GREENCELLS GMBH

Half-Year Report

H1/2023

Management Report

Ladies and Gentlemen, Investors and Business Partners,

The first half of 2023 again remained turbulent marked by the ongoing Ukraine war and various geopolitical conflicts. Economically, however, first positive trends have recently emerged with the easing of the energy crisis and the associated decline in inflation. Globally, energy and commodity prices fell, which contributed to a weakening of inflation in the G7 countries and, looking ahead, will reduce the monetary policy pressure on the central banks.[1]

The global economy realized moderate growth in the current year and recessions feared in view of the strongly tightened monetary policy in 2022 did not materialize. While a robust business activity in the United States resisted the economic adjustment processes well, the dynamics of the Chinese economy slowed down. Overall, a moderate growth of around 3 % is forecast for the world economy in 2023.[2]

In the European economic area, the effects of the energy crisis and the restrictive monetary policy showed their effect in the current year. The momentum gathered after the Covid pandemic has weakened and the economic outlook has become gloomier. In the first half of 2023, GDP growth within the Euro area stood at 0.3 %, with an overall growth of 0.6 % expected for the whole year. For the coming year, however, the outlook for the economic development is positive thanks to largely normalized energy prices and rising real incomes.[3]

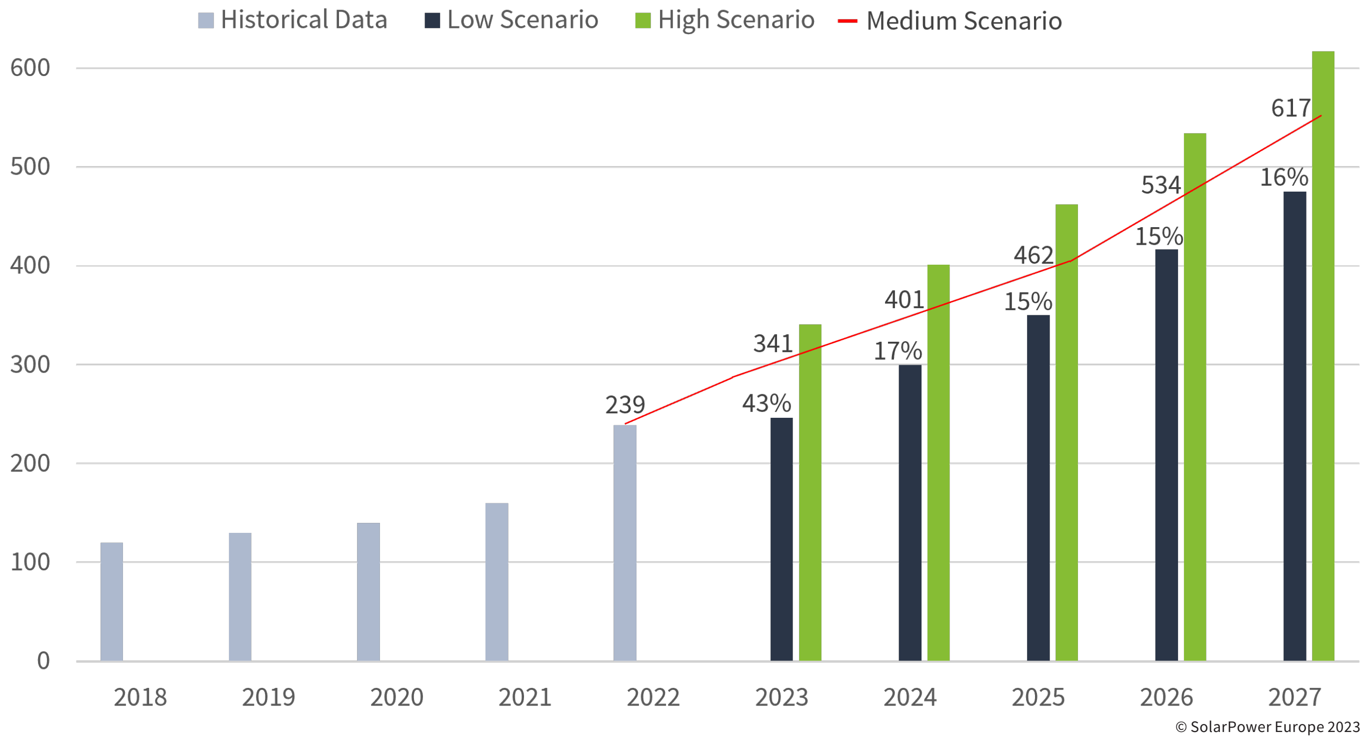
Market situation

Solar industry - long-term growth in sight

In contrast to the mixed economic outlook, all signs point to expansion for the solar industry. The energy crisis, but also the increasingly obvious effects of climate change, have led to a fundamental rethinking of energy policy. Solar energy in particular is now perceived by political decision-makers as the centerpiece of a rapid and sustainable transformation of the energy landscape to restore security of supply.[4]

