year from January 1 to December 31, 2018, 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 4, 2018, audited the separate financial statements, the consolidated financial statements and Group management report of 2G Energy AG for the 2018 financial year, including the financial accounting, awarding them unqualified audit certificates. The Supervisory Board verified the impartiality of the auditor and of the individuals acting for the auditor. Audit focus areas for the 2018 financial year included the valuation of inventories, trade receivables, 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 auditor issued an unqualified audit certificate.

The separate financial statements, consolidated financial statements and Group management report, as well as the related auditors' reports, were submitted on time before the financial accounts meeting to all Supervisory Board members. At the Supervisory Board meeting on May 9, 2019, the auditor reported on the main audit findings and explained them to the Supervisory Board, providing comprehensive answers to the Supervisory Board's questions.

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

The Supervisory Board concurs with the Management Board's proposal concerning the application of unappropriated profit, to distribute a dividend in an amount of EUR 1,993,500.00, equivalent to EUR 0.45 per share, from the unappropriated profit of EUR 15,515,201.00, and to carry forward to a new account the remaining unappropriated profit of EUR 13,521,701.00.

The Supervisory Board would like to thank the members of the Management Board, the managing directors of the subsidiaries and all employees of 2G Energy AG and its Group companies worldwide for their loyalty and dedication over the past financial year, who have made significant contributions to the marked improvement in results.

Heek, May 9, 2019

The Supervisory Board

Dr. Lukas Lenz
Supervisory Board Chairman

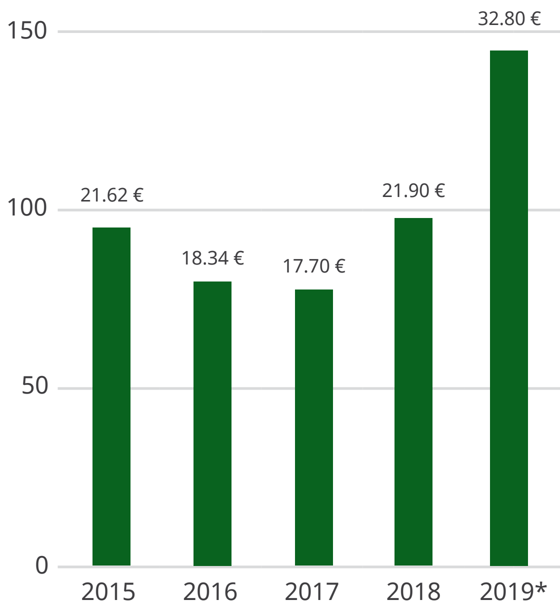
2G share 2018 clearly outperforms the market

The 2G share started the 2018 stock market year at a price of EUR 18.20. At the end of February, the share price touched its low for the year at EUR 18.00. This was followed by an upward movement to the high for the year of EUR 23.40, which was reached at the beginning of July. While the overall market fell significantly, the 2G share fluctuated in several ranges between around EUR 20.00 and EUR 23.00. The share quoted at EUR 21.90 as of the year-end. Positive corporate news concerning a significant increase in new order intake, sound foreign business, a higher dividend and the three lead projects – Internationalization, Digitalization and "Lead to Lean", which aim to enhance profitability and productivity – failed to exert a lasting impact on the share price performance in the year under review. With the specification at the end of November of the sales and earnings forecast for the 2018 financial year, the share – within a very weak market environment – started to leave its lower support at EUR 20.00 and put in a sustained and significant uptrend. In February 2019, the share price exceeded EUR 30.00 for the first time since July 2014. By the end of April, the share price continued to rise to achieve nearly EUR 33.00. This share price performance was supported by reports on the order book position and new order intake as well as the sales for the 2019 financial year.

On a full-year basis, the 2G share gained 20.3 % (previous year: -4.2 %). The 2G Energy AG share has thereby outperformed the overall market by a considerable margin. Equity markets worldwide fell significantly in 2018. The DAX30 was down by 18.3 % (previous year: +6.9 %). The TecDax decreased by 3.1 % (previous year: +39.6 %). The DAXsector All Industrial index that is sector-specific to 2G was down by 16.3 % (previous year: +16.7 %), while the DAXsubsector All Renewable Energies fell by 36.1 % (previous year: -19.8 %). The Scale 30 Index decreased by 29.2 % (no prior-year figures available).

The market capitalization of 2G Energy AG rose from EUR 78.4 million in the previous year to EUR 97.0 million as of the financial year-end, on unchanged share capital of EUR 4,430,000.00 during the year under review. By the end of April 2019, the market capitalization had increased to roughly 145 million in line with the rise in the share price.

2G Energy AG market capitalization EUR millions



XETRA closing price April 30, 2019

Market capitalization 2015 as of Dezember 31, 2018, 2019 as of April 30, 2019, XETRA closing prices

2G share holds its own in the Scale30 selection index

The trading liquidity in the 2G share was stable compared with the previous year. The average daily volume on the XETRA and tradegate trading platforms as well as on German regional stock exchanges was around 8,270 shares in the year under review (previous year: around 8,400 shares), but rose significantly to an average trading volume of 18,338 shares in February 2019. In the Scale30 index's ranking of trading volumes, the 2G share has gradually moved from the lower ranks to midfield. 2G Energy AG was included in the new Scale30 Index of Deutsche Börse AG from its launch in early March 2018. This index comprises the 30 most liquid shares in the Scale segment.

Investor relations activities

Dialog with the capital market and transparent, continuous reporting on relevant corporate events and developments remained important guiding principles for the investor relations work of 2G Energy AG in 2018. The aim is not only to further strengthen 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 verifiable basis. 2G endeavors to explain its business model, the CHP market and its growth and earnings potentials to all capital market participants in a verifiable manner.

Interest in the 2G share was evident in the many requests for roadshows and invitations to address investor conferences in Europe in 2018 as well as investor visits to the production site in Heek. The Management Board presented the 2G business model at various capital market events and roadshows, explaining its three leading projects as well as its products, technological development work, market trends and sales strategies in international markets.

Interest among analysts also remained high: three institutes, First Berlin, SMC Research and Pareto Securities, monitored and evaluated the company's development. On the basis of their valuation models, all analysts see further upside potential for the 2G share and have issued "Buy" recommendations with a price target above EUR 35.

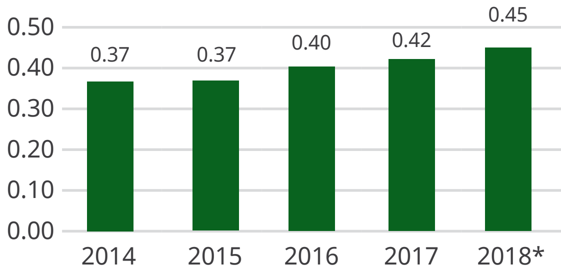
2G neither approved nor implemented any capital measures during the period under review.

Further dividend increase 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 thereby set to benefit in the long term from the continuous appreciation in the company's value. Based on the unappropriated profit generated in the 2018 financial year, the Management and Supervisory boards have authorized a proposal to the Ordinary AGM to be held on June 25, 2019 for it to approve a dividend 7 % higher year-on-year of 45 euro cents per share for the past financial year.

Based on the 2018 year-end closing price, this would correspond to a dividend yield of 2.05 % (previous year: 2.37 %) and a payout ratio of 26.2 % (previous year: 37.8 %).

Dividends 2014 - 2018* EUR

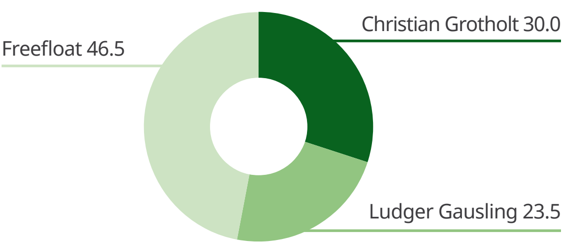


* Proposal to the Annual General Meeting

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 23.5 % of the shares respectively as of the balance sheet date, and consequently together 53.5 %. The free float consisted of 46.5 % of the shares in issue as of December 31, 2018.

The shareholder structure is as follows as of December 31, 2018:

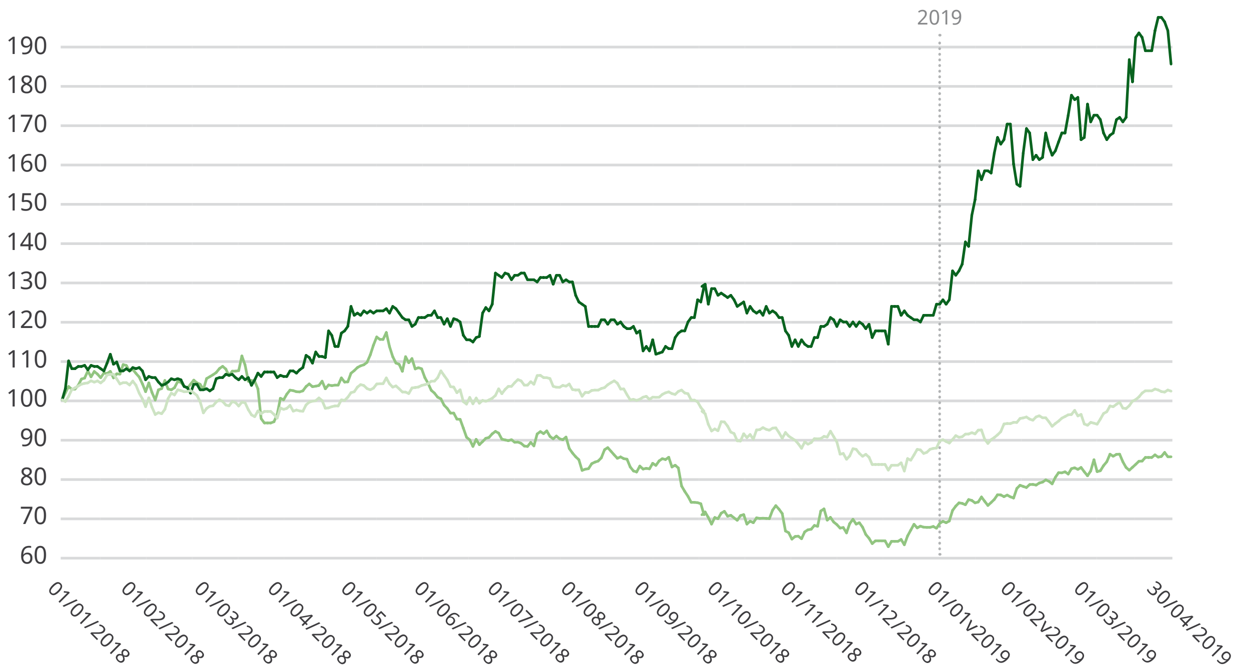
2G Energy AG shareholder structure Share %



As of Dezember 31, 2018

2G share price performance and comparative indexes 2018 to April 2019 (indexed)

in %



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

Leading the way in
the energy revolution.

Enabling the energy revolution

Growing demand for climate friendly, flexible power plants

The energy revolution is in a critical phase. In Germany, renewables already account for 38 % of electricity consumption – which is a good thing. However, with the shutdown of significant generation capacities in the form of coal-fired and nuclear power plants over the next four years, the demand for decentralized, climate-friendly and, above all, flexible producers will increase, as grid instabilities or power outages are not acceptable to either the population or the economy. Moreover, replacement capacities must be established quickly. As a consequence, there is neither time for protracted approval and implementation phases for new large gas-fired power plants with an electric output of several hundred megawatts, nor time for the construction of a total of 7,700 km of overland power lines – which would also necessitate billions' worth of investments. In addition, new power plants with relatively low marginal costs would need to be economically viable as renewables set a new – significantly lower – price standard at three to four cents per kilowatt hour.

Under these conditions, what are the means of choice for safe, affordable and climate-compatible energy production that will pave the way for an almost CO_2-free energy supply based on renewable energies?

In particular, highly efficient cogeneration based on gas engines in the medium output range from 250 kW to 2 MW offers the necessary technical and structural characteristics for demand-based, flexible generation in a network of virtual power plants as well as for the regular operation and for combinations of both generation types. Such plants deliver efficiencies of at least 85 % to over 100 % as well as low emissions and immissions, they are digitally controllable, and can be integrated into systems. The fuels utilized are natural gas and methane as well as weak gases and hydrogen and gas mixtures, which exert a positive effect on the net greenhouse gas impact. Low investment costs, proven operating efficiency over many years, rapid, standardized approval procedures and a production time of three to four months per system facilitate the rapid build-up of sufficient capacity.

Further advantages of the energy concept outlined above are the associated decentralization of electricity generation, the possibility of

g-box | 20 kW - 50 kW

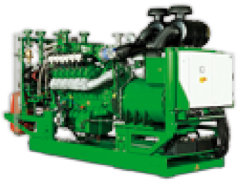
Natural gas or LPG operated.
Profitable small power plant.

agenitor | 75 kW - 450 kW

Natural gas, biogas, landfill gas, sewage gas, or hydrogen operated.
Evolution in efficiency.

aura | 100 kW - 150 kW

Natural gas operated.
Clean and efficient.



avus | 550 kW - 2,000 kW

Natural gas, biogas, landfill gas, or sewage gas operated.
Built for big tasks.

distributing generation among different types of generation in a risk-neutral and technologically open approach, and the utilization of existing long-term storage facilities such as the natural gas network and storage caverns. In addition, it offers many points of contact to interlock with the energy system transformation in the heat and transport sector. Last, but not least, in such a network it would be possible to cover the much invoked “dark lull” in winter or “heat lull” in summer – in other words, periods when renewables supply less electricity – including peak load.

This is because CHP systems in the medium output range provide demand-oriented balancing and control energy within a few seconds.

2G's CHP technology has all the advantages on its side! On the following pages we present the CHP power plants and the services with their special characteristics. 2G is prepared to make its contribution to the success of the energy revolution.

Success story continues

The new g-box 50 plus: for worldwide use

The g-box has been further developed and gained a great deal more flexibility in technical terms. The new g-box 50 plus is a genuine all-rounder for deployment worldwide. It offers clean, highly efficient solutions both as an add-on solution to an existing energy supply and for grid replacements or island operation.

May be used in any city

Emissions 50 % below TA Luft

Comfortable in operation

Remote-controllable and integrated into digital services

Easy to place

Low insertion dimensions, no separate supply and exhaust air necessary, super-silent compact module

Operation with natural gas or LPG

Can also be used if no connection to gas grid is available

Highly efficient and reliable

104.6 % overall efficiency, maintenance interval increased

Flexible use

Stepless power modulation up to 50 % of the electrical output

Reliable and efficient

agenitor: highly efficient even with pure hydrogen

The research and development team at 2G Energy AG has achieved outstanding results in terms of the efficiency of CHP systems thanks to continuously optimizing its gas engine technology over recent years:

- **utilization of steel pistons greatly reduces friction and heat loss**
- **four-valve technology enables highly efficient gas exchange in the combustion chamber**
- **microprocessor-controlled ignition ensures optimized adaptation of ignition timing and ignition energy to gas quality**

2G has significantly increased the efficiency of its agenitor series to 42.5 %, which is the highest in the world

At the renowned Handelsblatt Energy Awards 2018/2019, 2G Energy AG was selected as the winner of the prize for the most innovative project of the energy revolution in the category "Industry". From left: Tijen Onaran, moderator; Christian Grotholt, CEO, 2G Energy AG; Dr. Wolfgang Dierker, National Executive, GE Germany & Austria, Government Affairs & Policy Leader.

For example, 2G has significantly increased the efficiency of its agenitor series to 42.5 %, which is the highest in the world. For CHP operators, higher efficiency signifies less gas consumption, lower fuel costs and higher yields.

The power plants' flexibility and elasticity is central to their utilization in conjunction with renewable energies: thanks to highly wear-resistant engine components, the agenitor is extremely reliable, also during regular start/stop operation.

On this technically highly developed agenitor basis, 2G's R&D team has succeeded in bringing its hydrogen CHP to production stage within a short timeframe. These systems produce electricity and heat highly efficiently, almost free of CO_2 emissions and with comparable economic efficiency.

The application areas of 2G hydrogen technology for industry, trade and energy suppliers span a broad range: they can be utilized with other high hydrogen content gases such as those in chemical industry waste products, or with variable gas mixtures such as gases from purification plants, and landfill and natural gases. By contrast with fuel cells, the combustion engine is insensitive to pollutants in gases.

This makes the hydrogen CHP technology that 2G has developed a tried and tested alternative to fuel cell technology, which – according to the current status of knowledge – is not available for such purposes.

