



Q2

Half-Year Report 2008

SFC
SMART FUEL CELL

Key Figures

in kEuro	1. HY/2008	1. HY/2007	Change in %	Q2/2008	Q2/2007	Change in %
Total sales	8,203	7,506	9.3%	3,597	4,151	-13.3%
Product sales total	6,172	6,090	1.3%	2,703	3,415	-20.8%
Sales share of products	75.2%	81.1%	-	75.1%	82.3%	-
Sales gross margin total	1,693	976	73.5%	824	768	7.3%
Gross margin	20.6%	13.0%	-	22.9%	18.5%	-
EBITDA	-983	-2,097	-53.1%	-756	-254	>100%
EBITDA margin	-12.0%	-27.9%	-	-21.0%	-6.1%	-
EBIT	-1,360	-2,439	-44.2%	-949	-424	>100%
EBIT margin	-16.6%	-32.5%	-	-26.4%	-10.2%	-
Net loss	-272	-1,295	-79.0%	-419	-299	40.1%
Earnings per share, diluted	-0.04	-0.25	-84.0%	-0.06	-0.06	0.0%

in kEuro	06/30/2008	12/31/2007	Change in %	Q2/2008	Q2/2007	Change in %
Equity	51,699	51,912	-0.4%	-	-	-
Equity ratio	91.3%	86.6%	-	-	-	-
Balance sheet total	56,647	59,945	-5.5%	-	-	-
Cash	47,193	52,945	-10.9%	-	-	-

	06/30/2008	06/30/2007	Change in %	Q2/2008	Q2/2007	Change in %
Employees	101	85	18.8%	-	-	-

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 exchange	Frankfurt, FWB
Designated Sponsor	HSBC, Sal. Oppenheim
Stock segment	Prime Standard, Renewable Energies



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Introduction by the Management Board

Dear customers, shareholders, employees and friends of SFC Smart Fuel Cell AG:

With sales up 9.3% from the first six months of 2007, SFC's business continued to grow in the first half of 2008. Especially in the second quarter, leisure segment customers everywhere in Europe proved increasingly cautious with their spending, a trend felt throughout the industry and the reason why unit sales of our EFOY brand fell short of expectations. The successes attained in our other markets could not close the gap.

Those successes demonstrate clearly that the fuel cells from SFC offer the best in available technology and strongly resonate with customers. In the first half of 2008, SFC delivered its first round of portable JENNY fuel cells for serial deployment in an international peacekeeping mission. We also executed new joint development agreements with international defense organizations, including the U.S. Army. The products to be developed will enhance our existing successful portfolio of portable fuel cell solutions. However, some of the programs are experiencing budget-related delays, which means that certain projects originally scheduled for 2008 may not materialise this year.

Another major highlight in the first half of 2008 was the decision of European motor home manufacturer Rapido to integrate our EFOY fuel cell as standard equipment in several of the company's high-end motor homes. The fact that the EFOY fuel cell now enjoys a pervasive presence as optional equipment in the catalogues of 35 European motor home manufacturers sends a clear message that this most discerning of markets has accepted the use of fuel cells as a regular source of energy supply. Business in our new territories, the U.K. and Scandinavia, also continues to grow. SFC expects to ship its 10,000th EFOY fuel cell in the coming weeks, an accomplishment that will solidify our position as the unmistakable market leader. No other company in the fuel cell industry comes close to selling as many power generation systems as we do.

Fuel cells are also gaining in popularity in industrial segments. In the area of industrial applications, SFC concentrates chiefly on the "defense" and "security" industries. As part of pilot projects, EFOY fuel cells are now being used in highway traffic control instruments, remote and vehicle-mounted security and surveillance cameras, early warning devices, sensors, emergency management systems and other applications that need to function reliably in places with no traditional source of electricity. In a growing number of cases, our fuel cells are being used in combination with photovoltaic cells to create hybrid solutions that ensure round-the-clock availability, with the EFOY fuel cell remaining in standby mode until bad weather prevents the solar panels from supplying power. SFC will penetrate these industrial markets even further when it introduces EFOY Pro in the second half of the year, a product series tailored specifically to industrial needs.

