Unaudited Quarterly Financial Statements (IFRS) of SFC Smart Fuel Cell AG as of and for the Three Month Period Ended March 31, 2007

SFC Smart Fuel Cell AG

Brunnthal, Munich
Interim Report

In accordance with International Financial Reporting Standards

as of and for the three months ended March 31, 2007
and as of and for the three months ended March 31, 2006

Income statement from 1 January 2007 to 31 March 2007

		2007 01.01.-31.03. EURO	2006 01.01.-31.03. EURO
1.	Sales	3,354,568	1,030,606
2.	Production costs	–3,145,696	–1,080,191
3.	**Gross margin**	**208,872**	**–49,585**
4.	Sales costs	–1,368,493	–468,494
5.	Research and development costs	–113,330	–133,662
6.	General administration costs	–793,914	–173,917
7.	Other operating income	47,523	55,429
8.	Other operating expenses	4,353	–3,993
9.	**Operating loss**	**–2,014,989**	**–774,222**
10.	Interest and similar income	1,078,853	1,873
11.	Interest and similar expenses	–60,623	–271,833
12.	**Loss from ordinary operations**	**–996,759**	**–1,044,182**
13.	Income taxes	0	–77,778
14.	**Net loss**	**–996,759**	**–1,121,960**
15.	Accumulated loss brought forward from previous year	–19,519,811	–15,095,305
16.	**Net accumulated loss**	**–20,516,570**	**–16,217,265**
Net loss per share			
	undiluted	–0.70	–0.95
	diluted	–0.70	–0.94

Balance sheet to 31 March 2007

		31.03.2007	31.03.2006
		€	€
A.	**Current assets**	**13,221,226**	**1,655,449**
I.	Inventories	1,514,600	760,000
II.	Current trade accounts receivable	2,256,001	178,464
III.	Accounts due from shareholders — short-term	137,358	0
IV.	Accounts due from tax authorities — short-term	58,788	17,623
V.	Other assets and receivables	625,810	341,208
VI.	Securities	6,465,323	0
VII.	Cash and cash equivalents	1,034,001	152,492
VIII.	Cash and cash equivalents with limitation on disposition	145,320	31,320
IX.	Deferred charges and prepaid expenses — short-term	984,025	174,342
B.	**Non-current assets**	**3,049,090**	**2,050,931**
I.	Intangible assets	1,220,522	682,879
II.	Property, plant and equipment	871,198	750,476
III.	Deferred tax assets	957,370	617,576
	Assets	**16,270,316**	**3,706,380**
A.	**Current liabilities**	**9,270,960**	**5,659,773**
I.	Other liabilities — short-term	472,025	212,634
II.	Liabilities to shareholders — short-term	0	401,684
III.	Payments in advance — short-term	0	9,515
IV.	Trade accounts payable — short-term	3,100,271	866,315
V.	Liabilities from finance leases — short-term	287,796	293,770
VI.	Liabilities from PoC — short-term	672,368	407,934
VII.	Derivatives	1,253,789	2,414,372
VIII.	Other short-term liabilities	3,312,633	802,051
IX.	Deferred charges	172,078	251,498
B.	**Non-current liabilities**	**1,393,627**	**3,587,337**
I.	Other provisions and accrued liabilities — long-term	154,067	85,351
II.	Liabilities from financial leasing — long-term	282,190	502,252
III.	Other long-term liabilities	0	2,382,158
IV.	Deferred taxes	957,370	617,576
C.	**Equity**	**5,605,729**	**–5,540,730**
I.	Subscribed capital	1,413,936	1,178,280
II.	Capital surplus	24,708,363	9,498,255
III.	Accumulated loss brought forward from previous year	–19,519,811	–15,095,305
IV.	Net loss	–996,759	–1,121,960
	Liabilities and shareholder's equity	**16,270,316**	**3,706,380**