Clean efficiency champion

aura: 90 % less emissions, 15 % higher efficiency

Improving air quality and limiting global warming can only be achieved by significantly reducing nitrogen oxide and carbon dioxide emissions. 2G has developed the two aura 404 and aura 406 modules especially for these requirements – based on the successful engine concept of the 4-series. Thanks to 2G's proprietary Lambda 1 technology, these CHP systems comply with the stringent emission limits of the German Clean Air Act (“TA Luft”) – also on an international scale.

Deploying the SCR catalytic converter technology developed in-house, 2G can also equip all other series in the portfolio above 50 kW for low-emission applications. The SCR catalytic converter effectively helps reduce nitrogen oxide emissions and complies with current air pollution regulations such as the 44th German Federal Immission Control Directive (BImSchV).

Powerful

Specifically higher performance of 15 % compared to conventional systems with the same displacement

Reliable

Reliable and service-friendly compact module

Clean

90 % less emissions due to 2G's Lambda-1 technology

Highly efficient

Overall efficiencies of more than 100 % possible

High heat efficiency

e. g. 64.6 % with aura 404

Built for big tasks

avus: complete solutions for industry and commerce

The avus is a highly efficient 2G power plant for high electric power consumption (above 500 kW) which is used in larger industrial projects or for supplying heating networks. If necessary, experienced 2G technicians familiar with large engine technology will completely take over the planning and management of the overall project and will provide professional assistance in designing the peripheral components.

Lactoprot, one of the world's leading producers of caseinate from raw milk, uses an avus 1500b at its site in Leezen in conjunction with an absorption chiller and a steam generator to provide electricity, steam and cooling energy.

Complete solutions

If required, including planning and management of the overall project

Versatile applications

Combination of different outputs such as electricity, heat, steam and cold

As needed

For the operation with natural gas, biogas or other lean gases

Long operating times

Efficient running mode and operating times due to excellent engine quality

Flexible

Integration in existing energy supply infrastructure

Backbone of the energy revolution

Combined heat and power: indispensable in the energy mix

- Virtual power plant
- Continuously adjustable
- Gas treatment and admixing
- Exhaust gas aftertreatment
- Producing, storing and distributing heat
- Digital control
- Digital service
- Rent or lease

Virtual power plant

2G power plants are equipped with a special interface that enables easy integration into virtual power plants and thereby participation in the balancing energy market.

Continuously adjustable

In contrast to large power plants, CHP plants can regulate their output within an extremely short span of time. 2G power plants are continuously variable in the power range between 35 % and 100 % and automatically adapt to actual energy demand by means of modern control technology.

Gas treatment and admixing

After the fermentation process, biogas often still contains residues of undesirable substances such as sulphur. The biogas is processed through the utilization of activated carbon filters and gas cooling, resulting in higher and consistent quality available for combustion.

Thanks to the gas mixing plant developed by 2G, it is possible to significantly increase the cost-effectiveness of CHP plants that run on weak gases such as landfill gas, sewage gas or mine gas by adding natural gas, as they can be operated continuously at high load.

Exhaust gas aftertreatment

By integrating catalyst technologies (oxidation to reduce CO-CH_2O emissions, SCR to reduce NO_x emissions) and post-combustion systems into a 2G power plant, pollutants that are still present in small quantities in the exhaust gas are reduced or removed to levels below TA-Luft limits.

Producing, storing and distributing heat

By integrating a heat storage unit, heat production can be decoupled from electricity production and the 2G power plant can be used flexibly. Waste heat from CHPs is also harnessed efficiently by means of hot water systems, thermal oil heat exchangers, heat pumps or condensing boiler heat exchangers. Several heating consumers can be supplied by means of a heating circuit distributor.

Digital control

Digital control plays a key role in demand-oriented and increasingly decentralized energy supplies. 2G CHPs' digital communication capability and electronic control are state of the art. With the help of the my.2-g.com platform, 2G offers plant operators the opportunity to continuously optimize plant management online and to further increase profitability.

Digital service

Each 2G power plant is not only electronically controlled but also digitally monitored. The resultant efficiency gains create measurable added value for customers.

Rent or lease

With a rental or leasing model from 2G Rental that is individually tailored to the customer's needs, the acquisition of state-of-the-art cogeneration technology from 2G is flexibly possible.

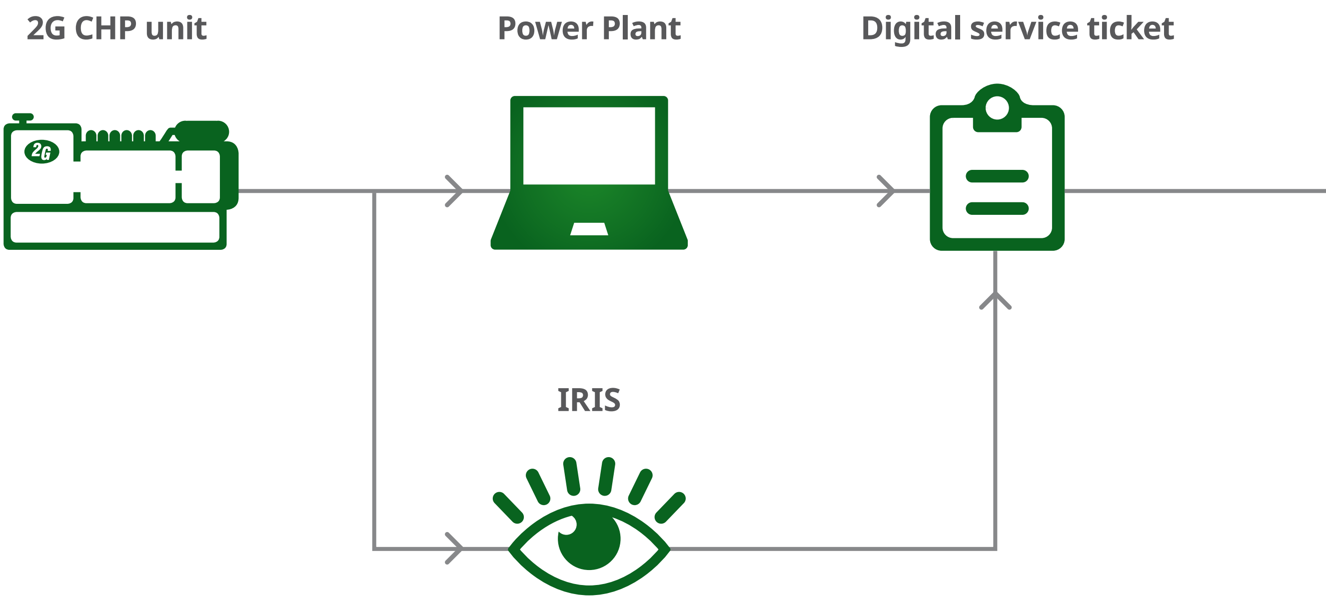
Intelligent service offensive

Service sustainably increases profitability

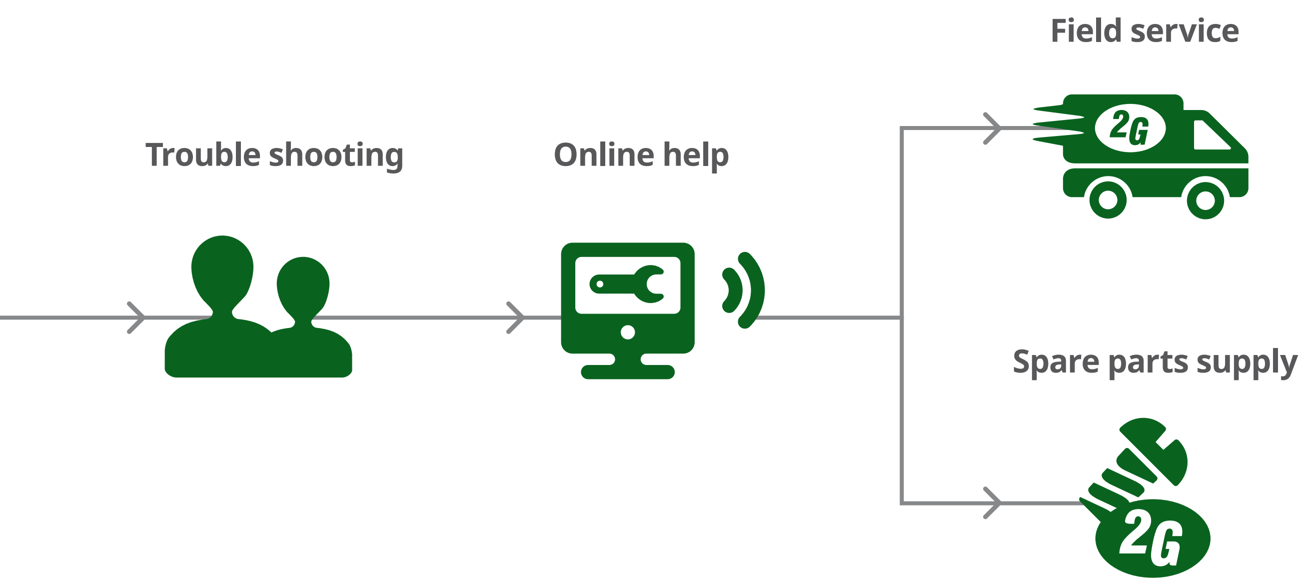
We set the same high quality standards in servicing 2G CHP plants as we do for our engine concepts – and for a good reason: service ensures that our CHP systems remain running with maximum smooth operation and maximum economic efficiency throughout their life-cycle. This represents a clear performance commitment to our customers and an important competitive argument for 2G systems.

2G service is based on two pillars. Firstly, professional on-site plant service via the 2G factory service or licensed partner companies, when tools and measuring equipment are required. Secondly, through digital monitoring of systems, including remote diagnostics, remote control and remote maintenance, which is performed from the 2G Service Center in Heek as part of 24/7 support. 2G is already resolving 70 % of error messages via this online path.

Our worldwide licensed partners are integrated into 2G's digital service structures. You can access our customer and partner portal my.2-g.com to optimize supported systems and order spare parts via our online shop shop.2-g.com. Technical, administrative and commercial processes, data and reports are intelligently networked. The application is very convenient and straightforward for plant operators and certified 2G partners.



Thanks to our IRIS (Intelligent Report Information Service) platform, we are once again significantly expanding the scope of our service offerings. By recording and intelligently evaluating up to 400 million system and sensor values per week, the service department is able to identify potential faults, avoid unplanned standstill periods and initiate appropriate countermeasures at an early stage. This is what 2G understands by "predictive maintenance" for the optimized Power plant operation. Operators benefit from enhanced plant availability and lower total operating costs. This increases the efficiency and thus the attractiveness of 2G CHP plants for a wide range of applications.



2G. Group management report.

Group management report

Reservation in relation to forward-looking statements

This management report includes forward-looking statements that are based on management estimations that are current as of the time when this management report is prepared. Such statements relate to future periods, or are characterized by terms such as “expect”, “forecast”, “predict”, “intend”, “plan”, “estimate” and “anticipate”. Forward-looking statements 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 installation as well as digital grid integration of combined heat and power plants the company offers comprehensive solutions in the growing market for highly efficient combined heat and power (CHP) systems. After-sales and maintenance services comprise an important additional performance criterion. The product range especially includes CHP modules with an electric output range between 20 kW and 2,000 kW for operation deploying natural gas, biogas, other lean gases and hydrogen. All systems work highly efficiently, on a basis that conserves resources, and mitigate or neutralize the emission of climate-damaging carbon dioxide or nitrogen oxide through combined energy degeneration and modern emission gas cleaning systems. Worldwide, more than 5,500 installed 2G systems in various applications supply electrical energy, heating and cooling internationally to a broad spectrum of customers including companies in the housing industry, agriculture, commercial and industrial companies, public energy utilities, and municipal and local government authorities.

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

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

In the rest of Europe, 2G is represented with independent sales and service companies in France, the UK, Italy, Spain and Poland. Outside Europe, 2G is present with an assembly, sales and service location in the USA. In November 2018, a sales and service company was also established in Canada. In addition, important conurbation areas and industrial markets are secured through sales partnerships in Japan, China, Southeast Asia, Australia, China, Africa and Russia, for example.

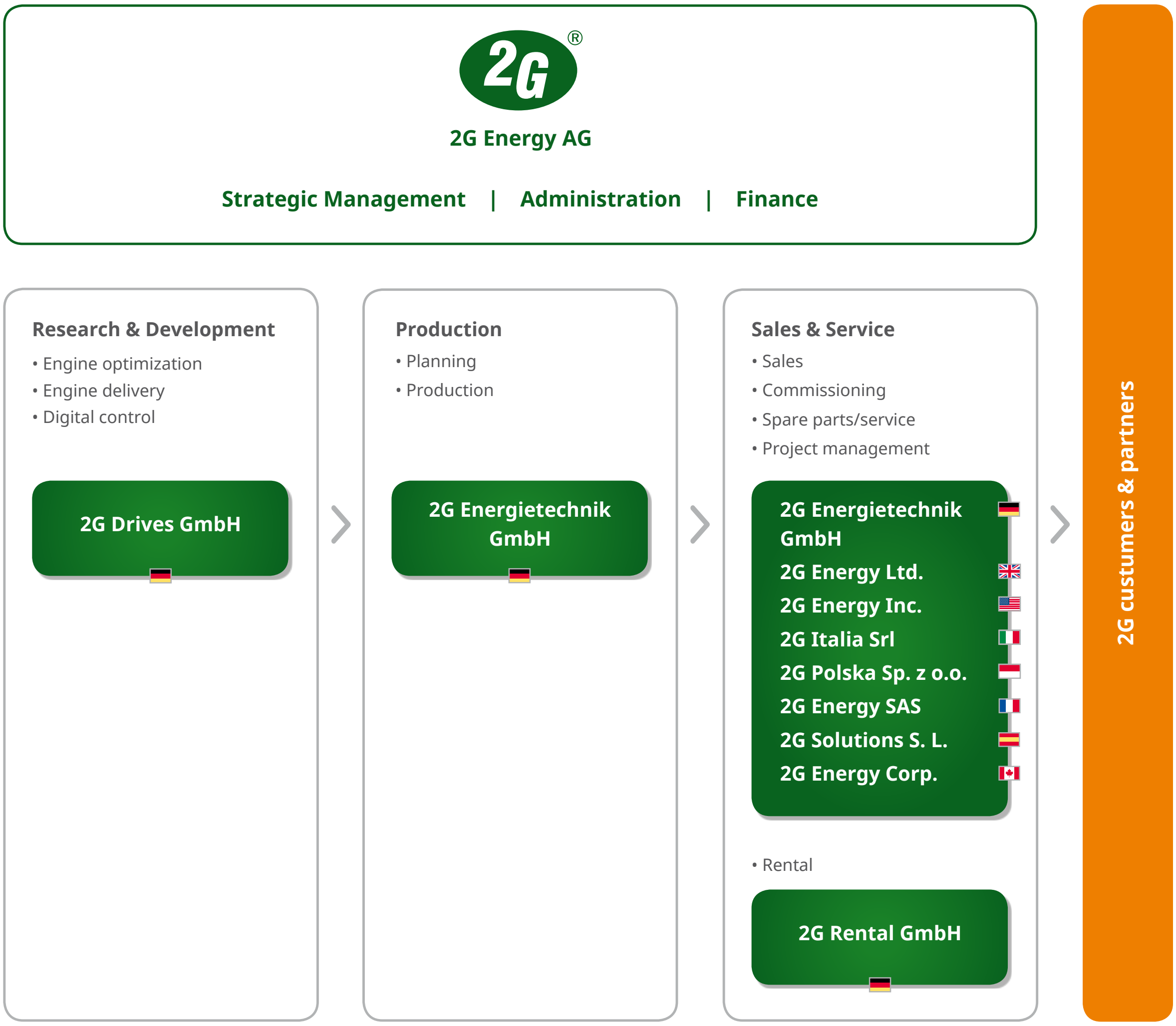


Diagram 1: 2G Energy AG corporate structure (as of December 31, 2018).

B. Economic and business environment

Macroeconomic situation

Global economic upswing sustained in 2018

In its 2018/2019 annual report presented in November 2018, the German Council of Economic Experts (GCEE) assumes that the positive global economic trend will continue, albeit somewhat less dynamically than in 2017. This reflected a number of uncertainties such as the threat of a trade conflict between the USA and China and the EU, the approaching Brexit and the continuing high level of national debt in many Eurozone member states combined with low growth potential. For 2018, the GCEE forecasts an increase in global gross domestic product (GDP) of 3.3 % (2017: 3.4 %).