In this context, the first half of 2023 was characterized by great vitality and demand for the solar industry worldwide. According to management, more stable component and logistics prices, as well as the easing of supply chain problems of previous years, create excellent conditions to meet a historically high demand. After breaking through the terawatt barrier of installed solar capacity in 2022, the industry association Solarpower Europe forecasts another boom year for the solar industry in view of the positive market developments in the first half of 2023. It is estimated that 341 GW of capacity will be added globally in 2023, an increase of 43 % compared to the 239 GW added in 2022.[5]

[1] Gern et al., 2023, p.5f [2] Gern et al., 2023, p.3 [3] Gern et al., 2023, p.18 [4] SolarPower Europe, 2023, p.3 [5] SolarPower Europe, 2023, p.3/26



Long-term competitiveness

These highly positive growth prospects are also a result of the now steady competitiveness of the solar sector. Even after the short-term increase in its electricity production costs caused by supply chain bottlenecks and inflationary pushes, solar energy remains cheaper than new fossil or nuclear energy sources. The current further decline in component prices, which are already moving towards pre-Covid levels, further consolidates this position.[6]

The steadily growing number of power purchase agreements (PPAs) is a clear indicator of this. The Swiss consultancy Pexapark, which also publishes a monitoring of PPAs for solar and wind energy, was already able to record more contract conclusions as of August 2023 than in the previous year and expects a record number of closed deals for the whole year.[7]

Maximizing growth opportunities

Thanks to the now high interest of political and economic decision-makers in the promotion of solar energy, from the viewpoint of the management a key moment has arrived for the entire industry, which holds exponential growth potential for well-positioned, experienced players such as Greencells Group.

The above-mentioned forecasts for added capacities are already resulting in unprecedented demand for EPC services in the current financial year.

Strategic refocusing

In the first half of the year, Greencells GmbH undertook important decisions for its future strategic orientation. After the sister entity Greencells Group Holdings Ltd, Abu-Dhabi (the "Holdings Group") registered keen interest from potential buyers in the acquisition of the development portfolio and development platform (in particular the team and systems) in spring 2023, the management bodies carried out an in-depth assessment of the strategy of the overall Group in May 2023, taking into account the market conditions and extensive discussions with the shareholders as well as business and financing partners. In view of the sustained growth potential in the European EPC market, the stabilized procurement conditions and the "political tailwind" for the rapid expansion of capacities in the renewable energy sector to accelerate the energy transition as well as the unique selling points of the GmbH Group in this market, it was decided to take advantage of the market environment, to focus the overall Group strategy on the EPC business and to sell the Holdings Group's development business (portfolio and platform) through

[6] SolarPower Europe, 2023, p.6 [7] Pexapark, 2023

a structured process presumably in the course of the coming year.

At the beginning of July 2023, the Holdings Group therefore commissioned an investment bank with industry experience to structure and implement the sale of the development business.

The inflow of funds from the sale towards Holdings Group shall be used to redeem its liabilities with the GmbH Group. The GmbH Group would in turn use these to repay the Green Bond and other loans ahead of schedule and to strengthen its liquidity base.

A tender obligation shall be agreed with the buyer concerning the EPC volumes resulting from the projects included in the sale, which will stipulate that GmbH Group will be granted the right to submit corresponding EPC offers for each project. By doing so, GmbH Group will also be able to benefit from the EPC sales potential of the projects after the sale.

In this way, the profitable growth of GmbH Group is to be combined with significantly lower debt, a leaner balance sheet and an improved risk profile. The already initiated diversification of business types within the EPC business, including a shift from the capital-intensive "Full EPC" business in favor of "EPC light", "General Contracting" and "Construction only", also contributes to the improvement of the risk profile. This should lead to a reduction in project volumes, procurement risks, financing and guarantee requirements.

In addition, we are continuing the concentration on the attractive European target markets and our core segment of utility-scale solar power plants that we have already initiated. In this context, we sold our subsidiary Greencells Regio GmbH, Losheim am See, Germany, which is active in the field of smaller commercial rooftop systems and carports, to an investor in May 2023. Likewise, we are currently in talks with prospective buyers to sell the EPC subsidiaries of Holdings Group, which are active in markets in Asia, the Middle East and Africa. All disposals have a subordinate, albeit positive, direct or indirect effect on the financial position of GmbH Group.

General business development

In a significantly improved market environment, Greencells GmbH was managing five ongoing construction projects with a total volume of around 272 MWp as of 30 June 2023 (31 December 2022: five projects with around 262 MWp). The two largest projects, representing over half of the built capacity, are located in Hungary, the others in the United Kingdom and the Netherlands. For a further ten projects (31.12.2022: seven) with a volume of around 131 MWp (31.12.2022: 95 MWp), there were confirmed orders in the target countries of Ireland, the Netherlands, Romania and the United Kingdom on the same reporting date. Further contracts, especially for projects in Germany, were in the final stages of negotiation and have now been concluded.

In total, the ongoing projects progressed significantly better than planned in the first half of 2023, although (as is typical for the business sector) there were both positive and negative deviations in individual projects. All key earnings figures not only exceeded the previous year, but also the budget.

In addition to the improved market environment with its positive effects on demand and material prices, a number of company-specific measures and factors contributed to this development:

- After the targeted expansion of the evaluation, risk management and approval processes for new projects in 2022, the company reorganized the upstream project acquisition and selection measures in the first half of 2023. As a result, project types, sizes, and profitability, as well as cash flow profiles and collateral requirements, can be managed and projects prioritized in a more targeted manner. This also enables a faster response in the event of unavoidable project postponements or failures. We implemented further process improvements in the finance area in budgeting and liquidity planning.

- During the reporting period, the Greencells team was significantly strengthened and several important positions in the company were filled. These include, for example, purchasing (which is of particular importance for the profitability of projects with EPC providers such as Greencells), the expansion of the business development team and the recruitment of an experienced ERP and software development expert for the further digitalization of our management processes.

- Special attention was paid to Greencells CEE Srl, Cluj-Napoca, Romania, during the reporting period. The largest Group company, with around 300 employees, plays an important role in the value creation of Greencells Group with its high-performance assembly team. Due to a persistent loss situation at the company, different restructuring measures were initiated during the reporting period. These include a replacement of the management with an experienced team, a reorganization of the various divisions and the organizational chart in the sense of a more balanced and effective management structure, the introduction of new tools for project controlling, various cost-cutting measures, the replacement of the previous ERP system, and different measures of training and further education of the team for the purpose of increasing efficiency.

- The development projects Inarcs, Szügy (both Hungary) and Hartungshof (Germany) held by Holdings Group were successfully sold to investors in the first half of 2023. The cash inflows were used to repay project-specific financing with banks, but also to settle liabilities to Greencells GmbH from the respective EPC projects and intercompany loans. Greencells GmbH Group's receivables from the sister entity thus decreased from EUR 80.1m (31 December 2022) to EUR 74.1m (30 June 2023) in the reporting period.

- Another focus was on communication and the exchange of information with our financing partners. Here, reporting was significantly expanded and supplemented by a new format, the so-called "Finance Days", which will continue to be successively expanded.

With effect from 14 September 2023, i.e. after the reporting date, Zahid Group increased its indirect shareholding in Greencells GmbH from 50 % to 60 %. For this purpose, a total of 10 % of the shares were acquired from the intermediate holding company of the two other indirect shareholders and company founders, Andreas Hoffmann and Marius Kisauer. Zahid Group is a global family-owned company with more than 5,000 employees, founded in 1943 and with a diversified portfolio of more than 50 brands, including own brands as well as strategic partnerships and joint ventures with internationally renowned companies such as Caterpillar, TotalEnergies and Renault Trucks. The energy sector is one of the Group's focus categories and includes business activities in the field of renewable energies, in which Greencells GmbH plays an important role. As part of Zahid Group, Greencells GmbH is to be successfully developed on an ongoing basis with its corporate strategy now consistently focused on the EPC business.

Net assets, financial position and results of operations

Earnings situation

While sales revenues declined by 22.7 % to EUR 78.9m in the reporting period compared to the same period of the previous year due to project-related factors, gross profit improved by 36.4 % to EUR 10.3m, also due to project-related factors. As in the previous year, the main revenue driver was the EPC business, while asset management fees declined from EUR 5.4m to EUR 2.7m and O&M revenues were of minor importance.

Administrative expenses increased significantly by EUR 882k to EUR 5,158k. The increases are attributable to costs for consulting services (+ EUR 461k), administrative personnel expenses (+ EUR 229k), maintenance and repair costs (+ EUR 107k) and, in the amount of EUR 109k, non-recurring costs of monetary transactions from project-related financing.

Other operating income also increased significantly by EUR 603k to EUR 1,455k. This includes income of EUR 604k from the deconsolidation of Greencells Regio GmbH (EUR 356k of which is compensated by operating losses of the former subsidiary in the reporting period), as well as EUR 374k from the release of provisions.

Selling expenses of EUR 133k (previous year: EUR 67k) were of minor importance.

With the average number of employees (full-time equivalents) rising by 84 to 434 during the reporting period, personnel expenses increased from EUR 7.3m to EUR 8.7m.

The GmbH Group was thus able to more than double its operating result (EBIT) in the first half of 2023 to EUR 5.6m compared to the same period of the previous year. The EBIT margin improved from 2.7 % to 7.1 %.

The interest result amounted to EUR 132k (previous year: minus EUR 272k) and is characterized particularly by the financing function for the sister entity as well as the costs for letters of credit.

Thus, the pre-tax result improved by EUR 3.2m or 131.0 % to EUR 5.7m and the pre-tax margin from 2.4 % to 7.3 %. Earnings after taxes amounted to EUR 3.4m and more than tripled compared to the same period of the previous year (EUR 939k). Return on sales improved significantly from 0.9 % to 4.3 %.

Assets and financial position

Non-current assets decreased significantly from EUR 52.0m to EUR 1.2m and amounted to 0.8 % (31.12.2022: 46.4 %) of the balance sheet total. The main reason for this is non-current financial receivables, which at the end of 2022 related exclusively to receivables from the sister entity and non-consolidated subsidiaries and were reduced significantly from EUR 50.7m to EUR 106k through reclassification to current assets. Property, plant, and equipment decreased by EUR 151k to EUR 956k, mainly due to depreciation, and continue to be of minor importance.

On the other hand, current assets increased significantly from EUR 60.2m (31.12.2022) to EUR 146.9m. With inventories slightly higher by EUR 1.6m to EUR 8.2m and cash and cash equivalents almost unchanged at EUR 12.0m, other financial assets increased by EUR 63.1m to EUR 63.1m. These include almost exclusively receivables from the sister entity and also the balances reclassified from the former non-current assets. Trade receivables also rose by EUR 11.8m to EUR 49.6m and other non-financial assets (including advance payments) by EUR 9.5m to EUR 13.9m.

The balance sheet total thus grew significantly by 32 % (EUR 35.9m) to EUR 148.1m.

On the liabilities side, equity increased by EUR 3.5m or 24.9 % to EUR 17.6m due to the positive result in the reporting period. Due to the disproportionate increase in the balance sheet total, the equity ratio declined slightly from 12.5 % to 11.9 %.

A significant component of non-current liabilities were the financial liabilities (Green Bond), which increased slightly from EUR 38.5m to EUR 41.6m in the reporting period. Deferred tax liabilities also increased from EUR 294k to EUR 2.7m.

The increase in current liabilities was much stronger. With almost unchanged financial liabilities (mainly from shareholder loans) of EUR 26.8m, income tax liabilities of EUR 3.0m, as well as declining provisions (EUR 586k after EUR 3.2m as of 31.12.2022), trade payables increased significantly by EUR 30.2m to EUR 48.8m, while other non-financial liabilities (mainly VAT) declined by EUR 1.4m to EUR 7.0m.

Working capital decreased significantly from EUR 25.9m (31.12.2022) to EUR 9.0m due to project and reporting date factors. Net debt amounted to EUR 56.5m and was thus slightly higher than at the end of the previous year (EUR 53.4m). The gearing ratio improved again significantly from 6.4 to 4.9.

The GmbH Group's solvency was ensured at all times during the reporting period. The typical high fluctuations in working capital were covered by free liquidity and cashflow, but also by short-term project-specific bank financing and shareholder loans. Regardless of this, the goal is still to significantly strengthen liquidity as part of the implementation of the new strategy in order to secure further corporate growth and significantly improve the risk profile.