Cash flow statement from 1 January 2007 to 31 March 2007

		01.01.-31.03. EURO	01.01.-31.03. EURO
Cash flow from ordinary operations			
Result before taxes		**–996,759**	**–1,044,182**
+	Net interest income	–6,350	59,355
+/-	Depreciation/appreciation of intangible assets, property, plant and equipment	171,525	82,420
+	Expenses from share option programme	1,006,292	94,315
+	Changes in allowances	86,031	–9,456
-/+	Profits/losses from disposal of assets	0	–128
-/+	Profits/losses from derivatives	–1,011,879	210,604
+/-	Other expenses/income not affecting cash	0	–40,425
Changes to operative result before working capital		**–751,140**	**–647,497**
+/-	Increase/decrease in short and long–term provisions	60,285	13,199
-/+	Changes to trade accounts receivable	–954,144	–3,203
-/+	Changes to inventories	–666,299	–405,300
-/+	Changes other assets	–122,393	–50,579
-/+	Changes to deferred charges and prepaid expenses	–914,916	–78,839
+/-	Changes to trade accounts payable	1,705,250	–125,436
+/-	Changes to liabilities to shareholders	–14,052	–20,557
+/-	Changes to other liabilities	323,188	482,342
+/-	Changes to deferred charges	–19,855	–10,455
Cash flow from ordinary operations before taxes		**–1,354,076**	**–846,325**
+/-	Income tax repayments/payments	11,639	–77,826
Cash flow from ordinary operations		**–1,342,437**	**–924,151**
Cash flow from investment activity			
–	Acquisition of property, plant and equipment and intangible assets	–254,204	–274,699
–	Proceeds from the sale of securities and pledged bank credits	–3,565,773	0
+	Sale of assets	0	128
Cash flow from investment activity		**–3,819,977**	**–274,571**
Cash flow from financial activity			
+	Payments of shareholders	0	1,047,360
+	Interest income	66,974	1,873
+	Proceeds from sale and lease back	0	183,300
–	Repayment of liabilities from financial leasing	–71,949	–47,785
–	Interest paid and other expenses	–47,393	–47,377
Cash flow from financial activity		**–52,368**	**1,137,371**
Net changes in cash and cash equivalents		**–5,214,782**	**–61,351**
Net changes in cash and cash equivalents			
	Cash and cash equivalents at beginning of reporting period	6,248,783	213,843
	Cash and cash equivalents at end of reporting period	1,034,001	152,492
Net changes to cash and cash equivalents		**–5,214,782**	**–61,351**

Statement of changes in Equity from 1 January 2007 to 31 March 2007

	Subscribed capital	Capital reserve	Net accumulated loss	TOTAL
	€	€	€	€
POSITION 31.12.2005	**130,920**	**9,403,940**	**–15,095,305**	**–5,560,445**
Net result Q1 2006			–1,121,960	–1,121,960
Allocation from option programme		94,315		94,315
Capital increase for cash from 17 January	1,047,360			1,047,360
POSITION 31.03.2006	**1,178,280**	**9,498,255**	**–16,217,265**	**–5,540,730**
Net result Q2 – Q4 2006			–3,302,546	–3,302,546
Allocation from option programme		522,271		522,271
Capital increase on cash from 4 April	235,656	14,763,848		14,999,504
Costs of capital issuance		–1,082,303		–1,082,303
POSITION 31.12.2006	**1,413,936**	**23,702,071**	**–19,519,811**	**5,596,196**
Net result			–996,759	–996,759
Allocation from option programme		1,006,292		1,006,292
POSITION 31.03.2007	**1,413,936**	**24,708,363**	**–20,516,570**	**5,605,729**

Commentary to interim report of SFC Smart Fuel Cell AG

Information about the company

SFC Smart Fuel Cell AG[1] (henceforth "SFC" or "the company") was set up by Articles of Association dated 10 December 1999 under the name Gigantus Vermögensverwaltung GmbH, Hallbergmoos, Germany, and registered on 21 December 1999 in the Companies Register of the local court in Munich under the number B 128831.

