ANNUAL REPORT 2007

SFC
SMART FUEL CELL

Key Figures

in k€	01/01/-31/12/2007	01/01/-31/12/2006	Change in %
Total sales	14,351	7,024	› 100%
Product sales total	10,186	5,303	92.1%
Sales share of products	71.0%	75.5%	-
Sales gross margin total	2,502	530	› 100%
Gross margin	17.4%	7.5%	-
EBITDA	-3,959	-3,566	11.0%
EBITDA margin	-27.6%	-50.8%	-
EBIT	-4,707	-4,036	16.6%
EBIT margin	-32.8%	-57.5%	-
Net loss	-2,524	-4,425	-43.0%
Earnings per share, diluted	-0.49	-0.87	-43.7%

in €	31/12/2007	31/12/2006	Change in %
Equity	51,912	5,596	›100%
Equity ratio	86.6%	37.3%	›100%
Balance sheet total	59,945	14,986	›100%
Cash	52,945	6,249	›100%
Employees on 31.12.	91	76	19.7%

Share information

Bloomberg Symbol	F3C
Reuters Symbol	CXPNX
WKN	756857
ISIN	DE0007568578
Number of shares	7.136.243
Type of shares	No-par-value shares
Stock segment	Prime Standard
Stock exchange	Frankfurt, FWB
Tradable in	Xetra, Frankfurt, Berlin-HB, Dusseldorf, Stuttgart, Munich,
Designated Sponsor	HSBC, Sal. Oppenheim, Steubing
Segment	Renewable Energies

SFC Smart Fuel Cell AG (SFC) is the market and technology leader in the area of mobile and remote power supplies based on fuel cell technology for leisure, industrial, and defense applications. One of Germany's technology pioneers, the company has already built up a broad patent portfolio and has been awarded numerous prizes. Over the past few years, SFC has established a strong network of leading international companies, enabling rapid growth and securing the supply chain.

Hybrid operation has proven to be a successful product strategy and is still the basis for further market penetration of our fuel cells into new regions and new applications. Continuous innovation combined with consistent product cost reduction are also cornerstones of the dynamic development of SFC as well as SFC's unique established and functioning fuel cartridge infrastructure. SFC is certified according to DIN ISO 9001:2000.

Clean power!

at any place and any time

The vision of SFC Smart Fuel Cell AG is to enable clean remote power supply – compact, ultralight, not dependent on weather conditions, and emission-free.

Protection of the environment and natural resources is very important to the company. SFC Smart Fuel Cell AG is deliberately positioning its fuel cells in markets where the customer benefits are greater than entry barriers.

Clean power!
at any place and any time

Milestones 2007

November – SFC's American license partner Capitol Connections LLC receives an order for series production for the U.S. Air Force of more than 500 Power Manager modules. SFC receives a large order from the German Bundeswehr for SFC fuel cell products. Trigano wholesaler subsidiaries in France order a total of 600 EFOY fuel cells.

October – Grove Products Ltd. in the United Kingdom, a member of the Trigano Group, becomes SFC's new EFOY fuel cell distribution partner in the UK.

September – SFC and Webasto AG, Stockdorf, agree to a long-term cooperation to equip leisure vehicles. With integrated work stations at the IAA powered by energy from SFC fuel cells, General Motors underscores its two central messages: sustainable mobility and clean power generation.

August – SFC expands its successful EFOY fuel cell portfolio to include EFOY 900; at the Caravan Show in Düsseldorf, Europe's leading recreational vehicle manufacturer, Concorde, presents its new "comfortonomy package" of solar cells and EFOY fuel cells as accessory equipment for all five Concorde models.

July – One of Europe's leading manufacturers of recreational vehicles, the prestigious company Niesmann & Bischoff, again selects EFOY fuel cells.

May – SFC Smart Fuel Cell AG is successfully listed in the Prime Standard segment of Deutsche Börse. An EFOY fuel cell system reaches the 10,000 operating hour mark – a true milestone in the history of methanol-based fuel cell technology

April – SFC receives a large order from the U.S. Air Force to deliver over 550 SFC Power Manager units.

Januar – SFC receives an order to develop a 250 W fuel cell for the U.S. Army Test and Evaluation Command (ATEC).

Velotaxis with fuel cell in Frankfurt

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Introduction by the Management Board

Dear Customers, Shareholders, Employees, and Friends of SFC Smart Fuel Cell AG,

You are reading the first Annual Report of our company after the IPO in May 2007. Last year was an important one for our company. Now that SFC has successfully been taken public, it is on a solid financial footing for coming years. The numbers for 2007 confirm the successful implementation of our strategy, and our progress so far in 2008 shows that we are set for further growth.

Different aspects of our lives are increasingly being electrified and digitized. SFC supplies clean power for this, offering a genuine key technology that will conserve resources. SFC products increase mobility, convenience, functionality, and security at locations far from any power socket. One special feature is hybrid operation: Our products are certainly not engaged in a cutthroat competition with conventional solutions such as batteries or solar energy. Instead, they offer additional value by compensating the disadvantages of those conventional solutions. Practically all SFC fuel cells operate along with a battery and ensure that it always remains charged. Beneficial hybridizing is also the rule for solar modules, in which the fuel cell then assumes power generation when the sun is not shining (enough).

Our sales increased by more than 100 percent over the previous year, so we have reached our growth target and met the expectations of market participants. Major milestones for our growth in 2007 included further penetration into the key markets of Germany, France, and Italy, as well as the very gratifying result of our collaborations with the recreational vehicle manufacturers. Our EFOY fuel cells are now included in the accessory lists of 29 manufacturers. A major order from the German Bundeswehr totaling some 2.5 million Euro and follow-up orders from American military organizations reflect the success of our portable fuel cells in the defense market.

Continuous innovation and continued product cost reduction have also brought us much closer to our objective of reaching profitability for SFC as the world's first fuel cell company.

In fiscal year 2008 we will continue along the path we have chosen as we aggressively pursue sales growth while consistently reducing the cost of our products.

Dr. Peter Podesser CEO **Dr. Jens Müller** CTO

At this juncture, we would like to thank our employees. They are a decisive factor in our self-image today and in the associated success: a technology company with a strong market position and attractive products in the growth market of mobile power supplies. We would like to thank you for staying with us and for supporting us over the past year.

Sincerely yours,

The Management Board of SFC Smart Fuel Cell AG

Dr. Peter Podesser
CEO

Dr. Jens Müller
CTO

Supervisory Board Report

Supervision of Company Management

The main event of the past financial year 2007 was the Company's listing on the stock exchange and its continued strong growth in all areas of business. The Supervisory Board guided these processes by providing advice to and holding discussions with the Management Board. During the year the Supervisory Board performed the duties incumbent on it under the law and the Company's articles and supervised the Company's management by receiving reports from and holding joint meetings with the Management Board. The Supervisory Board reviewed the transactions that require its consent and discussed each of them with the Management Board.

Supervisory Board Composition

The Supervisory Board consisted of the following six members in financial year 2007: (i) Rüdiger C. Olschowy (Supervisory Board Chairman), (ii) Dr. Rolf Bartke (Deputy Chairman since April 2, 2007), (iii) Jakob-Hinrich Leverkus, (iv) Wolfgang Biedermann, (v) Achim Lederle (until October 18, 2007), (vi) Dr. Manfred Stefener and (vii) Thomas J. Faughnan (until March 31, 2007).

On January 24, 2008, the court appointed Dr. Roland Schlager to the Supervisory Board, to replace Achim Lederle, who left the Board on October 18, 2007.

Supervisory Board Meetings

The Supervisory Board held six regular meetings during financial year 2007. These meetings were held on February 18 (Supervisory Board meeting held to review the financial statements for financial year 2006), March 27, April 2, July 9, September 26 and November 29, 2007. At the meetings, the Management Board provided the Supervisory Board with comprehensive, timely information regarding the Company's revenue, profit and cash flow trends, its budget planning, the Company's position including its risk position and risk management, its strategic goals and all organizational and personnel changes. In addition, the Supervisory Board held meetings by way of telephone conferences on May 10, May 24 and June 1, 2007.

The Supervisory Board discussed the organization of the Company's management with the Management Board, made certain that this organization and the risk management were effective and discussed significant issues of the Company's strategy and policies (such as the significance of expanding the Company's presence in the United States). At various Supervisory Board meetings, the Management Board reported to the Supervisory Board on the status of the individual business units, the economic, financial and strategic position of the Company, capital market issues, and material developments and growth strategies.

In addition, and in accordance with the Rules of Internal Procedure established for it by the Supervisory Board, the Management Board provided the Supervisory Board Chairman (and at regular meetings, the entire Supervisory Board) with detailed reports on significant business events and the Company's condition and further provided them with financial data (always in comparison with the budget and the prior year). The Supervisory Board Chairman was also in constant close contact with the Management Board, who gave him thorough information about current business events.

A significant topic of discussion at Supervisory Board meetings during the first half of financial year 2007 was the Company's initial public offering. The Supervisory Board received reports from the Management Board on the current status of the procedure, asked questions about it, discussed the terms and conditions of the IPO in detail, received detailed reports on all costs, gave the Management Board recommendations on how to proceed, coordinated the procedure with the Management Board on a thorough ongoing basis, and, after considering all the available information and foreseeable consequences, including the advantages and disadvantages and the effects on the Company, adopted the necessary resolutions.

Another significant topic of discussion at Supervisory Board meetings during financial year 2007 was the Company's M&A strategy. The Supervisory Board reviewed potential acquisitions and obtained thorough reports on them from the Management Board and external advisors. The Supervisory Board took an active part in discussions of the Company's M&A strategy, discussed the risks and opportunities of proposed acquisitions with the Management Board, and requested additional information about them.

The Supervisory Board also dealt with Management Board issues in financial year 2007, such as bonus payments to Management Board members, the terms and conditions of their employment agreements and the assumption of an advisory board position by Dr. Peter Podesser. The Supervisory Board also provided advice on the implementation of a bonus system for executives below the Management Board level. The Supervisory Board adopted a new set of Rules of Internal Procedure for the Management Board and the Supervisory Board, discussed the annual financial statements and the management report at December 31, 2006 at the meeting held for that purpose on February 18, 2007, with the auditor in attendance, and heard a comprehensive report from the Management Board on the strategy and plans (including the budget) for 2008 at its meeting on November 29, 2007.

Supervisory Board members Rüdiger C. Olschowy (Chairman), Wolfgang Biedermann, Jakob-Hinrich Leverkus and Dr. Manfred Steferner participated in all Supervisory Board meetings in financial year 2007; Achim Lederle also participated in all Supervisory Board meetings until his departure from the Board on October 18, 2007. Thomas J. Faughnan, who left the Supervisory Board on March 31, 2007, participated in the meeting on February 18, 2007; Dr. Rolf Bartke participated in all remaining Supervisory Board meetings in financial year 2007 after he was appointed to the Board on April 2, 2007.

Committees

At its meeting on April 2, 2007, the Supervisory Board formed two committees from among its members: (i) the Audit Committee, consisting of Wolfgang Biedermann (Committee Chairman), Dr. Manfred Stefener and Dr. Rolf Bartke, and (ii) the Personnel Committee, consisting of Rüdiger C. Olschowy (Committee Chairman), Jakob-Hinrich Leverkus, Achim Lederle (until he left the Supervisory Board on October 18, 2007) and, Dr. Rolf Bartke (since October 29, 2007). The Audit Committee and the Personnel Committee each met twice in financial year 2007: on September 26 and on November 29, 2007.

The Audit Committee assisted the Supervisory Board with issues regarding how to ensure and improve the supervision of the Company and thus fulfilled the Controlling duty assigned to it. It also advised the Supervisory Board on issues regarding the focus of the financial statement audit for the 2007 financial year and establishment of the financial calendar and made recommendations to the Supervisory Board in this regard. The Audit Committee also dealt with the Company's risk management system.

The Personnel Committee assisted the Supervisory Board in preparing the personnel decisions, which are reserved for the Supervisory Board. Thus, for example, and in accordance with its Rules of Internal Procedure, the Personnel Committee discussed the design of a long-term incentive plan and held interviews with potential candidates for management positions and made recommendations in this regard to the Supervisory Board.

Corporate Governance

Information regarding the Supervisory Board-related aspects of the Company's corporate governance can be found in the joint report of the Management Board and Supervisory Board on Corporate Governance in this annual report.

The compensation of the Supervisory Board members is reported individually and broken down by components in the notes to the financial statements, which are reproduced in this annual report. (see Section 5.4.7 of the German Corporate Governance Code)

There were no conflicts of interest involving Supervisory Board members. The appointment of Rüdiger C. Olschowy, Wolfgang Biedermann, Achim Lederle, Dr. Manfred Stefener and Thomas J. Faughnan as shareholders' representatives was transparent, including during the Company's IPO and the Supervisory Board resolutions adopted in this regard.

The Supervisory Board has not carried out an examination of efficiency of its activities in 2007. Given the IPO and the replacement of several members of the board, the company held such an examination inappropriate. However, the Supervisory Board plans to carry out an examination of efficiency in 2008. The Supervisory Board admits to the recommendations of the German Corporate Governance Code. The compliance statement for 2007 issued by the Management Board and the Supervisory Board is available on the Company's homepage.

Accounting

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed by the annual meeting of shareholders to audit the Company's annual financial statements and was engaged to do so by the Supervisory Board. The Supervisory Board negotiated the audit engagement, indicated the focal points of the audit and engaged the auditors. The focal points agreed to were: audit of the internal controls in the process areas Sales, Financial Management and Personnel, audit of the early risk detection system pursuant to § 91(2) of the German Stock Corporation Act as a mandatory component of the audit of the annual financial statements of listed companies, revenue recognition (including percentage of completion), statement of compliance with the German Corporate Governance Code, completeness and accuracy of the notes prepared under the German Commercial Code (first-time disclosure of all individual components of Management Board compensation, mentioning members by name) and IFRS notes, completeness and accuracy of the management report (including the compensation report), capitalization / measurement of development costs, employee stock option plan (ESOP), related-party transactions, changes in equity, completeness and accuracy of the provisions.

The auditor audited the annual financial statements of SFC Smart Fuel Cell AG at December 31, 2007 and the management report, including the bookkeeping, and issued an unqualified audit report. The audit also audited the early risk detection system at SFC Smart Fuel Cell AG pursuant to § 317(4) of the German Commercial Code and determined that the control and transparency obligations of management in the operating and strategic areas, as established by law, are being met.

The Supervisory Board meeting to review the annual financial statements was held on March 13, 2008. The financial statement documentation and the audit reports and all other documents and reports were distributed to the Board members in advance of this meeting. Because the financial statements for the financial year ended December 31, 2007, do not show any net income for the year, a proposal by the Management Board for the allocation of net income was not necessary. The auditor participated in the meeting, reported on the progression of the audit and the audit reports and was available to answer questions and discuss the documents.

The Supervisory Board agreed with the result of the audit by the auditor and determined, in the course of its own review, after holding discussions with the Management Board and the auditor, that it had no objections to make. At its meeting on March 13, 2008, it approved the financial statements and the management report for financial year 2007. The annual financial statements were thus established (§ 172 sentence 1 of the German Stock Corporation Act). The Supervisory Board would like to express its appreciation to the Management Board and the Company's employees for their commitment and hard work for the Company and for their particular accomplishments in financial year 2007.

Brunnthal, March 13, 2008
The Supervisory Board

Rüdiger C. Olschowy
(Chairman)

The EFOY-Fuel Cell models

Clean power!
at any place and any time

SFC Smart Fuel Cell AG

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SFC Smart Fuel Cell AG

Technology and Products

SFC Smart Fuel Cell AG develops, produces, and distributes fuel cell products based on direct methanol fuel cell (DMFC) technology. The SFC products that have been launched on the market under the EFOY brand name currently provide between 600 and 1,600 watt hours of power every day, thereby eliminating the limits to modern power supplies for many different applications.

Users of portable electrical equipment used to be mostly dependent on batteries, generators, or solar systems. These existing technologies are very popular due to their advantages, but they also suffer from major limitations. Batteries are known for their high power density, which means they have no problem in covering brief current peaks, but due to their low energy density they are not appropriate for supplying power over long periods, since they regularly have to be replaced or laboriously recharged. Generators combine power density with energy density, but they also produce harmful exhaust emissions and noise, and it is difficult to adapt their output for low to medium power levels. A solar-powered system, in contrast, generates electricity without ancillary costs when there is enough available sunlight. But it is practically useless in bad weather or without intensive direct sunlight, as its output depends strongly on the time of day, season, or local conditions. Solar cells are also clearly visible where they are installed, which is undesirable in many cases (for example, due to vandalism).

SFC's unique product concept is to use fuel cells precisely where they make up for the weaknesses of conventional solutions. This hybrid operation – combining fuel cells with batteries and/or solar modules – allows us to create added value for our customers and reduce the barriers to entry for our products. Electricity from fuel cells can be used at all times and in every location. The power generation is quiet, does not produce harmful exhaust emission, and is independent of weather conditions.

Over 7,500 fuel cell systems produced by SFC have been sold worldwide, proving just how successful our strategy has been. SFC fuel cells are already delivering electric power to motorhomes, yachts, vacation cabins, traffic monitoring systems, stationary cameras, security and audio systems, measurement and early warning stations, and lightweight electric vehicles below the car category.

We invite you to take a closer look on the following pages at fuel cells by SFC and the markets in which they are already successfully being used.

Markets

Fuel cells produced by SFC Smart Fuel Cell are being used today for the following applications:

- Leisure
- Remote industrial applications
- Defense
- Light electric vehicles in the segment below the car category

At the same time, the company is preparing to enter other interesting target markets, such as robotics.

Velotaxi


Electricity for mountain cabins


Portable fuel cell

Electricity for motor homes


On-board power supply


Remote surveillance camera

Please turn over

Traffic guidance system of Autobahnmeisterei München-Nord

Industrial applications - When everything depends on a reliable power supply

Electrical equipment is increasingly being used far from the public power grid. These systems are also known as isolated applications, and the many examples of them include security cameras, traffic control systems, environmental sensors, early detection systems for forest fires, lighted buoys, pipeline monitoring systems, and border checks. Remote equipment like this depends on a reliable, low-emission power supply that is not affected by weather conditions. Fuel cells by SFC offer major potential savings and numerous advantages:

All EFOY products have the TÜV octagon "Tested Fuel Cell System".

100 percent availability

The electrochemical process used by fuel cells to generate power is independent of weather or light. This means that – unlike systems based only on solar power - they can reliably supply power at any time of day or season of the year. EFOY fuel cells are also maintenance free.

Very high energy density

Methanol – the fuel used in SFC fuel cells - is known as a clean energy source with enormously high storage density. SFC offers fuel cartridges of various sizes for industrial applications.

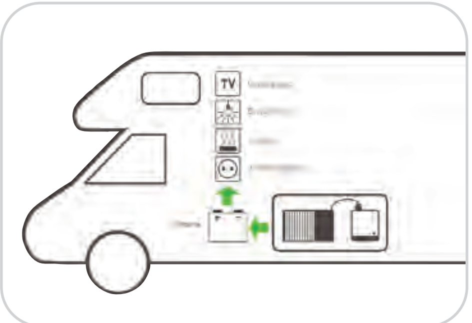
Proven safety

The fuel for SFC fuel cells is environmentally friendly and is supplied in practical fuel cartridges that are certified by TÜV, the German Technical Inspection Agency. The cartridges are even approved internationally for air transport as cargo.

The leisure market - Comfortonomy

Recreational vehicles

Modern recreational vehicles are equipped with numerous conveniences, so they need plenty of power for lights, heating, TV and satellite equipment, coffee machine, computer, and other items that really make a trip comfortable. But often the on board batteries are drained after just a short time parked away from the power socket. That is why many RV's are already equipped with solar modules, although they need ideal conditions during certain seasons and at certain times of day to supply sufficient power. Diesel or gasoline generators are an alternative, but they produce undesirable noise and exhaust.



Recreational vehicles – convenience like home even in off-grid situations

EFOY fuel cells by SFC offer great advantages in this area. They are small and do not weigh much, but they can provide completely independent power supplies, even for luxurious recreation vehicles. RV'ers benefit from a power source that is practically maintenance free, produces little noise, and is extremely convenient. The only exhaust emission from operation of the fuel cell is similar to that of a child's breath.

Thanks to their considerable advantages, EFOY fuel cells now occupy a secure position in this demanding, traditional market. In addition, renowned RV manufacturers decided to include EFOY fuel cells in their list of accessories again in 2007, thereby confirming the great acceptance of these products in this market. Customers of 29 vehicle makers all over Europe can now order EFOY fuel cells for their new recreational vehicles ex works, directly from the manufacturer.

Our activities on the leisure market in 2007 concentrated on France, Germany, and Italy. SFC is planning to expand its activities to Great Britain, Scandinavia, the Benelux countries, and the Iberian Peninsula in 2008.

Boats

On-board power supplies for sailboats can be a real problem. Until now, EFOY fuel cells have been insider knowledge among sailors. These fuel cells have already shown their worth under extreme conditions: World record, long-distance, and regatta sailors are now using this light, environmentally friendly, fully-automatic power supply to gain a competitive edge. Fifty percent of all boats in the celebrated Transat 6.50 race were equipped with marine fuel cells by SFC. The obvious signal sent by these applications and successes will further enhance the presence of fuel cells in this market.

Cabins

Vacation cabins are often not connected to the power grid. But basic necessities like lights, heat, cell phones, or televisions need electricity. EFOY fuel cells are becoming more interesting for this application, too, since a single 10-liter fuel cartridge can provide reliable power from the fuel cell for up to four weeks. Off-grid vacation cabins are primarily located in the mountains of the Scandinavian, Eastern European, and Mediterranean countries. That means a considerable market potential for the environmentally friendly, maintenance-free EFOY power sources.

Quiet, clean, and efficient

Fuel cells do not actually burn fuel, as one might think, and they contain hardly any moving parts. Instead, SFC fuel cells convert liquid methanol directly into electricity using a catalytic process. This principle of operation is the basis for the clean, quiet, efficient power supplies offered by SFC products.

Easy remote operation

The SFC fuel cell is shipped with an elegant cable remote control. Optional wireless operation and monitoring using a modem or GSM is also available.