In the area of "mobility", interest in the use of EFOY fuel cells to help power lightweight electric vehicles below the car category is mounting considerably. In collaboration with a partner from the industry, SFC debuted a scooter with an integrated EFOY fuel cell at this year's Hanover Trade Fair. The fuel cell extends the vehicle's autonomous running time by automatically supplying power to the batteries during operation and charging them off-grid, i.e. the vehicle does not have to be plugged into a power outlet. We also see a tremendous amount of potential in this market segment.

The public's increasing awareness and use of the fuel cell solutions of SFC Smart Fuel Cell AG is also clear to see with the company's receipt of another prestigious award: SFC received the "Industriepreis 2008" prize from the German small and medium size business organization "Initiative Mittelstand" for its successful



Dr. Peter Podesser CEO

Dr. Jens Müller COO

use of EFOY fuel cells in a traffic control system. The EFOY fuel cell was selected as the most interesting and most innovative solution of 2008 in the category "energy". "Initiative Mittelstand" honours products and solutions from industries that offer supreme functionality and an especially high user benefit. Thus, it is a distinction that also pays tribute to commercial success.

We continued to reach important milestones on the technology side, both in terms of our portable fuel cells, which, as mentioned earlier, generated additional business in the defense segment, and also in terms of the EFOY fuel cell family. EFOY Pro, a series of fuel cells specially designed to meet the requirements of off-grid industrial applications, stands ready for launch in the second half of the year.

For the first time in company history, SFC Smart Fuel Cell AG's number of employees topped the 100 mark in the reporting period; headcount will continue to climb for the remainder of the year as we employ additional sales and R&D staff.

Despite lacklustre consumer spending in the leisure segment, SFC Smart Fuel Cell AG believes it is in a strong position to generate medium and long-term growth and continue to enjoy corporate success thanks to its lucrative portfolio of established products, a well-filled pipeline of new models and the opportunities that await us.

We thank you for your trust and invite you to stay on board for the next part of our journey.

Sincerely,
The Management Board of SFC Smart Fuel Cell AG

Dr. Peter Podesser
CEO

Dr. Jens Müller
COO

Investor Relations

Shareholdings as of June 30, 2008

	Shares	Options
Management Board		
Dr. Peter Podesser (CEO)	115,800	0
Dr. Jens Müller (COO)	56,918	1,980 ¹⁾
Supervisory Board		
Dr. Rolf Bartke	0	0
Rüdiger C. Olschowy, BIT Holdings GmbH, BIT Fund II GmbH & Co. KG	185,592	0
Wolfgang Biedermann	0	0
Jakob-Hinrich Leverkus	7,200	0
Dr. Roland Schlager	3,506	0
Dr. Manfred Stefener	1,155,967	0

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

General Shareholders' Meeting 2008

On May 8, 2008 the 2008 General Shareholders' Meeting of SFC Smart Fuel Cell AG took place at the Munich Conference Center, Hanns Seidel Stiftung, Munich, Germany. During the voting process about 55 percent of the company's authorized capital was present.

In its following session, the Supervisory Board of SFC Smart Fuel Cell AG elected Dr. Rolf Bartke to be its new Chairman. The business engineer and former Head of the Mercedes Transporter Business Unit of Daimler AG has been Deputy Chairman of the Supervisory Board of SFC Smart Fuel Cell since April 2, 2007. The long-time Chairman of the Supervisory Board, Rüdiger C. Olschowy, remains associated with the Company as Deputy Chairman.

Votes

	Abstention	NO-Votes	YEAS	Result
Item 2: Resolution on formal ratification of the actions of the members of the Management Board for fiscal year 2007	500	0	3,752,955	100.00 %
Item 3: Resolution on formal ratification of the actions of the members of the Supervisory Board for fiscal year 2007	500	512	1,421,383	99.96 %
Item 4: Selection of the auditor for the annual financial statements and the interim financial statements for fiscal year 2008 ¹	0	0	3,923,673	100.00 %
Item 5: Election of a new member of the Supervisory Board, Magister Dr. Roland Schlager, Munich	500	512	3,922,661	99.99 %
Item 6: Resolution on the new authorization to repurchase and use the Company's own shares pursuant to §71(1)(8) of the Stock Corporation Act and to exclude subscription rights	500	512	3,922,661	99.99 %
Item 7: Resolution on the creation of new authorized capital, exclusion of subscription rights, and amendment of the Articles of Association (Authorized Capital 2008)	500	340,046	3,583,127	91.33 %

¹[Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Rosenheimer Platz 4, 81669 Munich]

Interim Management Report, January 1 - June 30, 2008

1. Report on earnings and financial position

EARNINGS POSITION

SFC continued to grow in the first half of 2008, posting a 9.3% increase in sales compared with the same period a year ago. Sales rose to €8,203k in the period under review, following €7,506k in the first half of 2007. The share of sales attributable to products decreased to 75.2% in the first six months of 2008, compared with 81.1% a year earlier, while that generated under joint development agreements (JDAs) increased accordingly.