The shareholder's meeting on 28 February 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 as follows: "The purpose of the company is the development and marketing of energy supply systems and their components for grid-independent machines on the basis of fuel cell technology. The company may form or buy, acts as agents for, invest in or set up branch companies of a similar nature." The registered office of the company was transferred to Brunnthal near Munich.

On 14 May 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 public company (Aktiengesellschaft) to be called SFC Smart Fuel Cell AG.

First quarter business

The positive sales development of the last year continued into the first quarter (Q1) of 2007. With sales of € 3,354,568, sales was more than three times the amount in the same period last year. The share of product sales as part of the total sales increased from 59% in the previous year to 80%, demonstrating the continued development from an R&D company to a product and market-oriented company. The company remains of the opinion that it occupies a unique position in the market for methanol-based fuel cell generators and that it has extended this leading position by building on sales activities, by sinking costs considerably for the core products EFOY 1200 and EFOY 1600, and the grant of three further patents.

In the market, the delivery of 1,371 EFOY fuel cells shows increasing market interest, particularly in the leisure market. In the same period of the previous year, delivery was made of 321 of the previous model A50 fuel cells. In the defence sector, we secured a contract to provide US forces with the serial product Power Manager and 50 were supplied in the first quarter, and we succeeded in finalising a sponsored development contract for the next generation of portable fuel cells for the US Air Force.

On the technology side, there was an important milestone with the anticipated cost reductions for the two main products EFOY 1200 and EFOY 1600. On the basis of intensive co-operation with the producers of core components for the fuel cells, it was possible to increase the power density to such a level that cell numbers could be reduced considerably without affecting the performance of the product. The transition to this new (outwardly unchanged) product took place in February. At the same time, we introduced a new production process for fuel cartridges, which resulted in considerable cost reductions for sealing and increased production capacity.

The above-mentioned cost reductions resulted in a first time positive gross result in Q1 2007 for the A-series (current EFOY product generation) in the amount of € 36,436; in the previous year there had been a loss in the amount of € 262,956. In total, the total gross margin improved by € 258,457 to € 208,872.

Q1 earnings in 2007 were marked by two special influences (see also "Result from special influences"). Without these, the losses in Q1 would have been reduced by € 83,232 to € 1,038,728, and the adjusted operating result (EBIT) would have improved considerably in respect to turnover from –75% to –31%.

Accounting principles

Preparation of the quarterly financial statement of SFC Smart Fuel Cell AG for the financial period 1 January to 31 March 2007 was made in accordance with IAS 34 "Interim financial reporting" as an abridged financial statement. The abridged financial statement does not include all information required for a full annual financial statement and should be read in conjunction with the annual financial statement to 31 December 2006.

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

The accounting and valuation principles used in the preparation of the quarterly financial statements are identical to the principles applied in the last annual financial statement to 31 December 2006. The following Standards and Interpretations were applicable to the interim report for the first time:

- Amendment to IAS 1 ''Presentation of financial statements'': The amendment refers to a change in presentation of the statement of equity, which has no relevance for the quarterly report.
- IFRIC 7 ''Applying the restatement approach under IAS 29 — Financial Reporting in Hyperinflationary Economies'': This Interpretation was applicable for financial years beginning on or after 1 January 2007. It had no relevance for the quarterly report.
- IFRIC 8 ''Application of IFRS 2: This Interpretation was obligatory for financial years beginning on or after 1 May 2006 but had no effect on the quarterly report.
- IFRIC 9 Reassessment of embedded derivatives'': This Interpretation was obligatory for financial years beginning on or after 1 June 2006 but had no effect on the quarterly report.
- IFRIC 10 ''Interim Financial Reporting and Impairment'': This Interpretation was obligatory for financial years beginning on or after 1 November 2006 but had no effect on the quarterly report.

The interim report is shown in Euros (€). Figures stated in this report are, unless stated otherwise, in Euros (€). We advise that small differences can arise in rounded amounts and percentages due to commercial rounding of figures.

The income statement is prepared using the cost-of-sales method.