According to economic experts, the economic upturn in the Eurozone continued at a slower

Foreword of the Management Board
Report by the Supervisory Board
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Leading the way in the energy revolution
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pace, reflecting the increasing utilization of production capacities and weaker impulses from abroad. The expansionary monetary policy continues to support investments. Overall, the economists are assuming a continuation of the economic recovery for the fourth consecutive year, forecasting 2.0 % Eurozone GDP growth for 2018 (2017: 2.4 %).

For the German economy, the GCEE expects the upswing to have continued in the year under review. Although GDP decreased in the third quarter, the economists do not anticipate a sustained slowdown thanks to strong domestic demand, existing investment incentives and a buoyant construction sector. Overall, the GCEE forecasts GDP growth of 1.6 % (2017: 2.2 %). According to the German Engineering Federation (VDMA), German mechanical engineering companies filled their order books for 2018 as a whole with an increase of 5 % over the previous year. According to the VDMA, the momentum has increasingly shifted to domestic business over the course of the year. Mechanical engineering companies, for example, recorded a 6 % increase in domestic orders, while orders from abroad rose by 4 %. Overall, however, orders in the fourth quarter of 2018 were only 1 % up on the previous year. However, it was pleasing to note that orders from Eurozone countries increased by 22 % year-on-year, especially in December.

Global conditions and industry trends

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

The 2G Group, with its products and expertise, sees itself as part of the global energy revolution. 2G contributes to resource conservation, emission avoidance and climate protection with its highly efficient gas driven CHP systems that produce electrical and thermal energy in a combined process on an economical basis.

For many decades, the international environment in the energy sector has been characterized by rising energy consumption and corresponding energy production. According to the International Energy Agency (IEA), global energy production quadrupled to 24,973 TWh between 1973 and 2016. Although the share of fossil primary energy sources has fallen slightly from 75 % to 65 %, they remain the dominant source of energy, especially in absolute figures.

At the same time, however, the need is rising globally to limit climate change and the associated rise in temperatures, mainly caused by carbon dioxide and methane emissions from human activities, as envisaged by the Paris Climate Change Agreement of 2015.

In this area of tension, demand exists on the generation side for technologies that can provide electricity and heat economically with natural gas and biogenic primary energy sources such as biogas, landfill and sewage gas, or hydrogen, thereby compensating for the fluctuating electricity production of PV and wind power plants as required. Decentralized structures and the intelligent networking of both production and

Share of primary energy sources in energy production 1973 and 2016

Share %

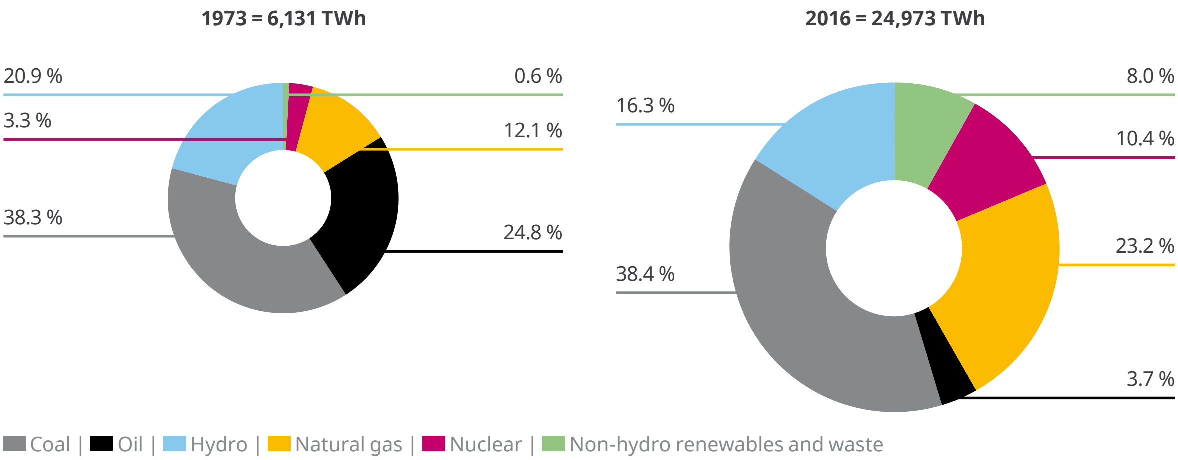

Diagram 2: Share of primary energy sources in energy production 1973 and 2016.
Source: International Energy Agency, Key World Energy Statistics, page 14, September 19, 2018

consumption units are also required to efficiently harness electricity from the mix of renewables.

The dimension of this task and associated potentials for stabilizing, efficient and flexible energy producers such as combined heat and power plants is presented in graph 3 showing the phase-out of nuclear power and coal in Germany. Within the next four years, 22 GW of generation capacity is to be withdrawn from the market, followed by a further 13 GW by 2030. These power plants that are to be decommissioned correspond to around 40 % of the base load-capable capacities available as of January 1, 2019.

Reduction of the net output of nuclear and coal-fired power plants

in GW

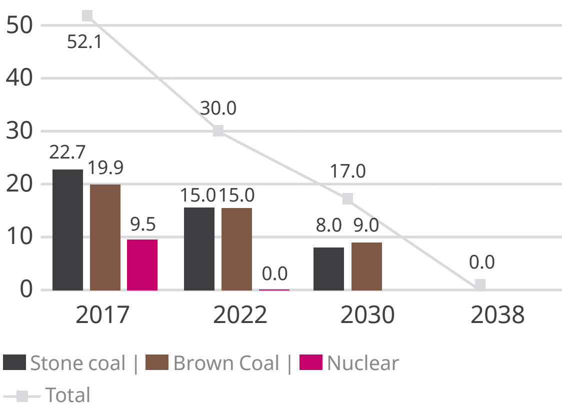

Diagram 3: Reduction of the net output of nuclear and coal-fired power plants in GW as part of the phasing out of nuclear and coal-fired power generation in Germany.
Source: Energie & Management, "Man muss realistisch sein", page 3, February 15, 2019

Gas-fired CHP systems in the medium output range from 50 kW to 1,000 kW offer the necessary technical properties for demand-oriented, flexible generation in a network of virtual power plants as well as for the regular operation of power-to-gas solutions and combinations of both types of generation. As part of power-to-gas projects, the hydrogen/methane produced by the electrolyzer can be converted into electricity and heat as required via a CHP system. Moreover, gas-fired CHP systems can utilize natural gas as well as lean gases and hydrogen and gas mixtures as fuels, which have a positive influence on the net greenhouse gas impact.

A further important argument for the utilization of medium-sized CHP systems is the fact that around two thirds of coal-fired power plants supply not only electricity but also heat. They thereby form an element of heating supplies in district and local heating networks. These heat generation capacities must also be replaced with the lowest possible greenhouse gas emissions. CHP technology offers this industrially proven, resource-saving, efficient and low-emission type of energy generation on the basis of various fuels for decentralized energy supply.

Growing demand for CHP from Germany and abroad

The sector's positive growth trend over many years continued, according to the survey of modules sold by CHP system manufacturers operating in Germany that was published in November 2018 by Germany's Öko-Institut, the German Federal Cogeneration Association (B.KWK) and the magazine Energie & Management. Sales estimates issued by producers for the 2018 financial year also considerably extrapolate this trend.

Sale of CHP engines in Germany and abroad in MW

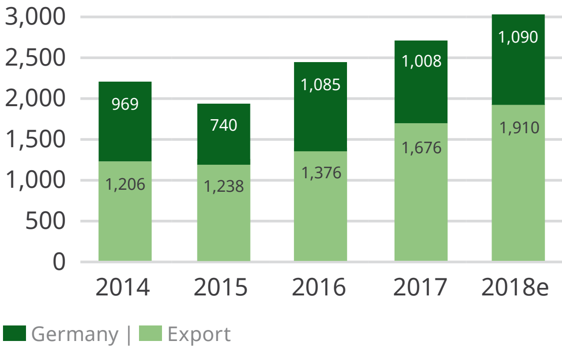

Diagram 4: Sale of CHP engines in Germany and abroad in MW.
Source: Energie & Management, Öko-Institut, November 2018

Since 2015, the amount of CHP output sold has risen significantly. At almost 2,700 MW, it represented the previous unit sales record, and was up by 9 % year-on-year in 2017. If CHP manufacturers' sales expectations for 2018 prove correct, this sales performance of more than 3,000 MW would correspond to an increase of around 12 % on 2017. Since 2015, this has resulted in average annual growth of 11 %.

2G expands its output sold, especially in Germany

Overall, 2G sold 189.7 MW of electric output in the year under review (previous year: 170.9 MW), representing 11 % growth compared with the previous year. The increase in sales is the consequence of a significant increase in demand for biogas-operated plants in Germany (94.7 MW, previous year 68.2 MW), while demand from abroad remained high (76.7 MW, previous year 78.4 MW). The proportion of output sold outside Germany stood at 40 % (previous year: 45.9 %).

2G CHP output sold in Germany and abroad 2014 - 2018 in MW

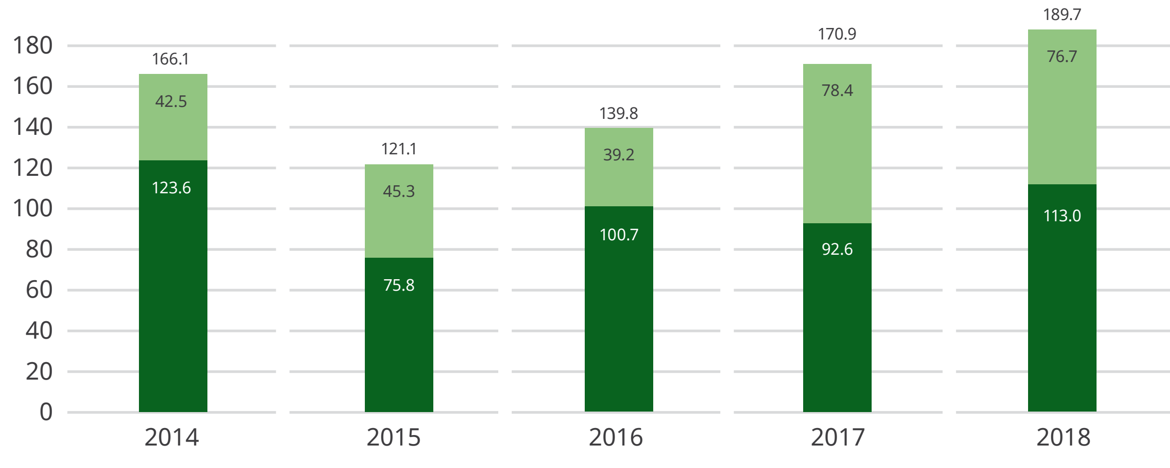

Diagram 5: 2G CHP output sold in Germany and abroad 2014 - 2018.
Source: 2G Energy AG

Biogas market in Germany

The construction of new biogas plants in Germany remained at a low level in the year under review. According to the forecast of the German Biogas Association, only 22 MW will be added in 2018 in the form of new biogas plants. The market for system expansions as part of flexibilization proved significantly more dynamic with a forecast 268 MW (previous year: 294 MW) of additionally constructed electric output.

2G's biogas business in Germany also participated fully in this growth. In the year under review, the company sold predominantly biogas driven combined heat and power systems in Germany as part of making existing biogas systems more flexible and boosting installed input. This dynamic demand trend derives from the restoration of legal and investment security from the 2017 EEG for existing systems, and from numerous CHP modules that 2G installed in the years from 2006, that have reached the end of their normal operating lives (approximately 60,000 operating hours, representing an average of eight years). Through the high level of its technology, system controls and grid integration capacity, 2G created the preconditions at an early stage to participate not only in the new biogas system business but also in investments in making systems more flexible.

Measured in terms of the annual expansion construction of biogas operated CHP modules, 2G significantly extended its market share in Germany to 27.3 % in the reporting year (previous year: 21.8 %). The company has also succeeded in rebuffing competitors thanks to superstructuring. These figures relate to forecast figures for 2018, status as of May 2018, which the German Biogas Association publishes annually on the overall market across all output classes.

Trend in 2G's market share in German biogas CHP market 2014 - 2018e

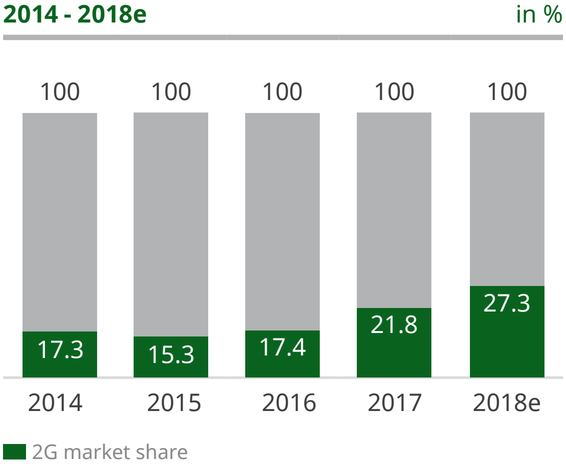

Diagram 6: Trend in 2G's market share in German biogas CHP market 2014 - 2018e for biogas operated CHP power plants across all performance ranges.
Source: 2G Energy AG, 2G calculations, German Biogas Association, May 2018

Biogas market abroad

In Europe, too, the number of biogas systems has failed to report any further significant growth over recent years, according to a survey by the European Biogas Association (EBA). Starting from 16,834 systems in 2014, just 949 systems (+5.6 %) were added up to 2017, including 351 in 2017. Over the same period, however, installed electric output has reported a considerable increase from 8,288 MW to 10,532 MW, representing 27 % growth. This trend reflects the superstructuring of existing plants as part of flexibilizing biogas-operated CHP systems with capacity expansions.

2G significantly increased its international presence in the year under review and acquired new customers. 2G can offer such customers service and replacement parts services through its own subsidiaries as well as through the partner network. This sustainably strengthens the company's competitive positions in the regions it addresses, and caters for continuous growth. France, in particular, contributed to this continuous growth in the year under review with new order intake for biogas plants amounting to EUR 13.2 million (previous year: EUR 6.5 million).

In the rest of Europe (excluding Germany and France), new order intake for biogas plants already amounted to EUR 11.6 million (previous year: EUR 6.9 million; +68 %). In the rest of the world, new order intake of EUR 13.7 million was also above the previous year's level of EUR 12.6 million.

Natural gas market trends in Germany and internationally

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

1. The net CO_2 emissions impact of natural gas is about 50 % more advantageous than that of coal or oil.

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

3. The existing natural gas infrastructure can be utilized well as a storage facility into which other gases such as hydrogen and methane can also be fed.

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

The rising supply of natural gas (LNG from shale gas from the USA and Canada) contributes to a liquid gas market worldwide and to natural gas prices at a permanently low level. Capacity will then reach around 165 billion cubic meters across the EU, equivalent to one third of the EU's annual gas consumption.

According to the German Federal Office of Economics and Export Control, the installed electrical output of natural gas-fired CHP plants in Germany, one of the world's best-developed CHP markets, rose by 386 MW (2016: +1,799 MW), based on preliminary 2017 figures. In the capacity range of the CHP modules produced by 2G from 50 kW to 2 MW, too, the rise in installed capacity in this period was reduced to 135 MW, which corresponds to only 27 % of the previous year's increase of 447.5 MW. For the year 2018, approval applications for new CHP plants with a total capacity of only 72 MW have so far been submitted to BAFA.

The background to this unsatisfactory market performance was the fact that new business for CHP plants operating on natural gas in Germany in the year under review was again characterized by a reluctance on the investor side. In particular, a lack of clarity about the structuring of the EEG mandatory levy on own electricity consumption for new CHP systems installed from August 2014 exerted a negative impact. The German Federal Cogeneration Association (B.KWK) cited an investment backlog. Overall, this made the planning basis considerably more difficult, leading to reticence among investors in the German market.

Despite this difficult market environment, 2G succeeded in growing new order intake from EUR 18.0 million to EUR 21.0 million. According to information from the Federal Office of Economics and Export Control (BAFA) on January 9, 2019, 2G expanded its market position in the German market for CHP systems operating on natural gas in its output range from 50 kW to 500 kW and increased its market share in a declining market to 28.2 %. Its average for the last five years stands at 24.2 %.