With sell-through rates in the leisure segment slowing, second-quarter sales fell 13.3% to €3,597k (Q2 2007: €4,151k).

Sales by segment

JDAs were the chief driver of our sales growth in the first half of 2008. In terms of product sales, we saw a substantial gain in the revenues generated with "other products", primarily because of an increase in the number of fuel cartridges sold.

Sales by segment in k€ (unaudited)	1st Half year			2nd Quarter		
	2008	2007	Change in %	2008	2007	Change in %
A-Series	4,588	4,349	5.5%	1,321	1,896	-30.3%
C-Series	304	254	19.7%	288	198	45.5%
Power Manager	977	1,372	-28.8%	977	1,260	-22.5%
JDAs	2,031	1,416	43.4%	894	736	21.5%
Other products	303	115	163.5%	117	61	91.8%
Sales	8,203	7,506	9.3%	3,597	4,151	-13.3%

Higher wholesale inventories due to the slowdown in sell-through rates mentioned above dampened the pace of growth for us in the leisure market. As a result, sales in our A-Series segment edged only 5.5% higher to €4,588k, following €4,349k a year ago. The segment's share in total sales dropped to 55.9%, down from 57.9%. Unit sales of A-Series fuel cell systems rose from 2,372 to 2,472, which represents an increase of 4.2%. Second-quarter sales of A-Series products fell 30.3% to €1,321k (Q2 2007: €1,896k).

Sales in the C-Series segment advanced 19.7% to €304k in the first half, up from €254k in the first half of 2007. The number of systems delivered rose from 15 to 19. Second-quarter sales in the segment, at €288k (Q2 2007: €198k), were up 45.5%.

Deliveries of Power Managers under our second commercial order from the U.S. Air Force commenced in the first half of 2008. The rest of the order will ship in the third quarter. Sales in the segment decreased by 28.8% to €977k, following €1,372k in the year-earlier period, with the number of Power Managers delivered dropping to 527 from 558. Second-quarter sales were off 22.5%, falling from €1,260k a year ago to €977k.

Due to our successful cooperation with the U.S. Armed Forces and German Bundeswehr, sales in the JDA segment for the first six months of 2008 increased by 43.4% to €2,031k, following €1,416k the year before. Second-quarter sales rose 21.5% to €894k (Q2 2007: €736k).

Sales in our Other Products segment surged 163.5% to €303k in the first quarter of 2008 versus €115k a year earlier. Besides the sale of fuel cartridges, the sale of test equipment to strategic partners is captured in this segment. The sharp rise in the number of fuel cartridges sold goes hand in hand with the growing installed base of systems in the field. Second-quarter sales, at €117k (Q2 2007: €61k), were up 91.8%.

Sales by region

in k€ (unaudited)	1st Half year			2nd Quarter		
	2008	2007	Change in %	2008	2007	Change in %
Europe (without Germany)	3,293	2,802	17.5%	1,178	1,272	-7.4%
Germany	2,739	1,554	76.3%	826	604	36.8%
North Amerika	2,094	3,141	-33.3%	1,542	2,268	-32.0%
Asia	28	4	600.0%	19	2	850.0%
Rest of world	49	5	880.0%	32	5	540.0%
Sales	8,203	7,506	9.3%	3,597	4,151	-13.3%

We achieved growth of 17.5% in Europe in the first half of 2008. The share of sales SFC generated in its home market of Germany stood at 33.4% for the first half, following 20.7% in the previous year. Thus, the share of international sales in total sales dropped to 66.6% (H1 2007: 79.3%).

The substantial growth in Germany, at 76.3%, is predominantly attributable to the success of a JDA with the Bundeswehr, while the sales gains in the rest of Europe are primarily the result of our shipping our first smaller-scale commercial order for 18 C-Series systems to a European defense organisation.

Sales decreased by 33.3% in North America chiefly because of a drop in the volume of sales recognised under JDAs and product deliveries with the U.S. Armed Forces.