Securities

Securities increased by € 3,565,773 in comparison to 31 December 2006. The increase resulted from the purchase of shares in two money market funds.

Forward exchange dealing

In Q1 2007, two forward exchange deals were completed to sell US Dollars of a total of US$ 2,410,000. At balance sheet date the forward exchange deals had a fair market value of € 12,465. Hedge accounting is not utilised, and so the deals were classified as ''fair value through profit and loss'' and relevant gains and losses were recognised in the income statement. The mark-to-market values were shown in the balance sheet under other assets.

Deferred charges

Deferred charges increased in comparison to 31 December 2006 by € 914,916. This refers to € 881,663 of costs for the preparation of the planned stock market flotation of SFC Smart Fuel Cell AG. On completion of the flotation, the amount will be set off against proceeds from the stock market flotation and deducted from the capital surplus.

Silent partnership

The stock market flotation of SFC was looking more likely in Q1 of the financial year 2007. In order to make this stock market flotation possible, SFC tried hard in Q1 to reach an agreement to buy out the two silent shareholders. For a detailed description, see the Notes to the financial statements to 31 December 2006.

A final agreement had still not been reached at balance sheet date. At the end of March, with the agreement of tbg, a draft severance agreement was prepared whereby tbg will be repaid its investment in full and at the same time the contractual final remuneration, the embedded derivative, will be finalised by a payment of € 720,000 (or 48% of the capital). In the agreement, the silent shareholding would attract a final pay off of at least 30% of the capital paid in, plus 6% for each year over and above the fifth year of investment. As tbg had held its silent shareholding in SFC for 8 years when the investment ended, this would be equivalent to the agreed 48% final payment included in the original agreement.

Similar negotiations are proceeding with BayKap and have also failed to reach a final agreement. Based on current negotiations, we estimate a final payment of € 533,789.

The negative market value of derivatives shown in the previous year's financial statements, and valued in the past year in accordance with the Black & Scholes options price model, was now adjusted on the basis of these negotiations to take account of the expected repayment amounts. This resulted in financial earnings for the period of € 1,011,879.

The capital payments were shown under other short-term liabilities as a repayment is expected within the course of the financial year.

Liabilities from PoC

A new JDA agreement was secured in Q1 resulting in advance payments of € 208,350 which are shown under liabilities adjusted for pro rata realised turnover of € 20,344 in accordance with the PoC method.

Options for employees and Board members

In discussing the preparation of the prospectus with its legal advisors in Q1 2007, SFC Smart Fuel Cell AG was advised to eliminate the existing authorised capital I to III for the issue of share options. This authorised capital affects the options issued to Dr. Jens Müller and Oliver Freitag and an unfilled option to Dr. Peter Podesser. The three have declared their willingness to settle these options.

After agreement in principle by the Supervisory Board to find an alternative solution, negotiations were begun in Q1 between the three parties, the company and substantial shareholders. Final agreement was reached at the Supervisory Board meeting held on 27 March 2007, whereby the parties involved shall receive 75% of the option value, calculated on the basis of the share price when an IPO is made, to be paid in cash by substantial shareholders of SFC. This agreement was accepted by the parties involved and the Supervisory Board.

In accordance with IFRS 2.28 (a), the first step for a premature annulment of issued options is to calculate the outstanding expense of the options, since it will be presumed that a premature annulment or fulfilment of the options will be made on the basis that the beneficiary has already fulfilled all the performance requirements for the options to be exercised. In the case in hand, this means that the outstanding expense from the options in the amount of € 969,910 was immediately recognised in Q1. The resulting expense was allocated mainly to general administration costs and sales cost. The remaining amount was included under research and development.

No further expenses will arise for SFC from these transactions in future periods and SFC has no further obligations in this respect.

The discharge of the share options for the three persons detailed above reduces the number of outstanding options at balance sheet date to 12,675 (previous year: 21,321).