Examples of some applications

Parking guidance system
- Problem: Expensive grid power access
- Solution using the SFC fuel cell: Solar plus SFC fuel cell is more cost efficient

Traffic control system
- Problem: Runs for only eight hours using batteries; trailers have to be taken back to the yard for charging every day
- Solution using the SFC fuel cell: Continuous operation for two weeks

Concealed security camera
- Problem: Batteries have to be changed every day, with the risk that the camera will be discovered when the batteries are changed
- Solution using the SFC fuel cell: Several weeks of continuous, reliable operation; SFC fuel cell is "invisible" and quiet

Remote sensors
- Problem: Provision of a cost-effective yet reliable power supply without the need for intervention by the user
- Solution using the SFC fuel cell: 100 percent system availability over several months without any user intervention

Remote sensors

Electric parking guidance system

Mobile LED traffic signs

Defense – Portable power generation for deployment

One of the greatest technical challenges in the defense sector is to supply power to soldiers in the field. Until now, soldiers have had to carry up to 13 kilos of batteries for three days to power all of the equipment that is brought along, such as night vision systems, computer, and telecommunications and navigation systems. In contrast, using portable fuel cells by SFC can reduce weight by around ten kilograms. Another major advantage for the customer is the savings in logistical costs related to battery distribution.

Jenny-Fuel Cell and Power Manager – portable power supply in the field

Due to the strategic advantages offered by SFC fuel cells compared with conventional power supply methods, they are already being used by several international defense organizations. SFC's partners include the German Bundeswehr and other European military organizations, as well as the U.S. Army Defense Acquisition and Challenge Program (DACP), the U.S. Air Force, and the U.S. Army Test and Evaluation Command (ATEC).

SFC had several successes on this market in 2007. In January 2007 the company received an order to develop a 250-watt fuel cell for the U.S. Army Test and Evaluation Command (ATEC). The U.S. Air Force ordered 550 Power Managers from SFC in April 2007. The SFC Power Manager is an important part of SFC's fuel-cell-based power supply and includes the portable fuel cell by SFC, the SFC Power Manager, and a hybrid battery. In November 2007 the German Bundeswehr awarded a contract worth some 2.5 million Euro for the broader practical use of SFC fuel cells. SFC's American licensing partner, Capitol Connections LLC, received another major contract from the U.S. Air Force in November 2007 for the series production of 521 Power Manager modules amounting to about 1.5 million US dollars.

Cartridge change within seconds

Jenny-Fuel Cell

Light electric vehicles - Low-emission mobility below the car category

Light electric vehicles are considered to be of growing importance. One main reason they have not been more popular until now is their limited battery capacity, which has previously restricted the range and functionality of these vehicles. Fuel cells can offer an attractive solution thanks to the following advantages:

Much greater range and additional functionality
Thanks to their high energy density, EFOY fuel cells offer a considerable increase in range. Additional power consumers (for example for heating, cooling, lighting, and displays) can be operated for longer times.

Off-grid power supplies and increased availability
Here, too, SFC fuel cells are used in hybrid operation with a battery. It is charged without using line power, including while driving, which eliminates unproductive down times.

Light electric vehicle equipped with fuel cell in front of Schloss Bellevue (week of the environment)

Lower weight
Considerable weight can be saved by fuel cells compared with a vehicle that has the same range but uses only batteries.

"Recharging" in just a few seconds
All it takes to "recharge" is simply to change the fuel cartridge, which takes just a few seconds and can also be done while the fuel cell is running.

Regulatory and economic background conditions are changing all over the world as the limits for exhaust and noise are made stricter and higher charges are imposed for using traffic areas in city centers. SFC already has a number of fuel cells "on the road," which are demonstrating their benefits for customers in different vehicle platforms below the car category in everyday operation. Examples include mobility assistance for the elderly, velotaxis (small taxis that are no longer powered exclusively by bicycles), golf carts, freight delivery vehicles, and scooters. SFC will target this market segment in the future and assumes that it offers very attractive growth potential.

Scooter for mobility impaired people

Clean power!

at any place and any time

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The SFC Smart Fuel Cell Share

History

Since April 2006, the SFC share has been traded on the stock exchange. At that time it was included in the Open Market segment of Deutsche Börse following a capital increase. Since that date, our shareholders have included renowned institutional investors, among them several well-known mutual funds. With its listing in the Prime Standard and initial public offering, SFC Smart Fuel Cell AG moved to the official market in May 2007.

Since then, the Company has successfully pursued the strategy announced during the IPO. The figures published in this Annual Report clearly reflect this fact: not only was the anticipated revenue growth of over 100 percent reached, but the planned cost-cutting measures were also implemented on the product side. However, the share price performance since the IPO on May 25, 2007 has thus far not reflected SFC Smart Fuel Cell AG's successful growth.

Development of the Stock Markets and the SFC Share

The leading German stock indexes performed well in 2007. The DAX was up by 20.7 percent over the course of the year, and the TecDAX was even up by 30.5 percent. However, small- and midcaps had a harder time: starting in the autumn of 2007, particularly small cap shares reflected growing risk aversion, which led to significant declines in prices. This also affected the SFC share, which performed very unsatisfactorily, both in absolute terms and in comparison to the entire German market. This was all the more disappointing because the operating business progressed in accordance with expectations, and therefore does not provide a reasonable explanation for such a dramatic price downturn.

In the IPO on May 25, 2007, 2,173,524 shares were placed at a price of 37.00 Euro. The placement volume thus totaled approximately 80 million Euro, of which approximately 55 million Euro went to the Company. This provided a very solid foundation for the Company's financing, thereby ensuring cash for further growth, systematic cost-cutting through innovation, and development of additional regional markets for SFC products.

On May 25, 2007, the SFC share closed at 31.25 Euro; a low of 10.99 Euro was recorded on September 14, 2007. Since then, however, the share has recovered, and ending the year at a closing price of 15.34 Euro.

The average volume of SFC shares traded in 2007 since the IPO, 2007 was approximately 15,100 shares per day. Between May, 26 and December 28, 2007 3,331,140 shares changed hands (Xetra and Frankfurt).

Development of the share 2007 – 2008 in Euro

Investor Relations

As part of its ongoing investor relations work, the Management Board and IR specialists constantly engaged in dialog with capital market participants, thereby staying in close touch with investors, analysts and reporters from the financial press.

To further enhance the tradability of the share for institutional investors, the Management Board held road shows, investor conferences, and numerous individual discussions in various financial capitals in Germany, Europe and the United States to present the Company during the run-up to the IPO and presentations of the quarterly and six month reports. There they were able to present the current trends in the Company's business and its positive future outlook to interested audiences. At the same time, the Company gained valuable insights from the feedback, questions and criticism of the financial community, which will enable it to further enhance its communications with the capital markets.

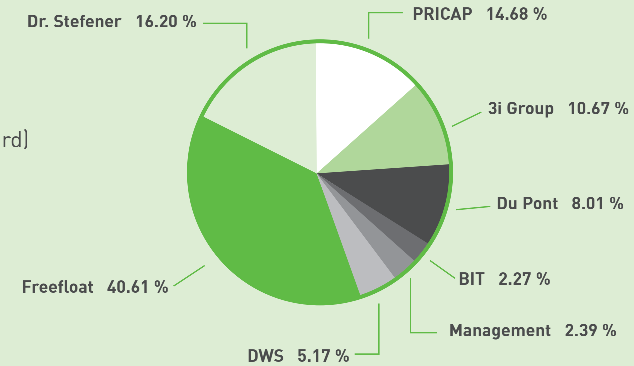
Three banks or research firms are currently publishing regular studies on SFC Smart Fuel Cell AG. It is the stated goal of our investor relations work to increase the amount of coverage of our Company, so that we can expand our shareholder basis among both institutional and private investors in Germany and internationally.

Shareholder Structure of SFC Smart Fuel Cell AG

At December 31, 2007, there were 7,136,234 shares of Smart Fuel Cell AG in circulation. Free float amounted to 40.61 percent.

Free Float acc. to § 11 REIT reduced by:
- BIT 2.27% (Chairman of Supervisory Board)
- Management 2.39%

Shareholder structure as at 31. Dezember 2007



A word of thanks to our shareholders

We would like to thank all of our shareholders and investors for their confidence in our company. Shareholders and other interested persons are free to inspect our public documents, so that they can gain insight into the current business and future prospects of SFC Smart Fuel Cell AG. Up-to-date information about the SFC share and shareholders 'meetings, our annual reports, directors' dealings and the financial calendar can always be found on our website at www.sfc.com. We are also happy to send out current information by e-mail or regular mail upon request.

Shareholdings

	Shares	Options
Management Board		
Dr. Peter Podesser (CEO)	113,300	0
Dr. Jens Müller (CTO)	56,918	1,980[1)]
Supervisory Board		
Rüdiger C. Olschowy, BIT Holdings GmbH	162,254	0
Dr. Rolf Bartke	0	0
Wolfgang Biedermann[2)]	0	0
Achim Lederle	0	0
Jakob-Hinrich Leverkus	7,200	0
Dr. Manfred Stefener	1,155,967	0

1) Each share option entitles to subscribe to 4 SFC Smart Fuel Cell AG shares.

2) Mr. Wolfgang Biedermann informed SFC Smart Fuel Cell AG that he resigned from the management board of PRICAP Venture Partners AG effective June 30, 2007. This means that any shares held by PRICAP Venture Partners AG are no longer attributable to Mr. Biedermann.

Coporate Governance Report

The term corporate governance implies the development of a system of management which leads to a responsible, transparent and sustainable creation of value and refers to a company's entire management and control system, including its organization, principles of business policy and guidelines for internal and external steering and monitoring mechanisms. Corporate governance promotes trust among domestic and international investors, business partners, the financial markets, employees and the general public in the management and control of SFC Smart Fuel Cell AG. Instruments of effective corporate governance are efficient cooperation between the Management and Supervisory Board in a relationship of mutual trust, respect for shareholders' interests as well as open, up-to-the-minute corporate communication. The Management and Supervisory Boards of SFC Smart Fuel Cell AG are committed to upholding the principles of good corporate governance and believe that these principles are an essential building block in the Company's success.

SFC Smart Fuel Cell AG reviews its system of corporate governance at regular intervals and introduces improvements. SFC Smart Fuel Cell AG follows all but four of the recommendations of the German Corporate Governance Code. The four exceptions are explained in our compliance statement, which can be found on page 35. We also publish our compliance statement on the Company's website at www.sfc.com. Pursuant to Section 3.10 of the German Corporate Governance Code (the "Code"), the Management Board and Supervisory Board hereby issue the following report on the corporate governance of SFC Smart Fuel Cell AG:

Service and Information for the Shareholders of SFC Smart Fuel Cell AG

Smart Fuel Cell AG regularly informs its shareholders, as well as analysts, shareholders associations, media representatives and the interested public, through its financial calendar, which is published in the annual report, the quarterly reports and on the Company's website. As part of its investor relations activities, the Company regularly meets with analysts and institutional investors. The Company also holds an analysts' conference each year. The last such conference took place on 13 November 2007.

In advance of the annual general meeting, shareholders receive in-depth information about the financial year under review through the annual report and details about the agenda items through the notice of meeting, both of which make it easier for them to exercise their rights and prepare for the meeting. All of the documents and information pertaining to the annual general meeting, including the annual report, are also published on the Company's website. To facilitate the exercise of shareholders' rights, SFC Smart Fuel Cell AG offers any shareholder who is unable or chooses not to exercise his or her voting rights at the annual general meeting in person the opportunity to have them exercised through a proxy in accordance with instructions.

Close Cooperation between Management Board and Supervisory Board

The Management Board and the Supervisory Board of SFC Smart Fuel Cell AG work together in the best interests of the Company. They pursue the joint goal of contributing to a sustainable increase in the Company's value. The Management Board of SFC Smart Fuel Cell AG, which currently consists of Dr. Peter Podesser and Dr. Jens Müller, jointly manages the Company and bears responsibility for managing it. The Management Board regularly provides the Supervisory Board with timely reports that offer an in-depth portrayal of all relevant issues of planning, the course of business, strategy, risk position and risk management, and all other important events that are of material importance for management of the Company. The strategic orientation of SFC Smart Fuel Cell AG is also regularly coordinated with the Supervisory Board, and material decisions of the Management Board are subject to Supervisory Board consent.

The Company's Supervisory Board consists of a total of six members, all of whom are elected by the shareholders. The Supervisory Board actively guides the Management Board through advice and discussions, performs the duties incumbent on it by law and the articles of association, and supervises the conduct of the Company's business on the basis of Management Board reports and joint meetings (see the Supervisory Board report, page 8). There are two Supervisory Board committees, the Audit Committee and the Personnel Committee. Since its amendment on 14 June 2007, the Code now recommends under Section 5.3.3 that the Supervisory Board form a nominating committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the shareholders' meeting. SFC Smart Fuel Cell AG believes that the formation of a nominating committee is not necessary if there are no employee representatives on the Supervisory Board, an opinion it shares with the legal literature on this subject. Therefore, it will not be forming such a committee. Other than Dr. Manfred Stefener, there are no former members of SFC Smart Fuel Cell AG's Management Board who are members of the Supervisory Board. The Management Board and the Supervisory Board believe that the Supervisory Board consists of a sufficient number of independent members.

The Company has taken out a directors' and officers' (D&O) liability insurance policy for the members of the Management Board and the Supervisory Board. The policy does not provide for a deductible for Management Board and Supervisory Board members. The Company believes that providing for a deductible, as is recommended by Section 3.8 of the Code, is not appropriate, because in the Company's opinion, D&O insurance should provide complete and comprehensive coverage against any risk that might arise.

There were no conflicts of interest involving Management Board and/or Supervisory Board members in the past financial year. There were no consulting and/or other service and work contracts between members of the Supervisory Board and the Company.

Risk Management

One of the tasks of any system of good corporate governance is to deal with risks responsibly. The Management Board of SFC Smart Fuel Cell AG ensures that the Company's risk management and risk controlling are sufficient. Doing so guarantees that risks are identified in time and the degree of exposure minimised. The Risk Report, which starts on page 48 of this Annual Report, contains more detailed information about the Company's risk management.

Transparency

SFC Smart Fuel Cell AG aims to secure the greatest transparency possible and to provide all target groups with the same information at the same time. All target groups can keep abreast of the latest developments at the Company online. SFC Smart Fuel Cell AG publishes ad hoc announcements on its website, as well as press releases and corporate news. The latest statement regarding compliance with the German Corporate Governance Code and all previous compliance statements are also accessible via the Company's website.

Pursuant to Section 15a of the German Securities Trading Act, the members of SFC Smart Fuel Cell AG's Management and Supervisory Boards and certain senior executives, as well as individuals and entities closely related to them, must report the purchase and sale of Company shares and any related financial instruments.

Supervisory Board Chairman Rüdiger C. Olschowy notified the Company that BIT Buchanan Industrial Technologies GmbH, for which Mr. Olschowy serves as a member and managing director, acquired 6,208 and realized 218,005 no-par-value shares of the Company between 4 May 2007 and 27 August 2007.

Supervisory Board member Wolfgang Biedermann notified the Company that PRICAP Venture Partners AG, a company for whom Mr. Biedermann previously served as CEO, realized 1,369,610 no-par-value shares of the Company between 16 May 2007 and 25 May 2007.

Supervisory Board member Dr. Manfred Stefener notified the Company that he realized 435,909 no-par-value shares of the Company on 25 May 2007.

CEO Dr. Peter Podesser notified the Company that he and PP Beteiligungs- und Vermögensverwaltungs GmbH, for which Mr. Podesser serves as a member and managing director, acquired a total of 225,300 no-par-value shares of the Company between 25 May 2007 and 21 August 2007 and realized 112,000 no-par-value shares of the Company on 25 May 2007.

Management Board member Dr. Jens Müller notified the Company that he acquired a total of 19,278 and realized a total of 8,964 no-par-value shares of the Company between 16 July 2007 and 20 August 2007.

All directors' dealings pursuant to Section 15a of the German Securities Trading Act are published on the Company's website at www.sfc.com. The total number of shares of SFC Smart Fuel Cell AG held by Management Board members as of 31 December 2007 equalled 2.39 percent of the shares issued by the Company.

Accounting and Auditing

The annual financial statements of SFC Smart Fuel Cell AG as well as the Company's interim reports are prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to the guidelines of the International Accounting Standards Board. The annual general meeting elected Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, to serve as the auditors for the 2007 financial year, and the Supervisory Board engaged the firm. The auditors participated in the Supervisory Board's discussions concerning the annual financial statements and reported on the material results of their audit. They found no inaccuracy in the statement concerning compliance with the German Corporate Governance Code. Shareholders and other interested parties can access the annual financial statements and interim reports on the Company's website.

Compensation Report

The compensation report summarises the principles used in determining the compensation of the Management Board of SFC Smart Fuel Cell AG and explains the amount and structure of the compensation. The compensation report also describes the principles and amount of compensation of the Supervisory Board and provides information about the Management and Supervisory Boards' shareholdings in the Company. The following compensation part is considered part of the Management Report. See page 46.

Compensation of the Management Board

The members of the Management Board are compensated in accordance with the provisions of the German Stock Corporation Act.

The employment agreements with Management Board members are prepared by the Personnel Committee under the direction of the Supervisory Board chairman. The Personnel Committee reviews the compensation every twelve months of the contracts' terms and makes adjustments as needed.

Each year members of the Management Board receive a base salary and, if defined performance targets are reached, a variable compensation (performance-based bonus).

In addition, a commitment has been made to Dr. Podesser for a special payment of 300,000,000 Euro over a period of three years under certain circumstances and provided yet-to-be-determined performance targets are reached as part of a long-term incentive program the Company intends to establish. Current planning envisages the inclusion of Dr. Müller in this long-term incentive program. No further details are available at this time.

Furthermore, the Company provides the two members of its Management Board with a company car. It pays the premiums for their accident, pension and life insurance up to a maximum of 10,000.00 Euro per year and has taken out directors' and officers' liability insurance on both of them.

Section 4.2.3 of the Code recommends excluding retroactive changes to the performance targets or benchmarks used in determining the composition and amount of the Management Board's compensation and agreeing on a possibility of limitation (cap) for extraordinary, unforeseen developments. We do not follow this recommendation, because we believe that previously established benchmarks may prove inappropriate in the event of unforeseen developments, making a categorical exclusion of changes unreasonable. Nevertheless, the Supervisory Board will make use of such retroactive changes only in justified, isolated cases. In addition, in order to give Management Board members the opportunity to reasonably share in the value created by exceptionally successful work, relative to a predetermined benchmark, we will not utilise a cap.

Management Board member Dr. Müller still has 1,980 options that he can exercise to obtain four shares per option as part of the existing share option programme that was launched in 2003. Following the capital increase from own funds completed in the 2007 financial year, the strike price is 0.25 Euro per share. The earliest the options can be exercised is July 2008. Additional information about the share option programme is available on page 95.

Below are the compensation amounts determined for the individual Management Board members for the 2007 financial year:

in Euro	Non-performance-based compensation	Performance-based compensation	Compensation under the long-term incentive programme	Total
Dr. Peter Podesser (Chairman)	301,150	110,000	100,000	511,150
Dr. Jens Müller	210,999	75,000	100,000	385,999

The members of the Management Board received no additional remuneration.

Compensation of the Supervisory Board

In keeping with the recommendation of the German Corporate Governance Code, the compensation of Supervisory Board members comprises a fixed and variable component. It is determined by a resolution of the annual general meeting and governed by Article 16 of the Articles of Association. The amount of the compensation was most recently adjusted at the annual general meeting held on 2 April 2007.

The members of the Supervisory Board are entitled to reimbursement of the out-of-pocket expenses they incur for exercising their duties as Supervisory Board members, as well as inclusion in the directors' and officers' liability insurance policy the Company takes out for its governing bodies. They also receive a fixed remuneration payable after the close of the financial year of 20,000 Euro per member. The chairman of the Supervisory Board receives twice, and the vice chairman one and a half times, this amount. In addition, each Supervisory Board members receives 5,000.00 Euro more per year for every Supervisory Board committee he chairs and 2,500.00 Euro more per year for every Supervisory Board committee in which he serves as a member. Moreover, each member receives variable compensation in the form of a performance-based long-term incentive equal to 100.00 Euro for every 0.01 Euro by which the dividend paid on each share exceeds the sum of 1.00 Euro per share. This component of the compensation was not relevant for the 2007 financial year since no dividend was paid.

The compensation of the individual members of the Supervisory Board was as follows in the 2007 financial year:

in €	Non-performance-based compensation	Compensation for committee work	Total
Rüdiger C. Olschowy	40,000	3,750	43,750
Dr. Rolf Bartke[1]	22,500	1,875	24,375
Jakob-Hinrich Leverkus	22,500	1,875	24,375
Wolfgang Biedermann	20,000	3,750	23,750
Achim Lederle[2]	15,968	1,371	17,339
Dr. Manfred Stefener	0	0	0
Herr Thomas J. Faughnan[3]	5,000	0	0

[1] a member since 2 April 2007
[2] a member until 18 October 2007
[3] a member until 2 April 2007

The members of the Supervisory Board received no additional compensation beyond that mentioned and no benefits for services personally rendered, including, without limitation, consulting and brokerage services, in the year under review. The Company filled supply orders for DuPont that generated revenues of 456,032 Euro in the year under review. Former member Thomas J. Faughnan, who retired from the Supervisory Board on 31 March 2007, worked as a senior executive at DuPont. In addition, we recognised sales of 56,027 Euro as part of a relationship with Elcomax GmbH to deliver test equipment. Elcomax GmbH is a company over which Dr. Manfred Stefener, one of its members, can exercise considerable control.

Share Option Programmes

The Company has Conditional Capitals I and II at its disposal, which were increased to 21,504.00 Euro and 155,904.00 Euro, respectively, by a resolution of the annual general meeting on 2 April 2007 on the basis of the completed capital increase from own funds. The purpose of the conditional capitals is to support the launch of another share option programme for members of the Management Board and other Company employees that envisages the issuance of up to 44,352 options to acquire no-par-value shares of the

Company's ordinary bearer stock with a notional par value of 1.00 Euro each for a term ending 31 December 2009. Given the capital increase from own funds that was completed, effective 2 April 2007 each such option would entitle its holder to acquire four shares of the Company at a price of 0.25 Euro per share.

In conjunction with Conditional Capitals I and II, the Company's employees and members of its Management Board had been issued the following share options by the reporting date, taking into account the adjustment made to options not yet exercised on the basis of the capital increase for cash contributions dated 17 January 2006. Employees were issued 1,846 options for the first half of 2003, 3,384 options for the second half of 2003, 4,545 options for 2004 and 3,660 options for 2005. Management Board members Dr. Jens Müller and Dr. Manfred Stefener were each issued 2,970 options in the 2005 financial year for 2004. In the 2006 financial year, Management Board member Dr. Jens Müller was granted 1,980 options for 2005. A total of 8,094 of these options have expired because the respective employees and Management Board members no longer work for the Company. Employees exercised 838 options in December 2005. No options were exercised in 2006. In the 2007 financial year, employees exercised 3,600 options, and Management Board member Dr. Jens Müller exercised 4,482 options, in July 2007. Employees exercised a further 180 options in October 2007. Thus, a total of 8,262 options were exercised in the 2007 financial year, each of them for the acquisition of four shares of stock. The capital was increased by 33,048.00 Euro to 7,136,243.00 Euro as a result. This leaves 4,161 options that have been issued and may be exercised in the future. The options granted first vest two years after their issue date at a strike price of 1.00 Euro. Once vested, the only times the options can be exercised are within ten banking days after adoption of the Company's annual financial statements and, in addition to that, within the first ten banking days of each December or, in the case of a stock market flotation, within ten banking days following the publication of the Company's quarterly results. However, the options cannot be exercised under any circumstances within ten banking days prior to an annual general meeting of the Company's shareholders or within ten trading days prior to the annual press conference or release dates for the quarterly reports.

Compliance Statement Pursuant to Section 161 of the German Stock Corporation Act

The Management Board and Supervisory Board of SFC Smart Fuel Cell AG declare for the 2007 financial year that the Company has applied the recommendations of the "Commission of the German Corporate Governance Code," both in the 12 June 2006 version of the Code published on 24 July 2006 and the 14 June 2007 version of the Code published on 20 July 2007, with the following exceptions since 25 May 2007, the day on which the SFC Smart Fuel Cell share was first listed on the Frankfurt Stock Exchange:

- Section 3.8 of the Code recommends agreeing on a suitable deductible when companies take out D&O (directors' and officers' liability) insurance for their management and supervisory boards. Our current D&O policy was arranged without any such deductible. The Company believes that D&O insurance should provide complete and comprehensive coverage against any risk that might arise, which is the reason we will not be introducing a deductible for Management Board and Supervisory Board members.

- Section 4.2 of the Code recommends excluding any retroactive changes to the performance targets or benchmarks used in determining the composition and amount of a management board's compensation and agreeing on a possibility of limitation (cap) for extraordinary, unforeseen developments.

  Previously established benchmarks may prove inappropriate in the event of unforeseen developments, which is the reason we will not be undertaking a categorical exclusion of changes. The Supervisory Board will make use of such retroactive changes only in justified, isolated cases.

  In order to give our Management Board members the opportunity to reasonably share in the value created by exceptionally successful work, relative to a predetermined benchmark, we will not utilise a cap.

- Section 5.3.3 recommends that supervisory boards form a nominating committee composed exclusively of shareholder representatives which proposes suitable candidates to the supervisory board for recommendation to the shareholders' meeting.

  Our Supervisory Board has not formed a nominating committee. SFC Smart Fuel Cell AG believes that the formation of a nominating committee is not necessary if there are no employee representatives on the Supervisory Board, an opinion it shares with the legal literature on this subject. Therefore, it will not be forming such a committee.

- According to section 5.6 of the Code the supervisory board shall examine the the efficiency of its activities on a regular basis. The supervisory board has not carried out such an examination in 2007. Given the IPO and the replacement of several members of the board, the company held such an examination inappropriate. However, the supervisory board plans to carry out an examination of efficiency in 2008.

The Management Board and Supervisory Board of SFC Smart Fuel Cell AG

Brunnthal, March 13, 2008

Clean power!

at any place and any time

Management Board Report

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Management Board Report for Financial Year 2007

1. Business and background conditions

BUSINESS ACTIVITY AND ORGANIZATIONAL STRUCTURE

SFC Smart Fuel Cell AG ("SFC") develops, produces, and distributes novel power generation systems that are based on direct methanol fuel cell (DMFC) technology. The company's product portfolio also includes accessories and spare parts, particularly fuel cartridges, and solutions for combining fuel cell products with other power sources and consumers (the "Power Manager"). SFC is the first company in the world with genuine series-produced commercial products in the area of methanol fuel cells for a series of target markets. The company's only location is in Brunnthal, Germany. SFC is represented in the United States by a freelance consultant and in Asia by the Japanese trading firm Mitsui during the pre-marketing phase.

SFC is benefiting from several important economic and societal trends (market drivers), such as a greater need for convenience and functionality, including in recreational vehicles; increased use of wireless information technology; greater automation of measurement tasks; intelligent traffic control, monitoring, and security systems; heavier power consumption in the defense segment; and changes in the political security situation. An efficient off-grid power supply is a genuine enabling technology that according to SFC will allow for many products that are unsuccessful today because of insufficient power supplies.

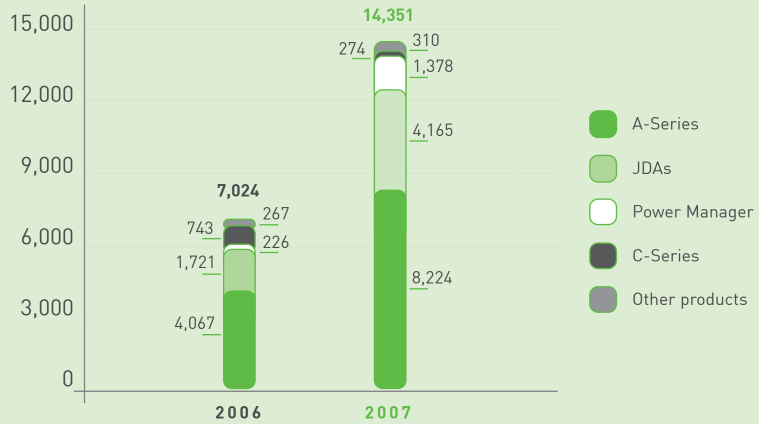
The company's main products are compact fuel cell generators that are sold under the EFOY brand, mostly to the European leisure market (primarily to supply electricity to recreational vehicles) and in the market for remote industrial applications. Highly-miniaturized versions of these products are being supplied as pilot-series portable power sources to customers in the defense segment. In addition to these products, a smaller portion of sales is generated by joint development agreements (JDA's) with military customers from Europe and the United States.

On the distribution side, the company is divided into two business units (BU's). The Leisure BU markets and distributes products related to recreation. In this area, the company uses established commercial channels (wholesalers, retailers, and OEM's) to sell series-produced products. The Defense & Industry BU serves markets in the defense and remote industrial sectors, some of which are already being supplied with series-produced products, while some are still being provided with prototypes within the framework of the technical project business. SFC is also tapping other markets, such as power supplies for light electric vehicles that are smaller than cars.

As a result of the public stock offering and subscription rights offering in May 2007, SFC is solidly equipped with the capital it needs to finance future growth. In the course of the move to the Prime Standard of the Frankfurt Stock Exchange, 1,317,990 new shares were issued at a price per share of € 37 and as part of the subscription right offering the existing shareholders purchased another 129,461 shares at € 37 per share. In total SFC therefore received issue proceeds of € 53,556k.

The Management Board of SFC is responsible for running the company. The Supervisory Board appoints, monitors, and advises the Management Board and is directly involved in decisions that are of fundamental importance for the company. Information on the remuneration structures of the Management Board and Supervisory Board is contained in the report on remuneration.

Sales by segment in k€
2006 and 2007



In financial year 2007 and previous years, the focus was on guiding the company toward the establishment of markets and the associated aggressive sales growth. In addition to that objective, the company is striving to achieve significant improvement of earnings in 2008. Within the framework of the risk management system, non-financial performance indicators such as customer satisfaction, quality, and delivery reliability will be used in addition to detailed financial reporting and controlling.

Sales rose 104% in 2007 from € 7,024k to € 14,351k, so the objective of doubling sales has been achieved.

The legal basis for management and supervision of the company is the German Stock Corporation Act (Aktiengesetz) and Capital Market Act (Kapitalmarktgesetz), as well as the German Corporate Governance Code.

A multi-year format will not be used, due to the dynamic development of the business.

ECONOMIC AND LEGAL BACKGROUND CONDITIONS

In its current phase of corporate and market development, SFC is hardly dependent on macroeconomic or cyclical economic factors, so this topic will not be further explored. It is likely that the total volume of SFC's markets will not represent a material limiting factor for the company, even over the long term; instead, the speed with which lucrative markets can be developed and occupied will be much more decisive for the success of SFC. Success on the market therefore primarily depends on the following:

- In the leisure market: How successful the regional expansion is and the extent of enhanced market penetration in markets that have already been tapped

- In the industrial and defense segments: How fast genuine market traction can be generated from the current phase of initial key customers, pilot projects, and the provision of products for testing as a result of repeat purchases

2. Earnings and financial position

EARNINGS POSITION

Sales by segment in k€:

Product	2007	2006	Change
A-Series	8,224	4,067	4,157
Joint Development Agreements	4,165	1,721	2,444
Power Manager	1,378	226	1,152
C-Series	274	743	-469
Other products	310	267	43
Products Total	**14,351**	**7,024**	**7,327**

SFC continued its positive business trend in 2007, with sales up 104% from the previous year to € 14,351k.

The vast majority of the company's growth is attributable to sales of A-Series products. This change underscores the successful transformation of SFC Smart Fuel Cell AG from an R&D company to a market and customer-oriented manufacturing company.

The 142% increase in sales under joint development agreements to € 4,165k in 2007 is due to the successful cooperation with U.S. military and the German Bundeswehr.

The considerable increase in sales of Power Managers to € 1,378k is primarily due to delivery of a series production order for 556 Power Managers and accessories to the U.S. armed forces. The product was still in the prototype stage last year.

In addition to series production of the A-Series and Power Managers, prototypes of the miniaturized C-series were marketed to strategic partners again in 2007, as they were in previous years.

Sales of € 310k were also generated from the sale of test equipment and fuel cartridges ("Other products").

Unit sales of the SFC A-Series:

SFC A-Series	2007	2006	Change
Leisure	4,108	1,902	2,206
Industry and other	357	281	76
Defense	14	2	12
Light electric vehicles	4	0	4
A-Series total	**4,483**	**2,185**	**2,298**

The sale of equipment in the SFC A-Series increased 105% to 4,483 units during financial year 2007 (2006: 2,185). The greatest increase in sales was in the Leisure segment, up 116% to 4,108 systems in 2007. That increase clearly reflects the success of these systems on the market due to the unique advantage they offer to customers. There was also a positive sales trend in the fragmented "Industry and other" segment. A total of 357 systems for many different applications from biological observation systems to meteorological and environmental sensors all the way to remote-controlled monitoring systems was delivered in 2007 (2006: 281), a 27% increase. Systems were shipped to pilot customers in the defense and light electric vehicle segments.

Sales by region in k€:

Europe (excl. Germany)	2007	2006	Change
A-Series	5,548	2.,088	3,460
C-Series	0	266	-266
Other products	155	64	91
Europe total	**5,703**	**2,418**	**3,285**

The greatest increase in sales was on the European market, where SFC experienced 136% growth from € 2,418k to € 5,703k. Cooperation with Trigano in France and Webasto in Italy was the main reason for the 166% increase in sales of the A-Series. Thanks to cooperation with these well-known partners, SFC was able to further accelerate sales of fuel cells to our European neighbors. The increase in sales of fuel cartridges, which is shown under "Other products," corresponds to the growth in the A-Series. The focus on the C-Series in 2007 involved an intensive test program for the prototypes that were supplied to military organizations from the NATO countries during the previous year. That is the reason why no other systems were supplied to those partners in 2007.

North America	2007	2006	Change
Joint Development Agreements	2,641	579	2,062
Power Manager	1,376	220	1,156
C-Series	274	202	72
A-Series	169	130	39
Other products	59	24	35
North America total	**4,519**	**1,155**	**3,364**

Sales in North America rose by 191% to € 4,519k, primarily due to the cooperation under JDA's and in the area of Power Managers as described above. Sixteen prototypes of the C-Series were also delivered. The A-Series currently contributes only 4% to sales in North America, and most systems are sold to industrial customers through partners.

Germany	2007	2006	Change
A-Series	2,473	1,770	703
Joint Development Agreements	1,524	0	1,524
Power Manager	2	6	-4
C-Series	0	245	-245
Other products	91	55	36
Germany total	**4,090**	**2,076**	**2,014**

Sales in Germany rose by 97% to € 4,090k, with sales of the A-Series up 40% to € 2,473k. Additional sales of € 1,524k were generated under a JDA with the German Bundeswehr, which included the further development of the C-Series systems delivered in 2006.

Asia	2007	2006	Change
Joint Development Agreements	0	1,142	-1,142
A-Series	29	22	7
Other products	3	121	-118
Asia total	**32**	**1,285**	**-1,253**

Sales in Asia were down considerably, from € 1,285k to € 32k. Eighty-nine percent of the previous year's sales reflect successful completion of a JDA in the area of consumer electronics.

Rest of World	2007	2006	Change
A-Series	5	57	-52
C-Series	0	30	-30
Other products	2	3	-1
Rest of World total	**7**	**90**	**-83**

As in Asia, SFC is not doing any active marketing in the rest of the world

Gross margin
With sales up, our gross margin increased by 372% to € 2,502k (€ 530k) in financial year 2007. The increase in our gross margin from 7.5% to 17.4% is chiefly the result of the clear improvement in the gross margin for the A-Series by € 1,987k (associated with a first-ever positive gross margin at € 854k).

Sales costs
Sales costs increased by 39% to € 4,378k in 2007 compared with € 3,145k in 2006. The continued recruitment of sales and marketing personnel as well as higher costs for travel and advertising, consulting fees, and a one-time effect related to the cancellation of stock options factored heavily into this increase.

Research and development costs
Research and development costs increased by 44% to € 632k in financial year 2007, following € 439k in financial year 2006. No development work was capitalized during financial year 2007, compared with € 767k in capitalized development costs a year earlier.

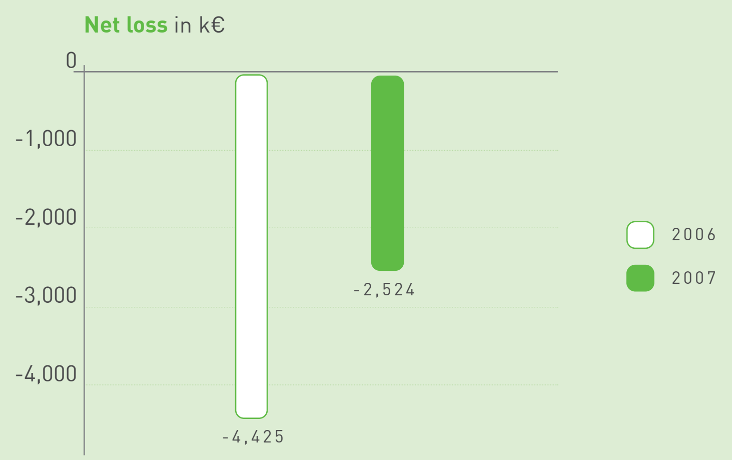
General administration costs
General administration costs increased by 110% to € 2,303k compared with € 1,099k one year ago. The cancellation of stock options in 2007 accounted for the bulk of this increase.

Operating result (EBIT)
EBIT decreased by 17% to minus € 4,707k (previous year: minus € 4,036k). Adjusted for non-recurring items, our EBIT decreased to minus € 3,737k (see "Result from special influences" in the Notes). Given the increase in sales, the adjusted EBIT margin improved to minus 26.0% in financial year 2007, following minus 57.5% one year earlier.

Interest and similar incomee
Interest and similar income decreased from € 224k in 2006 to € 2,414k in financial year 2007. The primary reasons for the decrease were one-time effects related to redemption of the silent partnership investments in our company (see "Result from special influences" in the Notes) and investment of the proceeds from the capital increase.

Interest and similar expenses
Interest and similar expenses increased by 54% to € 231k during financial year 2007, compared with € 502k in financial year 2006, primarily because the previous year included charges resulting from the valuation of the derivatives embedded in the silent partnership investments.

Net loss
Net loss improved by 43% from minus € 4,425k to minus € 2,524k. Adjusted for non-recurring items, the net loss stood at minus€ 2,566k.



Net loss per share
Net loss per share under IFRS (diluted) improved by 44% from minus € 0,87 to minus € 0.49.

ASSETS AND LIABILITIES

The company has a healthy balance sheet. Total assets grew in parallel with sales, increasing from € 14,986k at December 31, 2006, to € 59,945k at December 31, 2007, which corresponds to 300%.

With sales volumes up, inventories rose from € 926k to € 1,281k, while trade accounts receivables rose from € 1,652k to € 2,000k.

The growth in cash and cash equivalents from € 6,249k to € 52,945k is attributable to the capital provided by the stock and rights offerings discussed earlier.

Liabilities from payments in advance in the amount of € 986k almost exclusively involve an advance payment by the German Bundeswehr.

The decrease in derivative financial instruments with a negative fair value to € 0k (December 31, 2006: € 2,266k) is attributable to the cancellation and waiver agreements executed with our silent partnerships (see "Silent partnerships" in the Notes).

Because of these agreements, the silent partnerships reported under other long-term liabilities as of December 31, 2006, are shown under other short-term liabilities as of December 31, 2007.

This reclassification accounts for the majority of the increase in other short-term liabilities to € 3,564k (December 31, 2006: € 725k).

The substantial growth in shareholders' equity to € 51,912k as of December 31, 2007 (December 31, 2006: € 5,596k) is attributable to the successful placement of the shares resulting from our capital increase. Our equity ratio increased accordingly from 37% to 87%.

FINANCIAL POSITION

SFC's financial management includes the areas of liquidity management, management of foreign exchange and commodities risks, and credit and default risks.

The major influence on our financial position in financial year 2007 was the public stock offering and subscription rights offering that took place in May 2007. SFC took in € 53,556k in issue proceeds. The related costs of € 5,828k came out of the capital surplus.

Driven by the injection of capital, cash and cash equivalents increased from € 6,249k to € 52,945k, so we have sufficient liquidity reserves.

The net cash used in ordinary operations decreased to € 2,695k in 2007 versus € 4,619k one year ago. That improvement is attributable to an advance payment of € 2,508k that was received from the German Bundeswehr and improved working capital management as sales volumes increased.

The net cash provided by investment activity improved from minus € 4,027k to € 3,596k, primarily as a result of payments received for securities that were acquired last year and investment of issue proceeds from capital increase.

The increase in net cash provided by financial activity in financial year 2007 to € 45,795k following € 14,681k one year earlier was chiefly a function of the stock and rights offerings mentioned above. In addition, the silent partnership of Technologie Beteiligungsfonds Bayern GmbH & Co. KG was redeemed in the amount of € 1,023k plus final remuneration (€ 534k).

SFC is currently investing most of its liquid funds in short-term investments. Consequently, the company is exposed to interest rate risks.

Assets with a book value of € 370k were disposed of in 2005 as part of a sale and lease back transaction. Another € 499k was financed in 2005 and 2006 in connection with that lease agreement. There was no further financing under this agreement in financial year 2007. It is planned to continue the Agreement until it expires on May 31, 2009.

In connection with the forward exchange deals described below, SFC undertook to sell USD 1.8 million as of July 31, 2008, and USD 1.0 million as of September 26, 2008, from expected excess payments in USD. In addition, to hedge the company's consumption of platinum, forward contracts with a volume of around USD 1.1 million were entered into for 2008 which at the end of each quarter in 2008 will lead to payments by or to SFC to compensate for the difference between the forward and spot rates.

RESEARCH AND DEVELOPMENT

The company continues to make considerable investments in research and development. A total of € 4,165k was spent on R&D in financial year 2007 (previous year: € 2,770k), including costs related to joint development projects. The company had 26 employees as of the reporting date (previous year: 23), and about one-third of personnel is working on further development of direct methanol fuel cell technology and the company's products. The focus of our R&D activities is as follows:

- Reduce unit costs through technological innovations in order to maximize the contribution margins of our products. We generated considerable additional costs savings with key components like stacks, pumps, and fuel cartridges in the reporting period.

- Enhance product functionality (e. g., higher performance, market-specific features) in order to develop new areas of application in addition to the markets already addressed

- Miniaturize the products in order to successfully tap markets, such as the defense industry, with demanding specifications for portable energy sources

Future plans are to reduce R&D's share of total staffing levels and spending; however, the R&D unit will grow in absolute terms in order to build on the company's strong position in technology and marketing.

CAPITAL EXPENDITURES

Capital spending in financial year 2007 targeted the expansion and improvement of our IT infrastructure, in particular. We also purchased additional injection molding machines to facilitate further cost savings with the production of components and invested in test equipment aimed at adapting our manufacturing processes to the higher volumes being handled. Total capital expenditures in 2007 were € 647k (previous year: € 1,238k).

NEW ORDERS AND ORDER BACKLOG:

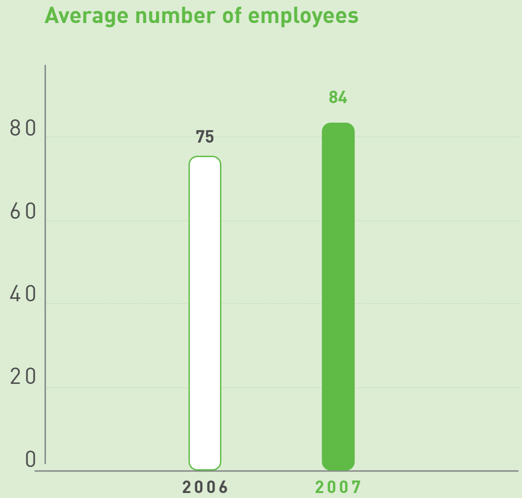
The positive business trend for SFC was also reflected in new orders during financial year 2007, up 40% from the previous year to € 14,478k. New orders for the A-Series rose 40% to € 8,179k, and there was a considerable increase in new orders for Power Managers, which rose from € 226k to € 2,464k. The order backlog at the end of 2007 was € 4,876k, a 3% increase from its year-earlier level.

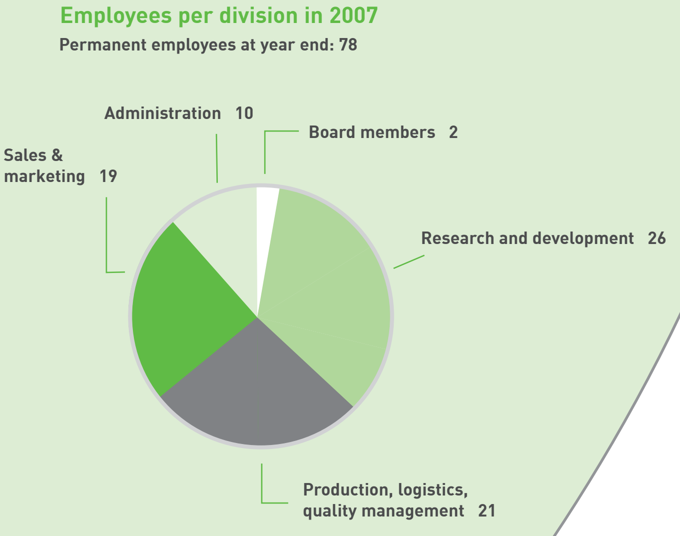
EMPLOYEES AT YEAR END:

Employees	2007	2006	Change
Board members	2	2	0
Research and development	26	23	3
Production, logistics, quality management	21	18	3
Sales and marketing	19	16	3
Administration	10	7	3
Permanent employees*	**78**	**66**	**12**
Trainees, graduates, and student trainees	10	7	3
Number of employees at year end	**88**	**73**	**15**

* Part-time employees are weighted

The 18% increase in the number of employees while sales increased 104% clearly shows the progress made on the product and market side and indicates that SFC has achieved economies of scale.





3. Remuneration Report

STRUCTURE OF REMUNERATION FOR MEMBERS OF THE MANAGEMENT BOARD

The remuneration of members of our Management Board complies with the statutory requirements of the German Stock Corporation Act.

Contracts for members of the Management Board are prepared by the Personnel Committee under the guidance of the chairman of the Supervisory Board. The Personnel Committee reviews remuneration under the contract every twelve months and adjusts it if necessary.

Members of the Management Board receive fixed annual compensation as well as variable compensation (performance-related bonus) if specific targets are reached.

There is also a commitment for Dr. Podesser within the framework of a company long-term incentive program that has not yet been created to make a special payment of € 300,000 to him over a three-year period under certain circumstances and if targets that have not yet been specified are reached. Dr. Müller is also to be included in this long-term incentive program; further details have not yet been specified.

We also provide a company car to both members of the Management Board. SFC pays the premiums for accident, pension, and life insurance for the members of the Management Board every year up to a maximum of € 10,000 each and has also obtained directors and officers liability insurance for both of them.

Dr. Müller may still exercise 1,980 options from 2003 which entitle him to acquire four shares each. The strike price for one share – following the capital increase from company funds in financial year 2007 – is € 0.25 per share. The options may be exercised no earlier than July 2008.

STRUCTURE OF REMUNERATION FOR MEMBERS OF THE SUPERVISORY BOARD

The remuneration of members of the Supervisory Board comprises a fixed and a variable portion in accordance with the recommendations of the German Corporate Governance Code. The amount of the remuneration was most recently adjusted during the shareholders' meeting on April 2, 2007.

Accordingly, members of the Supervisory Board are entitled to reimbursement of cash expenditures in connection with performance of their duties on the Supervisory Board and to inclusion in the D&O liability insurance that the company obtains for its executive bodies. They also receive fixed compensation of € 20,000 per individual member which is payable after the financial year ends. The chairman of the Supervisory Board receives 200% and his deputy receives 150% of the amount of that remuneration. Each member of the Supervisory Board also receives additional annual compensation of € 5,000.00 for each committee of the Supervisory Board that he chairs and € 2,500.00 for each committee of the Supervisory Board on which he serves as a member. Each member also receives variable compensation of € 100.00 for each € 0.01 of dividends per share that are distributed in excess of € 1.00 in dividends per share.

OTHER RELATED PARTIES

We refer to the section entitled "Related-party transactions" in the Notes.

4. Information on subscribed capital and disclosure of potential barriers to takeovers (§289(4) HGB)

The share capital of SFC Smart Fuel Cell AG totals € 7,136,243.00 and is divided into 7,136,243 ordinary bearer shares with no par value representing a notional amount of our share capital of € 1.00 per share. The share capital is completely paid-up. Each share confers one vote.

The Management Board knows of no restrictions or agreements between shareholders relating to voting rights or the transfer of shares.

The parties that directly own capital exceeding 10% of the voting rights are listed in the table below*:

Dr. Manfred Stefener**	16,20%
PRICAP Venture Partners AG	14,68%
3i Group Investments LP	10,67%

* These are the most recently reported holdings pursuant to the German Securities Trading Act (WpHG), which may differ from those as of December 31, 2007.

** Directly and indirectly attributable shares

There are no special rights granting control authority to holders of shares.

The employees who own shares are not subject to any controls on voting.

Members of the Management Board of SFC Smart Fuel Cell AG are appointed and removed in accordance with §§ 84, 85 of the German Stock Corporation Act (AktG) and § 7(2) of the Articles of Association.

Pursuant to §179 of the German Stock Corporation Act in conjunction with §20 of the Articles of Association, changes to the Articles of Association are subject to a resolution of the shareholders' meeting approved by a three-quarter majority.

The Management Board, with the approval of the Supervisory Board, is authorized to increase the share capital of the company by as much as € 1,380,421.00 one or several times on or before March 31, 2012, by issuing new ordinary bearer shares with no par value in return for cash or non-cash consideration. All shareholders are to be granted a subscription right. The subscription right of the shareholders may be excluded with the approval of the Supervisory Board subject to certain conditions. Pursuant to §5(6) of the Articles of Association, the terms of the capital increase are specified by the Management Board with the approval of the Supervisory Board.

The Company has Conditional Capital I and II for the implementation of the share option programme. Following the capital measures carried out in financial year 2007 and the exercise of share options, the conditional Capital I and II amount to € 144,360.00.

The shareholders' meeting on April 2, 2007, authorized the company to repurchase its own shares on or before September 30, 2008, up to a limit of ten percent of the company's share capital as of April 2, 2007. This authorization had not been utilized by the balance sheet date.

There are currently no agreements at SFC Smart Fuel Cell AG that are contingent on a change of control following a takeover offer.

There are no agreements with members of the Management Board or with employees concerning compensation in the event of takeover offers.

5. Report on risks and opportunities

As part of a systematic and organizational approach to risk, the Management Board has implemented a risk management system that defines and systematically uses and continues to develop suitable instruments to identify, analyze, and evaluate risks and take appropriate action.

Operational management is directly responsible for early detection, analysis, control, and communication of risks. Within the framework of discussions on targets between the Management Board and the responsible people in the business units and as a result of regular reporting, the business units provide information on changes in the risk situations of the individual business units. The trend for the defined risk field is shown in a balanced score card every quarter.

The risk management system used at SFC also includes an early warning system that is based on a system of key figures. The key figures allow an objective overview of the company's financial situation, a comparison between the budget and actual costs, a detailed preview of anticipated new orders and sales for each business unit (sales pipeline), unit-specific cost controlling, a uniform project management tool for the entire company, and other process-related indicators.

The Management Board regularly uses these instruments to determine in real time whether estimates and background conditions have changed and whether any remedial measures must be taken.

The Supervisory Board receives a similarly detailed financial report every month and is also informed in the short term about current developments when necessary. The Supervisory Board is thus also involved in risk management as a result of reports by the Management Board on transactions that could be of particular importance for profitability or liquidity.

The risks listed below result from SFC's business activity.

MARKET RISKS

SFC is currently the first company to develop the industrial sector of commercial applications powered by fuel cells. The associated opportunities are typically offset by risks related to developing and tapping a new market, such as a lack of (initial) acceptance on the market, a low degree of familiarity, an image whose usefulness is initially subject to limitations, the work needed to convince key customers, and technical setbacks. The company has made great efforts to minimize these risks, including intensive cooperation with well-known companies and use of their distribution channels (such as automakers); marketing products under established brand names; intensive marketing, sales, and PR activities (such as a presence in technical journals); regular appearances at trade fairs in key markets; cost cutting, and increasing the cost-effectiveness of products.

TECHNOLOGICAL RISKS

The products manufactured by SFC must meet high quality standards if they are to be successful on the market. In addition to further development of the company's own technology for new applications, SFC is focusing on quality assurance while simultaneously reducing production costs. SFC is working on this as part of intensive cooperative ventures with its major suppliers. At the same time, the company is working to further reduce the production costs of its products through technological advancements and higher unit numbers. We generated considerable additional cost savings during the reporting period with key components like stacks, pumps, and fuel cartridges without sacrificing quality. The resulting know-how represents a major competitive edge for SFC. Overall, as for all highly innovative companies, we are exposed to risks from new product and technology features.

PATENT RISKS
As the intellectual property situation becomes more complicated and products become more complex, there is a certain risk of possible patent infringement by SFC. As a result of its unique position as a supplier of commercial direct methanol fuel cell systems, SFC has obtained intellectual property rights or filed applications for them (17 patents or decisions to grant received so far), which put us in a strong position in relation to our competitors.

COMPETITION
SFC currently occupies a unique position thanks to its technological leadership and its lead in the area of marketing. That lead is safeguarded among other things by intellectual property rights, swift action, and focusing on a single technological concept. Some competitors – particularly in the U.S. defense segment – have at least comparable access to the market, which primarily results in the risk of losing our leadership position. SFC still has no known competitor in the leisure and remote power supply target markets which already offers comparable products commercially. However, there are risks from potential future competing products or substitutes that could lead to a loss of sales for SFC.

PURCHASING AND PRODUCTION-RELATED RISKS
SFC purchases the components and equipment it needs to make its fuel cell systems from various manufacturers and does not produce them itself. The supplier industry for SFC components is, however, only partially prepared for the specific requirements of the developing mass market for fuel cells. To avoid overdependence on certain suppliers, the company is working to diversify its suppliers and is entering into intensive cooperative ventures to that end. The associated risks are being reduced through professional quality and supplier management.

FOREIGN EXCHANGE AND COMMODITIES RISKS
Due to the increasing volume of its business with the U.S. armed forces, SFC generates a considerable portion of its sales in U.S. dollars, while expenses and expenditures are also lower in U.S. dollars. Therefore, forward exchange deals on the sale of a total of USD 2.8 million were executed in 2007. Most of the company's foreign exchange surpluses were hedged. Forward exchange deals for 2008 were entered into by the reporting date in approximately the same volume as orders in USD (USD 1.8 million), and planned sales in the amount of USD 1.0 million were also hedged. In that respect the foreign exchange risk relates only to the portion of sales that were not hedged.

Due to the rising price of platinum in 2007 and the forecast of a continued upward trend for the market price of this commodity, SFC decided during the second quarter of 2007 to hedge about 65% of its expected monthly platinum consumption from May to December 2007. Due to the current market estimate that precious metals prices will continue to rise, about 85% of the expected platinum consumption for 2008 has been hedged, so the risks are covered within reasonable limits.

FINANCIAL AND LIQUIDITY RISKS
Sales and contribution margins were not sufficient to make the company profitable during the reporting period. SFC's strategic orientation and its chosen expansion strategy require continued massive efforts to expand which must be financed to ensure future business success, particularly in the areas of product development, mass production, tapping additional market segments, and developing the distribution organi-

zation. The funds received by the company from the public offering in May 2007 were raised for that expansion effort. Capital reserves are being invested in low-risk paper (such as money market funds, time deposits, and government bonds) until they are used within the framework of our growth strategy.

Consequently, the current liquidity risk from fluctuating payment flows is rated as very low.

SFC's default rate stayed within reasonable limits in 2007 (0.1% of sales) due to our customer structure (high percentage of military customers, industrial customers, and wholesales, low percentage of private end customers). There is a certain risk from the fact that our ten largest customers – including four military customers and six German and foreign wholesalers in the leisure segment – accounted for 83% of sales in 2007. We are counteracting this risk by generating new customers and expanding our sales from existing customers.

PERSONNEL RISKS

SFC remains dependent on committed, highly qualified, and to a certain extent specialized employees. Given our planned steep growth curve and the dwindling supply of skilled workers on the labor market, there is a risk that an inability to recruit key personnel could become a bottleneck for the company's planned growth. SFC is attempting to stay competitive on the labor market by increasing use of performance-related salary components, flat hierarchies, and early assignment of responsibilities. In spite of an obvious shortage of applicants, SFC was still attractive as an employer in 2007 and was able to hire new employees with good qualifications, particularly in the area of sales and marketing, as well as in administration, thereby fulfilling additional prerequisites for achieving our growth targets.

INFORMATION TECHNOLOGY RISKS

In cooperation with an outside IT expert, the company's information technology structures were analyzed and upgraded to fulfill more demanding requirements for the exchange of data and for data protection during the second quarter of 2007. The technical prerequisites for IT support to enhance further company growth were also included. The company is currently working to ensure that its communication and IT meet the requirements for real-time integration of outside employees working in the sales force and employees who are traveling.

REGULATORY RISKS

The business segment in which the company operates is highly regulated. That is because it produces, distributes, and markets complex technical products and cartridges filled with methanol, distributes them in markets with demanding safety requirements (such as automakers or military organizations), and is subject to highly complex, sometimes non-uniform legal background conditions in various markets and countries. It cannot be excluded that the applicable requirements may become stricter (for example, due to stricter legislation given the need to protect against terrorism or the increased visibility of SFC products as they become more popular) and that additional requirements could be imposed on distribution of the company's products.

Based on the information known to us today, there are no risks that could threaten the continued existence of the company.

OPPORTUNITIES FOR FUTURE DEVELOPMENT

The most important factors that will determine the future development of SFC are measures to increase sales (increased volume in existing markets, regional expansion, developing new applications) and reduce costs based on technological innovation. SFC has the chance to build on its current lead thanks to its mature technology and its marketing and to set widely-recognized standards for remote power supplies in the low- and medium-power range. Additional opportunities could result from external factors: Lower commodities prices and advantageous foreign exchange trends could have positive effects on our profitability.

6. Significant events after the balance sheet date

The silent partnership of tbg Technologie-Beteiligungs-Gesellschaft mbH in the amount of € 2,251k (including final remuneration and current minimum remuneration) was repaid on January 15, 2008.

Dr. Roland Schlager of Munich was appointed to the Supervisory Board pursuant to the decision of the Munich Regional Court (Amtsgericht) on January 24, 2008.

The price of platinum skyrocketed in January and February 2008. This is due to lower production as a result of power failures in South Africa, where most of this commodity is mined. The company has hedged about 85% of its expected consumption of platinum for the current year by means of forward commodities transactions. If the prices of platinum or other commodities continue to rise or remain at their current high levels, this would put downward pressure on the margin situation for the products concerned over the medium term. The amounts that are not hedged are already straining product margins during the current year.

In the course of monitoring patents we discovered that a potentially relevant competitive patent will be granted in Europe in March 2008. Our patent attorneys will advise us on what action to take in this regard.

7. Report on forecasts

The Management Board believes the company is capable of defending its leading position in the promising market for independent power supply using fuel cells based on methanol. During the reporting year we were able to massively expand our market position while simultaneously making great improvements in our gross margin, and we will continue to pursue this course.

SFC is the only company at present engaged in the series production of commercially available fuel cell systems powered by methanol and, by its own estimates, has likely increased its competitive edge further. Plans call for further increasing sales in 2008 and 2009 while simultaneously continuing to improve the margin situation thanks to technical innovations and by tapping attractively priced markets. SFC is planning to invest in further expansion of its production capacities in order to be able to meet the expected increase in demand. In addition, potential ways are being explored that will allow us to accelerate market access, enhance cooperative ventures with suppliers of complementary products, and increase our own presence in the U.S. at least and offer a certain amount of local added value there for products for the defense market. SFC anticipates that it will have its first pilot customers in the market for light electric vehicles in 2008. In the leisure segment, SFC assumes that sales in the core markets of Germany, France, and Italy will continue to grow and also expects to enter the markets in Great Britain and Scandinavia. SFC is planning a small series of miniaturized portable fuel cells and the introduction of a 250-watt fuel cell for our customers in the defense segment during the second half of 2008.

SFC is making great efforts to become economically profitable as soon as possible while at the same time fostering growth by occupying markets and sales channels early. The objective for financial year 2008 is to achieve significant improvement of earnings through further aggressive sales growth and consistent reductions in the costs of our products while cash flows initially remain negative.

Brunnthal, March 3, 2008

Dr. Peter Podesser
CEO

Dr. Jens Müller
CTO

Clean power!
at any place and any time

Financial Statements

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The following Financial Statements have been prepared in the German language. They have been translated for this annual report into English. In the event of questions of interpretation, the German version shall be authoritative.

Income Statement

for the financial year from January 1 to December 31, 2007

in €	Note	**2007 01/01 – 12/31**	2006 01/01 – 12/31
1. Sales	(1)	14,351,008	7,024,271
2. Production costs of work performed to generate sales	(2)	-11,849,276	-6,494,589
3. Gross margin		**2,501,732**	**529,682**
4. Sales costs	(3)	-4,377,686	-3,144,785
5. Research and development costs	(4)	-631,676	-438,569
6. General administration costs	(5)	-2,303,231	-1,098,745
7. Other operating income	(6)	131,425	192,473
8. Other operating expenses	(7)	-27,972	-75,590
9. Operating loss		**-4,707,408**	**-4,035,534**
10. Interest and similar income	(8)	2,413,849	224,105
11. Interest and similar expenses	(9)	-230,615	-501,966
12. Loss from ordinary operations		**-2,524,174**	**-4,313,395**
13. Income taxes	(10)	0	-111,111
14. Net loss		**-2,524,174**	**-4,424,506**
15. Accumulated loss brought forward from previous year		-19,519,811	-15,095,305
16. Net accumulated loss		**-22,043,985**	**-19,519,811**
Net loss per share			
undiluted		-0.49	-0.87
diluted		-0.49	-0.87

Balance Sheet

at December 31, 2007

ASSETS in €		Note	12/31/2007	12/31/2006
A.	**Current assets**		**57,265,258**	**12,310,150**
I.	Inventories	(15)	1,280,700	926,000
II.	Trade accounts receivable	(16)	2,000,187	1,651,602
III.	Income tax receivables	(17)	463,229	70,426
IV.	Other short-term assets and receivables	(18)	478,970	299,360
V.	Securities	(34)	0	2,999,550
VI.	Cash and cash equivalents	(19)	52,945,317	6,248,783
VII.	Cash and cash equivalents with limitation on disposal	(20)	45,320	45,320
VIII.	Deferred charges and prepaid expenses	(21)	51,535	69,109
B.	**Non-current assets**		**2,680,065**	**2,676,172**
I.	Intangible assets	(22)	1,078,082	1,235,731
II.	Property, plant and equipment	(23)	830,220	773,311
III.	Deferred tax assets	(10)	771,763	667,131
	Assets		**59,945,323**	**14,986,322**

LIABILITIES AND SHAREHOLDERS' EQUITY in €		Note	12/31/2007	12/31/2006
A.	**Current liabilities**		**6,770,573**	**5,748,008**
I.	Other provisions	(24)	484,267	406,138
II.	Liabilities from prepayments	(25)	985,863	8,103
III.	Trade accounts payable	(26)	1,261,806	1,409,074
IV.	Liabilities from finance leases	(27)	287,796	287,796
V.	Liabilities from percentage-of-completion	(28)	74,655	454,646
VI.	Derivatives with negative market value	(34)	0	2,265,668
VII.	Other short-term liabilities	(29)	3,563,674	724,650
VIII.	Deferred charges	(30)	112,512	191,933
B.	**Non-current liabilities**		**1,262,374**	**3,642,118**
I.	Other long-term provisions	(24)	176,898	147,621
II.	Liabilities from finance leases	(27)	97,013	341,258
III.	Other long-term liabilities	(29)	216,700	2,486,108
IV.	Deferred tax liabilities	(10)	771,763	667,131
C.	**Equity**		**51,912,376**	**5,596,196**
I.	Subscribed capital	(31)	7,136,243	1,413,936
II.	Capital surplus	(31)	66,820,118	23,702,071
III.	Accumulated loss brought forward from previous year	(31)	-19,519,811	-15,095,305
IV.	Net loss	(31)	-2,524,174	-4,424,506
	Liabilities and shareholders' equity		**59,945,323**	**14,986,322**

Statement of Changes in Equity

for the financial year from January 1 to December 31, 2007

in €	Subscribed capital	Capital surplus
Balance 01/01/2006	**130,920**	**9,403,940**
Allocation from option programme		616,586
Capital increase for cash of January 17	1,047,360	
Capital increase for cash of April 4	235,656	14,763,848
Costs of capital issuance		-1,082,303
Net result		
Balance 12/31/2006	**1,413,936**	**23,702,071**
Allocation from option programme		1,104,166
Capital increase from company funds	4,241,808	-4,241,808
Capital increase from IPO on Prime Standard	1,447,451	52,108,236
Costs of capital increase		-5,827,761
Exercise of option rights	33,048	-24,786
Net result		
Balance 12/31/2007	**7,136,243**	**66,820,118**

Net accumulated loss	Total
-15,095,305	**-5,560,445**
	616,586
	1,047,360
	14,999,504
	-1,082,303
-4,424,506	-4,424,506
-19,519,811	**5,596,196**
	1,104,166
	0
	53,555,687
	-5,827,761
	8,262
-2,524,174	-2,524,174
-22,043,985	**51,912,376**

Cash Flow Statement

for the financial year from January 1 to December 31, 2007

in €	**2007 01/01 – 12/31**	2006 01/01 – 12/31
Cash flow from ordinary operations		
Result before taxes	**-2,524,174**	**-4,313,395**
+/- Net interest income	-1,171,355	215,961
+ Depreciation/amortisation of intangible assets and property, plant and equipment	748,049	469,680
+ Expenses from share options programmes	1,104,166	616,586
+/- Changes in allowances	-20,407	57,803
-/+ Profits/losses from disposal of assets	2	-128
-/+ Profits/losses from derivatives	-1,011,879	61,901
- Other expenses/income not affecting cash	0	-30,222
Changes to operating result before working capital	**-2,875,598**	**-2,921,814**
+ Increase/decrease in short and long-term provisions	45,360	268,973
- Changes to trade accounts receivable	-361,797	-1,454,536
- Changes to inventories	-321,081	-655,300
+/- Changes to other assets	-21,525	-13,795
+ Changes to prepaid expenses	17,575	26,394
-/+ Changes to trade accounts payable	-147,268	-4,918
+ Changes to other liabilities	1,441,764	370,147
-/+ Change to deferred income	-79,420	-70,020
Cash flow from ordinary operations before taxes	**-2,301,990**	**-4,454,869**
- Income tax payments	-392,803	-163,963
Cash flow from ordinary operations	**-2,694,793**	**-4,618,832**

in €		**2007 01.01. – 31.12.**	2006 01.01. – 31.12.
Cash flow from investment activity			
-	Acquisition of property, plant and equipment and intangible assets	-647,312	-1,237,651
+	Cash provided by disposal of securities and pledged bank balances	2,999,550	0
+	Interest income	1,243,884	224,105
-	Cash used to acquire securities and pledged bank balances	0	-3,013,550
+	Proceeds from the sale of assets	0	133
Cash flow from investment activity		**3.596,122**	**-4,026,963**
Cash flow from financial activity			
+	Shareholder contributions	53,563,949	16,046,864
-	Costs of issuing equity	-5,777,761	-1,082,303
-	Repayment of financial liabilities	-1,556,372	0
+	Contributions from sale and lease back	0	183,300
-	Repayment of liabilities from finance leases	-287,796	-276,916
-	Interest paid and other expenses	-146,813	-190,210
Cash flow from financial activity		**45,795,207**	**14,680,735**
Net change in cash and cash equivalents		**46,696,536**	**6,034,940**
Net change in cash and cash equivalents			
	Cash and cash equivalents at beginning of period	6,248,783	213,843
	Cash and cash equivalents at end of period	52,945,317	6,248,783
Net change in cash and cash equivalents		**46,696,536**	**6,034,940**

Material Non-Cash Transactions

SALE & LEASE BACK – FINANCIAL YEAR 2006

Under the financial leasing agreement, € 41,749 of property, plant and equipment was purchased through inclusion in the sale-and-leaseback agreement without affecting cash. The rent also increased, which led to additional income of € 30,222. The resulting book profit in the amount of € 183,300 was deferred over the term of the lease in accordance with IFRS.

FINANCIAL YEAR 2007

There were no material non-cash transactions in financial year 2007.

Segment Reporting

for the financial year from January 1 to December 31, 2007

	A-Series		C- Series		JDA	
in €	**12/31/2007**	12/31/2006	**12/31/2007**	12/31/2006	**12/31/2007**	12/31/2006
Assets	531,372	629,073	3,363	10,891	158,204	71,209
Inventories	1,255,302	878,535	0	0	0	0
Trade accounts receivable	1,949,097	877,530	0	259,547	20,680	504,182
Other segment assets	265,796	124,431	8,855	22,716	0	0
Securities, cash and cash equivalents	0	0	0	0	0	0
Segment assets	**4,001,567**	**2,509,569**	**12,218**	**293,154**	**178,884**	**575,391**
	01/01 – 12/31/2007	01/01 – 12/31/2006	**01/01 – 12/31/2007**	01/01 – 12/31/2006	**01/01 – 12/31/2007**	01/01 – 12/31/2006
Sales	8,223,785	4,067,395	273,969	742,534	4,165,224	1,720,966
Production costs	-7,370,056	-5,200,507	-133,673	-227,234	-2,726,096	-641,417
Gross margin	**853,729**	**-1,133,112**	**140,296**	**515,300**	**1,439,128**	**1,079,549**
Operating costs not attributable to products						
Operating results						
Financial result						
Result from ordinary operations						
Income taxes						
Result after taxes						

Power Manager		Other products		Unallocated items		Annual financial statements	
12/31/2007	12/31/2006	**12/31/2007**	12/31/2006	**12/31/2007**	12/31/2006	**12/31/2007**	12/31/2006
20,734	7,461	36,902	31,404	1,157,727	1,259,004	1,908,302	2,009,042
0	34,829	25,398	12,636	0	0	1,280,700	926,000
0	0	30,410	10,343	0	0	2,000,187	1,651,602
0	0	0	0	1,490,846	958,878	1,765,497	1,106,025
0	0	0	0	52,990,637	9,293,653	52,990,637	9,293,653
20,734	**42,290**	**92,710**	**54,383**	**55,639,210**	**11,511,535**	**59,945,323**	**14,986,322**

01/01 – 12/31/2007	01/01 – 12/31/2006	**01/01 – 12/31/2007**	01/01 – 12/31/2006	**01/01 – 12/31/2007**	01/01 – 12/31/2006	**01/01 – 12/31/2007**	01/01 – 12/31/2006
1,378,083	226,397	309,947	266,979	0	0	14,351,008	7,024,271
-1,079,154	-81,551	-540,297	-343,880	0	0	-11,849,276	-6,494,589
298,929	**144,846**	**-230,350**	**-76,901**	**0**	**0**	**2,501,732**	**529,682**
				-7,209,140	-4,565,216	-7,209,140	-4,565,216
				-7,209,140	**-4,565,216**	**-4,707,408**	**-4,035,534**
				2,183,234	-277,861	2,183,234	-277,861
				-5,025,906	**-4,843,077**	**-2,524,174**	**-4,313,395**
				0	-111,111	0	-111,111
				-5,025,906	**-4,954,188**	**-2,524,174**	**-4,424,506**

Notes for the financial year from January 1 to December 31, 2007

1. General Information

SFC Smart Fuel Cell AG (hereinafter "SFC" or the "Company") was established by articles of association dated December 10, 1999 under the name Gigantus Vermögensverwaltung GmbH, Hallbergmoos, Germany, and was registered on December 21, 1999 in the Commercial Register of the local court in Munich under the number B 128831.

The shareholders' meeting of February 28, 2000 approved the restatement of the articles of association and the change of name to SFC Smart Fuel Cell GmbH. The purpose of the company was amended to read as follows: "The purpose of the company is the development and marketing of energy supply systems and their components for off-grid machines on the basis of fuel cell technology. The company may form, buy, act as agents for or invest in companies of a similar nature as well as set up branch offices." The company's registered office was moved to Brunnthal near Munich.

On May 14, 2002, the shareholders of SFC Smart Fuel Cell GmbH, Manfred Stefener, Jakob-Hinrich Leverkus, Michael Negel, PRICAP Venture Partners AG, 3i Group Investments L.P. and SOHO GmbH, resolved to transform the company into a stock corporation (Aktiengesellschaft) to be known as "SFC Smart Fuel Cell AG."

The company went public on the Frankfurt Stock Exchange on May 25, 2007.

ACCOUNTING PRINCIPLES

The financial statements at December 31, 2007 were prepared in accordance with International Financial Reporting Standards (IFRS). IFRS includes the IFRS statements approved by the International Accounting Standards Board, the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

Since the Company has no subsidiaries, its financial statements are single-entity statements and there is no requirement to prepare consolidated statements. All EU-complaint standards in force for the 2007 financial year were applied. The financial statements reflect fairly the assets, financial condition and earnings of SFC. As described below, standards were occasionally applied even before they had come into force.

The Company's financial year is the calendar year (January 1 to December 31).

The annual financial statements are presented in euros (€). The Notes are also stated in euros (€) unless otherwise indicated. Please note that small differences can arise in rounded amounts and percentages due to commercial rounding of figures.

The income statement was prepared using the cost-of-sales method. The additional disclosures of costs of materials and personnel costs are shown separately in the Notes.

The annual financial statements will be published by the Supervisory Board and the Management Board on March 13, 2008.

[1] The Company's registered office is at Eugen-Sänger-Ring 4, 85649 Brunnthal.

Accounting Standards Applied

For financial year 2007, all relevant accounting standards were applied that are compulsory for financial years beginning on or after January 1, 2007. This includes the following standards that were applicable for the first time:

- Amendment to IAS 1 "Presentation of Financial Statements": The additional disclosure requirements regarding capital management that were published by the IASB in August 2005 and adopted by the EU in January 2006, which resulted from the amendment to IAS 1 "Presentation of Financial Statements," must be applied for reporting periods beginning on or after January 1, 2007, and were taken into account in preparing the financial statements. They did not result in any material changes in the presentation of the financial statements.

- IFRS 7 "Financial Instruments: Disclosure": IFRS 7 contains expanded disclosure obligations related to the extent, significance and risks of financial instruments and must be applied for reporting periods beginning on or after January 1, 2007. The first-time application resulted in changes in the presentation of the topic of "financial instruments." The prior year disclosures were adjusted accordingly pursuant to the Transitional Provisions of IFRS 7.

- IFRIC 8 "Scope of IFRS 2": IFRIC 8 makes it clear that IFRS 2 (Share-Based Payment) is applicable to agreements in which the consideration for the equity instruments granted by the Company cannot be expressly identified. This interpretation was obligatory for fiscal years beginning on or after May 1, 2006, but had no effect on the annual financial statements.

- IFRIC 9 "Reassessment of Embedded Derivatives": IFRIC 9 specifies the accounting for financial instruments with embedded derivatives after they are initially recognized. This interpretation was obligatory for fiscal years beginning on or after June 1, 2006, but had no effect on the annual financial statements.

- IFRIC 10 "Interim Financial Reporting and Impairment": IFRIC 10 states that interim reports must be prepared using the same accounting policies as those used in preparing the annual financial statements and that impairment of goodwill and certain financial instruments recognised in interim reports pursuant to IAS 36 or IAS 39 cannot be reversed in later periods. This interpretation was obligatory for fiscal years beginning on or after November 1, 2006, but had no effect on the annual financial statements.

The following standard was also applied by the Company, but is obligatory only for financial years beginning on or after January 1, 2009:

- IFRS 8 "Operating Segments": IFRS 8 (Operating Segments), which was published by the IASB in November 2006 and adopted by the EU in a resolution dated November 14, 2007, requires entities to adopt the "management approach" to reporting on the financial performance of their operating segments. Operating segments are components of an entity whose operating results are regularly evaluated by a central decision maker and form the basis for deciding how to allocate resources and evaluating performance. Segment information must be reported on the basis that it is used internally. Because of the early adoption of IFRS 8, IAS 14 does not have to be applied.

The following standards and interpretations have already been published but are not yet mandatory and were not adopted early:

- IAS 1 "Presentation of Financial Statements": The revisions to IAS 1 published in September 2007 govern the presentation of non-owner changes in equity and provide uniform terminology for annual financial statement components, with the aim of improving users' ability to analyse and compare the information given in financial statements. The revisions to IAS 1 are required to be used for reporting periods beginning on or after January 1, 2009. The only effects on SFC's financial statements are the change in the presentation of financial statement components.

- IFRIC 11 "Group and Treasury Share Transactions": This interpretation is required to be used for financial years beginning on or after March 1, 2007. No material effects on the presentation of the assets, financial condition or earnings situation are expected when this is applied for the first time.

- IFRIC 13 "Customer Loyalty Programmes": The interpretation addresses accounting by companies that award bonus credits ("loyalty points" or airline miles) to customers, who receive them when they buy other goods or services. The interpretation is required to be used for financial years beginning on or after July 1, 2008. No effects on the presentation of the assets, financial condition or earnings situation are expected from application of this interpretation.

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction": IFRIC 14 gives general guidelines for determining the upper limit of pension fund surpluses that can be carried as an asset under IAS 19. The interpretation is required to be used for financial years beginning on or after July 1, 2008. No effects on the presentation of the assets, financial condition or earnings situation are expected from application of this interpretation.

The following standards were not applied as they are not relevant for the Company:

- IFRS 3 "Business Combinations"
- IFRS 4 "Insurance Contracts"
- IFRS 5 "Non-current assets held for sale and discontinued operations"
- IFRS 6 "Exploration for and evaluation of mineral resources"
- IAS 26 "Accounting and reporting by retirement benefit plans"
- IAS 27 "Consolidated and separate financial statements"
- IAS 28 "Investments in Associates"
- IAS 29 "Financial Reporting in hyperinflationary economies"
- IAS 30 "Disclosures in the financial statements of banks and similar financial institutions"
- IAS 31 "Investments in Joint Ventures"
- IAS 40 "Investment property"
- IAS 41 "Agriculture"

USE OF ASSUMPTIONS AND ESTIMATES

The preparation of the annual financial statements in accordance with IFRS requires management to make certain assumptions which have an effect on the measurement of assets and liabilities, disclosure of contingent assets and contingent liabilities at the balance sheet date, and the income and expenses disclosed.

Assumptions and estimates relate mainly to:

- Measurement of provisions, and particularly warranty provisions: management estimates are used to measure provisions. Uncertainties are taken into account by increasing provisions where necessary. To measure provisions for warranties, it is assumed that warranty costs will be divided equally over the warranty period of 24 months. The discounting factor is 4%. For further information, see Note 24 "Other provisions".

- Determination of useful lives for property, plant and equipment and intangible assets: the useful lives for non-current assets are based on estimates by management. SFC reviews the estimated useful lives of property, plant and equipment and intangible assets at the end of each financial year. No estimated useful lives were changed during the financial year.

- Mandatory capitalisation of self-produced intangible assets: Based on management's planning and estimate, development costs are capitalised beginning in financial year 2006. The capital increase in financial year 2006 helped to secure SFC's long-term focus, which is necessary to generate uses for the results of our development activities. For further information, see "Intangible assets" under Section 2, "Accounting Principles".

- The recognition of deferred tax assets, particularly for losses carried forward: The maximum amount at which deferred tax assets are recognised on losses carried forward is the amount at which they can be offset against deferred tax losses, since the availability of future taxable income to offset tax loss carryforwards cannot be predicted with sufficient certainty.

- Measurement of embedded derivatives in investment contracts with silent partners: for more information about embedded derivatives and the related assumptions, see the extensive explanations of the silent partnerships under Note 34 "Financial Instruments".

- Measurement of share options: The Company has several share option programmes. For further information about these programmes, the fundamental assumptions and the resulting expenses, see Note 35 "Share-Based Payment".

- Partial realisation of profits: SFC performs development assignments under the Joint Development Agreements (JDA). With respect to income disclosure, please see Section 2 "Accounting Principles" and with regard to the carrying amounts, please see Note 28 "Liabilities from Percentage-of-Completion."

Actual amounts arising in future periods may vary from estimates. Changes are recognized in income or expense as soon as this becomes apparent.

FOREIGN CURRENCY TRANSLATION

SFC translates foreign currency transactions arising from the Company's business activities into euros for the purposes of the company's annual financial statements. Foreign currency is translated on the basis of IAS 21 "Effects of changes in foreign exchange rates" using the exchange rate applicable on the reporting date. Gains or losses arising from foreign currency translation are recognized in the income statement.

2. Accounting Principles

REVENUE RECOGNITION

The Company's revenues result primarily from the sale of products in the A-Series, Power Managers and Joint Development Agreements (JDA). The so-called A-Series and the follow-up product EFOY are series-produced goods used in the leisure sector, primarily for caravans and boats. A Power Manager is an electronic universal transformer that facilitates charging and operation of various terminal equipment and batteries with different power sources. The Joint Development Agreements are product development contracts carried out by the Company together with various public and private clients. SFC develops fuel cells and Power Managers customised to the needs of the client.

Revenues are also generated from the sale of prototypes, the so-called C-Series, fuel cartridges and other products.

Long-term development contracts are accounted for using the percentage-of-completion method (PoC method). The percentage of a contract completed is determined using the ratio of costs incurred against the estimated total cost (cost-to-cost method). Contracts are shown under assets or liabilities from percentage-of-completion. Where accumulated performance (production costs incurred plus profits shown) exceeds individual advance payments, production orders are carried under assets from percentage-of-completion. If there is a negative result after deduction of advance payments, this amount is included under liabilities from percentage-of-completion. Adjustments to estimates of order income or costs are treated as changes in estimates within the meaning of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors."

Other revenues are recognised when the customer or other party responsible for transport picks up the order, i. e., at the time when opportunities and risks are transferred to the customer, so long as the amount of revenue can be reliably calculated, economic benefits will flow to the company and the costs involved in selling the item can be reliably calculated. Revenues are recognised at the value of the consideration for the sale and delivery of the product to the customer.

EXPENSE RECOGNITION

Production costs related to generating sales and operating expenses are shown at the time of performance or at the time they are incurred.

INTANGIBLE ASSETS

Intangible assets acquired for valuable consideration are carried at cost, less amortisation on a straight-line basis over the estimated useful life of the asset.

Amortisation periods are as follows:

• ERP-Software	8 Years
• Software	3 Years
• Patents	5 Years
• Licences	3 Years

There are no intangible assets with an unlimited useful life.

Development costs are capitalised in accordance with IAS 38 "Intangible assets" if a newly developed asset can be clearly defined, is technically feasible and is intended either for the company's own use or is to be sold. Capitalisation also presumes that it is likely that the development costs will be covered by future cash flows and the development expenses can be reliably measured. Capitalised development costs are amortised on a straight line basis over the expected useful life of the asset. Where requirements for capitalisation are not met, expenses are recognised in the year in which they arise. Research costs are shown as current expenses under IAS 38.

Costs of customising ERP-Software are allocated to intangible assets as transaction costs. They are amortised on a straight-line basis over the expected useful life of the ERP-Software.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost, less depreciation, in accordance with its estimated useful life. Cost includes individual costs and an appropriate proportion of overheads.

Property, plant and equipment is depreciated on a straight-line basis.

The depreciation periods are:

• Technical plant and machinery	3 – 8 Years
• Other equipment, fixtures and fittings	3 – 13 Years

For information about accounting for leased assets, see the following explanations of "Leasing".

COST OF BORROWING

Borrowing costs in accordance with IAS 23 are not capitalized, but expensed.

WRITE-DOWN OF ASSETS

The impairment of the carrying amounts of intangible assets and non-current assets is tested on the basis of the cash flows expected from the use of the asset (discounted by a risk-adjusted interest rate) and of the net selling price (impairment testing), if events or market developments suggest a correction of the estimated useful life or a reduction in value. Furthermore, an annual impairment test must be made for intangible assets not yet able to be used. If the net carrying value of an asset is higher than the realisable amount (higher of value in use or net selling value), an impairment loss is recognised. In calculating expected cash flows, account is taken of actual and predicted income levels, and sector-specific, technological, economic and general developments. If the basis of a previous write-down is no longer valid, the write down of the amortised cost is reversed (to the extent permissible).

In financial year 2007, there were no write-downs of intangible assets or property, plant and equipment.

LEASING

Leasing contracts are classified as finance leases when the leasing conditions transfer all important risks and opportunities associated with ownership to the lessee. All other leasing contracts, where economic ownership remains with the lessor, are operating leases.

In the past, the Company entered into a Sale and Lease Back Agreement, which is a finance lease. When the contract was entered into, the assets were initially recognised at the amount of the present value of the minimum leasing payments and the same amount was carried as a liability. Thereafter, assets are written down over the shorter of the useful life or the length of contract. Leasing payments are divided into interest and repayment. Income from the sale is deferred and distributed on a straight-line basis over the expected useful life of the asset.

Changes to the leasing agreement are treated as changes to estimates within the meaning of IAS 8 "Accounting policies, changes in accounting estimates and errors", unless they lead to another classification.

The rental and leasing payments from the SFC Operating Leases are recognised on a straight-line basis over the term of the contract. The leased assets are accounted for by the lessor.

INVENTORIES
Raw materials and supplies are carried at cost at the time of acquisition, plus any additional acquisition costs less any acquisition cost reductions. Finished goods and work in progress are carried at production price, including directly attributable costs and general production and materials costs.

Thereafter, inventories are measured taking into account the expected net selling value at the balance sheet date. The consumption tracking method used is the weighted average cost.

RECEIVABLES AND OTHER ASSETS
Receivables and other assets are carried at their principal amount. Allowances are made for identifiable individual risks by appropriate write-downs.

GOVERNMENT GRANTS
Government grants consist of sponsorship for development activities by SFC.

If development costs are capitalized pursuant to IAS 38 "Intangible Assets," the grants for assets are carried as a reduction in the cost of the asset involved.

If the prerequisites for capitalization are not met, the grants are carried as a reduction of research and development costs and general administration costs.

DEFERRED TAXES
Deferred tax assets and liabilities are recognized using the balance sheet liability method in accordance with IAS 12 "Income Taxes" for all temporary and quasi-permanent differences between amounts under tax rules and amounts under IFRS. In accordance with IAS 12.34, deferred tax assets on losses carried forwards are only recognised in the amount for which it is anticipated that there will be sufficient future taxable profits for the loss carryforwards to be set off. Thus far, we have only recognised deferred tax assets on these loss carryforwards to the extent that they can be offset against deferred tax liabilities, because future taxable income cannot be assumed with sufficient certainty.

Deferred tax liabilities are recognised on the basis of tax rates applicable at the time of realisation.

PROVISIONS

Provisions are recognized in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets" if there is a current obligation to a third party from a past event which will probably lead to a future outflow of resources and can be reliably determined. This means that the probability of occurrence must be more than 50%. Provisions are recognized for identifiable risks and contingent liabilities in the amount they are likely to cost and are not offset against reimbursements. Other long-term provisions are discounted. The settlement amount includes cost increases to be taken into consideration at the balance sheet date.

Provisions for warranty claims are recognised on the basis of existing or estimated future claims for damages. There are no guarantees or warranty obligations in excess of normally accepted business levels.

DEBTS AND LIABILITIES

In accordance with IAS 39 "Financial instruments: recognition and measurement", financial liabilities are measured at fair value when initially recognised and at amortised cost thereafter using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments under the financial liabilities to the net carrying amount of the liabilities. Debts result from two silent investments in the company, one of which was paid back in 2007.

Trade accounts payable and other liabilities are carried at the repayment amount.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company has derivative financial instruments consisting of currency forwards and commodity futures, which are assigned to the category "fair value through profit and loss." They are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately. A positive market value is shown under "other assets," while a negative market value is shown under "other liabilities."

Hedge accounting is not used.

Separable embedded derivatives are carried at fair value and shown separately as "derivatives with negative market value" in the balance sheet.

SECURITIES

Industrial bonds and mortgage bonds held by the Company were voluntarily allocated to the category "fair value through profit and loss," whereby the securities are valued at each balance sheet date at their current rates as shown on bank statements. Value fluctuations are recognized in the net income or loss for the period. Regular purchases and sales are valued at the price on the date of trade.

3. Notes on the Income Statement

(1) SALES
Sales are shown in the following table:

in €	01/01 – 12/31/2007	01/01 – 12/31/2006
Sales	**14,351,008**	**7,024,271**
thereof from PoC	4,165,224	1,720,966

For a breakdown of sales by product, see the segment reporting and the explanations under Note 39 "Segment Reporting".

2) PRODUCTION COSTS OF WORK PERFORMED TO GENERATE SALES
Production costs of work performed to generate sales are as follows:

in €	01/01 – 12/31/2007	01/01 – 12/31/2006
Cost of materials	8,025,240	4,535,945
Personnel costs	2,638,753	1,145,749
Depreciation and amortisation	294,223	175,346
Transport costs	217,734	142,815
Cost of premises	163,392	104,961
Consultancy	118,943	43,208
Warranties	103,141	228,578
Other	287,850	117,987
Total	**11,849,276**	**6,494,589**

(3) SALES COSTS
Due to the increased expense resulting from the redemption of share options, sales costs are as follows:

in €	01/01 – 12/31/2007	01/01 – 12/31/2006
Personnel costs	1,499,286	1,326,642
Advertising and travel costs	1,421,529	1,185,400
Consultancy/commissions	498,655	358,368
One-time effect of redemption of share options	392,917	0
Other	565,299	274,375
Total	**4,377,686**	**3,144,785**

For more information on share options, see Note 35 – Share-Based Payment.

(4) RESEARCH AND DEVELOPMENT COSTS

Due to the increased expense resulting from the redemption of share options, research and development costs are as follows:

in €	01/01 – 12/31/2007	01/01 – 12/31/2006
Cost of materials	608,396	536,637
Personnel costs	359,349	1,269,326
Depreciation and amortisation	308,932	101,331
One-time effect of redemption of share options	92,038	0
Cost of premises	34,563	65,911
Consultancy and patents	6,543	63,578
Other	28,930	91,995
Capitalisation of self-produced assets	0	-766,523
Set-off of grants	-807,075	-923,686
Total	**631,676**	**438,569**

(5) GENERAL ADMINISTRATION COSTS

Due to the increased expense resulting from the redemption of share options, general administration costs are as follows:

in €	01/01 – 12/31/2007	01/01 – 12/31/2006
Personnel costs	797,093	659,056
One-time effect of redemption of share options	484,955	0
Audit and consultancy costs	247,263	129,601
Recruiting costs	176,213	152,921
Supervisory Board compensation	138,589	76,250
Investor relations/annual meeting	121,579	39,902
Travel costs	119,390	21,377
Depreciation and amortisation	105,081	81,101
Other	239,994	75,783
Set-off against grants	-126,927	-137,246
Total	**2,303,231**	**1,098,745**

(6) OTHER OPERATING INCOME

Other operating income is as follows:

in €	01/01 – 12/31/2007	01/01 – 12/31/2006
Income from sale and lease back	79,420	105,294
Income from mark-to-market of derivatives	21,844	0
Income from other periods	23	48,349
Other	30,138	38,830
Total	**131,425**	**192,473**

Income from sale and leaseback transactions relates to the amortisation of proceeds from the sale of the assets in question that were deferred in accordance with IFRS.

(7) OTHER OPERATING EXPENSES

Other operating expenses can be broken down as follows:

in €	01/01 – 12/31/2007	01/01 – 12/31/2006
Foreign exchange transaction losses	24,492	59,451
Expenses from other periods	3,478	16,134
Other	2	5
Total	**27,972**	**75,590**

(8) INTEREST AND SIMILAR INCOME

Due to the effect of the redemption of silent partnerships and the sale of securities, interest and similar income was as follows:

in €	01/01 – 12/31/2007	01/01 – 12/31/2006
One-time effect of redemption of silent investments	1,011,879	0
Fixed interest income	802,837	54,525
Interim gains on sales of securities	586,826	156,446
Other	12,307	13,134
Total	**2,413,849**	**224,105**

(9) INTEREST AND SIMILAR EXPENSE

Interest and similar expense was as follows:

in €	01/01 – 12/31/2007	01/01 – 31.12.2006
Interest on silent partnerships	137,949	186,803
Interest-like expenses	92,074	252,563
Expense from mark-to-market of deriviatives	0	61,900
Other	592	700
Total	**230,615**	**501,966**

(10) INCOME TAXES

Income taxes are as follows:

in €	**01/01 – 12/31/2007**	01/01 – 12/31/2006
Current taxes	0	111,111
Deferred taxes	0	0
thereof from change in tax rate	0	0
Total	**0**	**111,111**

The current taxes in financial year 2006 relate exclusively to foreign taxes from a Joint Development Agreement with LG Chemicals Ltd.

The assessment rate for trade tax (Gewerbesteuer) in the District of Brunnthal is 330. Given the fact that trade tax is deductible, this resulted in an effective trade tax rate of 14.2% and a total corporate income tax rate (including corporate income tax and the solidarity surcharge) for SFC of 36.8% for financial years 2006 and 2007.

As part of corporate tax reform, German legislators have cut tax rates effective January 1, 2008 in an effort to substantially reduce the average tax burden on German corporations from the current level of approximately 40%. The bill was adopted by the Bundesrat, or upper house of German parliament, on July 6, 2007, after the lower house, the Bundestag, had approved it on May 25, 2007. Cornerstones of the new legislation include a reduction in the corporate income tax rate from 25% to 15% and a reduction in the base rate for municipal trade tax from 5% to 3.5%. According to a position paper by the DRSC, the Accounting Standards Committee of Germany, this reduction should be taken into account for purposes of calculating deferred taxes from Q3 2007 on. Accordingly, the tax rate to use when determining deferred taxes on temporary differences whose reversal is first expected after the beginning of the 2008 financial year was reduced from 36.8% to 27.4%.

As was the case with the annual financial statements at December 31, 2006, the amount reported as deferred tax assets does not exceed our deferred tax liabilities since we cannot show with reasonable certainty that SFC Smart Fuel Cell AG will be able to utilize the tax losses brought forward. Thus, with the subsequent netting of our deferred tax assets and liabilities, the change in the applicable tax rate is of no relevance to the deferred taxes we reported on our balance sheet and, thus, had no impact on our income tax expense/income for the period.

Deferred tax assets and liabilities were as follows:

in €	2007	2006
Tax rate	**27.40%**	**36.80%**
Deferred tax assets		
for receivables from contract development	296,525	167,310
for liabilities from finance leasing	136,167	281,651
for liabilities from derivatives	0	833,766
from loss carryforwards	7,660,147	
Write-down of deferred tax assets	-7,321,076	-615,595
Total	**771,763**	**667,131**
Deferred tax liabilities		
for intangible assets	263,720	418,504
for fixed assets from finance leasing	77,292	184,978
for receivables under contract production	396,838	0
for other assets	11,342	20,132
for silent partnerships	0	10,380
for provisions	22,571	33,137
Total	**771,763**	**667,131**

Subject to the operating audit, at the balance sheet date there were tax losses carried forward in the amount of approximately € 28,310,700 (2006: € 18,194,206) for corporate income tax and approximately € 25,939,300 (2006: € 17,214,541) for trade tax. As mentioned above, the maximum amount of deferred tax assets recognised on tax loss carryforwards was the amount at which they can be offset against deferred tax liabilities, because future use of these loss carryforwards cannot yet be established with sufficient certainty. Please see the explanations of the assumptions and estimates in these Notes. The tax loss carryforwards are exclusively losses carried forward in Germany, which in principle can be carried forward indefinitely.

The following table shows a reconciliation of the income taxes expected in each financial year to the actual tax charge shown on the income statement:

in €	**2007**	2006
Tax rate	36.80%	36.80%
Net loss	-2,524,174	-4,313,395
Expected tax charge	-928,896	-1,587,329
Deviations		
1. Adjustments for changes in tax rate	2,527,996	0
2. Change in write-down of deferred tax assets	137,114	1,750,760
3. Taxes from permanent differences – non-deductible expenses	-35,267	39,396
4. Taxes from permanent differences – IPO costs	-2,129,246	-363,142
5. Non-deductible expense from share options	406,333	226,904
6. Foreign taxes	0	70,222
7. Other	21,966	-25,700
Tax charge pursuant to income statement	**0**	**111,111**

(11) COST OF MATERIALS

Cost of materials was as follows:

in €	**01/01 – 12/31/2007**	01/01 – 12/31/2006
Raw materials and supplies and related goods	7,868,918	4,893,800
Related services	1,041,412	283,685
Set-off against grants	-439,958	-463,828
Total	**8,470,371**	**4,713,657**

(12) DEPRECIATION AND AMORTISATION

Depreciation and amortisation of assets is set forth in the Statement of Assets.

The income statement was prepared in accordance with the cost-of-sales method and includes pro rata depreciation and amortisation for production costs, cost of sales, research and development costs and general costs of administration.

(13) PERSONNEL EXPENSES AND EMPLOYEES

Personnel expenses were as follows:

in €	01/01 – 12/31/2007	01/01 – 12/31/2006
Wages and salaries	3,717,020	2,852,027
Expense from share options	1,104,166	616,586
Statutory social security expenses	585,719	514,668
Variables/bonuses	713,979	317,942
Other social security expenses/pensions	126,124	90,127
Other	17,384	9,423
Capitalisation of development costs	0	-424,404
Set-off against grants	-259,839	-573,781
Total	**6,004,553**	**3,402,588**

The average number of employees was as follows:

	01/01 – 12/31/2007	01/01 – 12/31/2006
Full-time employees (incl. Management Board)	70	59
Part-time employees	7	5
Trainees/students awaiting diploma	7	11
Total	**84**	**75**

(14) RESULT FROM SPECIAL INFLUENCES

Taking account of the two special influences (the redemption of the silent partnerships and the cancellation of share options), the result for financial year 2007 cannot be compared with the result for the previous year (for further explanation, see Notes 34 and 35). However, in order to offer some comparison, we present this result after taxes and the operating result adjusted for the special circumstances.

in €	01/01 – 12/31/2007	01/01 – 12/31/2006
Net loss in accordance with income statement	-2,524,174	-4,424,506
Effect from redemption of silent partnership	-1,011,879	0
Effect from cancellation of share options	969,910	0
Adjusted result after taxes	**-2,566,143**	**-4,424,506**

in €	01/01 – 12/31/2007	01/01 – 12/31/2006
Operating loss in accordance with income statement	-4,707,408	-4,035,534
Effect from cancellation of share options	969,910	0
Adjusted operating loss	**-3,737,498**	**-4,035,534**

4. Notes on the Balance Sheet

(15) INVENTORIES

Inventories consisted of the following:

in €	12/31/2007	12/31/2006
Raw materials and supplies	955,500	493,500
Unfinished goods	139,900	54,100
Finished goods	185,300	378,400
Total	**1,280,700**	**926,000**

Taking into account the achievable net proceeds on disposal, the following impairments were made to inventories:

in €	12/31/2007	12/31/2006
Raw materials and supplies – before impairment	987,149	556,386
Impairment	-31,649	-62,886
Net book value	**955,500**	**493,500**

in €	12/31/2007	12/31/2006
Unfinished and finished goods – before impairment	371,931	467,434
Impairment	-46,731	-34,934
Net book value	**325,200**	**432,500**

(16) TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable and allowances for the risk of default consisted of the following:

in €	12/31/2007	12/31/2006
Trade accounts receivable – gross	2,013,399	1,651,602
Allowances for risk of default	-13,212	0
Trade accounts receivable – net	**2,000,187**	**1,651,602**

There were no allowances for risk of default in financial year 2006 because no bad debt losses were expected.

All trade accounts receivable are due in less than one year.

(17) INCOME TAX RECEIVABLES
The income tax receivables relate to corporate tax refunds (including the solidarity surcharge)

The increase in financial year 2007 results from interest income tax paid on the interest received from time deposits.

(18) OTHER SHORT-TERM ASSETS AND RECEIVABLES
Other short-term assets and receivables consisted of the following:

in €	12/31/2007	12/31/2006
Receivables from grants	274,651	147,146
Interest receivable on time deposits/securities	158,086	58,478
Market value of derivatives	21,844	0
VAT receivables	0	80,641
Other	24,389	13,095
Total	**478,970**	**299,360**

Other assets and receivables are due in less than one year

(19) CASH AND CASH EQUIVALENTS
Cash and cash equivalents consist of cash and bank balances and of time deposit and term money accounts at banks that are due within three months.

Cash increased in financial year 2007 because of cash received from the capital increase implemented in the course of the public offering. The proceeds from the capital increase were deposited in interest-bearing time deposit and term money accounts with terms of up to three months.

(20) CASH AND CASH EQUIVALENTS WITH LIMITATIONS ON DISPOSAL
There is a bank guarantee in the amount of € 31,320 (prior year: € 31,320) in connection with the lease of the Company's offices at Eugen-Sänger-Ring 4 and 6, Brunnthal (StartPoint).

There is also a bank guarantee to Woltering GmbH in the amount of € 14,000 (prior year: € 14,000) on account of the lease of offices and parking spaces at Eugen-Sänger-Ring 17, Brunnthal.

Time deposits with an original remaining term of more than three months in the amount of € 45,320 (prior year: € 45,320) were pledged to secure these lease guarantees.

(21) PREPAID EXPENSES
Prepaid expenses in financial year 2007 relate to deferred maintenance costs and fees for designated sponsoring and research as a result of the Company's listing on the stock exchange.

Costs of the expected capital increase were deferred in financial year 2006.

(22) INTANGIBLE ASSETS
For a statement of intangible assets, please see the Statement of Assets.

Grants of € 934,003 (previous year: € 1,060,931) were received in connection with development activities and were shown as a reduction of research and development costs of € 1,003,703 (previous year: € 1,827,454). The remaining costs in the amount of € 69,700 in financial year 2007 were expensed because the prerequisites for capitalizing them were not met.

The additions to intangible assets shown in the Statement of Assets relate to costs in connection with SFC's patents.

Capitalized development costs are written down over the term of their expected useful life.

(23) PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment is shown in the Statement of Assets.

(24) OTHER PROVISIONS
Other provisions are shown in the following table:

in €	01/01/2007	Addition	Interest cost added back	Use	Reversal	**12/31/2007**	thereof with a remaining term>1 year
Warranties	466,954	477,834	12,046	397,269	0	559,565	176,898
Provision for promotions	86,805	101,600	0	86,805	0	101,600	
Total						**661,165**	**176,898**

in €	01/01/2006	Addition	Interest cost added back	Use	Reversal	12/31/2006	thereof with a remaining term›1 year
Warranties	243,925	399,837	6,292	183,100	0	466,954	147,621
Provision for promotions	28,000	86,805		28,000	0	86,805	
Total						**553,759**	**147,621**

Part of the provision for warranties is related to long-term liabilities. This portion, in the amount of € 176,898 (previous year: € 147,621), is shown as other provisions under long-term liabilities. The provision was recognised in the amount of the cash value of the expected expenses. The amount was discounted to present value using an interest rate of 4%.

The provisions for promotions relate to charges from market initiatives in financial year 2007 and customer orders for systems that are not yet in inventory and whose cost exceeds the selling price. These amounts were not discounted in financial years 2006 and 2007 because of the immateriality of the interest effect.

(25) LIABILITIES FROM PREPAYMENTS

Liabilities from prepayments relate to prepayments received on orders and are due in less than one year.

(26) TRADE ACCOUNTS PAYABLE

All trade accounts payable are due in less than one year.

(27) LIABILITIES FROM FINANCE LEASES

Details of the minimum lease payments under the sale and lease back agreement are as follows:

in €	**12/31/2007**	12/31/2006
Future minimum lease payments		
< 1 year	313,122	313,122
1 to 5 years	119,915	407,713
Interest portion of future minimum lease payments		
< 1 year	25,326	25,326
1 to 5 years	22,902	66,453
Cash value of future minimum lease payments		
< 1 year	287,796	287,796
1 to 5 years	97,013	341,259

Finance leasing resulted in the following expenses:

in €	**12/31/2007**	12/31/2006
Interest expense	43,551	71,589
Depreciation	220,366	225,607
Recognised expense	**263,917**	**297,196**

The sale and lease back agreement relates to SFC's IT and laboratory equipment. There is no purchase option at the end of the contract term.

The Company has been given the opportunity to acquire additional assets during the term of the contract and of having them included in the contract. Reinvestment periods of six months each were defined for this purpose. Each time a reinvestment volume is used, the contract will be extended by an additional six months.

The monthly rent depends on the volume of financing and has stood at 3.11% thereof since December 1, 2007. The rent is adjusted at the beginning of every reinvestment period.

Changes to the term resulting from extensions of the investment agreement are treated as changes to estimates in accordance with IAS 8 "Accounting policies: changes in accounting estimates and errors. The resulting effect on assets and liabilities is shown under these balance sheet items. The release of the remaining deferred gain is adjusted for the new term. The same applies to any adjustments of the monthly rent.

Because the company's capital expenditures in January 2006 exceeded the contractually agreed reinvestment volume, a new leasing agreement has been in place since June 1, 2006. It is also classified as a finance lease. The basis for calculating the monthly rent was adjusted accordingly.

Since June 1, 2006, there have been no further additions to assets under the agreement, and therefore, no further changes have been made. The plan is to continue the agreement until it expires on May 31, 2009.

(28) LIABILITIES FROM PERCENTAGE-OF-COMPLETION

The liabilities from percentage-of-completion are production costs incurred (including profit contributions) set off against prepayments received. Because the payments received in each financial year exceed the revenues to be generated in that year, the excess amounts are shown as liabilities from percentage-of-completion.

in €	**12/31/2007**	12/31/2006
Partial settlements and advance payments received	4,239,879	2,175,612
Proceeds shown	4,165,224	1,720,966
Liabilities from percentage-of-completion	**74,655**	**454,646**
thereof production costs incurred	2,726,096	641,417

Adjustments made to the estimates in financial year 2007 were treated as changes in estimates in accordance with IAS 8 "Accounting policies: changes of estimates and errors." The effects thereof were recognised in the income statement.

(29) OTHER LIABILITIES

Other liabilities consist of short-term and long-term liabilities.

Other short-term liabilities were as follows:

in €	**12/31/2007**	12/31/2006
Liabilities from silent partnerships	2,246,250	26,250
Variables/bonuses	464,100	204,800
Wage tax, VAT, investment income tax	406,714	81,309
Outstanding vacation	140,480	95,110
Supervisory Board compensation	138,589	62,083
Social security	40,665	40,139
Covenants not to compete	32,600	0
Trade association contributions	24,500	22,000
Employee invention compensation	19,810	23,510
Overtime	7,526	38,274
Severance	0	115,000
Other	42,441	16,175
Total	**3,563,674**	**724,650**

At the balance sheet date there were other long-term liabilities in the amount of € 216,700. They relate to long-term bonus payments.

Other long-term liabilities in financial year 2006 include liabilities from silent partnerships in the amount of € 2,486,108. Because the silent partnerships were dissolved in financial 2007, the liabilities from silent partnerships in the amount of € 2,246,250 are due in less than one year as of December 31, 2007 and are therefore shown under other short-term liabilities. For more information, please see Note 34 on financial instruments.

(30) DEFERRED INCOME

Deferred income relates to deferred proceeds from the sale and lease back transaction.

(31) EQUITY

Changes to SFC's equity are shown in the Statement of Equity.

Subscribed capital

At the balance sheet date, subscribed capital amounted to € 7,136,243 and was divided into 7,136,243 bearer shares without par value, with a notional amount of € 1.00 per no-par-value share. The subscribed capital has been fully paid in.

At the shareholders' meeting on April 2, 2007, it was resolved to increase capital from the capital surplus by € 4,241,808. This capital increase was implemented when it was recorded in the Commercial Register on April 20, 2007. The capital surplus reduced accordingly.

As part of SFC Smart Fuel Cell AG's initial public offering and subsequent listing in the Prime Standard segment of the German Stock Exchange on May 25, 2007, capital was increased by € 1,447,451. At the same time, the capital surplus was increased by € 52,108,236, which corresponds to the entire issue proceeds in the amount of € 53,555,687. The costs of the capital increase, which amounted to € 5,827,761, were subtracted from the capital surplus.

In addition, SFC Smart Fuel Cell AG employees exercised 8,262 share options in financial year 2007 to acquire 4 shares each and thus increased the share capital by € 33,048. In connection with this, € 8,262 was contributed in cash and € 24,786 was taken from capital surplus.

At December 31, 2006 subscribed capital stood at € 1,413,936.

At the shareholders' meeting on January 17, 2006 it was resolved to increase the capital in exchange for cash, by € 1,047,360 to € 1,178,280 by issuing 1,047,360 ordinary shares without par value, with a notional value of € 1.00 each. The new shares can be subscribed to by the existing ordinary and preference shareholders at a rate of 8:1. At the same time, the then existing preference shares were converted to ordinary shares. The liquidation preference to which preference shares were entitled was thus eliminated.

In April 2006 the subscribed capital was increased in the third round of financing by € 235,656.

After the third round of financing was complete, the share capital was divided into 1,413,936 ordinary shares without par value.

Capital surplus
As part of SFC Smart Fuel Cell AG's initial public offering with subsequent listing in the Prime Standard of the German Stock Exchange on May 25, 2007, the capital surplus was increased by € 52,108,236. The capital surplus increased by € 1,104,166 as a result of the redemption of share options and the expense in connection with the share options issued in previous years. The costs of the initial public offering in 2007, which amounted to € 5,827,761, were subtracted from the capital surplus.

In financial year 2006 a contribution of € 14,763,848 was made to capital surplus by the new shareholders in the third round of financing. The capital surplus also increased by € 616,586 through the issuance of share options. The costs of equity issuance in 2006 in the amount of € 1,082,303, were subtracted from the capital surplus.

Conditional and authorised capital
At the shareholders' meeting on April 2, 2007 it was resolved to eliminate the existing authorised Capital I through III.

In addition, new authorised capital was created in 2007 in the amount of € 2,827,872. The Management Board was empowered to increase the Company's subscribed capital on one or more occasions by March 31, 2012, with the Supervisory Board's consent, by issuing new no-par-value bearer shares, in exchange for cash or in-kind contributions. As a rule, shareholders are to be granted preemptive rights to subscribe to these shares. However, under certain circumstances the shareholders' preemptive rights may be excluded with the Supervisory Board's consent.

The company has conditional capital I and conditional capital II, which were increased to € 21,504 and € 155,904, respectively, by resolution of the shareholders' meeting on April 2, 2007, because of the capital increase from the capital surplus. The two amounts of conditional capital are to be used to establish a share option programme for members of the management board and company employees that provides for the grant of up to 44,352 options to acquire the company's ordinary bearer shares as no-par-value shares with a notional value of € 1.00. The programme remains in effect until December 31, 2009. Because of the capital increase from the capital surplus that was implemented, since April 2, 2007, every share option has entitled its holder to subscribe to four shares at a strike price of € 0.25 per share.

After exercise of the options, the subscribed capital amounts to € 7,136,243 and the capital surplus to € 66,820,118.

After implementation of the transactions discussed above, the authorized capital 2007 amounts to € 1,380,421, while conditional capital I and conditional capital II together total € 144,360.

The shareholders' meeting on April 2, 2007 authorized the Company to acquire its own shares by September 30, 2008, up to 10% of the company's share capital on April 2, 2007. No use had been made of this authorization as of the balance sheet date.

At December 31, 2006 the Company had conditional capital in the amount of € 5,376. The conditional capital is to be used to establish a share option programme for members of the management board and company employees that provides for the grant of up to 5,376 options to acquire the company's ordinary bearer shares as no-par-value shares with a notional value of € 1.00. The programme remains in effect until December 31, 2009.

Pursuant to a shareholder's resolution dated July 1, 2005, the management board is authorized to increase the company's share capital, with the Supervisory Board's consent, on one or more occasions, by up to € 1,186, by issuing up to 1,186 new ordinary shares as no-par-value bearer shares, in exchange for cash contributions, between July 1, 2005 and June 30, 2010 (authorised capital I). The issue price is € 1.00 per ordinary share. The shareholders' preemptive rights are eliminated. Only Dr. Jens Müller is authorised to subscribe to these 1,186 new shares.

Pursuant to a resolution of the shareholders' meeting on January 17, 2006 the Management Board is authorized to increase the Company's capital, with the Supervisory Board's consent, on one or more occasions between February 1, 2006 and June 30, 2010, up to a maximum of € 9,488 by issuing up to 9,488 new ordinary shares as no-par-value bearer, in exchange for cash contributions (authorized capital II). The issue price is € 1.00 per ordinary share. The shareholders' preemptive rights are eliminated. Only Dr. Jens Müller is authorised to subscribe to these 9,488 new shares.

In addition, pursuant to the capital increase implemented on January 17, 2006, conditional capital II was created to adjust to the increased share capital in the amount of eight times the existing conditional capital. The terms of conditional capital II, in the amount of € 43,008, are the same as the terms of the existing conditional capital.

Pursuant to a resolution of the shareholders' meeting on August 31, 2006, the Management Board is authorized to increase the Company's share capital, with the Supervisory Board's consent, on one or more occasions between September 1, 2006 and August 31, 2011, by up to a maximum of € 4,032 by issuing up to 4,032 new ordinary shares as no-par-value bearer shares in exchange for cash contributions (authorized capital III). The issue price is € 1.00 per ordinary share. The shareholders' preemptive rights are eliminated. Only Mr. Oliver Freitag is authorized to subscribe to these 4,032 new shares.

At the same time, the conditional capital II was reduced from € 43,008 to € 38,976.

5. Other Disclosures

(32) CONTINGENT LIABILITIES

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events beyond the control of SFC. Furthermore, present obligations are contingent liabilities when it is not probable that they will be claimed and/or the amount of the obligation cannot be measured with sufficient reliability.

As part of government sponsorship of projects, non-repayable project-specific grants were paid to SFC, subject to securing financing for the entire project. Until the projects are successfully completed, there is a contingent liability in the amount of € 718,591 (previous year: € 1,406,441) with respect to the grants received thus far.

(33) OTHER FINANCIAL LIABILITIES
The other financial liabilities result from leases entered into.

Obligation under Operating Leases
The company has financial liabilities under operating leases, particularly from the leases for the business premises and from motor vehicle leases.

Operating expenses of € 347,799 (previous year: € 255,828) from operating leases were recognized in the current financial year.

The total minimum rental payments under the operating leases were made up as follows, broken down by due date:

in €	
Operating Leases	
Rental payments within 1 year	307,462
Rental payments between 1 and 5 years	107,532
Rental payments › 5 years	0

(34) FINANCIAL INSTRUMENTS
Pursuant to IAS 32 “Financial Instruments: Presentation,” financial instruments are any contracts that give rise to a financial asset of one company and a financial liability or equity instrument of another company.

The following table shows the fair values of all financial instruments by category, compared with their book value pursuant to the balance sheet:

in €	12/31/2007	12/31/2006
Financial Assets		
Assets carried at amortised cost		
Trade accounts receivable:	2,000,187	1,651,602
Income tax receivables:	463,229	70,426
Other assets and receivables (less derivatives):	457,126	299,360
Cash and cash equivalents:	52,945,317	6,248,783
Cash and cash equivalents with limitation on disposition:	45,320	45,320
Assets measured as at fair value through profit or loss		
Securities	0	2,999,550
Derivatives with positive market value	21,844	0
Financial Liabilities		
Liabilities carried at amortised cost		
Liabilities from prepayments:	985,863	8,103
Trade accounts payable:	1,261,806	1,409,074
Liabilities from finance leases:	384,809	629,054
Liabilities from percentage-of-completion:	74,655	454,646
Other liabilities:	3,780,374	3,210,758
Liabilities measured as at fair value through profit or loss		
Derivatives with negative market value:	0	2,265,668

Derivatives with positive market value are shown on the balance sheet under other assets.

The book values of the financial assets and financial liabilities carried at amortised cost are close to the fair values because they are exclusively short-term.

The income and expense from the financial instruments by measurement categories are as follows:

in €	12/31/2007	12/31/2006
Financial Assets		
Assets carried at amortised cost		
Expense from write-downs of trade accounts receivable:	13,212	-9,455
Income from currency translation of trade accounts receivable:	4,078	4,046
Expense from currency translation of trade accounts receivable:	17,097	36,413
Expense from currency translation of other assets:	2,599	1,086
Interest income on cash and cash equivalents:	815,143	67,659
Interest expense on cash and cash equivalents:	8,863	3,407
Assets measured as at fair value through profit or loss		
Income from mark-to-market of derivatives with positive market value:	21,844	0
Income from the sale of securities:	586,826	156,446
Expense from mark-to-market of securities:	0	19,425
Financial Liabilities		
Liabilities carried at amortised cost		
Interest expense from finance leases:	43,551	71,589
Income from currency translation of trade accounts payable:	12,784	32,326
Expense from currency translation of trade accounts payable:	4,797	2,527
Liabilities measured as at fair value through profit or loss		
Income from the redemption of silent partnerships (one-time effect):	1,011,879	0
Interest paid on silent partnerships:	137,949	186,803
Expense from the interest cost added back on silent partnerships:	28,206	165,405
Expense from mark-to-market of derivatives with negative market value:	0	61,900

Securities

The amount of securities (€ 2,999,550) shown by the Company at December 31, 2006, includes the following mortgage bonds:

in €	Date of acquisition	Maturity	Principal amount	Coupon	Acquisition price	Price at balance sheet date
Landesbank Hessen Thüringen	07/18/2006	08/03/2007	750,000	4.750	101.40	100.42
Hypothekenbank Essen	07/18/2006	07/25/2007	750,000	2.750	99.44	99.33
Düsseldorfer Hypothekenbank	07/18/2006	07/04/2007	750,000	3.750	100.34	99.81
DEPFA Bank plc	07/18/2006	07/16/2007	750,000	4.750	101.35	100.38

The mortgage bonds were voluntarily assigned to the category "fair value through profit and loss." In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" financial instruments were measured upon initial recognition at their fair value excluding transaction costs. At December 31, 2006 the mortgage bonds were also measured at their fair value in the amount of € 2,999,550. The resulting liquidation of the premium in the amount of € 12,150 was recognized in the results for the period.

The market value of financial derivatives, as confirmed by the banks, is determined using recognised mathematical procedures on the basis of the mark-to-market method on the balance sheet date.

Derivatives

At the balance sheet date December 31, 2007, there were the following financial derivatives. They are used exclusively to hedge currency risks and to even out fluctuations in the purchase price of raw materials (platinum):

in €	Fair Value
Currency forwards (dollar)	15,383
Commodity futures (platinum)	6,461
	21,844

The currency forwards include:

	Trade Date	Maturity/ expiration date	Volume (USD)	Hedging rate	Exchange rate at balance sheet date
Currency forward U.S. dollar – Deutsche Bank	11/30/2007	07/31/2008	900,000	1.4742	1.4712
Currency forward U.S. dollar – Deutsche Bank	12/14/2007	07/31/2008	900,000	1.4545	1.4712
Currency Forward Plus U.S. dollar – Deutsche Bank	12/14/2007	09/26/2008	1,000,000	1.484	1.4712

The commodity futures existing at the balance sheet date hedge the price of platinum, which is a core component of the fuel cells. In this regard, a total of 750 ounces of platinum were secured at an average price of USD 1,505 per ounce; this corresponds to approximately 85% of annual consumption. Because the price of platinum had risen as of the balance sheet date, the transaction has a positive market value of € 6,460.71.

Positive market values are shown under "other assets." Net gains on the mark-to-market of derivatives are shown under "other operating income."

The market values of financial derivatives, as confirmed by the banks, are determined using mathematical procedures and based on market data on the balance sheet date (mark-to-market method).

In connection with the master agreement for financial futures, the bank has a lien of at least € 450,000 (pursuant to its general terms of business) to secure all existing, future and conditional claims.

For information on embedded derivatives in investment agreements with silent partners (derivatives with a negative market value), see the separate section below on silent partnerships.

Risks such as market risk, credit risk and liquidity risk may arise in connection with financial instruments.

Credit risk
Credit risk results primarily from trade accounts receivable. The amounts shown on the balance sheet are net of the write-downs for receivables expected to be uncollectible, as estimated by management on the basis of past experience and the current economic environment. Specific write-downs are made as soon as there is an indication that receivables are not collectible. The indications are based on intense contacts as part of receivables management.

The maximum amount of default is the net carrying value of the receivable. No collateral from unpaid receivables was acquired or recognized during the reporting period. Receivables are secured through a reservation of ownership.

Write-downs during the financial year were as follows:

in €	
Write-downs at 01/01/2007:	0
Additions:	13,212
Write-downs at 12/31/2007:	13,212

There were no write-downs in financial year 2006 because no defaults were expected or to be recorded.

SFC's trade receivables that are past due but have not yet been written down are as follows:

in €	12/31/2007	12/31/2006
Receivables per itemisation:	2,015,535	1,671,476
Specific write-downs:	-13,212	0
Foreign currency translation:	-2,136	-19,874
Not past due:	1,931,757	588,277
up to one month past due:	45,899	698,351
one to three months past due:	15,327	354,529
three to six months past due:	7,204	10,445
more than six months past due	0	0
Receivables per balance sheet:	**2,000,187**	**1,651,602**

No write-downs of the other financial assets were taken. There were no past-due receivables in this regard at the balance sheet date.

Liquidity risk
SFC is subject to liquidity risks from the financial liabilities that it holds, which are shown undiscounted in the table below at their earliest possible time. By analogy, the cash flows from financial instruments are shown as short- and long-term assets. The remaining net liquidity outflow is covered by existing cash.

12/31/2007	Total	1 year	2 years	3 years	5 years	7 years	> 7 years
Trade accounts payable:	1,261,806	1,261,806					
Lease obligations:	384,809	287,796	97,013				
Other financial liabilities:	4,516,194	4,122,596	176,898		216,700		
Total cash outflow:	**6,162,810**	**5,672,199**	**273,911**	**0**	**216,700**	**0**	**0**
Cash and cash equivalents:	52,990,637	52,945,317	45,320				
Trade accounts receivable:	2,000,187	2,000,187					
Other financial assets:	2,222,900	2,222,900					
Total cash inflow:	**57,213,725**	**57,168,405**	**45,320**	**0**	**0**	**0**	**0**
Net liquidity from financial instruments:	51,050,915	51,496,206	-228,591	0	-216,700	0	0

12/31/2006	Total	1 year	2 years	3 years	5 years	7 years	> 7 years
Trade accounts payable:	1,409,074	1,409,074					
Lease obligations:	629,055	287,796	244,245	97,013			
Other financial liabilities:	4,219,164	1,585,435	1,172,798		1,460,930		
Total cash outflow:	**6,257,292**	**3,282,305**	**1,417,044**	**97,013**	**1,460,930**	**0**	**0**
Cash and cash equivalents:	6,294,103	6,248,783		45,320			
Trade accounts receivable:	1,651,602	1,651,602					
Securities:	2,999,550	2,999,550					
Other financial assets:	1,295,786	1,295,786					
Total cash inflow:	**12,241,041**	**12,195,721**	**0**	**45,320**	**0**	**0**	**0**
Net liquidity from financial instruments:	5,983,749	8,913,416	-1,417,044	-51,693	-1,460,930	0	0

Interest rate risk

SFC's securities investments are subject to interest rate risk. At December 31, 2006, a change in the interest rat by 50 basis points would have led to a loss or gain on the securities of € 8,013 and € 8,073 respectively, which would have been recognised in income or expense. In the silent partnerships, an increase or decrease in the interest rate by 50 basis points would have led to a change in the fair value of the derivative by € -33,304 and € 33,680 respectively, which would have been recognised in income or expense. Because the Company does not hold any instruments with a variable interest rate, the interest rate change would not have a material influence on cash flows.

Exchange rate risk

On account of its increasing volume of business with the U.S. armed forces, SFC generates a significant portion of its revenues in U.S. dollar, which is accompanied by lower costs in U.S. dollars. Therefore, currency forwards were entered into in 2007 to sell a total of USD 2.8 million. The foreign currency surpluses were largely hedged. For 2008 currency forwards in approximately the amount of orders in U.S. dollars had been entered into as of the balance sheet date (USD 1.8 million); in addition, planned revenues of USD 1.0 million were also hedged. Therefore, there is exchange rate risk only with respect to the unhedged portion of the revenues. The existing U.S. dollar derivatives at the balance sheet date would have led to a € 71,100 change in the foreign currency result if the rate had fluctuated by - 5% and to a € 86,622 change in the foreign currency result if the rate had fluctuated by + 5%.

Price change risk

Due to the platinum it uses in production and the related commodity futures, SFC is subject to a change in the price of platinum. Moreover, platinum is usually traded in the U.S. dollars, which results in additional value risks in connection with platinum futures depending on the performance of the U.S. dollar. At the balance sheet date a 5% increase in the price of platinum would have resulted in the recognition of a € 36,356 increase in the fair value of the derivative, whereas a decrease in the price of platinum would have resulted in a € 36.437 decrease in fair value. A simultaneous 5% increase in the exchange rate for the U.S. dollar would have resulted in an additional € 318 change in fair value, while a 5% decrease would have resulted in a -€ 352 change in fair value.

Silent Partnerships

Technologie Beteiligungsfonds Bayern GmbH & Co KG

On November 11, 2000, SFC entered into an agreement with Technologie Beteiligungsfonds Bayern GmbH & Co KG ("BayKap") for a silent partnership in the amount of € 1,022,584.

Interest accrued on the silent contribution at a rate of 8% p.a. BayKap also received 12% of SFC's net income – with a minimum of 4% of the share capital and a maximum of 10% of the share capital.

At the end of the investment period, BayKap had the right to receive a one-time payment in the amount of 30% of the nominal amount of the investment plus 9% of the investment amount for each full year of investment beyond the fifth year of investment. The profit sharing paid up to this point in time was offset when the final compensation was determined. If the final compensation exceeds the profit sharing paid, BayKap will not refund such excess. BayKap had no obligation to participate in losses.

In the first quarter of financial year 2007, and with a view to the initial listing of the company on the Prime Standard segment, efforts were made to reach an agreement to liquidate both silent partnerships.

A final agreement to liquidate was reached before the initial public offering was carried out. An agreement was reached with Technologie Beteiligungsfonds Bayern GmbH & Co. KG ("BayKap") that resulted in the repayment of the silent investment of € 1,022,584 and payment of the contractually-agreed final compensation of € 533,789. These funds were disbursed to BayKap in the second quarter of 2007.

tbg Technologie-Beteiligungs-Gesellschaft mbH

On May 9, 2005, SFC entered into two materially identically contracts with Technologie-Beteiligungs-Gesellschaft mbH ("tbg") regarding silent partnerships in the amount of € 750,000 each.

The silent partnerships bear interest at a fixed interest rate of 7% p.a. Interest is payable every six months in arrears on March 31 and September 30 of each year. In addition tbg received 15% of SFC's net surplus since the call.

At the end of the investment period, tbg was also entitled to a one-time compensation in the amount of 30% of the nominal amount of the investment plus 6% of the investment amount for every full investment year beyond the fifth investment year. The profit participations paid up to that point were offset in calculating this final compensation. If the profit participations paid thus far exceeded it, tgb was not required to refund them. Pursuant to § 8 paragraph 5, tbg was not required to participate in a loss.

On April 17, 2007 an agreement was entered into with tbg Technologie-Beteiligungs-Gesellschaft mbH ("tbg") pursuant to which its contribution would be repaid in full and the final compensation agreed to contractually, the embedded derivative, would be settled with a payment of € 720,000 (or 48% of the contribution). Both these amounts were paid in January 2008. The resulting obligations are shown under other short-term liabilities.

Measurement
The identified derivatives were measured using the Black-Scholes option pricing model. The fair value of the derivatives was shown as liabilities from derivatives at all balance sheet dates. Fluctuations in the value of derivatives were recognized as income or expense in the results for the period.

The actual silent partnership is carried as a financial liability at amortised cost using the effective interest method. The cash flows from the investment – with cash flows attributable to the derivatives eliminated and taking into account the relevant transaction costs – are discounted at each balance sheet date using the original effective interest rate. The original effective interest rate is the interest rate at which the total present value of all cash flows is exactly equal to zero.

The difference between the amortised costs from two periods is recognised as amortisation cost and corrects the contractual interest expense. Accrued or prorated interest is not shown separately in an accrual, but instead shown under the actual liability.

Because as of December 31, 2004, the Company expected to go public in September 2007, the cash flow expectations at December 31, 2004, were adjusted accordingly. This resulted in increased amortisation.

The market values of the embedded derivatives correspond to their carrying values. The market values of the actual silent partnerships are shown in the following table:

in €	12/31/2007	12/31/2006
Market values of the silent partnerships	**-1,500,000**	**-2,419,553**

(35) SHARE-BASED PAYMENT
The agreement on share-based payment applies to the Management Board and other employees of SFC.

The number of options in Tranche 1, 2, 3, 4 and 6 shown in the following table corresponds to nine times the number of options originally issued. At the shareholders' meeting on January 17, 2006, it was resolved to increase the Company's share capital, which resulted in a corresponding increase in the conditional capital, so that an increased number of options could be granted. For this reason, the number of options after the capital increase corresponds to nine times the number originally issued. The options in Tranche 3 were exercised before the capital increase and therefore were not adjusted to be consistent with the capital increase. The options in Tranche 7 and Tranche 8 were not issued until after the capital increase.

	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Grant date	07/22/2003	10/19/2004	06/08/2005	06/13/2005
Number of options originally issued	950	376	866	1,165
Strike price (€)	1.00	1.00	1.00	1.00
Options outstanding at beginning of 2006 reporting period (1/1/2006)	112	320	116	751
Outstanding options (after capital increase)	1,008	2,880	116	6,759
Options granted in the 2006 reporting period	0	0	0	0
Options forfeited in the 2006 reporting period	0	396	0	729
Options exercised in the 2006 reporting period	0	0	116	0
Exercisable options at 12/31/2006	1,008	2,484	0	0
Options outstanding at beginning of the 2007 reporting period (1/1/2007)	1,008	2,484	0	6,030
Options granted In 2007 reporting period	0	0	0	0
Options forfeited in the 2007 reporting period	0	0	0	0
Options redeemed in the 2007 reporting period	0	504	0	756
Options exercised in the 2007 reporting period	1,008	1,980	0	5,274
Options outstanding at the end of the 2007 reporting period (12/31/2007)	0	0	0	0
Exercisable options at 12/31/2007	0	0	0	0
Maximum term	6.45 years	5.20 years	10.57 years	4.55 years

In the first quarter of 2007 in the course of discussing and preparing a prospectus for its initial public offering, SFC Smart Fuel Cell AG was advised by its legal counsel to revoke the existing authorized Capital I to III in order to issue stock options. This authorized capital relates to the options issued to Dr. Jens Müller and Oliver Freitag and to a yet unfulfilled option commitment to Dr. Peter Podesser. These three men said that they were willing to have these options redeemed.

After the Supervisory Board gave its consent in principle to seeking an alternative solution, negotiations were held with the three interested parties, the Company and key shareholders in the first quarter. A final agreement on compensation was reached at the Supervisory Board meeting on March 27, 2007. Pursuant to that agreement, the interested persons receive 75% of the value of the option, payable in cash by the key shareholders of SFC, and determined on the basis of the price in the event of an IPO. This solution was accepted both by the interested parties and by the managing partners and the Supervisory Board.

Pursuant to IFRS 2.28 (a), upon premature cancellation of issued options, the still outstanding expense relating to the options must be recognized as a first step, because the assumption in a premature cancellation or settlement of the option is that the beneficiary has already fully performed all of the services required for the vesting of his claim. In the present case, this means that the still outstanding expense from the options issued to the affected persons was fully recognized in the amount of € 969,910.

The resulting expense was allocated mainly to general administration costs and sales costs. The remainder was allocated to research and development.

These transactions will not give rise to any expense for SFC in subsequent periods, nor has SFC entered into any further obligations in this regard.

Tranche 5	Tranche 6	Tranche 7	Tranche 8
07/01/2005	07/17/2006	09/30/2006	02/28/2007
1,186	5,640	4,032	10,000
1.00	1.00	1.00	63.00
1,186	0	0	0
10,674	0	0	0
0	5,640	4,032	0
0	723	0	0
0	0	0	0
10,674	0	4,032	0
10,674	4,917	4,032	0
0	0	0	10,000
0	252	0	0
10,674	504	4,032	10,000
0	0	0	0
0	4,161	0	0
0	0	0	0
5.00 years	3.46 years	4.92 years	0.25 years

As a result of the redemption of the share options of the three individuals named above, the number of outstanding options at the balance sheet date was reduced by 26,470.

During financial year 2007, 8,082 options were exercised on July 16, 2007 and 180 options were exercised on October 18, 2007. The weighted average market price was € 30.72 on July 16, 2007, and € 14.97 on October 18, 2007.

At December 31, 2007, the share options had the following maximum terms:

Tranche	Issue date	End of term	Remaining term (in years)
Tranche 1	07/22/2003	12/31/2009	0.00
Tranche 2	10/19/2004	12/31/2009	0.00
Tranche 3	06/08/2005	12/31/2015	0.00
Tranche 4	06/13/2005	12/31/2009	0.00
Tranche 5	07/01/2005	06/30/2010	0.00
Tranche 6	07/17/2006	12/31/2009	2.00
Tranche 7	09/30/2006	08/31/2011	0.00
Tranche 8	02/28/2007	05/31/2007	0.00

Because only Tranche 6 still includes outstanding options at December 31, 2007 and the options in the other tranches have either been exercised and redeemed or forfeited, the term of these tranches has ended, and no remaining term is shown.

General Terms and Conditions of the Option Agreements

Tranche 1, 2, 4 and 6

- The options cannot be exercised until the end of a vesting period of two years

- After the vesting period ends, options can only be exercised within 10 banking days of the determination of the annual financial statements, during the first 10 banking days in the month of December and, if the Company is listed on the stock exchange, also within 10 banking days after the publication of quarterly figures.

- Options cannot be exercised later than the tenth banking day prior to a shareholders' meeting or during the ten trading days on the stock exchange prior to the annual financial press conference or the dates for the Company's quarterly reports.

- Upon termination of the employment relationship, options that were exercisable as of the termination date can be exercised in the next exercise window that follows the date of termination, and if they are not then exercised, they are forfeited without compensation.

- In the event of a change in form or restructuring as a result of which the Company does not remain in existence, the options expire in full and without compensation unless the Management Board decides, in consultation with the Supervisory Board, to pay a settlement.

- If before the Company shares are admitted to official trading (trade sales), a number of the shares are sold to one or more third parties, such that the third party or parties would then have a majority stake, the options then expire completely and without any compensation.

- The beneficiaries are entitled to sell 50% of the shares they receive no earlier than 12 months after they exercise the options ("lock-up period"). If beneficiaries intend to sell share acquired under the option on or after the first trading day after the completed IPO, and after the lock-up period has expired, they must obtain the Company's consent to do so. The Company may refuse its consent if it has a justified interest in doing so. At the Company's request, the beneficiaries are also required to give the Company a statement that they will comply with the lock-up restrictions in accordance with the rules of the stock exchange on which the Company is listed.

Tranche 3 and 5

- Exercise of the options is not subject to a vesting period. Therefore, they can be exercised immediately.

- If an individual's management board employment agreement ends before October 31, 2007, the Company can require the individual in question to transfer the shares to the Company or to a person named by the Company. The number of shares covered by this rule is 24 shares (Tranche 3) or 24 shares plus 264 shares (adjustment after the capital increase) and 33 shares (Tranche 5) per month between the termination of the employment relationship and December 31, 2007 (Tranche 3) or October 31, 2007 (Tranche 5). This clause does not apply after the termination of the employment relationship after a trade sale or IPO.

- From the foregoing provisions it was determined that the vesting period is the period from the grant date of the tranche in question until October 31, 2007 (Tranche 3) or September 30, 2007 (Tranche 5), because as of these periods, the Company can no longer demand that any more shares be given back.

Tranche 7
- Exercise of the options is not subject to a vesting period. Therefore, they can be exercised immediately.

- In the agreement, the beneficiary waives the right to exercise all share options that were already granted to him under other programmes and also waives the right to be granted further share options under the existing share option programmes.

Tranche 8
- This is the option commitment to Dr. Peter Podesser mentioned above that had not yet been fulfilled when the options were redeemed.

- Because the options were issued and redeemed simultaneously, the parties did not make an agreement on the detailed terms and conditions of exercise.

All SFC shareholders and share option holders have been subject to an additional lock-up period since March 29, 2006 of 18 months, which prohibits the sale of shares on the Open Market of Deutsche Börse AG. The lock-up ends automatically in the event of an IPO or a trade sale. The lock-up ended automatically upon the Company's IPO on May 25, 2007.

The expected fair values of the share options in Tranches 1 to 8 are shown in the following table:

Tranche	Issue date	Lock-up	Option value in € (rounded)
Tranche 1	07/22/2003	–	269.97
Tranche 1	07/22/2003	1 year	269.94
Tranche 2	10/19/2004	–	269.25
Tranche 2	10/19/2004	1 year	269.21
Tranche 3	06/08/2005	–	267.43
Tranche 4	06/13/2005	–	265.09
Tranche 4	06/13/2005	1 year	265.07
Tranche 5	07/01/2005	–	262.74
Tranche 6	07/17/2006	–	61.51
Tranche 6	07/17/2006	1 year	61.48
Tranche 7	09/30/2006	–	61.32
Tranche 8	02/28/2007	–	78.58

At December 31, 2007, the aggregate value of the issued share options measured under IFRS amounted to € 2,590 k (December 31, 2006: € 1,804 k).

For the calculations using a modified Black-Scholes-Merton model, the following model parameters and expected fluctuation values were used:

	Tranche 1 (1)	Tranche 1 (2)	Tranche 2 (1)	Tranche 2 (2)	Tranche 3
Share price on valuation date	270.92	270.92	270.15	270.15	268.38
Maximum term until exercise date	6.45	6.45	5.2	5.2	10.57
Expected term of the options	2.04	2.04	3.62	3.62	2.27
Lock-up	-	1.00	-	1.00	-
Refinancing rate	-	3.35%	-	4.00%	-
Exercise price at the expected exercise date (€)	1.00	1.00	1.00	1.00	1.00
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate for the term	2.39%	2.39%	2.91%	2.91%	2.09%
Expected volatility for the term	79.72%	79.72%	79.97%	79.97%	58.49%
Expected fluctuation of the option holders for the term at 12/31/2007	0.00%	0.00%	41.49%	41.49%	0.00%

Due to the lack of reliable stock market prices, the share price was calculated on the valuation date on the basis of the most recent available enterprise value.

Due to the lack of historically relevant data, the expected terms were determined on the basis of management's estimates. Account was taken of various criteria that have a decisive influence on the expected term of the relevant tranche, but management's estimates were primarily based on the development of the Company' enterprise value, the tax rules and regulations and the fungibility of the shares.

Because the Company had not yet been listed on the stock exchange when the options were issued and therefore there was no stock market price to determine the volatility, the future volatility during the expected term of the share options was derived from the historical volatilities of a peer group of comparable companies in the fuel cell sector, pursuant to IFRS 2 BC 139.

The fluctuation was calculated on the basis of a weighting of historical data for months of the vesting period that have already passed, with the fluctuation expected by management for the months still outstanding at the relevant date until the end of the vesting period.

No fluctuation is expected for Tranches 3, 5, 7 and 8, as each of them was issued to only one individual employee.

The risk-free interest rates were determined on the basis of the yield curves for listed federal securities issued by the Deutsche Bundesbank, which were determined using the Svensson method.

There is a lock-up period of one year for Tranche 1, 2, 4 and 6. This was taken into account in the Black-Scholes model through a modification of the exercise price.

Tranche 4 (1)	Tranche 4 (2)	Tranche 5	Tranche 6 (1)	Tranche 6 (2)	Tranche 7	Tranche 8
266.03	266.03	263.69	62.44	62.44	62.27	140.00
4.55	4.55	5.00	3.46	3.46	4.92	0.25
2.97	2.97	2.21	2.13	2.13	1.45	0.25
-	1.00	-	-	1.00	-	-
-	2.93%	-	-	3.80%	-	-
1.00	1.00	1.00	1.00	1.00	1.00	63.00
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2.22%	2.22%	2.09%	3.55%	3.55%	3.56%	3.56%
67.93%	67.93%	58.96%	61.46%	61.46%	61.46%	100%
50.28%	50.28%	0.00%	31.26%	31.26%	0.00%	0.00%

The share option programme results in the following expense for SFC at the reporting date

in k€	**12/31/2007**	12/31/2006
Total expense from equity based compensation transactions	2,200	1,096
thereof for share based compensation transactions with settlement through equity instruments	2,200	1,096
Period expense from equity based compensation transactions	1,104	617

(36)) RELATED-PARTY TRANSACTIONS

IAS 24 "Related Party Disclosures" defines related parties as companies and persons that have the ability to directly or indirectly control another party or exercise significant influence over the other party or participate in the joint management of the company.

At SFC, shareholder Dr. Manfred Stefener, who holds a seat on the Supervisory Board, is to be classified as a "related party" within the meaning of IAS 24.

At December 31, 2006 DuPont Chemical and Energy Operations Inc. as an investor with a seat on the Supervisory Board was also classified as a "related party." However, as a result of the initial public offering and listing on the Prime Standard segment and the related change in shareholder structure, DuPont Chemical and Energy Operations Inc. reduced its percentage ownership of SFC and resigned from the Supervisory Board, so that DuPont Chemical and Energy Operations Inc. has no longer been classified as a "related party" since July 1, 2007.

At December 31, 2006 Pricap Venture Partners AG and die 3i Group Investments LP as investors with a seat on the Supervisory Board could exercise a significant influence over the company. However, in the course of the public offering and listing on the Prime Standard segment and the related change in shareholder structure, they reduced their percentage ownership of SFC. Now that 3i Group Investments LP has resigned from the Supervisory Board effective October 2007, it is no longer a "related party" within the meaning of IAS 24. Since July 1, 2007 Pricap Venture Partners AG is no longer represented on SFC's Supervisory Board.

Persons in key positions at SFC are the Management Board members and the Supervisory Board members along with close members of their families. The Management Board and the Supervisory Board were made up as follows in financial years 2006 and 2007:

Management Board Members
Dr. Peter Podesser, Simbach, who holds a master's degree (Chairman) (since November 1, 2006)

Dr. Jens Müller, Munich, who holds a degree in chemistry

Supervisory Board Members
Rüdiger Olschowy, Schliersee, a businessman (Chairman)

Jakob-Hinrich Leverkus, Hamburg, a businessman (deputy chairman until April 2, 2007; thereafter an ordinary member)

Dr. Rolf Bartke, Esslingen, a business engineer (deputy chairman since April 2, 2007)

Wolfgang Biedermann, Hamburg, a businessman

Thomas J. Faughnan, Kenneth Square, USA, a businessman (from August 31, 2006 to March 31, 2007)

Achim M. Lederle, Munich, a businessman (until October 18, 2007)

Dr. Roland Schlager, Munich, a businessman (as of January 24, 2008)

Dr. Manfred Stefener, Munich, an engineer

Companies that are directly or indirectly controlled by members of management in key positions or are under their significant influence are also classified as "related parties" under IAS 24 "Related Party Disclosures." At SFC this includes Pricap Venture Partners AG (June 30, 2007), IAB Industrieaufbaugesellschaft and 2. IAB Industrieaufbaugesellschaft, Ludwigslust.

The following overview shows the transactions with related parties.

Transactions 2007

in €	Receivables	Payables	Income	Expenses
Persons in key positions	0	575,981	0	1,114,804
Companies with significant influence	0	13	512,059	0
Total	**0**	**575,994**	**512,059**	**1,114,804**

In addition to the redemption of share options and the related recognition of expense, as described in Note 35, material transactions also included the work with DuPont. As part of a JDA with DuPont, the provision of C-Series systems and test equipment resulted in revenues of € 456,032 in the first six months of the year. The other changes in the agreement with DuPont are no longer covered by the disclosure obligations under IAS 24 because DuPont is no longer classified as a "related party."

In addition, sales of test equipment to Elcomax GmbH, a company under the significant influence of shareholder Dr. Manfred Stefener, resulted in revenues of € 56,027.

Transactions 2006

in €	Receivables	Payables	Payables from PoC	Income	Expenses
Persons in key positions	0	276,889	0	0	533,848
Companies with significant influence	341,414	14,052	454,646	227,841	743,064
Other related parties	0	0	0	0	975
Total	**341,414**	**290,941**	**454,646**	**227,841**	**1,277,886**

The compensation of persons in key positions was as follows:

	2007		2006	
in €	**Fixed portion**	**Variable portion**	Fixed portion	Variable portion
Management Board	585,643	381,250	347,041	122,367
Supervisory Board	138,589	0	76,250	0
Total	**724,232**	**381,250**	**423,291**	**122,367**

The fixed portion in financial year 2007 includes compensation of former Supervisory Board members of € 69,744 (prior year: € 13,559).

The Management Board's variable compensation includes a long-term component in the amount of € 216,700.

On June 8, 2005 a person in a key position received the right to subscribe to 866 shares when such right was assigned to him by a shareholder. This right remains in effect until December 31, 2015 and ends if it has not been accepted by then. The price of the shares is € 866.

On July 1, 2005 a person in a key position received the right to demand that the Company issue 1,186 shares. This demand may not be made after June 30, 2010 or after his employment agreement terminates on October 31, 2007. The price of the shares is € 1,186.

The total expense arising from these option grants is as follows:

Tranche	Issue date	Lock-up	Option value in € (rounded)	Number of options issued	**Total value in €**
Tranche 3	06/08/2005	–	267.43	866	231,591.21
Tranche 5	07/01/2005	–	262.74	1,186	311,603.87

Of the total expense, € 235,139.40 was recognised in 2006 and € 123,979.35 was recognised in 2005.

In Tranche 5 the number of options as part of the capital increase in January 2006 was multiplied by a factor of 9, such that 10,674 options exist. This has no effect on the measurement of the options issued.

In financial year 2007 a redemption agreement was entered into with respect to both options. Further information can be found in Note 35 (Share-Based Compensation).

In addition, a Management Board member held options to acquire 56,000 shares. These were granted by a shareholder outside the option programme. The options were exercised in full in 2007.

(37) EARNINGS PER SHARE

The number of outstanding shares during the financial year was as follows:

in €	2007	2006	2006 adjusted
Outstanding ordinary shares 01/01	1,413,936	56,173	1,413,936
Cash capital increase January 2006		1,047,360	
Conversion of preference shares		74,747	
Cash capital increase April 2006		235,656	
Capital increase from company funds April 2007	4,241,808		
Capital increase May 2007	1,447,451		
Capital increase from share options July/October 2007	33,048		
outstanding ordinary shares 12/31	**7,136,243**	**1,413,936**	**7,136,243**
Undiluted number of outstanding ordinary shares	**5,099,924**	**735,055**	**5,099,924**
Shares from exercisable options 01/01	72,792	1,414	50,904
Shares from exercisable options 12/31	0	18,198	72,792
Dilution effect	36,396	9,806	61,848
Diluted number of outstanding ordinary shares	**5,136,320**	**744,861**	**5,161,772**

Pursuant to IAS 33 "Earnings per Share," the effects of potential shares must be taken into account in determining the diluted earnings per share. In this regard it is assumed that all exercisable options whose strike price is under the average share price for the period are actually exercised.

There are no dilutive effects on SFC's earnings.

To calculate the earnings per share, the increase in the number of ordinary shares resulting from the capital increase in 2007 was used retroactively for 2006, to maintain comparability. Thus, the number of ordinary shares was determined as though each option had entitled its holder to subscribe to four shares in 2006, by analogy to the capital increase carried out as part of the initial public offering and listing in the Prime Standard segment. At January 1, 2006 the capital increase resolved by the shareholders' meeting on January 17, 2006 was also assumed. By analogy the number of exercisable options was adjusted as though nine additional options per option had been granted at January 1, 2006.

(38) DISCLOSURES ON THE CASH FLOW STATEMENT

The cash flow statement shows the origin and use of cash flows. In accordance with IAS 7 "Cash Flow Statements," cash flows from operating activities are distinguished from cash flows from investing activities and cash flows from financing activities.

Interest income was classified as investment activity and interest expense as financing activity.

The "cash" item in the cash flow statement contains the "cash and cash equivalents" discussed in Note 19.

(39) DISCLOSURES ON SEGMENT REPORTING

As part of the segment reporting pursuant to IFRS 8 "Operating Segments" the segments are broken down in accordance with internal reporting. Internal reporting at SFC is primarily by product, but also by region. However, corporate planning and accounting for resources are based on the products or services.

The reporting segments within the meaning of IFRS 8.5 result from the Company's products and services:

- A-Series
- C-Series
- Joint Development Agreements ("JDA")
- Power Manager
- Other products

The A-Series is the serial product fuel cells, which are particularly used in the leisure sector.

The C-Series involves miniaturized prototypes of fuel cells that resulted from the development activities under the Joint Development Agreements.

The Joint Development Agreements are contractual agreements with strategic partners to further develop fuel cells and Power Managers to adapt them to customer-specific requirements.

A Power Manager is an electronic universal transformer that facilitates charging and operation of various terminal equipment and batteries with different power sources.

The sales in the area of "other products" relate primarily to the sale of testing equipment for qualification of components of fuel cell systems and fuel cartridges with methanol to fill the fuel cells.

Internal reporting is made to the Management Board and the Supervisory Board. The sales and number of items sold is reported by product category and by region. The Company's gross margin is shown as the segment result. No determinations of profits or analyses of profits at the segment level were made due to lack of materiality.

There is no offsetting between the segments.

Sales by region were as follows:

in €		**12/31/2007**	12/31/2006
Germany	A-Series	2,472,883	1,769,926
	C-Series	0	245,281
	JDA	1,524,029	0
	Power Manager	2,101	5,793
	Other products	91,185	55,094
Total Germany		**4,090,198**	**2,076,094**
Europe	A-Series	5,547,495	2,088,463
	C-Series	0	265,512
	Other products	155,405	63,665
Total Europe (not including Germany)		**5,702,900**	**2,417,640**
Asia	A-Series	28,888	21,927
	JDA	0	1,141,881
	Other products	3,227	121,603
Total Asia		**32,115**	**1,285,411**
North America	A-Series	169,575	130,051
	C-Series	273,969	201,841
	JDA	2,641,197	579,085
	Power Manager	1,375,982	220,604
	Other products	58,579	23,926
Total North America		**4,519,302**	**1,155,507**
Rest of the world	A-Series	4,944	57,029
	C-Series	0	29,900
	Other products	1,549	2,690
Total rest of the world		**6,493**	**89,619**
Total		**14,351,008**	**7,024,271**

Sales by region were determined on the basis of the customer's registered office.

Sales to large customers (accounting for more than 10% of sales) are shown in the following table:

in €	A-Series	JDA	Other products	Revenues	As a percentage of total revenues
2007					
Trigano Service	2,166,270	0	52,600	2,218,870	15.46%
Euro Accessoires	1,713,615	0	25,723	1,739,338	12.12%
Bundesamt für Wehrtechnik	0	1,524,029	0	1,524,029	10.62%
2006					
LG Chemical Ltd.	0	1,141,881	119,050	1,260,931	17.95%
Trigano Service	1,124,237	0	22,880	1,147,117	16.33%

The write-downs on current assets contained in the production costs are broken down by segment as follows:

in €	**01/01 – 12/31/2007**	01/01 – 12/31/2006
A-Series	208,297	147,067
C-Series	1,318	2,546
JDA	62,015	16,647
Power Manager	8,128	1,744
Other products	14,465	7,342
Total	**294,223**	**175,346**

In financial year 2007 current assets were assigned to the segments in the ratio of write-downs per segment to total write-downs. Last year the assignment was made on the basis of revenues. The previous year's figures were adjusted accordingly.

(40) MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

On January 15, 2008, in connection with the redemption of the silent partnerships, SFC repaid to tbg Technologie-Beteiligungs-Gesellschaft mbH its entire contribution in the amount of € 1,500,000 and settled the agreed final compensation with a payment of € 720,000 and current minimum compensation of € 30,625.

Pursuant to an order of the local court in Munich on January 24, 2008, Dr. Roland Schlager, Munich, was appointed to the Supervisory Board.

The price of platinum skyrocketed in January and February 2008. This is due to lower production as a result of power failures in South Africa, where most of this commodity is mined. The company has hedged about 85% of its expected consumption of platinum for the current year by means of forward commodities transactions. If the prices of platinum or other commodities continue to rise or remain at their current high levels, this would put downward pressure on the margin situation for the products concerned over the medium term. The amounts that are not hedged are already straining product margins during the current year.

In the course of monitoring patents we discovered that a potentially relevant competitive patent will be granted in Europe in March 2008. Our patent attorneys will advise us on what action to take in this regard.

Brunnthal, March 3, 2008

The Management Board

Dr. Peter Podesser CEO	Dr. Jens Müller CTO

Statement of Assets

for the financial year from January 1 to December 31, 2007

	Acquisition or production cost			
in €	01/01/2007	Additions	Disposals	**12/31/2007**
A. Intangible assets				
Software	225,234	67,389	-18,403	274,220
Patents and licences	59,533			59,533
Intangible assets from own production	1,232,880	72,522		1,305,402
Intangible assets	**1,517,647**	**139,911**	**-18,403**	**1,639,155**
B. Property, plant and equipment				
Technical equipment, plant and machinery	62,902	38,713		101,615
Other equipment, fixtures and fittings	418,717	468,688	-52,866	834,539
Other equipment, fixtures and fittings from financial leasing	816,217			816,217
Property, plant and equipment	**1,297,836**	**507,401**	**-52,866**	**1,752,371**

for the financial year from January 1 to December 31, 2006

	Acquisition or production cost			
in €	01/01/2006	Additions	Disposals	**12/31/2006**
A. Intangible assets				
Software	181,977	98,807	-55,550	225,234
Patents and licences	48,132	11,401		59,533
Intangible assets from own production	391,923	840,957		1,232,880
Intangible assets	**622,032**	**951,165**	**-55,550**	**1,517,647**
B. Property, plant and equipment				
Technical equipment, plant and machinery	44,232	18,670		62,902
Other equipment, fixtures and fittings	200,768	267,815	-49,866	418,717
Other equipment, fixtures and fittings from financial leasing	516,790	299,427		816,217
Property, plant and equipment	**761,790**	**585,912**	**-49,866**	**1,297,836**

Accumulated depreciation or amortisation				Book value	
01/01/2007	Depr. or amort. financial year	Depr. or amort. on disposals	**12/31/2007**	**12/31/2007**	12/31/2006
-57,917	-50,538	18,403	-90,052	184,168	167,317
-47,683	-446		-48,129	11,404	11,850
-176,316	-246,576		-422,892	882,510	1,056,564
-281,916	**-297,559**	**18,403**	**-561,073**	**1,078,082**	**1,235,731**
-36,415	-10,497		-46,912	54,703	26,487
-174,551	-219,627	52,864	-341,314	493,225	244,166
-313,559	-220,366		-533,925	282,293	502,658
-524,525	**-450,490**	**52,864**	**-922,151**	**830,220**	**773,311**

Accumulated depreciation or amortisation				Book value	
01/01/2006	Depr. or amort. financial year	Depr. or amort. on disposals	**12/31/2006**	**12/31/2006**	12/31/2005
-31,380	-82,087	55,550	-57,917	167,317	150,597
-46,788	-895		-47,683	11,850	1,344
-97,931	-78,385		-176,316	1,056,564	293,992
-176,099	**-161,367**	**55,550**	**-281,916**	**1,235,731**	**445,933**
-31,039	-5,376		-36,415	26,487	13,193
-147,083	-77,329	49,861	-174,551	244,166	53,685
-87,952	-225,607		-313,559	502,658	428,838
-266,074	**-308,312**	**49,861**	**-524,525**	**773,311**	**495,716**

SFC Smart Fuel Cell AG, Brunnthal
Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management board report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Brunnthal, March 3, 2008

Dr. Peter Podesser
CEO

Dr. Jens Müller
CTO

The following independent auditor's report ("Bestätigungsvermerk") was issued in accordance with § 322 HGB (German Commercial Code) on the IFRS Financial Statements 2007, which were prepared in the German language. The translation of the independent auditor's report ("Bestätigungsvermerk") is as follows:

Independant Auditors' Report

We have audited the financial statements prepared by the SFC Smart Fuel Cell AG, Brunnthal – comprising the income statement, the balance sheet, statement of changes in equity, cash flow statement, segment reporting and the notes to the financial statements – together with the bookkeeping system for the business year from 1 January to 31 Dezember 2007. The preparation of the financial statements in accordance with IFRS, as adopted by the EU, is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit of the financial statements in accordance with § 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the financial statements in accordance with the applicable financial reporting framework are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the financial statements are examined primarily on a test basis within the framework of the audit. The audit includes the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the financial statements of the SFC Smart Fuel Cell AG, Brunnthal, comply with IFRS, as adopted by the EU, and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with these requirements.

Munich, 4 March 2008

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Voit	Signed: Papadatos
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

FINANCIAL CALENDAR

Date	Schedule
04/21/2008	Publication of Quarterly Report
05/08/2008	Annual General Meeting
07/24/2008	Publication Half yearly Report
10/21/2008	Publication Nine months Report

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Statements about the future
This annual report contains statements and information about the future. Such passages contain such words as "expect", "intend", "plan", "believe", "aim", "estimate", etc. Such statements about the future are based on current expectations and certain assumptions. They therefore also contain a number of risks and uncertainties. A multitude of factors, many of which are beyond the control of SFC, affect our business, our success, and our results. These factors can lead the company's actual results, success, and performance to deviate from the results, success, and performance in the statements made explicitly or implicitly about the future. SFC assumes no obligation to update any forward looking statements.

SFC
SMART FUEL CELL