Gross margin

Fuelled by sales growth in the JDA segment and ongoing success in our efforts to systematically reduce the production costs of our A-Series fuel cell systems, our gross margin soared 73.5% to €1,693k in the first half of 2008, following €976k the same period a year ago. The increase in our gross margin to 20.6% for the period (H1 2007: 13.0%) is predominantly the result of the tremendous change in the gross margin from our A-Series segment, which jumped from 5.5% to 18.2%. The gross margin for the second quarter rose 7.3% to €824k (Q2 2007: €768k).

Sales costs

We reduced our sales costs by 9.8% to €1,836k in the first half of 2008, compared with €2,036k the year before. The previous year's figure reflected a one-time effect of €393k from cancelling and settling share options. Absent this effect, sales costs would have risen 11.7%, mostly due to higher personnel and travel expenses associated with establishing and expanding our sales and marketing organisation in the areas of industrial and defense applications as well as mobility. Second-quarter sales costs, at €942k (Q2 2007: €667k), were up 41.2%.

Research and development costs

Research and development costs increased by 65.0% to €373k in the first six months of 2008, following €226k the year before. We capitalised €590k in development costs in the period under review, compared with no development work being capitalised a year earlier. Research and development costs in the second quarter advanced 123.9% to €253k (Q2 2007: €113k). It is important to note that development costs incurred as part of JDAs are reported as production costs of work performed to generate sales and that any subsidies received for government-sponsored development projects are offset against our development costs. Adjusted for these two effects and adding back in our capitalised development costs, our true research and development expenditure in the first half of 2008 totalled €2,525k, which represents an increase of 49.6% from the previous year's €1,688k.

General administration costs

General administration costs decreased by 2.7% to €1,177k in the first half of 2008, compared with €1,210k the year before. Excluding the one-time effect of €485k from the cancellation and settlement of share options reflected in the previous year's figure, administration costs rose 62.3%. Higher payroll expenses, higher audit and consulting fees as well as expenses related to investor relations accounted for the bulk of this increase. For the second quarter, general administration costs were up 49.3% to €621k (Q2 2007: €416k).

Other operating income

Income of €280k from the measurement of open dollar and platinum forwards drove the increase in other operating income from €76k in the first half of 2007 to €336k in the first half of 2008. In the second quarter, other operating income advanced from €29k to €46k.

Operating result (EBIT)

EBIT improved by 44.2% in the first half of 2008 to minus €1,360k, following minus €2,439k the same period a year ago. Adjusted for non-recurring items, EBIT improved by 7.4% [see "Result from special influences" in the Notes], which brought the adjusted EBIT margin to minus 16.6%, following minus 19.6% a year earlier. The second-quarter EBIT margin amounted to minus 26.4% versus minus 10.2% the year before.

Interest and similar income

Interest and similar income decreased from €1,299k in the first half of 2007 to €1,120k in the first half of 2008. The previous year's figure included €1,012k in one-time effects related to the redemption of silent partnership investments in our company. Excluding these effects, our interest income would have risen by a considerable €833k given the investment of the proceeds from the capital increase undertaken in the prior year. In the second quarter, interest and similar income rose 143.6% to €536k (Q2 2007: €220k).

Interest and similar expenses

Interest and similar expenses decreased by 79.4% in the first six months of 2008 to €32k, compared with the year-earlier period's €155k, as a result of the redemption in the previous year of silent partnership investments in our company. In the second quarter, interest and similar expenses decreased by 93.6% to €6k (Q2 2007: €94k).

Net profit

SFC reduced its net loss by 79.0% to €272k in the first half, versus €1,295k a year ago. In the second quarter, the net loss widened, increasing from €299k to €419k.

Earnings per share

Earnings per share under IFRS (diluted) improved to minus €0.04 in the first half of 2008, following minus €0.25 per share for the same period last year. The net loss per share in the second quarter amounted to unchanged €0.06.

FINANCIAL POSITION

The chief influence on our financial position in the first half of 2008 was the repayment of the silent partnership investment made by tbg Technologie-Beteiligungs-Gesellschaft mbH, including final remuneration and current minimum remuneration, in the amount of €2,251k.

Cash and cash equivalents amounted to €47,193k at the end of June 2008 (June 2007: €52,023k).