Sales Costs

Due to the discharge of share options, this expense increased in this quarter as follows:

	01.01.-31.03.2007 in €	01.01.-31.03.2006 in €
Cancellation of share options	392,917	0
Personnel costs	465,243	260,311
Advertising and travel costs	234,779	158,589
Consultancy/commission	194,668	20,554
Other	80,886	29,040
Total	**1,368,493**	**468,494**

General costs of administration

Due to the discharge of share options, general costs of administration expenses increased during this quarter as follows:

	01.01.-31.03.2007 in €	01.01.-31.03.2006 in €
One-time effect from share options	484,955	0
Personnel costs	163,075	114,951
Audit and consultancy costs	40,792	21,562
Supervisory Board remuneration	32,500	16,875
Depreciation	14,772	5,422
Office supplies	14,395	4,607
Travel costs	11,446	8,601
Other	63,638	31,067
Setting-off of grants received	–31,659	–29,168
Total	**793,914**	**173,917**

Result from special influences

Taking account of the two special influences mentioned above, modification of the silent shareholdings and cancellation of share options, the result from Q1 2007 cannot be compared with the result from the same period in the previous year. However, in order to offer some comparison, we present this result after taxes and the operating result adjusted fort he special circumstances.

	01.01.-31.03.2007 in €	01.01.-31.03.2006 in €
Net loss in accordance with income statement	–996,759	–1,121,960
Effect from modification of silent shareholdings	–1,011,879	
Effect of cancellation of share options	969,910	
Adjusted result after taxes	**–1,038,728**	**–1,121,960**

	01.01.-31.03.2007 in €	01.01.-31.03.2006 in €
Operating loss in accordance with income statement	–2,014,989	–774,222
Effect of cancellation of share options	969,910	
Adjusted operating loss	**–1,045,079**	**–774,222**

Segment report

The earnings and result of SFC in the quarters was as follows:

	Segment sales		Segment result	
Segment	31.03.2007	31.03.2006	31.03.2007	31.03.2006
A-Series	2,453,341	596,233	36,436	–262,956
C-Series	56,073	500	24,534	145
JDA	680,085	419,171	220,782	259,736
Power Manager	111,438	0	23,071	0
Other	53,631	14,702	–95,951	–46,510
Offsetting	0	0	–1,205,631	–1,072,375
Total	3,354,568	1,030,606	–996,759	–1,121,960

Transactions with related persons and companies

The group of related persons and companies has not changed since the annual financial statement to 31 December 2006. Other than the cancellation of share options described above and the resulting expenses, there were no important transactions other than JDA Agreement with DuPont, which realised a turnover of € 160,763. The liability towards DuPont from percentage of completion (PoC) decreased to € 441,065.

Employees

At balance sheet date SFC had the following employees:

	31.03.2007	31.03.2006
Full-time employees	63	57
Part-time employees	7	5
Trainees/Graduands/Student trainees	5	10
Total	**75**	**72**

Contingent liabilities and other financial obligations

There were no significant changes to contingent liabilities and other financial obligations since the last balance sheet date.

Earnings per share

The number of issued shares during the first quarters of 2007 was as follows:

	31.03 2007	31.03 2006
issued shares 01.01	1,413,936	1,178,280
issued shares 31.03	**1,413,936**	**1,178,280**
undiluted number issued shares	**1,413,936**	**1,178,280**
share options 01.01	18,198	12,726
share options 31.03	2,988	12,726
Dilution effect	10,593	12,726
diluted number of issued shares	**1,424,529**	**1,191,006**

Under IAS 33 "Earnings per share", the effect of potential shareholdings needs to be considered when determining the diluted earnings per share. It is presumed that all valid share options whose strike price was under the average share price for the period had actually been exercised.

There were no diluted effects on the SFC result.

Important events after balance sheet date

As anticipated by the Board, at the annual general meeting of SFC Smart Fuel Cell AG held on 2 April 2007 the authorised capital I to III in the amount of € 14,706 was eliminated.

There was no further information or further events influencing the business after balance sheet date.

Brunnthal, 20 April 2007

The Board

Dr. Peter Podesser Dr. Jens Müller