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

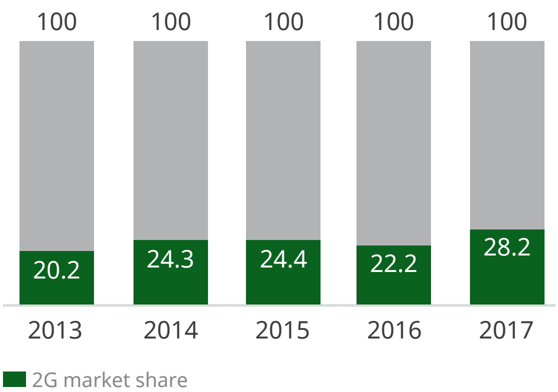

Diagram 7: Trends in 2G's market share in German CHP market 2013 - 2017 for natural gas operated CHP power plants in the core performance range > 50 - 500 kW. Source: 2G Energy AG; German Federal Office for Economic Affairs and Export Control (BAFA), March 2019

At EUR 21.8 million, new order intake for natural gas-fired plants in markets outside Germany was below the previous year's level (EUR 26.3 million). While 2G succeeded in significantly increasing the sales of natural gas-operated plants from EUR 2.6 million to EUR 9.1 million, especially in the UK, new order intake in the USA at EUR 7.2 million was significantly below the previous year's level (EUR 12.3 million, including a large individual order of EUR 5.8 million) and thereby also below the company's own expectations. 2G Energy Inc. failed to register a significant increase in demand until the second half of the year. 2G expanded its sales and service network in North America in the year under review. In addition to its headquarters in St. Augustine (Florida), the company has opened two new offices in Maryland, USA, and Ontario, Canada, in order to strengthen its market position and to provide closer support to customers and partners.

Natural gas prices remain at low level

Natural gas prices for sale to industry and power plants in Germany rose by around 10 % in the year under review. Prices for retail, commercial and housing products fell slightly compared with the previous year.

Gas price trends for industry, trade and commerce, power plants in Germany
(Index 2015 = 100)

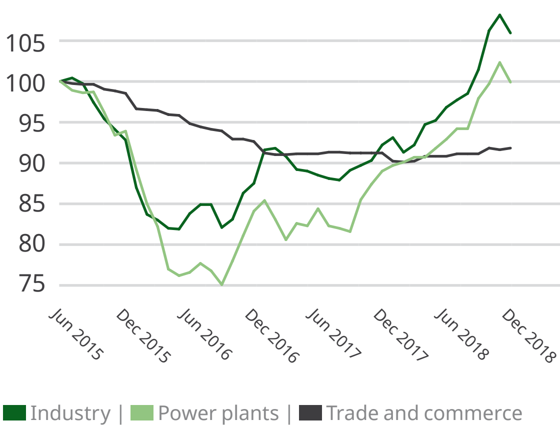

Diagram 8: Gas price trends for industry, trade and commerce, power plants (incl. the housing industry) 2015 - 2018 in Germany.
Source: German Federal Statistical Office, Development of Energy Prices, January 2019

Electricity prices rise further

Electricity prices for small and medium-sized industrial enterprises in Germany remain at a high level with a slight upward trend. They rose by around 0.5 % for medium-sized industrial companies compared with 2017, according to calculations of German Association of Energy and Water Industries (BDEW). Overall, the BDEW assumes an electricity price (including electricity tax) of 17.17 ct/kWh (previous year: 17.09 ct/kWh) for industry in 2018. Further increases in taxes, surcharges and levies imposed by the state also contributed to this development. Overall, it can be noted that electricity prices for medium-sized industry as an electricity consumer have risen further at a high level since 2011. No trend turnaround towards falling prices has been identifiable to date, including during the course of the current reporting year.

Average electricity price for industrial customers (incl. electricity tax) 2014 - 2018

Euro Cent per kWh

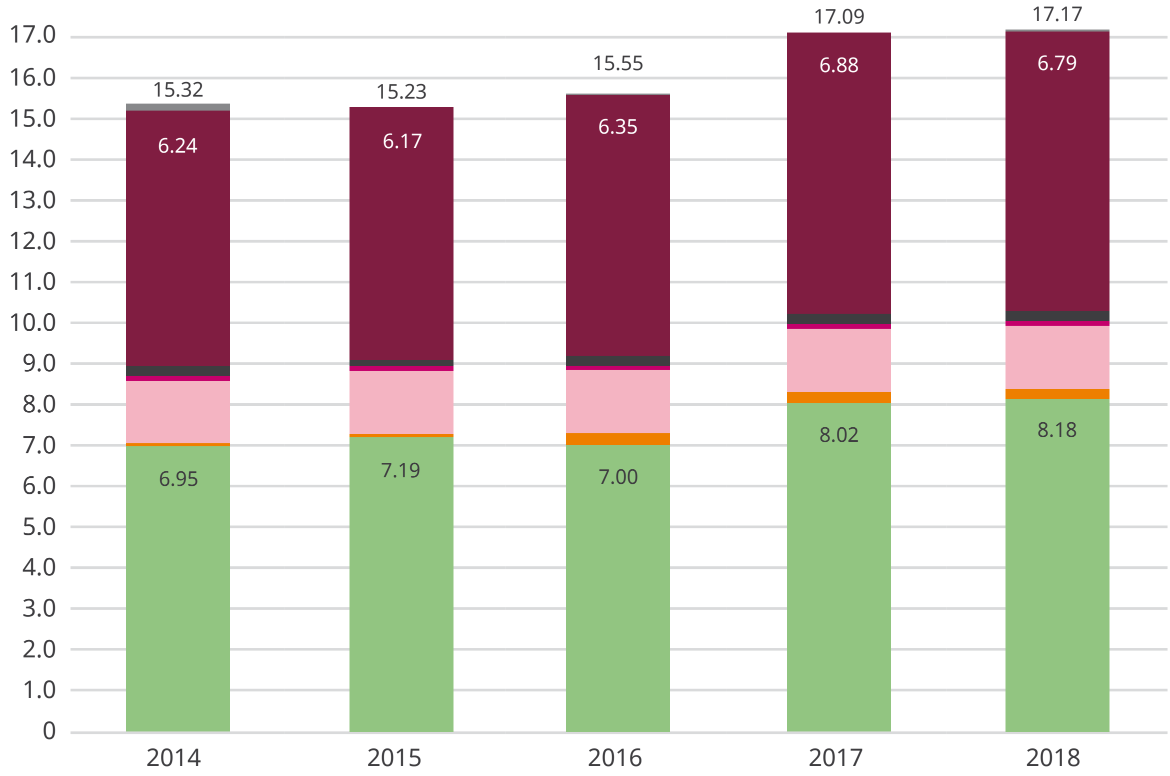

Diagram 8: Average electricity price for industry 2014 - 2018 (including electricity tax) in Germany in Euro Cent per kWh (annual consumption 160 to 20,000 MWh), medium voltage supplies (intake 100 kW/1,600 h to 4,000 kW/5,000 h).
Source: BDEW Electricity Price Analysis 2018, May 18, 2018

Spark spread remains at attractive level

In the markets of relevance for 2G, gas and electricity prices in 2018 developed beneficially in terms of the economic viability of 2G CHP power plants. Generally, potential 2G 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 stay with conventional energy supplies. In assessing this situation, the so-called spark spread is used as a basis. The experts at Delta Energy & Environment assume that market conditions start to become attractive for an investment given a factor greater than 3.0.

Spark spread ratios in the G7 countries 2014 - 2018

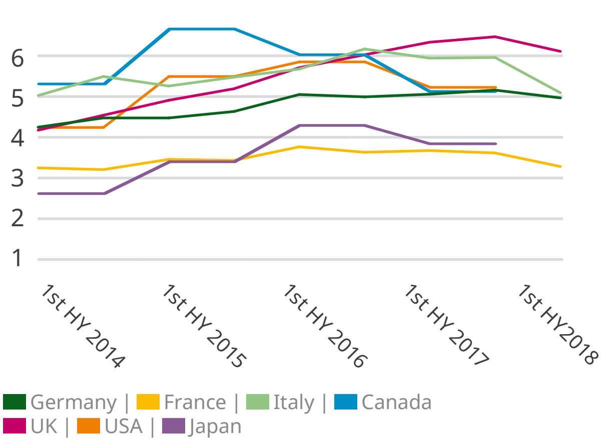

Diagram 10: Spark spread trends in the G7 countries, 2014 – 2018.
Source: German Federal Statistical Office, energy price trend data, December 2018; UK Department of Energy & Climate Change, Industrial Electricity & Gas Prices in the IEA, December 2018; 2G calculations

As shown by the graphical presentation of sparks spread trends in examples of markets 2G addresses, underlying conditions have improved considerably 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. Even in France, with its comparatively cheap nuclear power, the spark spread now stands at 3, which is an adequate level.

A change in these positive framework conditions is not foreseeable.

CO_2 must have a price

The energy sector is of outstanding importance for the reduction of greenhouse gases. According to the German Environment Agency (BUA), energy-related emissions (heat and power generation) accounted for around 94 % of CO_2 emissions in Germany in 2017. In order to achieve the climate protection targets, it is clear that low-CO_2 energy sources will have to become cheaper and CO_2-intensive energy yields more expensive. This would also increase the incentive for companies to invest in low-emission energy production technologies.

In November 2017, the EU agreed on a new regulation for EU emissions trading. The supply of CO_2 certificates is becoming scarcer. Firstly, due to the so-called market stabilization reserve, which enables the EU to withdraw up to 25 % of allowances from the market. Secondly, through the reduction of total CO_2 emissions by 2.2 % annually from 2021. These changes in circumstances have led to a marked pickup in prices for emission rights since mid-2017. According to the BDEW, the price at the end of May 2017 was still just over 4 EUR/tCO_2, but in May 2018 it traded at over 14 EUR/tCO_2, an increase of around 250 %. In December 2018 the price stood at 23 EUR/tCO_2. According to a study by investment bank HSBC, the price could rise to over 30 EUR/tCO_2 in 2019.

However, experts and even important business associations question the suitability of the measures to achieve the emission reduction targets. They agree that the transformation of the energy system will not be feasible without a CO_2 surcharge and the associated reform of the energy tax system. This is also the only way to effectively promote sector coupling, which is elementary both for climate protection (decarbonization) and supply security (storage). The advantage of a CO_2 levy would be that the respective technologies could play out their advantages via market-based mechanisms. Renewable energies, storage facilities, flexibility options and intelligent grids would pay for themselves in the medium term.

CO_2 certificate price trends in EUR

Diagram 11: CO_2 certificate price trends, EEX.
Source: www.finanzen.net/rohstoffe/co2-emissionsrechte, Leipziger Strombörse EEX

Regulatory environment in Germany

In December 2018, the German government created legal certainty for the privileged treatment of natural gas CHP systems commissioned after August 1, 2014, by means of the so-called Energy Collection Act (EnSaG). The German Renewable Energies Act (EEG) levy, reduced to 40 % for operators of highly efficient CHP systems for their own supply, was reintroduced retroactively to January 1, 2018. In addition, support for CHP plants, heating networks and storage facilities, which will be in continuous operation until the end of 2025, has been extended. Obviously the legislator wants to create further incentives for the development of combined heat and power generation. However, the extension is still subject to approval by the EU Commission. The planning and investment security thereby created for the next six years can help reinvigorate demand for natural gas operated CHP systems in Germany.

2G's fundamentally positive view of the provisions of the EEG 2017 for CHP plants operated on biogas continued in the year under review. Sales of biogas operated CHP systems in the German market have picked up considerably again. The focus was on repowering existing systems and making them more flexible. With the EEG 2014, the so-called flex cap was introduced and the subsidizing of the flexibilization of biogas systems – the flexibility premium – was limited across the whole of Germany to a total of 1,350 MW. Until December 2018 inclusive, 900.5 MW of the entire additional construction cap of 1,350 MW had been utilized. With the Energy Collection Act (EnSaG) passed at the end of 2018, a clear planning horizon was created for biogas plant operators that wish to make their plants more flexible. Although the flex cap is being lowered to 1,000 MW, entitlement to the flex premium will not end until sixteen months after the flex cap has been reached. This means that from the point in time at which the 1,000 MW cap is reached on the basis of the notifications to the Federal Network Agency, it is possible to apply for the flexibility premium for a further 16 months. Experts assume this cap will be reached in the summer of 2019 and that the subsequent waiting period will extend to the end of autumn 2020. During this time, theoretically unlimited approvals can be granted, making it possible to achieve as great a capacity increase as possible.

Foreword of the Management Board
Report by the Supervisory Board
2G Energy AG Share
Leading the way in the energy revolution
Financial year 2018
Group management report
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The year in overview

2G grows in the 2018 financial year, increases profitability and further expands its international business

With an order book position of EUR 95.9 million, 2G made a good start to the 2018 financial year. 2G continued to maintain this high level throughout the year under review thanks to a consistently high level of new order intake both in Germany and abroad. In Germany, 2G received orders mainly for biogas-fired CHP systems, well above the already high level of the previous year (EUR 79.7 million, +30 %). Orders for CHP systems operating on natural gas also increased by 17 % year-on-year – despite the long-standing uncertainty in connection with the adoption of the EnSaG – but remained at a comparatively low level at EUR 21.0 million.

2G achieved growth in foreign markets, some of which was significant. The performance in the UK was particularly pleasing, a market that 2G has entered via biogas-fired plants and in which new potential for natural gas-fired CHP systems was tapped in the year under review. Overall, new order intake in the UK amounted to EUR 10.4 million (previous year: EUR 4.1 million). The French subsidiary achieved the highest order intake abroad at EUR 14.5 million (previous year: EUR 9.9 million). Overall, new order intake abroad was up by around 14 % year-on-year (EUR 60.3 million, previous year: EUR 53.1 million). Growth was supported by the successful cooperation with sales and service partners worldwide as part of the partner concept. 2G thereby successfully further advanced its diversification strategy in the year under review. 2G has set itself the medium-term target of becoming a fully globalized CHP system manufacturer.

Along with the diversification in terms of gas types and sales markets, the service business is making a significant contribution to stabilizing sales revenues. In the year under review, 2G generated more than a third of its consolidated net sales from its service and spare parts business, generating stable and predictable cash flows that are largely independent of the economic and regulatory environment. This reflects not only the rising number of natural gas and biogas driven CHP systems, which are sold via the partner concept along with service contracts, but also the consistent digitalization of many service processes. The service structures, which have improved significantly over the past few years, are also strengthening the division in the long term. By moving into the new 6,000 m² service hall at the Heek site, 2G took a further step towards greater efficiency and customer satisfaction in the year under review.

In addition, with the significantly higher storage capacities now available, 2G can bundle the purchasing of components, better stock current spare parts and secure purchasing advantages and opportunities. All in all, this leads to a guarantee of availability and greater flexibility, and at the same time higher profitability on service.

At the end of November 2018, the Management Board of 2G Energy AG specified its forecast for the financial year for the EBIT margin at between 4 % and 5.5 % (previously: EBIT margin between 3.5 % and 5.5 %) and for consolidated net sales at between EUR 190 million to

2G Group turnover, order intake EBIT margin

EUR million
in %

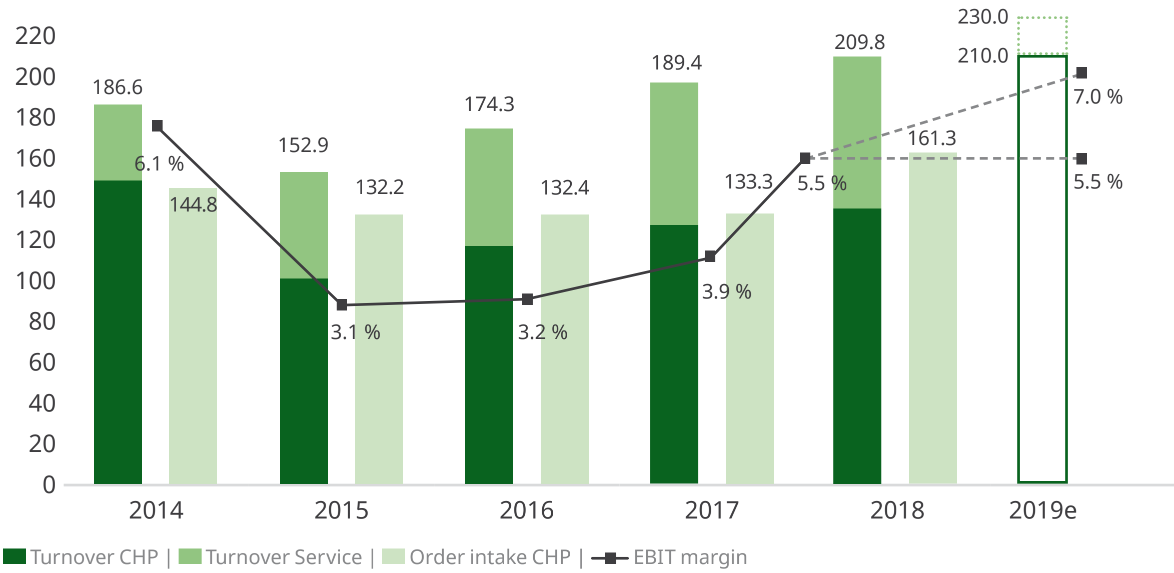


Diagram 10: Trends in sales, order intake and EBIT-Margin of 2G Energy AG 2014 - 2018 and the 2019 forecast.

EUR 210 million (previously: between EUR 180 million and EUR 210 million). Ultimately, the net sales target was reached at the upper end of the forecast and an EBIT margin of 5.5 % was achieved.

C. Results of operations

Net sales

2G achieves consolidated net sales of more than EUR 200 million for the first time

In the 2018 financial year, 2G generated consolidated net sales of EUR 209.8 million (previous year: EUR 189.4 million). The previous net sales record achieved in the previous year was thereby exceeded again (+10.8 %). Taking into consideration an increase in inventories of EUR 10.8 million (previous year: reduction in inventories of EUR 2.3 million) and own work capitalized of EUR 0.5 million (previous year: EUR 3.4 million), total output rose by 16 % to EUR 221.1 million (previous year: EUR 190.5 million).

Distribution of net sales

The following table shows the distribution of sales:

Composition of sales revenues and additional key indicators

	2018			2017		
	Germany	Abroad	Total	Germany	Abroad	Total
Net sales (EUR)	137.0	72.7	209.8	122.7	66.7	189.4
CHP systems	79.4	52.3	131.7	72.3	52.6	124.9
of which biogas	63.5	30.5	93.9	50.9	37.9	88.8
of which natural gas	16.0	21.8	37.8	21.4	14.7	36.1
Service	57.6	20.4	78.0	50.4	14.1	64.5
CHP systems Units	307	138	445	340	170	510
CHP systems Ø Value per unit (EUR/unit)	258,706	379,146	296,056	212,690	309,620	245,000
Electric capacity sold in kW			189,689			170,942
Electric capacity sold Ø kW per unit			426			335

Sales trends in 2018 were characterized by the following factors:

1. Net sales from services and from the sale of spare parts continued to outpace the overall rate of net sales growth, increasing by more than 20 % compared to the previous year. In total, the Service division generated 37 % of consolidated net sales.

2. Net sales generated abroad increased by 9 % compared to the previous year and thereby almost in line with the total net sales growth rate. Overall, 40 % of net sales were generated from the sale of CHP systems abroad. Both foreign sales partners and 2G subsidiaries contributed to this sales growth. The branch operations generating the highest sales were 2G Energy Ltd. (UK) with EUR 13.8 million (previous year: EUR 12.7 million) and 2G Energie SAS with EUR 13.1 million (previous year: EUR 4.3 million).

3. In Germany, as in the previous year, especially biogas plants were sold. All in all, their share of domestic sales amounted to 80 % (previous year: 70 %). This trend is attributable to the general conditions explained in the management report on page 41. By contrast, net sales of natural gas-fired plants abroad increased significantly compared with the previous year (+48 %), while sales of biogas-fired plants reduced (-20 %).

Group results

2G grew its earnings before interest and tax (EBIT) from EUR 7.3 million to EUR 11.5 million in the reporting year, corresponding to a 5.5 % EBIT margin (previous year: 3.9 %). The

EBIT margin thereby lies at the upper end of the communicated target range of 4.0 % to 5.5 %.

Despite an increase in inventories of EUR 10.8 million (valued at manufacturing costs in accordance with German Commercial Code [HGB] accounting principles), the cost of materials ratio rose only slightly from 66.6 % to 67.3 % compared with the previous year (inventory reduction of EUR 2.3 million). The personnel cost ratio was reduced substantially from 17.2 % to 16.0 %. The efficiency measures initiated as part of the "Lead to Lean" lead project consequently already exerted a direct positive impact on profitability in the past financial year.

Selling, operating, administrative and other expenses rose from EUR 21.0 million in the previous year to EUR 23.2 million, which was nearly proportional to the increase in net sales. While, in particular, expenses for tools and small equipment (TEUR 818, +78 %), travel expenses (EUR 2.1 million, +13 %) and the costs for outgoing freight (EUR 2.5 million, +39 %) increased, expenses for sales commissions (TEUR 647, 53 %) and for losses on receivables and expenses unrelated to the accounting period (TEUR 699, -30 %) were significantly reduced.

After a financial result of TEUR -525 (previous year: TEUR -369), essentially deriving from loan interest, guarantee commissions and a negative result from investments in associated companies (TEUR -130), as well as income taxes amounting to EUR 3.5 million (previous year: EUR 2.0 million), a consolidated net profit of EUR 7.6 million (previous year: EUR 4.9 million) remains.

D. Financial position

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

Consolidated cash flow statement

	31/12/2018	31/12/2017
	TEUR	TEUR
Consolidated net profit for the year	**7,608**	**4,923**
Depreciation and amortization	3,918	3,783
Change in provisions	1,521	1,314
Change in inventories	-2,153	-586
Change in trade receivables that are not allocable to investing or financing activities	-5,460	2,921
Change in trade payables and other liabilities that are not allocable to investing or financing activities	109	-1,061
Loss/gain from fixed asset disposals	12	-87
Miscellaneous	-680	1,638
Cash flow from operating activities	**4,875**	**12,845**
Cash flow from investing activities	**-5,936**	**-4,878**
Cash flow from financing activities	**-1,382**	**-2,114**
Liquid funds on December 31	**13,615**	**16,092**

Cash flow from operating activities decreased to EUR 4.9 million in 2018 (previous year: EUR 12.8 million) despite the rise in net profit. This is due, in particular, to a higher level of trade receivables (EUR +4.0 million). In the same period of the previous year, receivables reduced by EUR 1.4 million. The income tax payment (advance and subsequent payment) also had an impact of EUR 4.7 million (previous year: EUR 0.8 million).

In the year under review, a total of EUR 7.1 million was invested in tangible fixed assets (previous year: EUR 5.5 million), which consisted of the following items:

- EUR 4.0 million for the investments of 2G Energy AG in the new service building at the company's headquarters in Heek, Germany
- EUR 1.0 million for the investments of 2G Energietechnik GmbH in new vehicles, IT equipment, and operating and office equipment
- EUR 0.5 million due to investments realized by 2G Rental GmbH in CHP systems purchased for rental from 2G Energietechnik GmbH

- EUR 0.2 million for the conversion of the communication system to VoIP technology by 2G Energy AG

As part of its financing activities, financial liabilities of EUR 1.9 million were repaid as planned, while 2G Energy AG took out a loan of EUR 2.8 million in the year under review in order to refinance investments in the new service building.

In total, liquidity in the form of bank deposits amounted to EUR 13.6 million as of the balance sheet date. In addition, free credit lines with banks were, and are, available as required for guarantees, bonds, letter of credits and as a potential liquidity reserve. Free lines amounting to around EUR 23.0 million were available as of December 31. No significant changes occurred to lending conditions.

The detailed cash flow statement is presented on pages 98/99.

E. Net assets

Overview of 2G Group's net asset position:

Assets

	31/12/2018	31/12/2017
	TEUR	TEUR
A. Fixed assets	27,527	25,458
B. Current assets	93,656	88,816
C. Prepayments and accrued income	838	550
D. Deferred tax assets	2,776	1,435
Balance sum	**124,796**	**116,258**

Equity and liabilities

	31/12/2018	31/12/2017
	TEUR	TEUR
A. Equity	61,556	55,711
B. Provisions	17,170	15,513
C. Liabilities		
I. Bank borrowings	7,290	6,364
II. Other liabilities	38,779	38,671
Balance sum	**124,796**	**116,258**

Total assets were up by 7 % to reach EUR 124.8 million as of the December 31, 2018 reporting date. The following factors, in particular, contributed to this increase in total assets:

- Tangible fixed assets increased from EUR 20.7 million to EUR 22.8 million, partly due to investments in the new service building.
- Inventories rose from EUR 44.0 million to EUR 46.1 million as of the balance sheet date. Prepayments received on orders amounting to EUR 37.7 million (previous year: EUR 21.2 million) are openly deducted from inventories. Work in progress and finished goods valued at cost in accordance with the accounting principles of the German Commercial Code (HGB) rose from EUR 30.4 million to EUR 41.1 million. In addition, inventories of raw materials and supplies increased from EUR 31.4 million to EUR 38.3 million. The main reason for this is a higher stock of engines, which enables short delivery times and thereby competitive advantages.
- Trade receivables were up from EUR 27.9 million to EUR 31.9 million, in line with the net sales for the year as of the year-end.

Working capital – the difference between current assets and current liabilities – increased to EUR 36.5 million as of the balance sheet date (previous year: EUR 33.2 million).

As a result of the profit retention as of December 31, 2018, equity rose to EUR 61.6 million (previous year: EUR 55.7 million). As a consequence, the equity ratio increased from 47.9 % to 49.3 %.

Overall statement on the business situation

Business trends during the year under review proved to be very satisfactory overall. For the third consecutive year, 2G increased its net sales by more than 10 % year-on-year, as planned, and also boosted its operating earnings by more than one half. Combined with a high liquidity position, the stable equity ratio of almost 50 % forms the foundation for further growth. The Management Board is convinced that the company‘s profitability can continue to be enhanced sustainably in the near future thanks to its consistent pursuit of the strategic lead projects.

F. Group non-financial statement

2G integrates a Group non-financial statement into its annual report for the 2018 financial year in accordance with Section 315b of the German Commercial Code (HGB). This is done on a voluntary basis.

As an internationally active manufacturer and developer of combined heat and power systems based on gas engines, and as an SME, 2G thinks and acts with a long-term perspective. This applies to our product development, production and service as well as to corporate culture and employee development. Sustainable value creation comprises one of the basic pillars of our operating activities and corporate management.

Sustainability strategy

2G identifies and assesses business and societal topics systematically and at an early stage in order to integrate them into its management processes. We see sustainability as an opportunity to lead and develop the company through necessary and courageous changes. This helps us advance our existing business, exploit new business opportunities and minimize risks. In our strategic decisions, we strive to harmonize economic, ecological and social conditions and criteria for long-term, sustainable success in the best possible way, and to shape our products, services and corporate culture in accordance with them.

2G, as one of the internationally leading manufacturers of gas-driven combined heat and power systems, aims to be a technology leader. The highly efficient cogeneration of electricity and heating/cooling make CHP technology more efficient and more environmentally-compatible than conventional energy production methods. Compared to conventional power generation, it saves up to 40 % of primary energy while reducing CO_2 emissions by up to 60 % utilizing natural gas. It goes without saying that, for 2G, sustainability equally entails continuously improving its product characteristics, including the quality of gas mixtures, oil consumption and noise and exhaust emissions.

For example, 2G has developed a gas mixing plant for the continuous operation of sewage gas CHP plants with natural gas, thereby significantly enhancing economic feasibility and the attractiveness for clarification plant operators. 2G has adapted a standard natural gas cogeneration unit so that it can be deployed with 100 % hydrogen (H_2), virtually CO_2 emission-free, highly efficiently and with comparable economic efficiency to generate electricity and heat. By integrating standard components, we have readied the hydrogen-powered CHP for series production within a short development period.

In service, 2G consistently focuses on increasing efficiency through digital processes. These include the 2G Power Plant for remote diagnosis, remote control and remote maintenance. In the meantime, 70 % of the error messages are resolved online. Drawing on its IRIS software ("Intelligent Report Information System" platform) developed in the year under review, 2G intelligently evaluates and links up to 400 million plant and sensor values per week in real time. This allows logical conclusions to be drawn about the current and future behavior of CHP plants. Such information can be utilized in order to identify potential interruptions, initiate corresponding countermeasures and thereby prevent unplanned downtime and reduce physical on-site visits by our service technicians.

The major share of the Group is certified to the high standards of the ISO 14001 environmental management system. In addition, all locations in Germany have ISO 50001 energy management system certification. We continuously review and improve our processes as part of the integrated management system (IMS).

2G participates in Ökoprofit, a regional ecological project for integrated environmental technology. The aim of the project at the headquarters in Heek is to strengthen the sustainability of production through preventive environmental protection. At the same time, a contribution to the improvement of the environmental situation in the region is to be achieved. Central topics

Key sustainability figures

	2018	2017
Number of Group companies	**10**	**10**
of which with ISO 9001 quality management certificate	3	3
of which with ISO 14001 environmental management certificate	1	1
of which with ISO 50001 energy management certificate according	5	5
of which with OHSAS 18001 occupational health and safety management certificate	1	1
Consumption		
Electricity (kWh)	500,281	629,838
of which own production	500,281	629,838
Natural gas (kWh)	5,297,000	5,842,200
Water (m^3)	3,272	2,000
Waste (t)	582	202
of which recycled	506	150
Diesel (l)	625,000	770,000
Diesel (in equivalent kWh)	6,244,435	7,669,200
CO_2 emissions (t)	2,689	3,548
of which fleet (t)	1,630	2,002

include examining possibilities to reduce water and energy consumption, as well as waste, and material efficiency enhancement. These activities encompass identifying potential savings through environmental measures and raising employees‘ environmental awareness. 2G is combining this project with the development of an environmental management system according to EMAS and ISO 14001. In 2018, 2G completely converted its own energy supply to electricity from CHP plants.

Social commitment

2G perceives itself as a responsible member of society. For this reason, we play an active regional role and promote cultural and social projects. We support local sports associations and social facilities within the Münsterland region, for example. We also support employees in their social commitment, such as through flexible working time regulations. At our corporate location in Heek, we are committed to the professional integration of refugees. For example, we offer refugees the opportunity to complete internships and promote their German language skills through an in-house German course. As of August 1, 2019, we will once again employ a refugee as a trainee in the company. We also promote scientific exchange. For example, we offer students the possibility to write their seminar, bachelor or master dissertations in the context of 2G topics, and give them the opportunity to work in project groups as part of technician training.

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

Employees

As a medium-sized company, 2G is dependent on the commitment, knowledge and professional attitude of its more than 600 employees at home and abroad. Motivated and successful employees are crucial to the company's long-term success and performance.

The Group human resources department reports directly to the CFO and coordinates all personnel topics. These include a sustainable personnel policy, attractive and fair working conditions, the training of young technical staff, internal and external further training for staff as well as intercultural and technical communication within the Group. The aim is to achieve a high level of employee identification with our products, services and corporate culture.

Our trainees' results show, for example, that this is already successful at 2G in young professional years: five trainees from the 2018 graduation year were honored for special achievements in their final examinations. In addition, one of our apprentices in the Electronics Technician for Industrial Engineering training course was honored as the best in North Rhine-Westphalia by the 16 Chambers of Industry and Commerce. We have taken on all trainees as permanent employees.

2G supports its employees in a variety of ways in maintaining health and fitness. In the year under review, for example, the company joined the qualitrain corporate fitness program and supports the participating employees on a pro rata basis in monetary form. In addition, since mid-2018, all employees at the German sites have had the opportunity to receive 2G company bicycles via a salary conversion scheme, thereby benefiting not only from health benefits but also from tax advantages.

The compatibility of career and family is also becoming increasingly important for many employees and distinguishes an employer's attractiveness. In addition to flexible working time models and part-time positions, we grant employees a special payment when a child is born in order to partially cushion the additional material burden.

2G pursues the principles of the International Labor Organization (ILO) on labor and social standards. These globally applicable minimum standards aim to secure labor rights, in the sense of providing work in accordance with human dignity. In Germany, 2G complies with the regulations of the relevant trade associations and applies the principles of the occupational health and safety management system in accordance with OHSAS 18001.

We conduct employee surveys to identify potential improvements and to strengthen dialog within the company. The last survey was conducted in December 2017. The surveys aim to yield information, in order to develop employee-oriented solutions based on the results. Along with helpful improvement processes, this gives employees a voice with which they can contribute to positive improvement in their own working situation. 2G wishes to hereby foster employee trust and loyalty.

In daily work processes, we encourage employees at departmental level to actively participate with suggestions and ideas in order to leverage unexploited potentials and efficiency improvements.