Cash flow from ordinary operations

The net cash used in ordinary operations increased to €3,372k in the first half of 2008 versus €1,727k a year ago. A decrease of €1,398k in other liabilities more than offset the net profit improvement touched on above. In the year earlier period, other liabilities had increased by €570k. Reductions of €959k in our liabilities from prepayments and of €325k in VAT payables were the chief factors behind the steep drop in other liabilities.

Cash flow from investment activity

With interest income of €1,135k (H1 2007: €287k), we had a net inflow of €18k from investment activity in the period under review. In the previous year we reported net cash used in investment activity of €1,979k primarily because of the €1,842k spent on the acquisition of securities. Cash used in the acquisition of property, plant, equipment and intangible assets rose from €424k to €1,117k. The €590k in capitalised development costs factored heavily into this increase.

Cash flow from financial activity

We are reporting a net outflow of €2,399k from financial activity in the first half of 2008, largely because of the repayment of the silent partnership investment referenced earlier. In the year-earlier period we had a net inflow from financial activity of €49,480k due in large measure to our successful move to the Prime Standard segment of the Frankfurt Stock Exchange.

ASSETS & LIABILITIES

The company has a healthy balance sheet. Our equity ratio grew in parallel with sales and earnings.

Total assets were down 5.5% at the end of the half, decreasing from €59,945k as of December 31, 2007 to €56,647k as of June 30, 2008.

Inventories rose 15.5% to €1,480k at June 30, 2008, compared with €1,281k at December 31, 2007, due to sluggish growth in the leisure segment.

Trade accounts receivable jumped 18.0%, from €2,000k at December 31, 2007 to €2,360k, predominantly because of the delivery of Power Managers at the end of the second quarter of 2008.

The increase in other short-term assets and receivables from €479k at December 31, 2007 to €752k at June 30, 2008 is mainly due to VAT receivables and the measurement of open platinum and dollar forwards.

Intangible assets rose from €1,078k at December 31, 2007 to €1,555k at June 30, 2008 chiefly because of the development costs capitalised. The share of non-current assets in total assets climbed from 4.5% to 6.9%.

The decrease in liabilities from prepayments from €986k at December 31, 2007 to €27k at June 30, 2008 is predominantly the result of the completion of work under a JDA with the Bundeswehr.

The majority of the decrease in other short-term liabilities, down from €3,564k at December 31, 2007 to €791k at June 30, 2008, is attributable to repayment of the silent partnership investment.

Altogether, liabilities made up 8.7% of total liabilities and shareholders' equity for the period (December 31, 2007: 13.4%).

With the net loss for the period, our shareholders' equity decreased to €51,699k, compared with €51,912k at December 31, 2007. Our equity ratio increased from 86.6% to 91.3%.

RESEARCH AND DEVELOPMENT

The focus of our research and development activities remained as follows in the first half of 2008:

- Reduce unit costs through technological innovations in order to maximise the contribution margins of our products. We pressed ahead with our efforts to increase power density while cutting back on the amount of material used, especially for our fuel cell stacks, which represent the technical core of fuel cell systems and also account for a very large portion of the systems' production costs.
- Enhance product functionality (e.g., higher performance, market-specific features, greater durability under challenging conditions) in order to develop new areas of application in addition to the markets already addressed.
- Miniaturise the products in order to successfully tap markets, such as the defense industry, with demanding specifications for portable energy sources.

CAPITAL EXPENDITURES

In the first half of 2008 we capitalised €590k in development work directed at enhancing our fuel cell systems. Chief among our other investments was an ultrasonic welding machine for fuel cartridges through which we aim to generate additional cost savings in the production of fuel cartridges. In order to improve productivity and increase capacity, we also purchased an additional test station for our stacks.

NEW ORDERS AND ORDER BACKLOG

New orders were down in the first half of 2008, mainly due to the expiration of JDAs in the defense segment this year. Negotiations are currently underway with the respective clients to determine the nature and terms of the successor programmes. The drop is also a manifestation of the slowdown in sell-through rates in the leisure market. In figures, the volume of new orders dropped 15.3% to €4,566k, following €5,390k in the first half of 2007. In the second quarter, SFC received €1,388k in new orders (Q2 2007: €1,001k). Altogether, the order backlog stood at €1,238k at June 30, 2008, which represents a decrease of 53.0% from the previous year's €2,633k.

EMPLOYEES

As of June 30, 2008, the company employed the following personnel:

Employees	06/30/2008	06/30/2007	Change
Management Board	2	2	0
Research and development	30	23	7
Production, logistics, quality management	26	23	3
Sales & Marketing	24	20	4
Administration	13	9	4
Permanent employees	95	77	18
Trainees, graduates, student trainees	6	8	-2
Employees at the end of the Half year	101	85	16

The increase in the number of permanent employees at the end of the first half of 2008 by 23.4% to 95 (June 30, 2007: 77) is attributable to growth in all of our departments, which is a reflection of SFC's stronger market orientation, the demands of being a publicly traded company and the growing volume of JDAs in development. To be able to react flexibly to sales volumes, SFC turns to temporary staffing firms for suitable personnel, particularly to fill vacancies in manufacturing and development. As of the end of June 2008, SFC had 6 such workers in the company (June 2007: 15).

2. Report on forecasts and other forward-looking statements

The Management Board fully believes the company is capable of continuing to defend its leading position in the promising market for independent energy supply using fuel cells powered by methanol.

Higher wholesale inventories due to the slowdown in sell-through rates mentioned earlier have dampened the pace of sales growth in the leisure market. In the defense segment, some of the budget decisions and contract awards we expected in the second quarter have been delayed, which means we may not be able to recognise revenue on these projects in 2008.

Despite the steep drops in the sale of aftermarket accessories for motor homes in Europe as consumers throughout the continent keep a tight hold on their wallets, SFC is bucking the trend and moving forward along its growth path. However, as things stand today, we expect to report a sales increase of 20% to 30% for all of 2008 compared with 2007, when sales were €14,351k and the year-on-year growth far higher. This reduced pace of growth coupled with the threat of an ongoing escalation in raw material prices means that we will not reach the break-even point for the full 2008 year.

We have already introduced measures aimed at addressing the issues in the leisure segment, including stepping up our efforts to develop our international business in the U.K., Scandinavia, the Benelux countries and Australia as well as prioritizing our OEM programmes, which target having EFOY fuel cells installed as standard equipment in motor homes directly at the factory. A decision about opening an office in the U.S. is also in the works, since doing so would strengthen our business in the defense market and expedite order processing as well as provide us with a base from which to penetrate the local industrial and leisure markets.

3. Report on risks and opportunities

As part of a systematic and organisational approach to risk, the Management Board has implemented a risk management system that defines, systematically uses and continues to develop suitable instruments for identifying, analysing and measuring risks and determining the appropriate course of action.

We are of the opinion that the chief risks the company faces have not changed since the publication of our 2007 annual report, with the following exceptions.

Market risks

MACROECONOMIC DEVELOPMENTS

While the global economy continues to grow largely because of economic activity in the emerging markets, the U.S. economy is stagnating as a result of the mortgage crisis with hard-to-predict repercussions on Europe's economy. Current forecasts by governments and economic research institutes envisage that the momentum in the company's most important markets will slow. The ever-rising cost of energy and food is making deep cuts in consumers' purchasing power and, as a result, their willingness to spend money elsewhere.

LEISURE MARKET

Particularly hard hit by restrained consumer spending are the markets for recreational vehicles in Europe, which have been reporting severe drops in revenues, some in the double-digit range, since March. Market experts do not see this trend reversing anytime in the current season. Also affected is the market for accessories, which could cause sales of our EFOY fuel cells to fall below plan throughout Europe this season.

DEFENSE SEGMENT

Budget approvals and contract awards from the military arena are slower coming these days, particularly in the U.S. Consequently, some of the contracts SFC expected to land in 2008 may not materialise until next year or later.

Risks related to technology, procurement and production processes

SFC plans to introduce three new fuel cell models in the second half of 2008, partly in order to replace current product lines. Difficulties may arise in launching these new products, including late deliveries of necessary parts by suppliers or delays in completing final qualifications, obtaining certifications, or receiving official permits.

Patent-related risks

In the course of our ongoing patent monitoring, we discovered that a competitor was granted a European patent in March 2008 that may become relevant for us. We are currently discussing a further course of action with our patent attorneys.

Competition

SFC enjoys a unique position today thanks to our technological leadership and marketing edge. Some of the ways we protect this advantage include intellectual property rights, speed, and focus on one single technological concept. Some of our competitors, however, particularly those in the U.S. defense segment, have equally good, if not better, market access, which in principle means that we face the risk of forfeiting our role as the leader. For example, our ongoing observations of the competitive situation have revealed that competitors from the U.S. have delivered their first prototypes for the defense segment. We still know of no other company in the leisure and off-grid energy supply markets that competes with SFC by already offering comparable commercially available products. Nevertheless, SFC faces the risk of losing sales because of the future introduction of competing products or substitute solutions.

Raw material prices

With the substantial increase in the price of platinum in the first half of 2008 and current market analyses indicating further hikes in precious metal prices, we secured about two-thirds of our expected platinum requirements for fiscal year 2009 in the second quarter. - As before, the rising cost of raw materials and energy in general constitutes a risk, one that could have an adverse effect on our product margins.

Personnel risks

We observed increasing risks on the labour market in the first half of 2008 because of the dwindling supply of skilled workers. SFC remains heavily dependent on committed, highly qualified and to a certain extent specialised employees.

Opportunities for future development

The key determinants of the future development of SFC lie in our ability to successfully increase our sales (by raising volumes in current markets, expanding into new regions and tapping new applications like light-weight electric vehicles and cabins located far away from power lines) and to use innovative technologies to reduce our costs. SFC has the opportunity to build on the current lead it enjoys thanks to its mature technology and marketing power and to continue to be a trendsetter in off-grid energy supply in the low and medium-power range.

4. Report on material transactions with related parties

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


5. Significant events after the balance sheet date

At its meeting on July 23, 2008, the Supervisory Board approved the Management Board's proposal to establish a U.S. subsidiary by the end of the year.

Brunnthal, July 24, 2008



Dr. Peter Podesser
CEO



Dr. Jens Müller
COO



Clean power!

at any place and any time

Interim Report in accordance with International Financial Reporting Standards, as of Juni 30, 2008 and June 30, 2007

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The following Interim Report has been prepared in the German language. They have been translated for this Interim Report into English. In the event of questions of interpretation, the German version shall be authoritative.

Income Statement

from January 1 to June 30, 2008

in €	2008 01/01 – 06/30	2007 01/01 – 06/30	2008 04/01 – 06/30	2007 04/01 – 06/30
1. Sales	8,203,464	7,505,875	3,597,661	4,151,308
2. Production costs of work performed to generate sales	-6,510,675	-6,529,470	-2,773,794	-3,383,776
3. Gross margin	1,692,789	976,405	823,867	767,532
4. Sales costs	-1,835,776	-2,035,774	-942,272	-667,281
5. Research and development costs	-372,939	-226,353	-252,563	-113,024
6. General administration costs	-1,176,599	-1,210,342	-620,673	-416,428
7. Other operating income	335,789	76,396	45,900	28,873
8. Other operating expenses	-2,856	-19,498	-2,832	-23,850
9. Operating loss	-1,359,592	-2,439,166	-948,573	-424,178
10. Interest and similar income	1,119,851	1,298,915	535,562	220,062
11. Interest and similar expenses	-32,317	-155,078	-6,039	-94,454
12. Result from ordinary operations	-272,058	-1,295,329	-419,050	-298,570
13. Income taxes	0	0	0	0
14. Net loss	-272,058	-1,295,329	-419,050	-298,570
15. Accumulated loss brought forward from previous year	-22,043,985	-19,519,811	-21,896,993	-20,516,570
16. Net accumulated loss	-22,316,043	-20,815,140	-22,316,043	-20,815,140
Earnings per share				
undiluted	-0,04	-0,25	-0,06	-0,06
diluted	-0,04	-0,25	-0,06	-0,06

Balance Sheet

as at June 30, 2008

ASSETS in €	06/30/2008	12/31/2007
A. Current assets	52,737,316	57,265,258
I. Inventories	1,479,800	1,280,700
II. Trade accounts receivable	2,360,359	2,000,187
III. Income tax receivables	826,083	463,229
IV. Other short-term assets and receivables	752,108	478,970
V. Cash and cash equivalents	47,192,767	52,945,317
VI. Cash and cash equivalents with limitation on disposal	45,320	45,320
VII. Deferred charges and prepaid expenses	80,879	51,535
B. Non-current assets	3,909,378	2,680,065
I. Intangible assets	1,555,172	1,078,082
II. Property, plant and equipment	1,093,517	830,220
III. Deferred tax assets	1,260,689	771,763
Assets	56,646,694	59,945,323

LIABILITIES AND SHAREHOLDERS' EQUITY in €	06/30/2008	12/31/2007
A. