H1 2017

2G Energy AG Half-year report

Contents

2G. Foreword.

Foreword

Ladies and Gentlemen,
dear Shareholders,

In the first half of 2017, 2G raised its revenue by 13.5 percent to EUR 72.4 million, effectively lifting EBITDA by EUR 2.0 million to EUR 1.4 million, and therefore to a satisfactory level. Earnings before interest and taxes rose to EUR -0.5 million, up from EUR -2.4 million. We made good progress in smoothing the seasonal nature of our business through steady order intake, with a major contribution from the successful and ongoing internationalization of the sale of CHP systems based on the partner concept. In the first six months of 2017, we generated more than 50 percent of our sales revenues from the sale of CHP systems in countries outside Germany for the first time ever. Our aim is to evolve into a fully globalized, leading provider of CHP systems and CHP solutions in the medium term, which also means that Germany, which has been our core market so far, will gradually become less important.

In order to consistently chart this course we have committed to three master projects: Partner Concept (Internationalization), Digitalization and “Lead to Lean”.

Our international network is expected to grow further. We intend to achieve this aspiration through licensed partner companies that take over the sale, installation and servicing of 2G power plants locally in their own cultural environment. Our headquarters in Heek is therefore increasingly taking on the task of creating the framework conditions for the continuous professional development and training of partner company employees.

These endeavors also include integrating the partners into our comprehensive “my.2-g.com” digital platform. The platform offers plant operators and sales and service partners a globally accessible, efficient and transparent management of their 2G plants across the entire life cycle right through to an integrated replacement parts catalog. In doing so, our aim is also to be a provider covering digital issues for our partners.

As part of its “Lead to Lean” master project, 2G will be realigning its corporate organization and its work-flows significantly to reflect greater efficiency. With the aid of organizational modifications and digital solutions, we will be establishing leaner work processes and defining extensive process standards in production and administration. Here we are focusing on resource efficiency and productivity for the mass markets. Our objective is to create the preconditions and instruments together with our employees that will enable 2G to become an organization that can self optimize and learn.

In order for 2G to actively help shape the new energy policy on a global scale we need CHP systems that can hold their own through being economical under various market and competitive conditions. Ultimately, wind power plants and photovoltaic plants, in combination with batteries, are unable to provide business and society with a sufficiently secure supply of energy. Starting with the Paris climate accord, the political objective of lowering greenhouse gas emissions is unambiguously clear! In Germany, however, we have not really made much progress for years – even though companies have invested billions in renewable energies and tax payers have also had similar amounts imposed on them in the form of energy-related levies, surcharges and taxes. The hunt for solutions leading to rapid and tangible reduction of CO_2 emissions is therefore still on. In the short term, the aforementioned goals can only be achieved by substituting natural gas for coal in the generation of heat and power. In the long term, natural gas can then be replaced by gases of renewable origin that, similar to natural gas, will be transported using the existing global infrastructure of gas supply systems.

2G's cogeneration technology is open for natural gas, for biogas, landfill, sewage and mine gas, as well as for hydrogen applications. CHP systems provide electricity and heat decentrally at the location where it is consumed, in a highly efficient and climate compatible manner. Moreover, 2G CHP systems can be integrated into virtual power plants and, thanks to their flexible mode of operation and digital technology, provide both balancing and control energy. All this makes a definitive contribution to avoiding CO_2 emissions on the basis of an existing, economical technology and infrastructure, also in terms of affordable climate protection that can be applied across the globe.

This stated, there are many good reasons for investing in the shares of 2G Energy AG.

Heek, in September 2017
2G Energy AG

Kind regards,

Christian Grotholt
Management Board
Chairman (CEO)

Ludger Holtkamp
Management Board
member

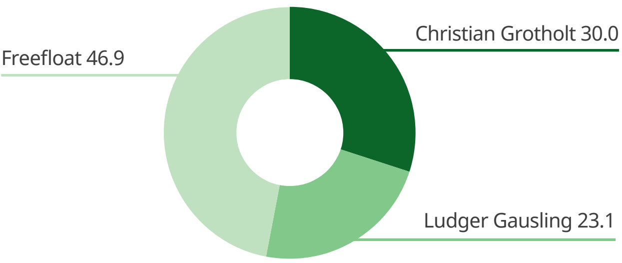
2G. Share.

The 2G Energy Share

The price of the 2G Energy AG share has recovered

In the first half of 2017, the 2G share continued its recovery that started in November 2016. The share commenced the new year at a price of EUR 18.48, which also marked its lowest point. In mid-April, the share peaked at EUR 24.87, marking its highest point in the period under review and reflecting an increase of 35.2 % between its highest and lowest price. Positive corporate news about high order levels and growing international business, as well as the announcement of an 8.1 % increase in the dividend proposed at the Annual General Meeting supported this trend. On 30 June, the share emerged from trading at EUR 22.00, which brought market capitalization to around EUR 97.5 million.

2G Energy AG shareholder structure Share %

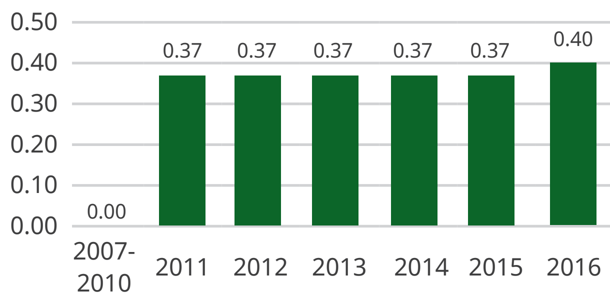


As of 30 June 2017

All in all, the 2G share climbed by 19.0 % during the first half of the year. The DAX advanced by 6.3 % over the same period, and the DAXsubsector All Renewable Energies industrial group index to which 2G is also allocated dropped by 2.9 %. The Scale All Share Index (ISIN DE000A2BLGY6) that comprises all companies in the Scale Segment of Deutsche Börse AG since 10 March 2017, rose over the same period by 12.9 %. 2G switched to “Scale”, the new stock exchange segment of Deutsche Börse AG, on 1 March 2017. This is the successor segment to the Entry Standard where the share had been listed since 2007. It currently comprises 48 small and mid-sized companies in the OTC market.

Turnover in the 2G share averaged around 11,400 shares a day during the first half of the year (H1 2016: 8,000). Some 41 % of turnover in the 2G share was traded via XETRA, 10 % through tradegate, and 49 % through the German regional stock exchanges. In the first half of 2016, distribution was reported at 35 %, 16 % and 48 % respectively.

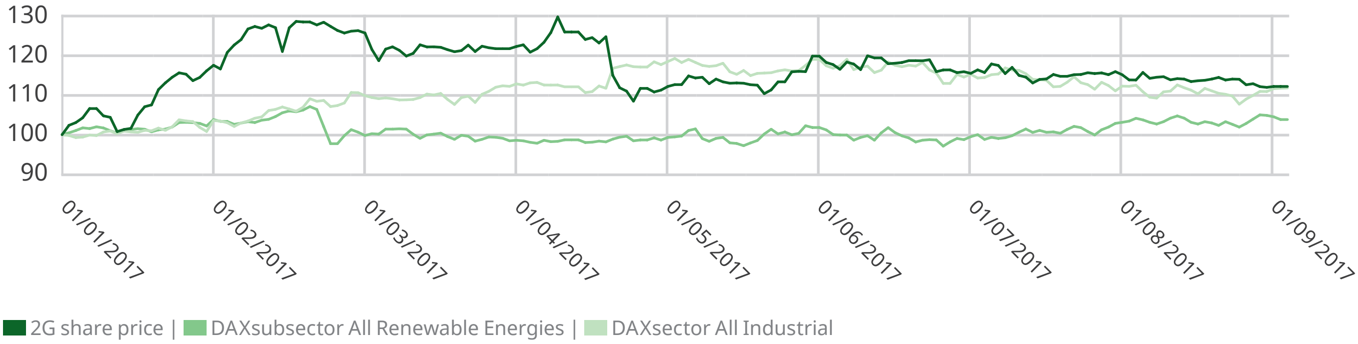
Dividends 2007 - 2016 EUR



At the Ordinary AGM on July 11, 2017, a large majority of the shareholders approved the payout of a EUR 0.40 dividend for the 2016 fiscal year (previous year: EUR 0.37). In raising the dividend 2G underscores its trust in the company’s future earnings potential and promotes the participation of its shareholders. The Management Board continues to pursue a sustainable and stable dividend policy at a now slightly higher level. Dividend is to be based on profit and distribution from the company’s net assets avoided in order to maintain the company’s financial and innovative strength for further growth. Attendance at the AGM amounted to around 75 % of the share capital (previous year: 63.1 %).

Research on 2G is conducted by the investment houses of First Berlin, equinet, SMC-Research and Edison Research. The analysts have set the price target in a range of between EUR 22.50 and EUR 28.50.

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



2G. Group management report.

Group management report of 2G Energy AG

1. The 2G Group

Business activity and corporate structure

The 2G Energy AG Group is an internationally leading manufacturer and provider of decentralized energy supply systems. Through the development, production and technical installation, as well as the digital network integration of combined heat and power systems (CHP systems), the company offers comprehensive solutions on the growing international market for highly efficient cogeneration units. Comprehensive after-sales and maintenance services comprise an important additional performance criterion. The product range especially includes CHP modules in an electric output range of between 20 kW and 2,000 kW for operation deploying natural gas, biogas, other lean gases and hydrogen. All systems function highly efficiently and conserve resources, with low emissions, and reduce or neutralize greenhouse gas emissions through combined energy production and cutting-edge waste gas purification systems. With more than 4,000 systems in 45 countries, 2G power plants in various applications supply heating, cooling and electrical energy to a broad spectrum of customers, which includes companies in the housing industry, agricultural sector, commercial and industrial companies, public energy utilities, municipal utilities and local government authorities.

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

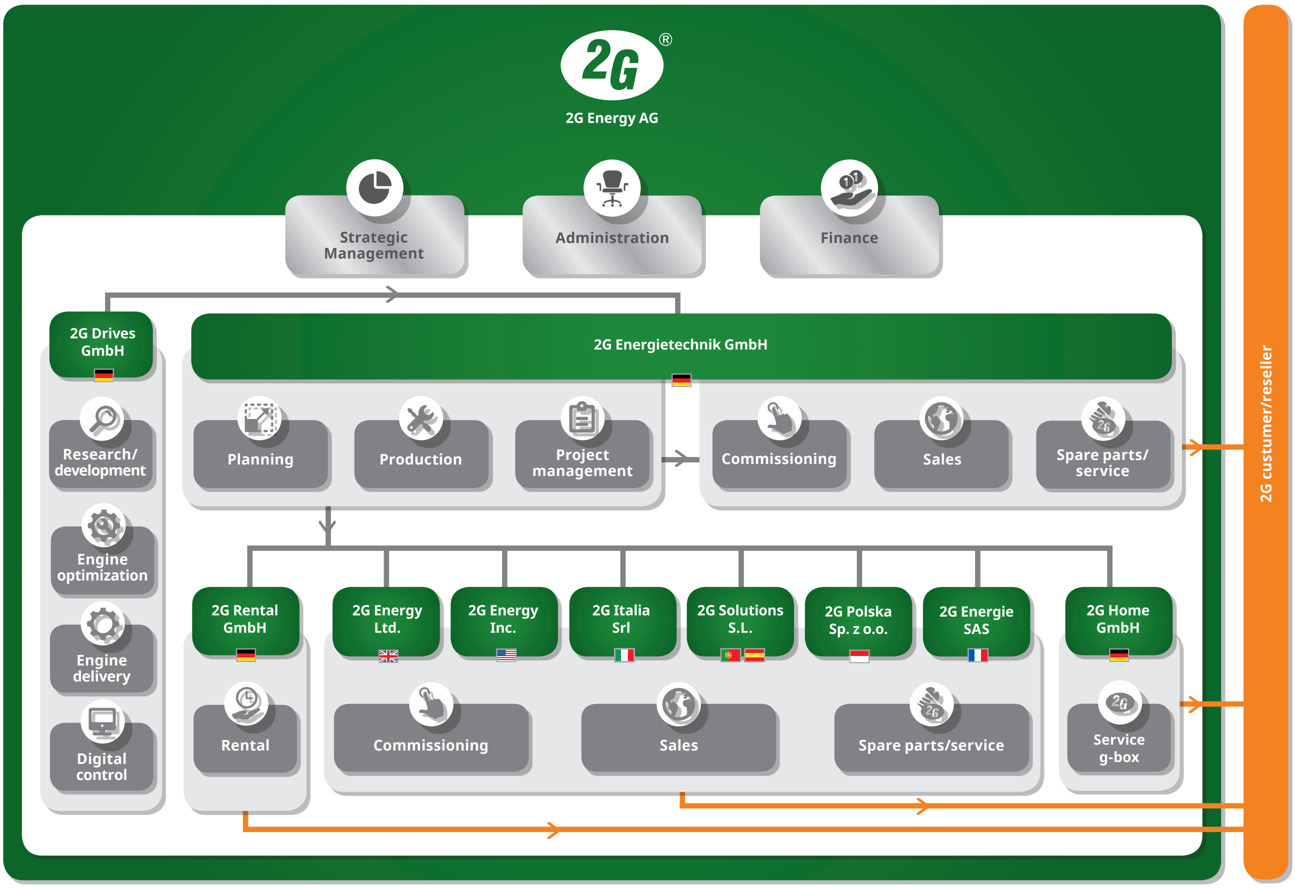


Fig. 1: 2G Energy AG corporate structure, business purposes of the subsidiaries and value chain (as of 15 September 2017)

2G Energietechnik GmbH (2GE), which is based at Group headquarters in Heek in Germany's western Münster region, comprises the main operating entity. The company combines the planning, sales, production, installation as well as the commissioning and regular servicing of 2G CHP modules. 2GE also maintains dependent branches in Schonstett near Munich, in Hamburg, in Halle/Saale, as well as in Berlin.

2G Energy AG is represented in Europe through its own sales and service companies in France, Spain, Italy, Poland and in the UK. Outside Europe, 2G is present through a production, sales and service location in the US. In addition, important urban centers and industrial markets are secured through sales and service cooperation ventures in Japan, Southeast Asia, Australia, Africa and Russia, for example.

2. Economic environment / Macroeconomic situation

The economic situation improved notably in the first half of 2017 according to the forecast of the Kiel Institute for the World Economy (IfW) of mid-June 2017, particularly in the emerging markets and the industrialized economies. Capital expenditure generally gained notable momentum, and production capacities are increasingly reserved.

In the euro area, total economic output increasingly picked up the pace. The IfW reports that private consumption also grew on the back of robust capacity utilization. Economic expansion was, however, also supported by positive external development. Business confidence indicators continued to display a significant uptrend, following on from mid-2016.

Germany's economic upturn is becoming increasingly broader based. Along with private consumption, capital expenditure above all, along with construction investment and brisk demand from abroad, is boosting the upswing. Other favorable effects continued to emanate from low interest rate levels and the relatively low energy prices.

Industry development

The statements made in the Annual Report 2016 on pages 29 to 51 retain their validity in respect of industry development in Germany and in the international markets. All in all, the market for cogeneration (CHP) systems continues to grow. VDMA Power Systems sees the strengths of German manufacturers in their technical competence regarding core components, such as engines, as well as in application-oriented expertise that enables optimal adjustment to the respective application scenario.

According to the VDMA, the development of the markets will be determined by the legal environmental conditions dictated by politics, the respective financing possibilities (in particular in the case of larger plants) and the economic situation in important emerging markets. The growing demand for power and the improved availability of natural gas are not always able to offset adverse conditions in the respective country. With regard to the spark spread (cf. page 16), the relationship between the electricity price and the gas price, that determines the economic efficiency of systems, the price trend of subsidiary primary fuel such as oil and its derivatives as well as coal for investment decisions in CHP systems will also need to be considered.

In this industry environment, 2G is reaping the benefit of the strategy it implemented at an early stage of differentiating its business model in terms of various output classes, different gas types and business activities on different continents. In the domestic and international market, 2G considers itself generally well positioned through its foreign subsidiaries and growth in its sales partnerships. The systematically pursued expansion of quality management, compliance with international management standards and supplier certification in Germany and abroad plays an increasingly important role in international competition. The importance of low emission values, such as for carbon dioxide and nitrogen oxides, and high thermal efficiency is also increasing, particularly in tendering for applications in urban centers all over the world. 2G has responded by developing its new series (aura) that meets the more stringent requirements in Germany, such as ”TA Luft” (Technical Guideline for Air Pollution Control in Germany). With the in-house development of its SCR catalyst technology, 2G can also upgrade other series in its portfolio for low emission applications.

Natural gas is a significant cornerstone of energy for the new energy policy

In the context of the new energy policy, 2G believes that natural gas will play a key role in securing a sustainable energy supply. Natural gas applications combined with renewable energies lend themselves as an ideal prerequisite for achieving virtually CO_2 emission free energy production. The advantages of natural gas are its comparatively environmentally compatible properties, its high degree of flexibility, availability, usefulness for generating heat and power, as well as the existing distribution infrastructure. Economical use of cost-effective power available from wind and solar power plants is possible by harnessing the power-to-gas technology. Hydrogen or methane is produced through water electrolysis and can then be stored in large volumes in the existing natural gas infrastructure or converted into power and heat when needed using 2G technology. This allows renewable energies, CHP technology, gas grids, and local and district heating applications to be combined with each other in a way that is beneficial, complimentary, and in line with systems.

According to Federal Office of Economic and Export Control (BAFA) figures from 18 July 2017, 2G has increased its market share slightly from 24.8 % to 24.9 % in its output range from 50 kW to 500 kW in the German market for CHP systems powered by natural gas. The average over the last five years stood at 24.2 %.

Trends in 2G's market share in German CHP market 2012 - 2016 for natural gas operated CHP power plants in the core performance range > 50 - 500 kW in %

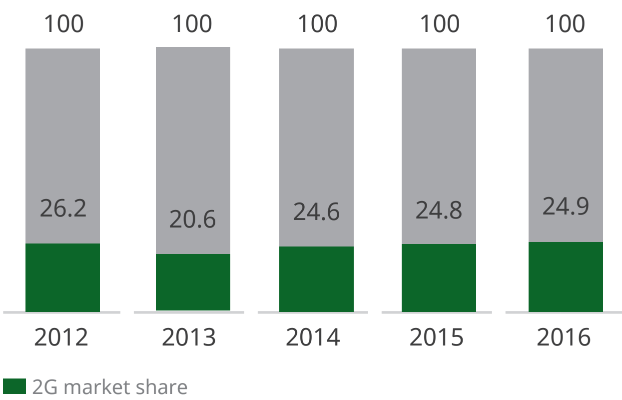


Fig. 2: Trends in 2G's market share in German CHP market 2012 - 2016 for natural gas operated CHP power plants in the core performance range > 50 - 500 kW.
Source: 2G Energy AG. German Federal Office for Economic Affairs and Export Control (BAFA), as of 18 July 2017

According to BAFA, the installed electrical capacity of CHP systems powered by natural gas rose by an average of 17 % in Germany, one of the best developed CHP markets, over the period from 2009 to 2016. In 2016, the second highest figure ever of 1,627 MW was recorded for licensed power, following on 1,767 MW in 2014. The volumes and installed output above all of 2G modules in the 50 kW to 2 MW range rose steadily over this period.

In Germany, business with natural gas-fired CHP systems in the first half of 2017 was determined by reticence on the part of manufacturers and investors. The legislative process, for instance concerning the amended CHP Act 2016, Germany's Tenant Supply Act (Mieterstromgesetz) and the regulations on avoided grid utilization charges (vNNE) for decentralized, controllable systems, took much longer than expected. Moreover, until June 2017, uncertainty prevailed about the form that the tenders for CHP systems from 1 MW to 50 MW would take.

All in all, order intake in Germany in the first six months remained stable at EUR 7.6 million in a year-on-year comparison (H1 2016: EUR 7.8 million). In markets outside Germany, particularly in the US, and also in Italy and the UK at a lower level, demand for 2G CHP power plants powered by natural gas proved to be healthy. The company forged ahead with sales in natural gas-fired CHP systems in European countries outside Germany in order to open up an alternative in the medium term to the biogas markets that are losing momentum.

Ongoing decline in gas prices

The price of natural gas provided to trade and commerce (including the housing industry) and to households declined further in recent quarters. This trend continued during the first half of 2017. A sideways trend at a relatively low level only materialized with supply to industry in the first six months of 2017. The fall in oil prices (Brent crude oil) by around 50 % observed since mid-2014 is exerting a delayed effect on natural gas importers' long-term supply agreements, and the partial connection with the oil price which exists also affects natural gas price trends. Price blips are generally less pronounced than those of oil price fluctuations, as the gas cost portion of the selling price is lower than the portion for transportation and distribution costs, taxes and profit margins. This downtrend in gas prices is supported by a good supply situation and high supply security. In the first half of 2017, the oil price moved sideways at a price of around US 50 per barrel.

Development of prices for natural gas for the industry, households, trade and commerce in Germany
(Index 2010 = 100)

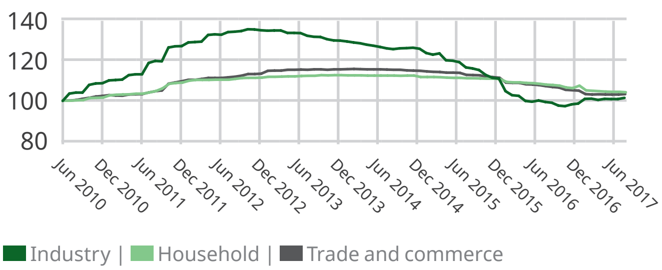


Fig. 3: Development of prices for natural gas for the industry, households, trade and commerce (incl. the housing industry) in Germany
Source: German Federal Statistical Office, Development of Energy Prices, September 2017

Electricity prices stagnate at a high level

According to the electricity price analysis of May 2017 produced by the German Energy and Water Sector Association (BDEW), average electricity prices for private households and for mid-sized industrial enterprises in Germany rose by 1.5 % and approximately 10 % respectively during the first half of 2017. The BDEW generally assumes an electricity price (incl. electricity tax) of 17.02 ct/kWh for industry in 2017, reflecting an increase of 9.5 % compared with the previous year (15.55 ct/kWh). Along with wholesale prices on the Leipzig EEX electricity exchange, rising govern-ment levies, surcharges and taxes contributed to the development. The individual components in the over-all electricity price are shown in chart 4.

It can generally be stated that electricity prices for mid-sized industry as an electricity consumer have remained at a high level since 2011 and that another uptrend is in evidence in the years 2016/2017. No trend turnaround in the direction of prices falling has yet materialized to date, including during the course of the current reporting year.

Average electricity price for industrial customers (incl. electricity tax) 2001 - 2017 Euro-Cent per kWh

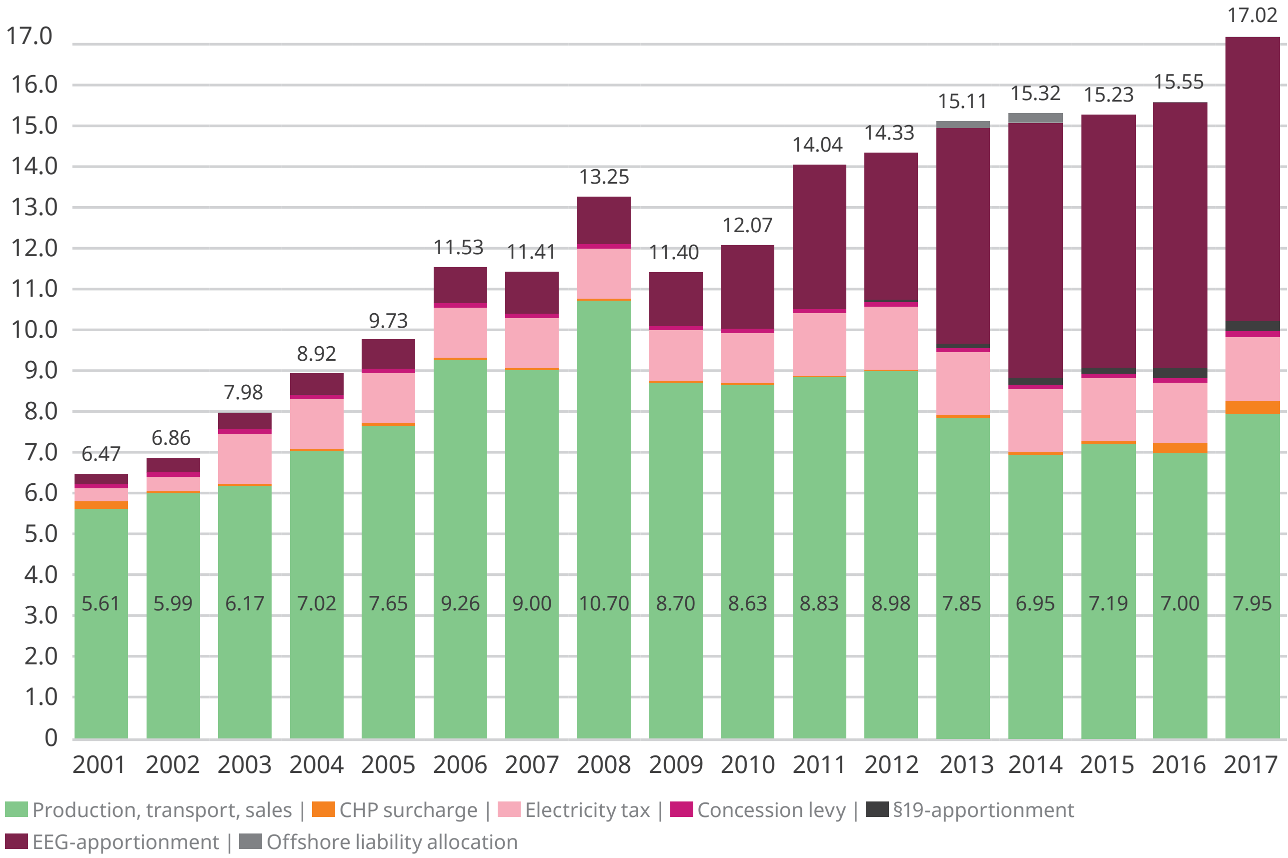


Fig. 4: Average electricity price for industry 2001 – 2017 (including electricity tax) in Germany in Euro-Cent per kWh (annual consumption 160 to 20,000 MWh), medium voltage supplies (intake 100 kW / 1,600 h to 4,000 kW / 5,000 h)
Source: BDEW Electricity Price Analysis, September 2017

Based on the development described in the German gas and electricity markets in 2016/2017, the spark spread (relationship between trends in electricity prices and natural gas prices) has therefore settled just below five. Also in the international markets relevant for 2G the spark spread is generally three or higher, as before. Accordingly, the basic preconditions for the economical operation of combined heat and power generation remain unchanged on an international level.

Spark spread Ratios in Europe and USA 2008 - 2016

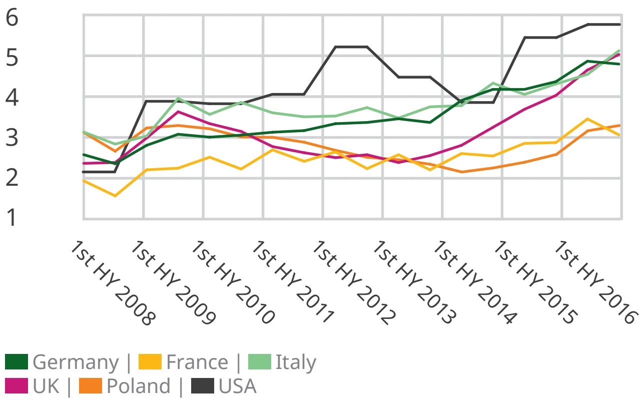


Fig. 5: Sparks spread trends in selected European countries and the USA 2008 – 2016
Source: German Federal Statistical Office, energy price trend data, 25 August 2017; UK Department of Energy & Climate Change, Industrial Electricity & Gas Prices in the IEA, 29 June 2017; 2G calculations

Repowering and flexibilization determine biogas business in Germany

During the first half-year, 2G mainly sold biogas operated combined heat and power systems in Germany as part of rendering existing plants more efficient (flexibilization) and raising installed capacity. This dynamic development in demand resulted, on the one hand, from the subsidy conditions under the EEG 2017 for existing plants and, on the other, from numerous CHP modules installed by 2G from 2006 onward and that had reached the end of their regular operating life (ca 60,000 operating hours, eight years on average). The operators are faced with a choice between a general overhaul, or replacement investments in combination with a technical re-dimensioning and flexibilization of the respective plant (so-called “superstructure”; the capacities are available in the form of flexible output when required in the electricity grid). 2G supports customers in the imminent decisions on flexibilization and on replacing existing plants by holding information days in the field and with free load profile analyses that enable quick upfront clarification of the economic viability of CHP investments with the aid of computer-based calculations. As of 30 June 2017, 134 orders for biogas operated CHP systems in Germany in an overall order volume of EUR 53.7 million had been placed.

Based on its sophisticated technology, plant control and grid integration capacity, 2G created the preconditions at an early stage in this market to enable it to participate in the business of new biogas plants as well as in the promising market for repowering investments. 2G CHP plants meet the so-called grid codes, are certified in compliance with medium and low voltage guidelines, and can be controlled remotely in operation through control software for energy service providers (contractors).

In the international markets, with the exception of the US, demand is still high for biogas operated CHP systems. The strongest international markets in the first half of 2017 consisted of Japan and France with an order intake of EUR 5.0 million and EUR 2.5 million respectively. As expected, new orders from the UK declined owing to the reduced feed-in tariffs at the end of March 2017.

Raising the share in the international markets through the 2G partner concept

As one of its focuses, 2G management concentrated on the ongoing implementation of the partner concept in the first six months of 2017. 2G's strategy is to promote sales, installation services and parts of its service increasingly via licensed external partner companies. This approach primarily serves to support international growth and assists 2G in a CHP market experiencing global growth in taking advantage of the entrepreneurial opportunities even more effectively while keeping the company's own risk and the capital committed as low as possible.

An intensive and sustainable drive to train the partner companies forms the basis for the success of sales and services. As part of the training concept, 2G organizes regional training sessions for its partners on site and offers sales training. The first international sales training took place in May of this year at the company's headquarters in Heek, with 55 participants arriving from 23 countries. In order to build up and establish the partner concept sustainably and successfully, 2G consistently opts for digital interfaces and solutions such as the my.2-g.com partner portal that enables plant operators and sales partners to deliver efficient plant management.

Overview of the first half of 2017

In the first half of 2017, the company generated sales revenues of EUR 72.4 million in total (H1 2016: EUR 63.8 million). The following table provides an overview of the distribution of sales revenues:

Absolute and percentage distribution of revenues by product range*

	H1 2017					
	Germany		Abroad		Total	
Sales revenues , in EUR million	42.8	59 %	29.5	41 %	72.4	100 %
CHP systems	18.0	25 %	22.3	31 %	40.3	56 %
of which biogas	13.2	18 %	19.2	27 %	32.4	45 %
of which natural gas	4.8	7 %	3.0	4 %	7.8	11 %
Service	24.9	34 %	7.2	10 %	32.1	44 %

* Rounding differences may occur.

The increase in sales revenues as of the reporting date on 30 June 2017 is attributable, among other reasons, to the postponement mentioned in the context of the Annual Report 2016 of a number of projects, particularly in the UK, until the current fiscal year. This made an additional contribution to the fact that now 55 % (H1 2016: 26 %) of the sales revenues generated in the first half year came from selling CHP systems in the international markets. This figure underscores the strategic direction of the 2G Group of positioning itself through developing different international markets, which will make it more independent of individual market trends.

This independence will also continue to be strengthened through the Service division that achieved sales revenues of EUR 32.1 million in the first six months, bringing the contribution of the service and spare parts business to 44 % (H1 2016: 43 %) of consolidated revenues.

Performance in the first half of 2017 was generally satisfactory and in line with expectations. In comparison with the previous year, total operating revenue remained virtually unchanged at around EUR 85.4 million. During the period under review, new orders of EUR 65.3 million were acquired (H1 2016: EUR 61.7 million), which ensures double-shift production through to the year 2018.

3. Results of operations

2G lifted sales revenues by 13.5 % to EUR 72.4 million in a year-on-year comparison. Net of the increase in inventories of EUR 12.1 million (H1 2016: EUR 21.2 million) and own work capitalized of EUR 1.0 million (H1 2016: EUR 0.5 million) that resulted exclusively from the activities of 2G Rental GmbH, total operating revenue stood at EUR 85.4 million in the first six months of 2017 (H1 2016: EUR 85.5 million).

In comparison with the year-earlier period, the cost of materials declined from EUR 63.3 million to EUR 59.5 million due to a favorable product and country mix. In terms of total operating revenue, the cost of materials ratio came in at 69.6 % (H1 2016: 74.0 %). Gross profit stood at EUR 26.0 million in the period under review (H1 2016: EUR 22.2 million).

The personnel cost ratio rose from 17.4 % to 18.9 % in a year on-year comparison. The increase in personnel expenses of EUR 1.3 million was primarily attributable to higher personnel costs at 2G Energietechnik GmbH as well as to the initial consolidation of 2G Energie SAS.

Depreciation, amortization and extraordinary write-downs increased from EUR 1.7 to EUR 1.9 million due to a higher level of depreciation and amortization applied to property, plant and equipment due in the main to the increase in tangible assets at 2G Rental GmbH. Other selling, operating and administrative expenses amounted to EUR 8.8 million on the reporting date (H1 2016: EUR 8.4 million).

As of 30 June 2017, a negative result before interest and tax of EUR 0.5 million (H1 2016: EUR -2.4 million) was reported. As in previous years, it should be noted that the high level of finished goods and work in progress will generally only reach the stage of final invoicing in the second half of the year and was valued at production costs in accordance with the German Commercial Code (HGB). The half-year result meets expectations.

A financial result of EUR -0.2 million (H1 2016: EUR -0.2 million) and income tax expenses of EUR 0.2 million (H1 2016: EUR 0.3 million) leads to a consolidated loss of EUR 0.8 million at the end of the first six months (H1 2016: consolidated loss of EUR 2.8 million).

Results of operations — in EUR million

		30/06/2017	30/06/2016
	Sales revenues	72.4	63.8
+	Increase in inventories	12.1	21.2
+	Own work capitalized	1.0	0.5
=	Total operating revenue	85.4	85.5
+	Other operating income	0.5	0.5
-	Cost of materials	59.5	63.3
-	Personnel expenses	16.2	14.9
-	Depreciation/amortization	1.9	1.7
-	Other operating expenses	8.8	8.4
=	EBIT	-0.5	-2.4*

* Rounding differences may occur.

4. Financial position

The Group parent company in Germany conducts centralized strategic financial management for the 2G Group by supplying the individual Group companies with the corresponding liquidity in line with their operating requirements. The following condensed cash flow statement shows the financial position of the 2G Group:

Cash flow statement

	30/06/2017	30/06/2016
	TEUR	TEUR
Net result	**-784**	**-2,801**
Depreciation, amortization and fixed asset write-downs	1,905	1,750
Change in provisions	-432	-123
Change in inventories	-428	-9,792
Change in trade receivables and other assets which are not allocable to investing or financing activities	6,693	2,366
Change in trade payables and other liabilities that are not allocable to investing or financing activities	2,103	15,514
Loss/gain from asset disposals	-7	28
Cash inflow/outflow for taxes and interest	146	-649
Cash flow from operating activities*	**9,196**	**6,292**
Cash flow from investing activities	**-2,000**	**-1,307**
Cash flow from financing activities	**-27**	**-378**
Liquid assets on June 30**	**17,383**	**14,821**

* Rounding differences may occur.

** Reported less short-term bank overdraft drawdowns

During the entire reporting period the 2G Group had sufficient liquidity at its disposal. As of the reporting date, the operating cash flow rose in particular to EUR 9.2 million mainly due to the decrease in trade receivables.

An amount of EUR 2.0 million was channeled into property, plant and equipment in the context of investing activities. Capital expenditure of 2G Rental GmbH amounting to EUR 1.0 million in CHP systems purchased from 2G Energietechnik GmbH for leasing are also taken into account here, among other items.

Financial liabilities of EUR 0.8 million were repaid in the first six months of the year. 2G Rental GmbH took out new refinancing loans of EUR 1.0 million in the period under review.

After consideration of currency-related changes in cash assets, cash and cash equivalents totaled EUR 17.4 million on the reporting date for the first half year. This liquidity is available in the form of bank balances, and secures the 2G Group‘s solvency at all times.

5. Net asset position

Overview of the 2G Group's net asset position as of 30 June 2017*:

Assets

	30/06/2017	31/12/2016
	TEUR	TEUR
A. Non-current assets	24,495	24,635
B. Current assets	85,384	85,346
C. Prepayments and accrued income	1,066	437
D. Deferred tax assets	1,234	970
Total assets	**112,179**	**111,389**

* Rounding differences may occur.

Equity and liabilities

	30/06/2017	31/12/2016
	TEUR	TEUR
A. Equity	51,906	52,916
B. Provisions	11,997	12,465
C. Liabilities		
I. Bank borrowings	6,443	6,277
II. Other liabilities	41,834	39,731
Total assets	**112,179**	**111,389**

* Rounding differences may occur.

As of the reporting date, total assets had risen slightly by around EUR 0.8 million to EUR 112.2 million compared with December 31, 2016.

The following balance sheet items on the assets and liabilities side are briefly outlined:

- As it is typical of 2G's business, unfinished goods measured on the basis of commercial prudence had increased from EUR 33.3 million to EUR 45.1 million by the reporting date on 30 June 2017, and, from today's standpoint, will largely impact revenues and earnings before the end of fiscal 2017.

- The amount of trade receivables has been reduced from EUR 29.2 million to EUR 22.5 million. The receivables position is monitored on a running basis through debtor management and a large part of the receivables are additionally secured through a commercial credit insurance.

- Working capital stood at EUR 30.0 million as of 30 June 2017, representing a decline of EUR 1.4 million compared with 31 December 2016.

- Liabilities deriving from prepayments on orders advanced to EUR 26.9 million, up from EUR 25.7 million. Trade payables to suppliers had risen from EUR 6.8 million to EUR 8.8 million due to the fundamentally higher level of production capacity utilization by the reporting date.

Overall statement on the business situation

2G reports EBIT of EUR -0.5 million as an interim result as of 30 June 2017 (previous year: EUR -2.4 million), with revenues of EUR 72.4 million (previous year: EUR 63.8 million). Overall, the performance and situation of the 2G Group has settled at a healthy level in the current year in the right direction. Good progress has been made with implementing the global partner concept at an early stage, and tangible success, particularly in the US and Asia, is reflected in the order books. 2G considers itself well positioned in an attractive international CHP market. The company is reaping growing benefit from the strategic direction taken in recent years that is making it increasingly independent of the economic and legal framework conditions in individual markets. Backed by the ongoing strengthening of the organization and the expansion of digitalization and quality management, 2G is rigorously improving the preconditions for increasing its existing sustainable earnings potential.

6. Non-financial performance indicators

Pages 59 to 63 of the 2016 Annual Report provide a presentation of non-financial performance indicators. We briefly address research and development and personnel trends.

Research & development

Through consistent and intensive research and development efforts, 2G has staked out a leading technological position in the market for combined heat and power generation systems in the 50 kW to 550 kW output class in recent years. Along with engine mechanics, performance areas include software and electronic component development in particular, as well as engine controls. The aim is to create unique selling propositions capable of delivering advantages and additional benefits to customers choosing 2G modules compared with using competitor products.

The focus of the development work encompassing the 2G product program is shifting increasingly noticeably from realizing the greatest possible electrical efficiency and exceptional overall efficiency towards service applications that ensure improved availability and the integration of CHP systems into the control energy cycle in order to achieve greater economic efficiency. 2G is meeting the growing requirements placed on emission and immission values of the CHP modules with developments such as the Lambda-1 technology and the new specified “aura” series. More information on 2G’s research and development work can be found in the 2016 Annual Report on pages 59 to 60.

Employees

The Group employed a total of 637 members of staff as of 30 June 2017 (H1 2016: 599 employees), of whom 55 were part-time (H1 2016: 19) and 23 were trainees (H1 2016: 21). The nominal increase in personnel occurred mainly through strengthening the service and sales units for CHP systems at the foreign branches in the United Kingdom and in the US with their prospects for growth, an example being 2G Energie SAS established in France in August 2016.

7. Corporate responsibility

Risk report

The risks and opportunities are described on pages 63 to 72 of the 2016 Annual Report. Compared with the assessments at that time, no significant changes have occurred to the position of opportunities and risks of the 2G Energy Group.

8. Outlook

Economic development reflecting optimism

IfW experts continue to anticipate moderate growth for the global economy in the next two years. They report that the sentiment is upbeat above all in the industrialized nations, and that the economic situation has also improved notably in the emerging markets. The IfW estimates the increase in global output at 3.6 % this year, ticking up to 3.7 % in 2018.

The IfW anticipates that the economic recovery will hold steady with growth rates of around 2 % in the Eurozone this and next year. Economic activity in the Eurozone will continue to derive support from low interest rates, an expansive monetary policy.

The IfW is optimistic regarding Germany’s economic development and assumes that the German economy will expand at the same high rates as before in the coming quarters. The IfW anticipates GDP growth of 1.7 % in 2017 and 2.0 % in 2018.

The IfW sees risks for global economic development, above all in the tense geopolitical situation as well as the increasing isolationist and protectionist tendencies of a number of countries and economic areas and potential problems in connection with the imminent normalizing of the monetary policy.

2G is a mid-sized company with short hierarchies and well qualified employees that has opted for standardized solutions. The company can move swiftly and successfully in the markets and respond to change. Ongoing research and development work by the company’s own mechanical and software engineers establishes the prerequisites for innovative products, raising efficiency, reducing emissions, and for connectivity to digital applications. Furthermore, the growing share of international activities in the CHP business and diversification across output classes and gas types give 2G numerous commercial options and growth potential which the company actively leverages in an opportunity-oriented way.

It should be noted that the price of gas as a fuel is set to remain permanently low. Given the impact of taxes and levies, the price of electricity is likely to stagnate at a high, stable level. The spark spread is therefore fixed in the long term in a way that 2G power plants can be commercially operated without subsidization.

Since the end of June 2017, a directive in the context of the Combined Heat and Power Generation (CHP) Act has regulated the tendering process for CHP systems in the 1 MW to 50 MW output segment in Germany. The first tendering procedure is likely to take place as early as 1 December 2017. The German Bundestag also approved the Grid Fee Modernization Act (Netzentgeltmodernisierungsgesetz) before the summer break. The grid fees avoided therefore still apply to controllable, decentralized systems. For investors and operators this means that certainty has been reinstated as far as legal and investment aspects are concerned. Advantageous subsidization has therefore been provided for in the case of innovative CHP systems that are particularly energy efficient and low in carbon footprint. 2G is excellently positioned with its product portfolio and has already made significant investments in development some time ago. 2G's Management Board anticipates that demand in Germany for CHP systems powered by natural gas will generally pick up momentum again, also in the electrical output range of 50 kW to 550 kW, and that demand specifically for efficient and technologically cutting-edge CHP systems will increase. Given the application of suitable concepts and products, there is potential for increasing the proportion of CHP systems in the supply of heat and electricity.

The framework conditions for the biogas CHP market in Germany are also generally good in view of the entering into force of the EEG 2017 on 1 January 2017. Although the subsidy conditions specific to countries outside Germany are of great significance for new business, the portfolio of systems has meanwhile become so large that the service business, along with the flexibilization and extension of biogas plants, also harbors attractive business opportunities for 2G. Moreover, 2G's own offering for leasing CHP systems in Germany also boosts sales opportunities. 2G has added to this sales instrument with the "pay per use" rental solution that is dedicated only to the use of CHP.

Seizing opportunities on the international market

In recent years, 2G has become increasingly independent of framework conditions in individual markets. In the first half of 2017, more than 50 % of revenues from the sale of CHP systems were generated by international business for the first time ever. The partner network facilitates market entry into new countries and boosts the sale of 2G products in various regions.

In the last few quarters, 2G has won several new distributors in the US. They support the 2G team in St. Augustine, Florida, in sales and service activities. Customers who invest in natural gas operated 2G systems and who wish to exploit the great economic advantages of decentralized energy supplies utilizing CHP technology due to the very beneficial spark spread in the USA are to be addressed to a greater extent. In strategic terms, 2G continues to regard the American market as the most important growth market of the future. This strategic analysis is supported by the fact that order intake in the first half-year of 2017 has almost doubled to around EUR 10.8 million in comparison with the year-earlier period.

China also harbors huge market potential. The demand for the efficient use of resources, high profitability and the avoidance of CO_2 emissions is the driver of the market for energy generating units. 2G has been represented in China through a 2G Station since 1 June 2016. The 2G Station in Beijing exclusively sells 2G products under its own responsibility on the Chinese market and organizes service in the region around Beijing.

Growth opportunities, particularly for biogas operated systems, remain good in France. However, 2G also sees good opportunities for positioning itself at an early stage in the burgeoning market for systems powered by natural gas. Particularly in urban centers, there are opportunities for convincing companies in trade and industry, municipalities and utilities of the high overall efficiencies and the economic viability of 2G systems. The company has set in place good preconditions for strong future growth through 2G Energie SAS, a subsidiary it set up a year ago in Nantes.

The market in the Asia-Pacific region also harbors promising potential which 2G aims to tap further through both existing and new sales partnerships. The Japanese market is a prime example of the sale partnership's success. This market is being developed exclusively with partner companies such as Technis, Tsuchiya and Fuji Electric. Revenues and orders have developed very well in the current fiscal year, which will allow to 2G sustainably reinforce its position through its stronger market presence.

2G's declared goal is to evolve into a fully globalized, leading provider of CHP systems and CHP solutions in the medium term. On the reporting date as of 30 June 2017, the proportion of international business in CHP and service revenues stood at around 41 % (30 June 2016: 20 %), and in relation to the sale of CHP systems already at approximately 55 % (31 December 2016: 26 %). Even if values level off in terms of the full year, we are well positioned in a market where demand for CHP technology is on the rise in many parts of the world.

This goal is the focus of the "Partner Concept" master project. With "Lead to Lean" and "Digitalization", the Management Board has launched two further master projects as priority tasks in the coming quarters.

Order book position developing well in Germany and abroad

In the current fiscal year, 2G was able to build on the good results of the previous year, delivering revenues of EUR 174.3 million and an EBIT margin of 3.2 %. Strong demand for CHP power plants in the final quarter of the previous year lifted order intake significantly above the previous year's figure. As of 31 December 2016, 2G reported orders on hand of EUR 91.2 million (2015: EUR 85.5 million). In terms of running production and operations, the order book had risen further to EUR 107.2 million by 30 June 2017 (30 June 2016: EUR 106.4 million). This trend resulted in particular from healthy business with biogas operated CHP systems in Germany and a positive trend in demand from abroad. 2G was therefore able to compensate for the temporary weakness in business with CHP systems powered by natural gas in Germany.

Order book position for CHP systems as of 31 August 2017

	in EUR million
of which Germany	75.5
of which USA	19.1
of which Japan	6.6
of which UK	5.3
of which France	4.8
of which rest of world	11.4
Sum total	**122.7**

Order intake continued to develop extremely well in the months of July and August. All in all, 2G acquired orders of EUR 28.6 million (previous year: EUR 22.7 million). This increase was attributable to the higher level both of new domestic and international orders. At the end of August 2017, orders on hand stood at EUR 122.7 million (previous year: EUR 127.2 million) and break down into 38.5 % in international orders and 61.5 % in domestic orders. Double-shift production is therefore secured through to the end of the first quarter of 2018. In the second half of 2017, 2G anticipates that international business will remain lively and that demand in Germany for natural gas CHP systems will gradually recover and remain strong for biogas operated CHP systems.

In this scenario, the Management Board is issuing a more precise forecast for the fiscal year 2017 and assumes an increase in revenues of up to EUR 180 million compared with the previous year (EUR 174.3 million). At the same time, the Management Board affirms its expectations of achieving an EBIT margin of between three and five percent.

Heek, in September 2017
2G Energy AG

Christian Grotholt
Management Board
Chairman (CEO)

Ludger Holtkamp
Management Board
member

2G. Consolidated balance sheet.

Consolidated balance sheet of 2G Energy AG

Assets

	30/06/2017	31/12/2016
	Euro	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	663,598.11	784,501.12
Goodwill	4,336,377.25	4,620,896.75
Prepayments rendered	0.00	24,975.90
	4,999,975.36	**5,430,373.77**
II. Tangible fixed assets		
Land, land rights and buildings, including buildings on third-party land	8,330,531.84	8,695,112.94
Plant and machinery	1,190,809.97	1,264,809.54
Other factory and office equipment	9,251,493.31	8,615,586.66
Prepayments rendered and plants under construction	712,624.96	619,457.03
	19,485,460.08	**19,194,966.17**
III. Financial fixed assets		
Other participating interests	10,000.00	10,000.00
	10,000.00	**10,000.00**
	24,495,435.44	**24,635,339.94**
B. Current assets		
I. Inventories		
Raw materials and supplies	27,364,239.41	30,446,606.22
Work in progress	45,130,032.13	33,341,019.03
Finished goods and merchandise	1,662,277.54	1,115,658.86
Prepayments rendered	2,601,464.77	2,021,179.09
Prepayments received for orders	-32,949,393.66	-23,544,590.28
	43,808,620.19	**43,379,872.92**
II. Receivables and other assets		
Trade receivables	22,493,652.78	29,239,393.87
Other assets	1,686,369.01	2,527,227.44
	24,180,021.79	**31,766,621.31**

Assets

	30/06/2017	31/12/2016
	Euro	Euro
III, Cash in hand, bank balances	**17,395,021.85**	**10,199,770.32**
	85,383,663.83	**85,346,264.55**
C. Prepayments and accrued income	**1,066,381.88**	**437,258.28**
D. Deferred tax assets	**1,233,975.99**	**969,980.40**
Total	**112,179,457.14**	**111,388,843.17**

Equity and liabilites

	30/06/2017	31/12/2016
	Euro	Euro
A. Equity		
I. Subscribed share capital	4,430,000.00	4,430,000.00
II. Capital reserve	11,235,300.00	11,235,300.00
III. Consolidated net income	36,465,070.73	37,243,642.69
IV. Minority interests	651,342.47	656,447.25
V. Equity difference from currency translation	-875,934.48	-649,469.98
	51,905,778.72	**52,915,919.96**
B. Provisions		
Tax provisions	916,034.14	952,260.02
Other provisions	11,080,653.02	11,512,919.32
	11,996,687.16	**12,465,179.34**
C. Liabilities		
Bank borrowings	6,442,611.99	6,276,666.10
Prepayments received for orders	26,902,510.32	25,746,843.28
Trade payables	8,762,351.22	6,786,437.50
Other liabilities	6,169,517.73	7,197,796.99
	48,276,991.26	**46,007,743.87**
Total	**112,179,457.14**	**111,388,843.17**

2G. Consolidated profit and loss account.

Consolidated profit and loss account of 2G Energy AG

	01/01 to 30/06/2017	01/01 to 30/06/2016	01/01 to 31/12/2016
	Euro	Euro	Euro
Net sales	**72,369,272.21**	**63,759,688.22**	**174,298,902.96**
Increase in work-in-progress and finished goods	12,110,678.49	21,202,546.49	7,064,597.52
Other own work capitalized	965,302.64	514,068.45	2,258,187.74
	85,445,253.34	**85,476,303.16**	**183,621,688.22**
Other operating income	530,768.59	465,461.17	1,412,999.06
	85,976,021.93	**85,941,764.33**	**185,034,687.28**
Cost of materials			
a) Cost of raw materials and supplies, and for purchased merchandise	46,881,142.54	51,157,599.76	100,214,539.70
b) Cost of purchased services	12,578,275.85	12,115,220.44	28,418,513.44
	59,459,418.39	**63,272,820.20**	**128,633,053.14**
Personnel costs			
a) Wages and salaries	13,538,057.24	12,363,305.79	24,832,942.94
b) Social security, pension and other benefits	2,629,041.79	2,536,898.70	5,118,183.73
	16,167,099.03	**14,900,204.49**	**29,951,126.67**
Depreciation and amortization applied to tangible and intangible fixed assets	1,905,194.78	1,749,867.75	3,587,245.02
Other operating expenses	8,843,487.53	8,351,881.05	18,900,590.19
Other interest and similar income	11,902.98	43,157.20	68,246.52
Interest and similar expenses	194,621.69	216,203.78	436,283.93
Taxes on income	87,368.84	261,319.47	1,699,129.42
Profit after taxes	**-669,265.35**	**-2,767,375.21**	**1,895,505.43**
Other taxes	114,411.39	33,930.22	111,434.07
Consolidated net loss/profit for the year	**-783,676.74**	**-2,801,305.43**	**1,784,071.36**
Share of profit/loss attributable to other shareholders	5,104.78	38,795.48	13,371.39
Consolidated net loss/profit	**-778,571.96**	**-2,762,509.95**	**1,797,442.75**
Retained earnings	37,243,642.69	37,085,299.94	37,085,299.94
Dividend payment	0.00	0.00	-1,639,100.00
Consolidated net retained earnings	**36,465,070.73**	**34,322,789.99**	**37,243,642.69**

2G. Notes to the consolidated financial statements.

Notes to the consolidated financial statements of 2G Energy AG

A. General information about the consolidated statements

1. Basic information

2G Energy AG is a public limited company under German law. The company's shares are 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.

These consolidated financial statements of 2G Energy AG represent the reporting period from 1 January to 30 June 2017. Last years' figures relate to the balance sheet at the end of the previous financial year (31 December 2016) as well as the profit and loss account of the corresponding prior fiscal year period (1 January to 30 June 2016).

The interim financial statements and the interim management report as at 30 June 2017 have not been audited in accordance with Section 317 of the German Commercial Code (HGB) and have not been reviewed by an external auditor. The consolidated financial statements and the management report of the company as at 31 December 2016 were audited by an auditor in accordance with Section 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) and have been issued an unqualified opinion.

2. Line of business

The company and its subsidiaries primarily plan and install combined heat and power ("CHP") systems and other systems for the recovery of efficient use of electrical energy, and provide after-sale services associated with CHP systems. One subsidiary is responsible for 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	3,246	-7	24/03/2010
2G Home GmbH, Heek, Germany	100	125	-2,660	-271	31/12/2007
2G Rental GmbH, Heek, Germany	100	50	-273	69	31/12/2014
2G Solutions of Cogeneration S.L., Vic Barcelona, Spain	90	3	-116	-48	31/01/2008
2G Energie SAS, Carquefou (Nantes), France	100	200	83	-70	24/08/2016
2G Italia Srl, Vago di Lavagno (Verona), Italy	100	10	414	-69	15/03/2011
2G Energy Ltd., Cheshire, United Kingdom**	100	1	826	522	19/09/2011
2G Polska Sp. z o.o., Bielsko-Biala, Poland**	100	1	-121	20	07/11/2011
2G Energy Inc., St. Augustine (FL), USA**	100	1	2,628	-397	27/02/2012

* On July 5, 2007, a control and profit assumption agreement was contracted with 2G Energietechnik GmbH.
** Converted at reporting date's exchange rate.

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

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

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

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

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

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

2. Consolidation methods applied

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

The consolidated financial statements are based on the separate financial statements of 2G Energy AG and the financial statements of the subsidiaries included in the consolidation scope. The financial statements are prepared as of the 30 June 2017 closing date.

Capital consolidation

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

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

Consolidation of liabilities

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

Treatment of unrealized results of intragroup transactions

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

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

Consolidation of income and expenses

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

C. Information about accounting policies

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

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

Valuation methods were applied unchanged compared with the previous year.

Valuation details are as follows:

1. Intangible fixed assets
Acquired intangible fixed assets are recognized at acquisition cost and, if they comprise depreciating assets, less straight-line amortization. Prepayments rendered are recognized at normal value.

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

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

4. Inventories
Raw materials and supplies are recognised 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 4,438 (previous year: TEUR 3,705) of rental plants from the operating activities of 2G Rental GmbH.

2. Inventories

Inventories amounted to TEUR 43,809 (previous year: TEUR 43,380) as of the balance sheet date. Along with raw materials and supplies (TEUR 27,364), they comprise work in progress (TEUR 45,130), finished goods and merchandise (TEUR 1,662), and prepayments rendered (TEUR 2,601).

Pursuant to Section 268 (5) of the German Commercial Code (HGB), prepayments received for orders (TEUR 32,949) were deducted openly from the inventories item.

3. Receivables and other assets

Specific and general valuation allowances of TEUR 3,019 (previous year: TEUR 3,361) were applied to trade receivables.

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

4. Deferred tax assets

Deferred tax receivables of TEUR 1,234 (previous year: TEUR 970) arise from tax loss carryforwards (TEUR 201) at 2G Drives GmbH, 2G Rental GmbH, 2G Energie SAS and 2G Polska Sp. z o.o. No deferred tax assets were formed in relation to the loss carryforwards of 2G Home GmbH, 2G 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 316) and inventories (TEUR 622) deriving from intragroup deliveries and services as of the balance sheet date, and on temporary differences (TEUR 89). These temporary differences arise mainly from recognizing differing valuations for inventories and provisions in the financial statements and in the tax accounts.

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

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

5. Consolidated equity

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

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

An amount of TEUR 36,465 is available to shareholders for distribution in the year under review. Notional dividend payout restrictions exist in relation to deferred taxes of TEUR 1,234.

No restricted amounts that cannot be distributed exist in the separate financial statements of 2G Energy AG.

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

6. Other provisions

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

Other provision, in TEUR

	31/12/2016	Consumption	Release	Addition	30/06/2017
Warranty commitments	6,073	4,720	0	5,440	6,792
Residual work on completed plants / outstanding invoices	2,966	2,966	0	1,626	1,626
Amounts owed to staff	1,136	1,136	0	1,342	1,342
Professional cooperative contributions	263	201	9	159	211
Miscellaneous other provisions	1,075	174	2	210	1,109
Total	**11,513**	**9,197**	**11**	**8,777**	**11,081**

7. Liabilities

Liabilities consist of the following:

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

	Total	Up to 1 year	1 to 5 years	More than 5 years
Bank borrowings	6,443 (6,277)	1,586 (1,761)	4,856 (4,516)	1,426 (1,346)
Prepayments received for orders	26,903 (25,747)	26,903 (25,747)	0 (0)	0 (0)
Trade payables	8,762 (6,786)	8,762 (6,786)	0 (0)	0 (0)
Other liabilities	6,170 (7,198)	6,170 (7,198)	0 (0)	0 (0)
Total	**48,277 (46,008)**	**43,421 (41,492)**	**4,856 (4,516)**	**1,426 (1,346)**

The following collateral instruments are connected with bank borrowings:

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

Other liabilities comprise tax liabilities of TEUR 2,014 (previous year: TEUR 4,247), and social security liabilities of TEUR 90 (previous year: TEUR 67).

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

	Germany	Abroad	Total
CHP Systems / After Sales	17,987	22,270	40,258
Service	24,862	7,249	32,112
Total	**42,850**	**29,519**	**72,369**

2. Other operating income

Other operating income comprises TEUR 192 of income related to other accounting periods (previous year: TEUR 175) that consists mainly of insurance compensation payments and loss compensation payments (TEUR 105), the release of provisions (TEUR 11), and the elimination of specific and general valuation allowances on receivables (TEUR 63).

Other operating income includes income of TEUR 144 from currency translation (previous year: TEUR 22).

3. Other operating expenses

Other operating expenses consist of the following:

Other operating expenses, in TEUR

	01/01/ to 30/06/2017	01/01/ to 30/06/2016
Operating expenses	3,126	2,878
Administration expenses	1,512	1,121
Sales and marketing expenses	2,500	2,410
Miscellaneous	1,704	1,942
Total	**8,843**	**8,352**

Other operating expenses comprise TEUR 365 of income related to other accounting periods (previous year: TEUR 303) that consists mainly of non-period credits and losses incurred on receivables.

Other operating expenses include expenses of TEUR 438 from currency translation (previous year: TEUR 454).

4. Personnel costs

Social security contributions and pension and benefit expenses include TEUR 153 of pension expenses (previous year: TEUR 210).

5. Taxes on income

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

Deferred tax result, in TEUR

	01/01/ to 30/06/2017	01/01/ to 30/06/2016
Deferred tax income	34	244
Deferred tax expenses	-298	-166
of which attributable to loss carryforwards	28	-41
Income from deferred taxes	**-264**	**83**

F. Additional information

1. Consolidated cash flow statement

The cash flow statement is prepared in compliance with German Accounting Standard/DRS 21.

Cash and cash equivalents shown in the cash flow statement include cash at banks and in hand, less short-term liabilities of TEUR 12 (previous year: TEUR 13).

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

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

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

3. Derivative financial instruments

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

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

Type	Scope, in TEUR	Maturity	Fair value, in TEUR
Forward exchange transaction EUR - JPY	115	25/07/2017	112
Total	**115**		**112**

4. 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.

5. Management Board

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

Management Board

	Member since	Member until	Appointed until
Mr. Dipl.-Ing. Christian Grotholt (Chairman) Ahaus-Alstätte, Germany CEO of 2G Energy AG Strategy, Sales, Service, Research & Development	17/07/2007		16/07/2022
Mr. Ludger Holtkamp Gronau, Germany COO of 2G Energy AG Procurement, Production, Project Management	17/07/2007		16/07/2022
Mr. Dipl.-Betriebsw. (FH) Dietmar Brockhaus Havixbeck, Germany CFO of 2G Energy AG Finance, Human Ressources, Law, Investor Relations	01/07/2013	31/07/2017	

6. Supervisory Board

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

Supervisory Board

	Member since
Dr. Lukas Lenz (Chairman) Lawyer, Hamburg, Germany	17/07/2007
Mr. Heinrich Bertling (Deputy Chairman) Tax adviser, Gronau, Germany	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".

Heek, 27 September 2017

Christian Grotholt
Management Board
Chairman (CEO)

Ludger Holtkamp
Management Board
member

Consolidated statement of changes in fixed assets

	Cost					
	01/01/2017	Currency translation	Additions	Transfers	Disposals	30/06/2017
Intangible fixed assets						
Purchased concessions, industrial property rights and similar rights and assets, and licenses to such rights and assets	2,343,612.90	-910.36	28,593.25	24,975.90	1,305.00	2,394,966.69
Goodwill	8,431,787.58	0.00	0.00	0.00	0.00	8,431,787.58
Prepayments rendered	24,975.90	0.00	0.00	-24,975.90	0.00	0.00
	10,800,376.38	**-910.36**	**28,593.25**	**0.00**	**1,305.00**	**10,826,754.27**
Tangible fixed assets						
Land, land rights and buildings, including buildings on third-party land	10,140,205.36	-217,636.98	0.00	0.00	0.00	9,922,568.38
Plant and machinery	2,047,425.31	-12,033.00	31,436.06	0.00	2,500.00	2,064,328.37
Other factory and office equipment	16,608,635.75	-77,734.36	1,912,837.90	1,489.66	185,543.47	18,259,685.48
Prepayments rendered and plants under construction	619,457.03	-121.10	94,778.69	-1,489.66	0.00	712,624.96
	29,415,723.45	**-307,525.44**	**2,039,052.65**	**0.00**	**188,043.47**	**30,959,207.19**
Financial fixed assets						
Other participating interests	10,000.00	0.00	0.00	0.00	0.00	10,000.00
	10,000.00	**0.00**	**0.00**	**0.00**	**0.00**	**10,000.00**
Total	**40,226,099.83**	**-308,435.80**	**2,067,645.90**	**0.00**	**189,348.47**	**41,795,961.46**

Depreciation and amortisation					Book value	
01/01/2017	Currency translation	Additions	Disposals	30/06/2017	31/12/2016	30/06/2017
1,559,111.78	-441.10	174,001.90	1,304.00	1,731,368.58	784,501.12	663,598.11
3,810,890.83	0.00	284,519.50	0.00	4,095,410.33	4,620,896.75	4,336,377.25
0.00	0.00	0.00	0.00	0.00	24,975.90	0.00
5,370,002.61	**-441.10**	**458,521.40**	**1,304.00**	**5,826,778.91**	**5,430,373.77**	**4,999,975.36**
1,445,092.42	-6,662.83	153,606.95	0.00	1,592,036.54	8,695,112.94	8,330,531.84
782,615.77	-5,725.06	99,126.69	2,499.00	873,518.40	1,264,809.54	1,190,809.97
7,993,049.09	-41,123.43	1,193,939.74	137,673.23	9,008,192.17	8,615,586.66	9,251,493.31
0.00	0.00	0.00	0.00	0.00	619,457.03	712,624.96
10,220,757.28	**-53,511.32**	**1,446,673.38**	**140,172.23**	**11,473,747.11**	**19,194,966.17**	**19,485,460.08**
0.00	0.00	0.00	0.00	0.00	10,000.00	10,000.00
0.00	**0.00**	**0.00**	**0.00**	**0.00**	**10,000.00**	**10,000.00**
15,590,759.89	**-53,952.42**	**1,905,194.78**	**141,476.23**	**17,300,526.02**	**24,635,339.94**	**24,495,435.44**

Consolidated cash flow statement

		01/01 to 30/06/2017	01/07 to 31/12/2016	01/01 to 30/06/2016
		Euro	Euro	Euro
	Consolidated net profit/loss for the year	**-783,676.74**	**4,585,376.79**	**-2,801,305.43**
+	Depreciation, amortization and fixed assets write-downs	1,905,194.78	1,837,377.27	1,749,867.75
±	Change in provisions	-432,266.30	937,407.78	-123,448.47
±	Change in inventories	-428,747.27	-1,339,539.81	-9,791,856.46
±	Change in trade receivables and other assets not allocable to investment or financing activity	6,693,480.33	-5,558,194.98	2,366,083.92
±	Change in trade payables and other liabilities that are not allocable to investing or financing activities	2,103,301.50	-1,380,366.94	15,514,342.22
±	Loss/gain from fixed asset disposals	-7,479.05	36,451.71	27,785.61
+	Interest and similar expenses	194,621.69	220,080.15	216,203.78
-	Other interest and similar income	-11,902.98	-25,089.32	-43,157.20
+	Taxes on income	87,368.84	1,437,809.95	261,319.47
±	Income tax payments	-123,594.72	-661,497.41	-1,083,830.86
=	**Cash flow from operating activities**	**9,196,300.08**	**89,815.19**	**6,292,004.33**
+	Proceeds from fixed asset disposals	55,351.29	166,000.05	118,475.57
-	Payments for investments in intangible fixed assets	-28,593.25	-147,732.43	-143,865.20
-	Payments for investments in tangible fixed assets	-2,039,052.65	-3,220,792.74	-1,324,465.91
-	Payments for acquisition of consolidated companies	0.00	-60,000.00	0.00
+	Interest received	11,902.98	25,089.32	43,157.20
=	**Cash flow from investing activities**	**-2,000,391.63**	**-3,237,435.80**	**-1,306,698.34**
+	Proceeds from raising of loans	974,000.00	1,462,000.00	712,000.00
-	Outgoing payments for redemption of loans	-806,671.03	-927,951.53	-873,804.70

		01/01 to 30/06/2017	01/07 to 31/12/2016	01/01 to 30/06/2016
		Euro	Euro	Euro
-	Interest paid	-194,621.69	-220,080.15	-216,203.78
-	Dividends paid to parent company shareholders	0.00	-1,639,100.00	0.00
=	**Cash flow from financing activities**	**-27,292.72**	**-1,325,131.68**	**-378,008.48**
=	**Net change in cash and cash equivalents**	**7,168,615.73**	**-4,472,752.29**	**4,607,297.51**
	Currency-related change in cash and cash equivalents	28,018.88	-161,046.28	85,569.76
+	Cash and cash equivalents at start of period	10,186,757.66	14,820,556.23	10,127,688.96
=	**Cash and cash equivalents at end of period**	**17,383,392.27**	**10,186,757.66**	**14,820,556.23**

	01/01 to 30/06/2017	01/07 to 31/12/2016	01/01 to 30/06/2016
	Euro	Euro	Euro
Composition			
Liquid assets	17,395,021.85	10,199,770.32	14,838,585.62
Short-term bank borrowings	-11,629.58	-13,012.66	-18,029.39
	17,383,392.27	**10,186,757.66**	**14,820,556.23**

Consolidated statement of changes in equity

Consolidated statement of changes in equity, in EUR

	Parent company			
	Subscribed share capital	Capital reserves	Equity difference from currency translation	Other accumulated consolidated earnings
Balance on 01/01/2016	**4,430,000.00**	**11,235,300.00**	**-602,681.20**	**6,375.40**
Consolidation-related currency differences			-46,788.78	
Payments to shareholders				
Consolidated profit for the year				
Miscellaneous changes				
Balance on 31/12/2016	**4,430,000.00**	**11,235,300.00**	**-649,469.98**	**6,375.40**
Balance on 01/01/2017	**4,430,000.00**	**11,235,300.00**	**-649,469.98**	**6,375.40**
Consolidation-related currency differences			-226,464.50	
Consolidated profit for the year				
Balance on 30/06/2017	**4,430,000.00**	**11,235,300.00**	**-875,934.48**	**6,375.40**

		Minority interests			Consolidated equity
Retained earnings	**Total**	Minority capital	Retained earnings attributable to minority interests	**Total**	
37,078,924.54	**52,147,918.74**	**4,991.42**	**494,058.21**	**499,049.63**	**52,646,968.37**
	-46,788.78				-46,788.78
-1,639,100.00	-1,639,100.00			0.00	-1,639,100.00
1,797,442.75	1,797,442.75		-13,371.39	-13,371.39	1,784,071.36
	0.00	309.18	170,459.83	170,769.01	170,769.01
37,237,267.29	**52,259,472.71**	**5,300.60**	**651,146.65**	**656,447.25**	**52,915,919.96**
37,237,267.29	**52,259,472.71**	**5,300.60**	**651,146.65**	**656,447.25**	**52,915,919.96**
	-226,464.50				-226,464.50
-778,571.96	-778,571.96		-5,104.78	-5,104.78	-783,676.74
36,458,695.33	**51,254,436.25**	**5,300.60**	**646,041.87**	**651,342.47**	**51,905,778.72**

Colophon

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