Key employee data (as per end of the year)

	2018	2017
Employees	640	607
of which temporary help staff	70	55
Trainee/work experience students	42	33
Employees at foreign subsidiaries	116	107
Percentage of female employees	17.5 %	16.0 %
Age structure of employees in Germany	36.6	35.5
Employee turnover rate	7.2 %	4.3 %
Health ratio	96.8 %	96.7 %
Accidents per 100 employees	2.7	1.6

As of December 31, 2018, the employees were divided among the individual divisions as follows:

Number of employees per division

	Number of employees	Of which temporary help staff
Service	233	4
Purchasing, warehouse, production	159	13
Administration	84	39
Project management	63	3
Sales & marketing	61	9
Research & development	28	2
Quality management	12	0
Total	**640**	**70**

Research and development

For 2G as an innovative technology company, research and development (R&D) is of central importance and a driving force in the development of CHP modules and peripherals. The importance of R&D at 2G is underlined by its own subsidiary 2G Drives GmbH, which concentrates on engine and component optimization as well as the development of software for the digital control of systems. In the year under review, 2G invested EUR 5.2 million (previous year: EUR 6.9 million) in R&D for its systems in the core output range of 50 kW to 550 kW. Expenditure included development services for CHP system digitalization, the development of hydrogen operated CHP systems to be ready for series production, the further development of our new aura series, adaptation developments of our lambda technology to comply with the German Clean Air Act ("TA Luft") as well as for engine mechanics and test stands. Motivated and highly qualified employees are the most important resource for our R&D work. A total of 28 engineers and experienced technicians develop and test engine components, combustion processes, emission reductions and peripheral equipment under the most varied conditions.

In the year under review, a particular focus was on the development of components for exhaust gas avoidance and aftertreatment. With the approval of the 44th German Federal Immission Control Ordinance (BImSchV) on December 20, 2018, the task was to prepare the CHP modules technically for more stringent exhaust emission regulations. Strategically and technologically, 2G has positioned itself well in this area thanks to many years of research and development. These include, in particular, our Lambda-1 technology, which has been developed in-house, and the first proprietary 2G SCR exhaust aftertreatment system.

In component development, the focus continues to be on establishing the longest possible maintenance intervals for the 2G modules. Especially in the spark plug area, ever longer maintenance intervals are being achieved. The target is the "annual spark plug", a spark plug that does not need to be replaced or adjusted for a year.

2G has developed the IRIS (Intelligent Report Information System) software for predictive maintenance applications. Up to 400 million system and sensor values per week are intelligently evaluated and linked with each other in real time. This enables service providers and operators to automatically draw logical conclusions about CHP systems' current and future behavior, avoids unscheduled downtime and enhances system availability.

Through new and more efficient solutions, we aim not only to help our customers achieve lower energy costs but also reduce their ecological footprint in terms of their net energy impact. Secondly, we aim to conserve resources and structure processes more efficiently in the development and production of CHP systems and in the service work area. Our goal is to optimize and produce in terms of sustainability, so that our CHP plants produce energy for our customers in a highly efficient, economical and environmentally compatible manner.

G. 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. The acquisition, controlling, processing and analysis of detailed information on a timely basis is becoming an increasingly challenging task, given growing global business activities and a rising number of markets addressed, 2G locations, licensed service and sales partners, and employees.

Management of risk and opportunities

The Management Board, the managing directors of all 2G companies, and relevant department heads, are all defined as risk managers in the company-wide risk management process. These risk managers reappraise the areas that they manage and their risk situations at regular intervals, reporting identified risks to the next higher instance, or as part of regular Group-wide reporting duties. Significant changes in the assessment of known risks as well as new significant risks are reported immediately. Deliberate and controlled handling of opportunities and risks consequently comprises a central management element in the 2G Group. The Supervisory Board receives important key data for business trends and the risk evaluation as part of quarterly reporting. These include trends in new order intake and the order book position by country, key income statement data, liquidity planning and personnel development.

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

For 2G‘s business, the management has assessed the risks listed below as relevant for the company‘s further development, and measured them as to their event probability and loss level. This mainly entails listing risks 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 gaged as significant. The following risks were identified with risk factors, in declining order of significance, as of the reporting date and as of the date of the preparation of this management report, taking existing management and controlling measures into account: At the time of producing this report, the management was not aware of any risks that might jeopardize the 2G Group as a going concern.

Business-related risks

The total revenues and the results of the 2G Group are based on a large number of worldwide markets and different 2G products in varying performance classes, application areas and operating gas types. This diversification 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 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.

2G has developed and rolled out an extensive partner concept to keep as low as possible the company's own risks in the internationally growing CHP market as well as its level of capital employed. Partnerships both in Germany and abroad are thereby forming a central sales and service model, minimizing market entry and market establishment risks for the 2G Group.

The complexity of management tasks is increasing significantly in line with international growth. 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, capital market 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, 2G limits liability and loss risks in the countries where it operates through contractual agreements and insurance cover, whose type and scope are constantly adjusted in accordance with current requirements. Here, 2G can already 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.

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

Political and regulatory risks

As an internationally active company, 2G is exposed to political and regulatory changes in many countries and markets. In 2011, after the Fukushima nuclear accident, many countries‘ commitment to exiting nuclear power resulted in an active fostering of alternative and renewable energies. Due to economic crises or new political power consolations, however, the energy revolution is faltering in some countries. 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. It should be possible to reduce the potential negative impact by diversifying regional sales markets. Entry into developing markets and a withdrawal from saturated sub-markets are considered in the process.

Product quality, price and availability risks

As a manufacturer of complex technical systems, 2G is exposed to heightened product liability risks. Ongoing quality controls and documentation along the entire value chain minimize such risks. This starts with the qualification of suppliers and continues with comprehensive quality requirements for the materials and semi-finished products used, as well as long-term strategic cooperation in the case of preliminary products, and an HR policy that is strongly geared to qualification and quality consciousness. The capability to make deliveries and supplies delivered to deadline are an important competitive factor. On the purchasing side, risks arise from potential increases in raw materials prices. 2G sets 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, tax 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 utilization of 2G power plants, and in the case of operating receivables. Inherent credit and default risks are hedged as far as possible through a credit insurance policy that is in place. This also installs professional ongoing credit monitoring and debt collection. The risk of being able to sell them after the expiration of the corresponding contracts increases with the rental of the utilization of the property. The impact of the latently continuing Eurozone financial crisis continues to entail a heightened level of default risk in some countries. This potentially also affects countries to which 2G exports through its partner concept, where it has few empirical credit data. 2G consequently carefully checks all the positions of customers and trade partners in the specific related countries, and takes precautions against default risks where required. 2G minimizes these risks through its stringent prepayment policy. Only a few significant financial transactions entailing credit risk are concluded, and only with banks with good credit ratings. Moreover, the 2G Group has extremely good liquidity, which significantly reduces its dependency on lenders. As a matter of principle, however, it cannot be 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 positive credit ratings.

Latent tax and liability risks exist in the case of cross-border transactions (purchasing and selling), which can arise with formal offenses. Thanks to the requisite specialist knowledge in the relevant divisions, early and correct tax and legal allocation can be implemented, including involving external experts. Despite process-based precautions, erroneous assessments and processing errors cannot be excluded entirely. However, in order to reduce these as far as possible, a tax compliance system was developed in the year under review.

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 as it increases its international presence and business activities in different currency and interest rate regions.

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 exchange-rate hedged mainly through forward currency transactions.

Human resource risks

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

The regional talent markets relevant to 2G are characterized by intensive competition. Competition is additionally intensified by the scarcity of qualified specialists in the sectors in which 2G operates and by demographic challenges in global markets. As a consequence, recruiting and retaining qualified specialists and talents within 2G represents one of the key priorities for the company. 2G promotes the further training of its own employees and specialists and endeavors to already recruit staff at the stage that accompanies training. Potential improvements are identified through employee surveys, which are then implemented through specific measures. In addition, 2G offers its employees a catalog of voluntary social benefits in order to additionally boost its attractiveness as an employer.

IT risks

IT risks with an impact on operating results occur if data and information or processes are 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.

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

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

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

Environmental and safety risks

2G is a company maintaining production operations and is exposed to risks of possible personal injury, as well as damage to property and its reputation. 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 and occupational 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. Furthermore, 2G itself is interested in conserving resources and operates an energy management system certified according to 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 position derive especially from the growing internationalization of the operating activities. As shown above, a correlation exists between international growth and related risks. Net sales generated abroad grew by 9.0 %, from EUR 66.7 million to EUR 72.7 million. The complexity of the management task also increases as a consequence.

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 reporting years, while other measures described here were relaunched.

1. 2G is advancing its greater business involvement in the core foreign markets of North America, the UK, France, Italy, Eastern Europe, Japan and the rest of Asia, as well as expanding the 2G partner concept worldwide. In establishing its partner concept, 2G has relied on the possibilities offered by digitalization from the outset. With its comprehensive online platform “my.2-g.com”, the company provides all relevant information to its sales and service partners, as well as plant operators. An electronic 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 “Lead to Lean” project is gradually leading to a sustainable improvement in production processes. Among other measures, 2G has introduced a “Terminleitstufen” (“deadline guide steps”) concept, that is helping to smooth seasonality and stabilize all purchasing and production processes. In the year under review, the project materialized in the form of shorter delivery times, lower production costs and increasing product quality, and will be continued.

3. 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.

4. 2G is consistently advancing the technical further development of CHP modules. The new aura series for natural gas operation 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 the proprietary Lambda-1 technology of 2G. This technology is distinguished by low emissions and high heating efficiencies.

5. Further technical development also includes the block-type thermal power station developed by 2G itself, which is operated with pure hydrogen (H_2) and was ready for series production in the year under review. Technically, 2G‘s research and development has succeeded in adapting a standard natural gas CHP so that hydrogen is utilized to generate electricity and heat on an economically comparatively feasible basis as well as being highly efficient in operational terms and

generating almost no CO_2 emissions. 2G offers H_2 CHPs in the output range from 80 kW to 280 kW at prices similar to those for natural gas plants.

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

7. The development of overall conditions for the international energy sector is also increasingly supporting the business model of 2G in general. The world community agreed on a joint climate protection target in December 2015 in Paris. The measures to be derived at national (such as the decision to phase out coal in Germany by 2038) and international (such as the shutdown of numerous nuclear power plants in France) levels for energy generation support technologies and forms of generation that deliver efficiency gains, and considerably reduce resource consumption and greenhouse gas emissions. In other words, the establishment of energy production capacities from renewable energies is being encouraged. The intended reduction of coal as a primary energy source and the greatest source of greenhouse gases will also require technologies that ensure energy supplies in accordance with fluctuating renewables in terms of flexibility, supply security and economic efficiency. This represents one of the strengths of CHP technology from which great international potential demand can grow in the future.

8. The listing of 2G Energy AG in the “Scale” segment of the Frankfurt Stock Exchange creates transparency. 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. The flexibly controllable operation makes CHP systems an ideal partner for fluctuating energy sources, such as solar and wind. In consequence, combined heat and power generation represents an important building block in a global energy revolution.

H. 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 existing markets, tapping new markets and expanding its global market share on a profitable basis. To this end, we have launched three lead projects, which we are consistently pursuing: internationalization as part of the partner concept, digitalization and the “Lead to Lean” project. The following strategic guiding principles for growth and earnings can be derived from these projects:

- Tapping additional potentials through internationalizing sales of CHP systems and services, including integrating sales and service partners,
- Consistent digitalization of CHP engine control and service as well as maintenance services, thereby creating our own digital products as additional sales potential,
- Cost reductions while simultaneously increasing quality and capacity through an optimized process structure across the entire value chain.

These guiding principles will continue to determine business activities over the coming years. To supplement its positioning as a technologically leading developer and producer of CHP systems, 2G aims to increasingly establish itself as a supplier of CHP systems that can be integrated and controlled digitally for high-end balancing energy operation. 2G regards itself as a service provider and product partner in the context of customers‘ energy management concepts. 2G is thereby positioning itself in the high-growth international energy market as a flexible provider of highly efficient CHP power plants and energy generation solutions.

Future macroeconomic situation

In its 2018/2019 economic forecast presented in March 2019, the German Council of Economic Experts (GCEE) assumes that the pace of growth for the global economy will slow significantly over the next two years. The GCEE expects GDP growth of 2.7 % and 2.8 % for 2019 and 2020, respectively, after 3.2 % in the year under review.

Weaker economic trends are also becoming apparent in the Eurozone. For 2019, the GCEE expects the GDP growth rate in the Eurozone to be 1.2 %, thereby below the level of the year under review (1.8 %), and to improve only slightly to 1.4 % in 2020.

The pace of expansion of the German economy has slowed noticeably. On the demand side, according to the GCEE, this mainly reflects significantly weaker export demand from important foreign markets. For the years 2019 and 2020, the GCEE consequently expects GDP to increase by 0.8 % and 1.3 %, respectively, after 1.4 % in the year under review.

The forecasts for Germany, the Eurozone and the global economy are subject to very high risks in relation to further economic trends, according to the GCEE. These include, in particular, the uncertain outcome of Brexit, the unresolved trade conflicts between the USA, China and Europe, and the risk of a sharper than expected slowdown in growth in China.

Future sector situation

In its International Energy Outlook (IEO) 2018, the IEA indicates that major changes are currently occurring in the global energy sector. These include increasing electrification, the expansion of renewable energies and the globalization of natural gas markets. In a baseline scenario ("Current Policies"), the IEA expects energy demand to grow by 25 % by 2040. This would require an annual investment of USD 2 trillion in new energy offerings.

In the electricity markets, renewable energies have become the technology of choice, and will account for almost two thirds of global capacity expansion by 2040. According to the IEO, this is mainly thanks to falling costs and a supportive funding policy. The global electricity mix will change: the share of renewables in generation can rise from 25 % today to over 40 % by 2040, although coal and gas remain being the dominating sources. Given the greater variability of supply, energy systems must make flexibility the cornerstone of future electricity markets in order to ensure supply security. The problem is becoming increasingly urgent as countries around the world rapidly increase their share of photovoltaics and wind, requiring market reforms, grid investments and the improvement of demand and control technologies such as smart meters and storage technologies. Figure 13 illustrates the dynamics, particularly with regard to the sustainable development scenario.

According to the IEO, the share of renewable energies in the global heating supplies increases by five percentage points to 15 % until 2040. Around 60 % of this increase is expected to take place in China, the European Union, India and the United States, which are already the largest consumers of heat from renewable energies.

Internationalization forms a central element of our growth strategy

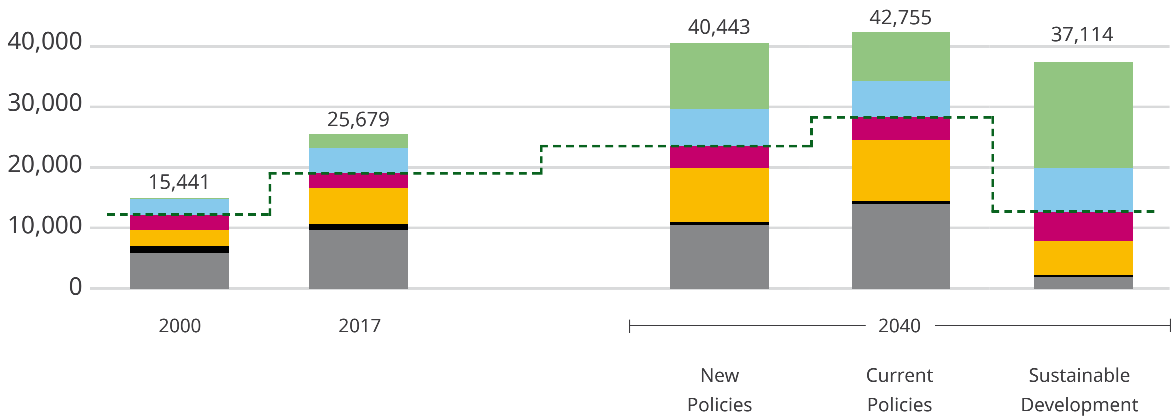
2G regards itself as well positioned internationally for future market growth with its expanding international presence with its own subsidiaries, and with its sales and service partners as part of the partner concept.

The brisk new order intake in 2018 and in the first quarter of 2019 from the subsidiaries and licensed partners confirms this. Over the coming years, we will continuously expand our national and international distribution channels as part of our partner concept.

With digitalization, we are setting international quality and performance standards

Over the coming years, we will continue to fulfill our commitment to being a technology leader, implementing innovations in digital applications for systems, service and internal processes. Digitalization offers far-reaching opportunities to not only automate processes but also individualize products. We will actively exploit such opportunities to enhance system efficiency and availability as well as to reduce ongoing operational and service costs for our customers. Sales and service partners and, above all, plant operators benefit from the digitally oriented plant management thanks to high plant availability and, as a consequence, cost-effectiveness, regardless of whether the

Scenario analysis of global power generation until 2040 in TWh



Coal | Oil | Gas | Nuclear | Hydro | Other renewables

Diagram 13: Scenario analysis of global power generation until 2040.
Source: International Energy Agency, World World Energy Outlook 2018

New Policies: Shows how the energy system could develop on the basis of current policies and plans announced until August 2018.

Current Policies: Based on an unchanged energy and climate policy framework, i. e. it only takes into account the legally binding regulations that came into force by mid-2018.

Sustainable Development: Describes an integrated approach to achieving the energy-related aspects of the UN's sustainable development objectives, i. e. determined climate action in line with the Paris Climate Agreement (limiting temperature increase to less than 2 degrees Celsius), universal access to modern energy by 2030 and drastic reductions in air pollution. These are the three areas where development in the New Policies scenario is lagging behind.

CHP system produces energy in China, Malaysia, Canada or Germany.

We are gradually implementing our "Lead to Lean" projects

As part of the "Lead to Lean" lead project, 2G, with the help of an external management consultancy, has developed a "Terminleitstufen" ("deadline guide steps") concept that successively leads to the consolidation of all procurement and production processes. We expect the establishment of the deadline guide steps concept to make further positive contributions to earnings in the future, including the necessary capacity expansion to cope with the internationalization strategy. The conversion to industrial processes is accompanied by the introduction of shop floor management elements. As part of this initiative, we are investing, in particular, in the training of our operational managers in order to enable them to manage in situ where value is being created.

As a further important element in the implementation of the lean philosophy, we have analyzed the operational processes and our cooperation with suppliers in engine procurement and production from a lean perspective, and derived and, in some cases, already introduced numerous measures, particularly in relation to quality.

Overall, we will see further significant and sustained improvements in delivery times, costs, capacities and product quality in the coming years.

Recovery in the German natural gas CHP market foreseeable

In its report presented at the end of January 2019, the so-called German Coal Commission recommended a way in which the system could be restructured in order to realize a successful energy revolution. From 2G's point of view, we can state that the relevance of CHP systems for electrical supply security, heat generation and climate protection is recognized. The report recommends the creation of adequate and long-term framework conditions for CHP systems and the further development of CHP systems into modern, flexible electricity and heat systems. In addition, the further conversion from coal to gas cogeneration is to be made more attractive and innovations for compatibility with green gases are to be promoted. The framework conditions for the promotion of new heating grids and the adaptation and transformation of existing heating grids are also to be created. To this end, the Commission recommends reforming the Renewable Energies Act (EEG) and the German Cogeneration Act (KWK-G) and extending them until 2030.

Firstly, the German Energy Collection Act passed at the end of 2018 has created a welcome regulation for the further flexibilization and superstructuring of energy production in existing biogas plants. Secondly, the reduced EEG levy for CHP systems operated on natural gas, which were and will be put into operation after August 1, 2014, has also been reinstated. Both regulations create planning and investment security. We expect business in Germany to pick up, particularly in the natural gas CHP systems. Business with biogas CHP systems should remain at a high level in 2019.

2G expands sales and service activities in North America

2G is still optimistic for the North American market, because the spark spread, in other words, the difference between gas and electricity prices, indicates very good conditions for CHP system profitability in many regions of the continent. In 2018 the company consequently opened two new offices in the states of Maryland (USA) and Ontario (Canada) in order to strengthen its market positioning and to provide closer support to customers and partners.

From 2G's point of view, the North American market offers annual sales potential of between EUR 40 million and EUR 60 million in the medium term. Currently, demand in North America is particularly strong for natural gas-fired CHP systems.

Asia

In the Asia-Pacific region, according to a study by GlobalData, demand for CHP capacities will continue to rise, with an increase of more than 20 % to 1,050 GW expected by 2025. The study notes that governments are strongly committed to a cleaner energy mix and support the development of such technologies through a variety of support measures and R&D initiatives. In China, for example, the utilization of gas-fired cogeneration units is subsidized. By 2020, 12 GW biomass CHP units are to be installed. The study concludes that the regulatory framework and policy structures to support CHP technology in the different regions and countries have already started a dynamic trend and will help to maintain growth in the coming years, including from the perspective of supply security and climate change mitigation.

Expected sales and earnings trends

Our very well-filled order books at the beginning of 2019, our growing service business, the steadily materializing positive results of our three lead projects and a globally positive demand trend prompt the Management Board to be confident that the current financial year will again report a solid business performance. With a surplus of EUR 131.5 million from the previous year (EUR 95.9 million) and brisk demand in the first quarter of 2019, the company got off to a good start in the current year, although it was slightly below the very high level of the previous year, which was characterized by a special boom in the German biogas market. Also against the background of a further increase in sales from the Service business, the Management Board expects to generate net sales in the range between EUR 210 million and EUR 230 million for the 2019 financial year. The earnings forecast for the 2019 financial year envisages an EBIT margin of 5.5 % to 7.0 % and thereby a higher range than in previous years. The Management Board is confident that cost discipline, efficiency measures from the lead projects and margin contributions from the Service business will further improve the Group‘s profitability over the coming years.

Heek, April 29, 2019

Christian Grotholt
Management Board Chairman (CEO)

Ludger Holtkamp
Management Board member

Friedrich Pehle
Management Board member

2G. Consolidated financial statements.

Consolidated balance sheet of 2G Energy AG

Assets

	31/12/2018 Euro	31/12/2017 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	537,592.07	656,384.19
Goodwill	3,257,758.66	4,051,857.78
Prepayments rendered	9,333.00	7,533.00
	3,804,683.73	**4,715,774.97**
II. Tangible fixed assets		
Land, land rights and buildings, including buildings on third-party land	12,711,333.72	8,078,427.62
Plant and machinery	1,081,672.01	1,142,609.50
Other factory and office equipment	8,973,175.69	10,723,450.80
Prepayments rendered and plant under construction	64,720.95	787,296.07
	22,830,902.37	**20,731,783.99**
III. Financial fixed assets		
Participating interests in associated companies	881,030.44	0.00
Other participating interests	10,000.00	10,000.00
	891,030.44	**10,000.00**
	27,526,616.54	**25,457,558.96**
B. Current assets		
I. Inventories		
Raw materials and supplies	38,341,343.64	31,404,343.59
Work in progress	41,146,465.40	30,400,090.36
Finished goods and merchandise	0.00	887,018.54
Prepayments rendered	4,320,388.12	2,448,480.75
Prepayments received for orders	-37,689,584.15	-21,173,864.40
	46,118,613.01	**43,966,068.84**
II. Receivables and other assets		
Trade receivables	31,891,190.00	27,881,499.50
Receivables due from participating interests	322,038.29	0.00
Other assets	1,691,341.10	851,052.60
	33,904,569.39	**28,732,552.10**

Assets

	31/12/2018	31/12/2017
	Euro	Euro
III. Cash in hand, bank balances	**13,632,458.25**	**16,117,059.21**
	93,655,640.65	**88,815,680.15**
C. Prepayments and accrued income	**837,847.07**	**550,226.69**
D. Deferred tax assets	**2,775,782.08**	**1,434,819.61**
Total	**124,795,886.34**	**116,258,285.41**

Equity and liabilities

	31/12/2018	31/12/2017
	Euro	Euro
A. Equity		
I. Subscribed share capital	4,430,000.00	4,430,000.00
II. Capital reserve	11,235,300.00	11,235,300.00
III. Other retained earnings	40,299,580.49	40,299,580.49
IV. Consolidated net income	5,835,705.09	178,735.80
V. Minority interests	662,602.70	572,562.47
VI. Equity difference from currency translation	-907,255.47	-1,005,335.70
	61,555,932.81	**55,710,843.06**
B. Provisions		
Tax provisions	2,821,619.73	2,685,679.26
Other provisions	14,348,780.41	12,827,280.96
	17,170,400.14	**15,512,960.22**
C. Liabilities		
Bank borrowings	7,290,399.38	6,363,971.09
Prepayments received for orders	21,429,055.25	23,347,059.73
Trade payables	10,631,818.53	10,091,987.92
Other liabilities	6,718,280.23	5,231,463.39
	46,069,553.39	**45,034,482.13**
Total	**124,795,886.34**	**116,258,285.41**

Consolidated profit and loss account of 2G Energy AG

	01/01/ to 31/12/2018 Euro	01/01/ to 31/12/2017 Euro
Net sales	**209,782,529.63**	**189,404,149.19**
Increase/decrease in work-in-progress and finished goods	10,834,452.53	-2,307,389.81
Other own work capitalized	532,430.56	3,397,240.93
	221,149,412.72	**190,494,000.31**
Other operating income	1,764,175.69	1,302,582.10
	222,913,588.41	**191,796,582.41**
Cost of materials		
a) Costs of raw materials and supplies, and for purchased merchandise	120,228,940.11	100,693,429.63
b) Costs of purchased services	28,509,611.62	26,128,728.14
	148,738,551.73	**126,822,157.77**
Personnel costs		
a) Wages and salaries	29,451,816.08	27,351,282.22
b) Social security, pension and other benefits	5,857,901.81	5,319,020.66
	35,309,717.89	**32,670,302.88**
Depreciation and amortization applied to tangible and intangible fixed assets	3,917,683.47	3,783,377.45
Other operating expenses	23,189,625.62	20,954,731.91
Income from associated companies	-130,339.66	0.00
Income from other participating interests	200.00	0.00
Other interest and similar income	59,563.72	48,308.33
Interest and similar expenses	454,685.67	417,450.37
Taxes on income	3,450,478.81	2,040,589.33
Profit after taxes	**7,782,269.28**	**5,156,281.03**
Other taxes	174,659.76	233,492.21
Consolidated net profit/loss for the year	**7,607,609.52**	**4,922,788.82**
Share of net profit/loss attributable to other shareholders	-90,040.23	83,884.78
Consolidated net profit/loss	**7,517,569.29**	**5,006,673.60**
Retained earnings	178,735.80	37,243,642.69
Dividend payment	-1,860,600.00	-1,772,000.00
Allocation to other retained earnings	0.00	-40,299,580.49
Consolidated net retained earnings	**5,835,705.09**	**178,735.80**

Derivation of EBIT

		01/01/ to 31/12/2018 Euro	01/01/ to 31/12/2017 Euro
	Consolidated net profit/loss for the year	**7,607,609.52**	**4,922,788.82**
+	Taxes on income	3,450,478.81	2,040,589.33
+	Interest and similar expenses	454,685.67	417,450.37
−	Other interest and similar income	59,563.72	48,308.33
=	**Earnings before interest and tax**	**11,453,210.28**	**7,332,520.19**

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 organized market.

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

2. Line of business

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

3. Accounting policies

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

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

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

B. Consolidation methods

1. Consolidation scope and shareholdings

The following financial statements are included in the consolidated financial statements of 2G Energy AG (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	3,486	627	24/03/2010
2G Home GmbH, Heek, Germany	100	125	574	2,298	31/12/2007
2G Rental GmbH, Heek, Germany	100	50	-75	35	31/12/2014
HJS Motoren GmbH, Amtzell, Germany	50	25	420	403	01/07/2018
2G Solutions of Cogeneration S.L., Vic Barcelona, Spain	90	3	-536	-55	31/01/2008
2G Energie SAS, Sainte-Luce-sur-Loire (Nantes), France	100	200	293	117	24/08/2016
2G Italia Srl, Vago di Lavagno (Verona), Italy	100	10	634	141	15/03/2011
2G Energy Ltd., Cheshire, United Kingdom**	100	1	190	-247	19/09/2011
2G Polska Sp. z o.o., Bielsko-Biala, Poland**	100	1	-58	36	07/11/2011
2G Energy Inc. St. Augustine (FL), USA**	100	1	764	-1,567	27/02/2012

* A control and profit assumption agreement has been in place with 2G Energietechnik GmbH since July 5, 2007
** 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.

In the financial year, 2G Energy AG acquired 50 % of the shares in HJS Motoren GmbH. The object of the subsidiary HJS Motoren GmbH is the development, sales and service of combustion engine systems.

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

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

The following subsidiary is not included in the consolidated financial statements due to its minor significance for providing a true and fair view of the net assets, financial position and results of operations of the consolidated financial statements:

2G Energy Corp. was newly founded by 2G Energy AG in the financial year and did not carry out any operating activities in the 2018 financial year.

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, 2018 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

Subsidiary company

	Interest in %	Subscribed capital in TEUR	Equity in TEUR	Profit/loss for year in TEUR	Initial consolidation
2G Energy Corp., Fergus (ON), Canada	100	0	0	0	02/11/2018

capitalized and amortized, as it applies to the core business of 2G Energy AG, straight-line over a prospective 20-year useful life pursuant to Section 309 (1) of the German Commercial Code (HGB).

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

Consolidation of liabilities

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

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.

Equity valuation

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

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

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

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

C. Information about accounting policies

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

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

Valuation methods were applied unchanged compared with the previous year.

Valuation details are as follows:

1. Intangible fixed assets

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

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 3,755 (previous year: TEUR 5,991) of rental plants from the operating activities of 2G Rental GmbH.

Participating interests in associated companies include a difference between the book value and the equity of the associated company in the amount of TEUR 663 (previous year: TEUR 0), which is attributable in full to the acquired goodwill.

2. Receivables and other assets

Specific and general valuation allowances of TEUR 4,458 (previous year: TEUR 3,071) were applied to trade receivables.

Receivables due from participating interests relate to trade receivables in full.

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

3. Deferred tax assets

Deferred tax receivables of TEUR 2,776 (previous year: TEUR 1,435) arise from tax loss carryforwards (TEUR 77) at 2G Rental GmbH, 2G Energy Ltd. and 2G Polska Sp. z o.o. No deferred tax assets were formed in relation to the loss carryforwards of 2G Solutions S.L., 2G Italia Srl. and 2G Energy Inc. due to their having generated net losses in previous years. In this context, a cautious approach was adopted that does not take into account positive expectations arising from current structural changes. In addition, deferred taxes were formed in relation to eliminated intragroup gains on fixed assets (TEUR 1,082) and inventories (TEUR 1,428) deriving from intragroup deliveries and services as of the balance sheet date, and on temporary differences (TEUR 189). These temporary differences arise mainly from recognizing differing valuations for inventories and provisions in the financial statements and in the tax accounts.

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

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

4. Consolidated equity

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

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

In a resolution passed at the Annual General Meeting on July 8, 2015, the Management Board was authorized to increase the company‘s subscribed share capital during the period until

July 7, 2020, with Supervisory Board approval, once or on several occasions, by up to a total of TEUR 2,215 by issuing new shares against cash or non-cash capital contributions (Approved Capital 2015).

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

An amount of TEUR 43,360 is available to shareholders for distribution in the year under review. No restricted amounts that cannot be distributed exist in the separate financial statements of 2G Energy AG.

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

5. Other provisions

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

Other provisions, in TEUR

	31/12/2018	31/12/2017
Warranty commitments	6,177	6,080
Residual work on completed plants/outstanding invoices	4,586	3,924
Amounts owed to staff	1,865	1,408
Taxable fringe benefits	872	872
Professional cooperative contributions	292	229
Costs of preparing and auditing financial statements	154	133
Litigation costs	80	65
AGM and annual report	49	47
Archiving of business documents	19	29
Misc. other provisions	255	46
Total	**14,349**	**12,827**

6. Liabilities

Liabilities consist of the following:

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

	< 1 year	> 1 year	of which > 5 years	Total
Bank borrowings	1,219 (1,468)	6,071 (4,896)	2,151 (1,314)	7,290 (6,364)
Prepayments received for orders	21,429 (23,347)	0 (0)	0 (0)	21,429 (23,347)
Trade payables	10,632 (10,092)	0 (0)	0 (0)	10,632 (10,092)
Other liabilities	6,718 (5,231)	0 (0)	0 (0)	6,718 (5,231)
Total	**39,998 (40,138)**	**6,071 (4,896)**	**2,151 (1,314)**	**46,070 (45,034)**

The following collateral instruments are connected with bank borrowings:

- EUR 2.8 million land charge, Siemensstrasse 20, Heek
- EUR 2.63 million land charge, Benzstrasse 3, Heek
- EUR 0.31 million land charge, Siemensstrasse 10, Heek
- Collateral assignment of the lease claims which relate to tangible fixed assets

Other liabilities comprise tax liabilities of TEUR 4,251 (previous year: TEUR 2,597), and social security liabilities of TEUR 93 (previous year: TEUR 91).

E. Notes to the consolidated profit and loss account

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

1. Net sales

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

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

	Germany	Abroad	Total
CHP systems/ After Sales	79,426 (72,315)	52,322 (52,635)	131,745 (124,950)
Service	57,614 (50,361)	20,424 (14,093)	78,038 (64,454)
Total	**137,037 (122,676)**	**72,746 (66,729)**	**209,783 (189,404)**

2. Other operating income

Other operating income comprises TEUR 624 (previous year: TEUR 651) of income related to other accounting periods that consists mainly of insurance compensation payments and loss compensation payments (TEUR 345) and the release of provisions (TEUR 202).

Other operating income includes income of TEUR 202 (previous year: TEUR 53) from currency translation.

3. Other operating expenses

Other operating expenses consist of the following:

Other operating expenses, in TEUR

	2018	2017
Operating expenses	7,333	6,046
Administration expenses	3,234	3,086
Sales and marketing expenses	6,257	6,050
Miscellaneous	6,366	5,773
Total	**23,190**	**20,955**

Other operating expenses comprise TEUR 1,802 (previous year: TEUR 1,055) of expenses related to other accounting periods that consist mainly of non-period credits and losses incurred on receivables.

Other operating expenses include expenses of TEUR 295 (previous year: TEUR 794) from currency translation.

4. Personnel costs

Social security contributions and pension and benefit expenses include TEUR 401 (previous year: TEUR 315) of pension expenses.

5. Depreciation

Depreciation and amortization applied to tangible and intangible assets include amortization of goodwill in the amount of TEUR 794 (previous year: TEUR 569), which is attributable to unscheduled impairment losses of TEUR 225 (previous year: TEUR 0). Impairment depreciations were made on the remaining goodwill of 2G Home GmbH, as the company is currently not conducting operating businesses. The remaining business activities of the company were taken over by 2G Energietechnik GmbH in the reporting year.

6. Income from associated companies

Income from associated companies consists of the following:

Income from associated companies, in TEUR

	2018	2017
Partial result	201	0
Depreciation of goodwill	-331	0
Total	**-130**	**0**

7. Other interest and similar income

Other interest and similar income include income from the discounting of provisions in the amount of TEUR 8 (previous year: TEUR 12).

8. Taxes on income

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

Income from deferred taxes, in TEUR

	2018	2017
Deferred tax income	1,500	472
Deferred tax expenses	-159	-0
of which attributable to loss carryforwards (net balance)	-159	7
Income from deferred taxes	**1,341**	**472**

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 17 (previous year: TEUR 25).

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

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

3. Events of key significance after the reporting date

After the balance sheet date, no events occurred that are material to the assessment of the net assets, financial position and results of operations of the company.

4. Derivative financial instruments

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

Financial instruments, in TEUR

	Scope	Maturity	Fair value
Forward exchange transaction EUR – USD	984	16/01/2019	-24
Forward exchange transaction EUR – USD	678	31/01/2019	-25
Forward exchange transaction EUR – USD	396	15/03/2019	-15
Forward exchange transaction EUR – USD	181	29/03/2019	-3
Forward exchange transaction EUR – GBP	167	30/04/2019	-2
Forward exchange transaction EUR – USD	288	30/04/2019	-3
Forward exchange transaction EUR – GBP	285	15/05/2019	-4
Forward exchange transaction EUR – USD	418	15/05/2019	-1
Forward exchange transaction EUR – GPB	395	24/05/2019	-2
Forward exchange transaction EUR – USD	807	29/05/2019	-36
Forward exchange transaction EUR – GPB	883	31/05/2019	-18
Forward exchange transaction EUR – USD	1,906	31/07/2019	-40
Forward exchange transaction EUR – USD	753	15/08/2019	-24
Forward exchange transaction EUR – USD	122	15/08/2019	-4
Forward exchange transaction EUR – GBP	881	30/08/2019	-23
Forward exchange transaction EUR – GBP	721	30/09/2019	-8
Forward exchange transaction EUR – USD	197	29/11/2019	-6
	10,061		**-239**

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

5. Contingent liabilities

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

6. Other financial obligations

Other financial obligations existed in relation to contracts as follows:

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

	< 1 year	1 - 5 years	Total
Permanent rental contracts*	369 (308)	0 (0)	369 (308)
Fixed-term rental contracts	125 (125)	157 (157)	282 (282)
Lease contracts	186 (106)	145 (156)	331 (262)
Total	**680** **(539)**	**313** **(354)**	**983** **(852)**

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

7. Average number of employees during the financial year

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

Number of employees

	2018	2017
Wage earners	326	303
Salaried staff	301	303
	627	**606**
of whom part-time employees	67	54

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	16/07/2022
Mr. Ludger Holtkamp Gronau COO of 2G Energy AG Procurement, Production, Project Management	17/07/2007	16/07/2022
Mr. Dipl.-Betriebsw. (BA) Friedrich Pehle Soest CFO of 2G Energy AG Finance, Human Resources, Law, Investor Relations	01/12/2017	30/11/2020

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 2021 financial year.

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

10. Directors‘ compensation

Compensation of TEUR 786 (previous year: TEUR 660) was paid to the Management Board in the financial year under review, and compensation of TEUR 30 (previous year: TEUR 30) to the Supervisory Board.

11. Auditor‘s fee

Other operating expenses include the fees expensed for the auditor of the financial statements. The auditor‘s fees totaled TEUR 122 (previous year: TEUR 138) and is composed as follows:

Auditor's fee, in TEUR

	2018	2017
Audit services	91	91
Tax advisory services	0	3
Other consultancy services	9	28
	100	**122**

12. Proposed appropriation of profits

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

The unappropriated profit of EUR 15,515,201.00 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 10,370,856.30 for the year and EUR 5,144,344.70 of net retained profits, are to be distributed in an amount of EUR 1,993,500.00, and to allocate in an amount of EUR 13,521,701.00 to other retained earnings.

13. Exemption rules

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

Heek, April 29, 2019

Christian Grotholt
Management Board Chairman (CEO)

Ludger Holtkamp
Management Board member

Friedrich Pehle
Management Board member

Consolidated statement of changes in fixed assets

	Cost					
	01/01/2018	Currency translation	Additions	Transfers	Disposals	31/12/2018
Intangible fixed assets						
Purchased concessions, industrial property rights and similar rights and assets, and licenses to such rights and assets	2,526,254.87	393.36	146,621.21	0.00	282,586.10	2,390,683.34
Goodwill	8,431,787.58	0.00	0.00	0.00	0.00	8,431,787.58
Prepayments rendered	7,533.00	0.00	1,800.00	0.00	0.00	9,333.00
	10,965,575.45	**393.36**	**148,421.21**	**0.00**	**282,586.10**	**10,831,803.92**
Tangible fixed assets						
Land, land rights and buildings, including buildings on third-party land	9,817,564.17	129,113.92	4,238,520.43	733,993.50	106,575.13	14,812,616.89
Plant and machinery	2,007,054.02	3.28	91,875.60	0.00	0.00	2,098,932.90
Other factory and office equipment	20,529,634.77	34,525.89	2,753,400.45	0.00	2,964,162.56	20,353,398.55
Prepayments rendered and plants under construction	787,296.07	0.00	11,418.38	-733,993.50	0.00	64,720.95
	33,141,549.03	**163,643.09**	**7,095,214.86**	**0.00**	**3,070,737.69**	**37,329,669.29**
Financial fixed assets						
Participating interests in associated companies	0.00	0.00	1,011,370.10	0.00	130,339.66	881,030.44
Other participating interests	10,000.00	0.00	0.00	0.00	0.00	10,000.00
	10,000.00	**0.00**	**1,011,370.10**	**0.00**	**130,339.66**	**891,030.44**
Total	**44,117,124.48**	**164,036.45**	**8,255,006.17**	**0.00**	**3,483,663.45**	**49,052,503.65**

Depreciation and amortization					Book value	
01/01/2018	Currency translation	Additions	Disposals	31/12/2018	31/12/2017	31/12/2018
1,869,870.68	351.17	243,061.52	260,192.10	1,853,091.27	656,384.19	537,592.07
4,379,929.80	0.00	794,099.12	0.00	5,174,028.92	4,051,857.78	3,257,758.66
0.00	0.00	0.00	0.00	0.00	7,533.00	9,333.00
6,249,800.48	**351.17**	**1,037,160.64**	**260,192.10**	**7,027,120.19**	**4,715,774.97**	**3,804,683.73**
1,739,136.55	9,136.98	353,009.64	0.00	2,101,283.17	8,078,427.62	12,711,333.72
864,444.52	1,364.55	151,451.82	0.00	1,017,260.89	1,142,609.50	1,081,672.01
9,806,183.97	20,373.83	2,376,061.37	822,396.31	11,380,222.86	10,723,450.80	8,973,175.69
0.00	0.00	0.00	0.00	0.00	787,296.07	64,720.95
12,409,765.04	**30,875.36**	**2,880,522.83**	**822,396.31**	**14,498,766.92**	**20,731,783.99**	**22,830,902.37**
0.00	0.00	0.00	0.00	0.00	0.00	881,030.44
0.00	0.00	0.00	0.00	0.00	10,000.00	10,000.00
0.00	**0.00**	**0.00**	**0.00**	**0.00**	**10,000.00**	**891,030.44**
18,659,565.52	**31,226.53**	**3,917,683.47**	**1,082,588.41**	**21,525,887.11**	**25,457,558.96**	**27,526,616.54**

Consolidated cash flow statement

		01/01/ to 31/12/2018	01/01/ to 31/12/2017
		Euro	Euro
	Consolidated net profit/loss for the year	**7,607,609.52**	**4,922,788.82**
+	Depreciation, amortization and fixed asset write-downs	3,917,683.47	3,783,377.45
±	Change in provisions	1,521,499.45	1,314,361.64
±	Change in inventories	-2,152,544.17	-586,195.92
±	Change in trade receivables and other assets that are not allocable to investing or financing activities	-5,459,637.67	2,921,100.80
±	Change in trade payables and other liabilities that are not allocable to investing or financing activities	108,642.97	-1,060,566.73
±	Loss/gain from fixed asset disposals	11,842.06	-87,095.27
+	Interest and similar expenses	454,685.67	417,450.37
−	Other interest and similar income	-59,563.72	-48,308.33
−	Other income from participating interests	130,139.66	0.00
+	Taxes on income	3,450,478.81	2,040,589.33
±	Income tax payments	-4,655,500.81	-772,009.30
=	**Cash flow from operating activities**	**4,875,335.24**	**12,845,492.86**
+	Proceeds from fixed asset disposals	2,258,893.32	765,278.22
−	Payments for investments in intangible fixed assets	-148,421.21	-204,565.05
−	Payments for investments in tangible fixed assets	-7,095,214.86	-5,486,832.35
−	Payments for investments in financial fixed assets	-1,011,370.10	0.00
+	Interest received	59,763.72	48,308.33
=	**Cash flow from investing activities**	**-5,936,349.13**	**-4,877,810.85**

	01/01/ to 31/12/2018	01/01/ to 31/12/2017
	Euro	Euro
+ Proceeds from raising of loans	2,800,000.00	1,548,000.00
− Outgoing payments for redemption of loans	-1,866,242.42	-1,472,279.02
− Interest paid	-454,685.67	-417,450.37
− Dividends paid to parent company shareholders	-1,860,600.00	-1,772,000.00
= **Cash flow from financing activities**	**-1,381,528.09**	**-2,113,729.39**
= **Net change in cash and cash equivalents**	**-2,442,541.98**	**5,853,952.62**
± Currency-related change in cash and cash equivalents	-34,729.69	51,752.26
+ Cash and cash equivalents at start of period	16,092,462.54	10,186,757.66
= **Cash and cash equivalents at end of period**	**13,615,190.87**	**16,092,462.54**

	01/01/ to 31/12/2018	01/01/ to 31/12/2017
	Euro	Euro
Composition		
Liquid assets	13,632,458.25	16,117,059.21
Short-term bank borrowings	-17,267.38	-24,596.67
	13,615,190.87	**16,092,462.54**

Consolidated statement of changes in equity

Consolidated statement of changes in equity, in EUR

	Parent company			
	Subscribed share capital	Capital reserves	Retained earnings	Adjustment item from foreign currency translation
Balance on 01/01/2017	**4,430,000.00**	**11,235,300.00**	**0.00**	**-649,469.98**
Transfer to retained earnings	0.00	0.00	40,299,580.49	0.00
Consolidation-related currency differences	0.00	0.00	0.00	-355,865.72
Payments to shareholders	0.00	0.00	0.00	0.00
Consolidated profit for the year	0.00	0.00	0.00	0.00
Balance on 31/12/2017	**4,430,000.00**	**11,235,300.00**	**40,299,580.49**	**-1,005,335.70**
Balance on 01/01/2018	**4,430,000.00**	**11,235,300.00**	**40,299,580.49**	**-1,005,335.70**
Consolidation-related currency differences	0.00	0.00	0.00	98,080.23
Payments to shareholders	0.00	0.00	0.00	0.00
Consolidated profit for the year	0.00	0.00	0.00	0.00
Balance on 31/12/2018	**4,430,000.00**	**11,235,300.00**	**40,299,580.49**	**-907,255.47**

		Minority shareholders				Consolidated equity
Retained earnings	**Total**	Minority interests	Retained earnings attributable to minority interests	**Total**		
37,243,642.69	**52,259,472.71**	**5,300.60**	**651,146.65**	**656,447.25**		**52,915,919.96**
-40,299,580.49	**0.00**	0.00	0.00	**0.00**		**0.00**
0.00	**-355,865.72**	0.00	0.00	**0.00**		**-355,865.72**
-1,772,000.00	**-1,772,000.00**	0.00	0.00	**0.00**		**-1,772,000.00**
5,006,673.60	**5,006,673.60**	0.00	-83,884.78	**-83,884.78**		**4,922,788.82**
178,735.80	**55,138,280.59**	**5,300.60**	**567,261.87**	**572,562.47**		**55,710,843.06**
178,735.80	**55,138,280.59**	**5,300.60**	**567,261.87**	**572,562.47**		**55,710,843.06**
0.00	**98,080.23**	0.00	0.00	**0.00**		**98,080.23**
-1.860.600,00	**0.00**	0.00	0.00	**0.00**		**-1.860.600,00**
7,517,569.29	**7,517,569.29**	0.00	90,040.23	**90,040.23**		**7,607,609.52**
5,835,705.09	**60,893,330.11**	**5,300.60**	**657,302.10**	**662,602.70**		**61,555,932.81**

2G. Auditor's report.

Auditor’s report

Audit opinions

We have audited the consolidated financial statements of 2G Energy AG, Heek, and its subsidiaries (the Group), which comprise the consolidated balance sheet as of December 31, 2018, the consolidated statement of profit and loss, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from January 1 to December 31, 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. We also audited the Group management report for 2G Energy AG for the financial year from January 1 to December 31, 2018. In accordance with German statutory regulations, we have not audited the content of the Group's non-financial statement pursuant to Section 315 b of the German Commercial Code (HGB).

In our opinion, based on the knowledge obtained in the audit,

- the attached consolidated financial statements comply in all material aspects with German commercial regulations and convey in accordance with German generally accepted accounting principles a true and fair view of the Group's net assets and financial position as of December 31, 2018 as well as the results of its operations for the financial year from January 1 to December 31, 2018, and
- the accompanying Group management report as a whole provides an appropriate view of the Group's position. In all material aspects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks entailed in future development. Our audit opinion on the Group management report does not cover the content of the aforementioned non-financial statement by the Group.

Pursuant to Section 322 (3) Clause 1 HGB, we declare that our audit has not led to any reservations concerning the legal compliance of the consolidated financial statements and the Group management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and of the Group management report in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer/IDW). Our responsibilities under those requirements and principles are further described in the “Auditor's responsibilities for the audit of the consolidated financial statements and of the Group management report” section of our auditor's report. We are independent of the Group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the Group management report.

Other information

The Management Board members are responsible for the other information.

The other information comprises the Group's non-financial statement pursuant to Section 315 b (1) HGB.

The other information also includes the other parts of the annual report that we received before the date of this auditor's report – excluding further-reaching cross-references to external information – apart from the audited consolidated financial statements, the audited Group management report and our auditor's report.

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

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

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

Responsibilities of the Management and Supervisory boards for the consolidated financial statements and the Group management report

The Management Board members are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with German commercial law regulations, and for ensuring that the consolidated financial statements, in compliance with German generally accepted accounting principles, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management Board members are responsible for such internal controls as they have determined necessary, in accordance with German generally accepted accounting principles, to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board members are responsible for assessing the Group's ability to continue as a going concern. They also bear the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless an intention exists to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board members are responsible for the preparation of the Group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board members are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the Group management report.

Auditor's responsibility for the audit of the consolidated financial statements and Group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the Group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer/ IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this Group management report.

We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the Management Board members and the reasonableness of estimates made by the Management Board members and related disclosures.
- Draw conclusions on the appropriateness of the Management Board members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty

exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in such a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German generally accepted accounting principles.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the Management Board members in the Group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board members as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. A substantial unavoidable risk exists that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Osnabrück, April 30, 2019

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Norbert Niedenhof	ppa. Stefan Heitmeyer
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Colophon

Published by
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Phone +49 (0) 2568 9347-0
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Design and layout
Werbeagentur Holl GmbH & Co. KG
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Translation
Baker & Company Language Solutions
www.baker-company.de


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