The volume of financial guarantees issued amounted to EUR 75m as of the reporting date (31.12.2022: EUR 96m) and currently stands at EUR 36m.

Risk situation

Overall, the risk situation in the reporting period corresponded to the situation described in the risk report for the 2022 financial year, whereby the positive result for the period and the associated equity effect further strengthened the risk cover funds.

As outlined in our risk report, the EPC business always requires the integration of project-specific insurance and financing solutions. In this regard, Greencells GmbH works together with various banking and insurance partners. With an increasing number of these partners, there were extended reporting and auditing obligations in the reporting period as a prerequisite for the usability of lines. For new business, this was also restricted in some cases. In order to bridge the period until the sale of the development business by the Holdings Group and the realization of the associated significantly positive effects on the balance sheet structure, debt and liquidity, the company entered into negotiations with the financiers and the shareholders after the end of the reporting period in order to take advantage of the existing growth opportunities in the market.

Outlook

Based on the positive business development, we expect to exceed the annual targets of more than EUR 200m in sales, an EBIT of EUR 10-12m and a return on sales of 2-3 %.

The GmbH Group has an attractive project pipeline and numerous new project opportunities. As a result of the strategic realignment described above, the sister entity is expected to repay a substantial amount of liabilities to the GmbH Group. As a result, a significant improvement in the net liquidity of GmbH Group and the balance sheet ratios is presumed to materialize in 2024. On this basis, the risk profile is to be significantly improved and the financial prerequisites in terms of liquidity and project-related financing solutions for a continuation of profitable growth are to be created.

Sincerely

Andreas Hoffmann (CEO)
Patrick Clemens (CTO)
Götz Gollan (CFO)
Dr. Peter Vest (CSO)

Consolidated Income Statement

Period from 1 January to 30 June 2023

Consolidated income statement (in EUR)	H1 2023	H1 2022
Revenue	78.865.677	102.003.966
Cost of sales	-68.536.861	-94.433.460
Gross profit	**10.328.816**	**7.570.506**
Selling expenses	-133.111	-66.620
General and administrative expenses	-5.158.396	-4.276.207
Other operating income	1.455.984	852.455
Other operating expenses	-895.186	-1.327.447
Earnings before interest and taxes (EBIT)	**5.598.107**	**2.752.687**
Financial income	2.458.421	1.318.593
Financial expenses	-2.326.809	-1.590.725
Financial result	**131.612**	**-272.132**
Profit before income taxes	**5.729.718**	**2.480.555**
Income taxes	-2.372.804	-1.541.291
Earnings after taxes	**3.356.915**	**939.264**

Consolidated Balance Sheet

As of 30 June 2023

Consolidated balance sheet (in EUR)	30.06.2023	31.12.2022
A. Non-current assets	**1.220.487**	**51.998.650**
I. Intangible assets	4.913	36.890
II. Property, plant and equipment	955.615	1.106.332
III. Investments accounted for using the equity method	1	0
IV. Other financial assets	153.768	153.770
V. Financial receivables	106.051	50.700.593
VI. Deferred tax assets	138	1.066
B. Current assets	**146.867.820**	**60.185.168**
I. Inventories	8.240.154	6.658.873
II. Trade and other receivables	126.625.170	42.280.711
III. Income Tax assets	24.540	39.265
IV. Cash and cash equivalents	11.977.956	11.206.318
Total assets	**148.088.306**	**112.183.818**

Consolidated balance sheet (in EUR)	30.06.2023	31.12.2022
A. Equity	**17.565.946**	**14.062.827**
I. Subscribed capital	42.520	42.520
II. Capital reserves	5.349.895	5.349.895
III. Retained earnings	10.349.021	6.992.106
IV. Accumulated other comprehensive income	1.824.509	1.678.306
B. Non-current liabilities	**44.293.110**	**38.816.453**
I. Financial liabilities	41.630.329	38.489.783
II. Lease liabilities	7.108	32.537
III. Deferred tax liabilities	2.655.673	294.133
C. Current liabilities	**86.229.251**	**59.304.538**
I. Provisions	585.526	3.168.447
II. Financial liabilities	26.815.261	26.045.628
III. Lease liabilities	21.001	52.737
IV. Trade and other payables	55.796.600	26.961.607
V. Income tax liabilities	3.010.863	3.076.119
Total equity and liabilities	**148.088.306**	**112.183.818**

Sources

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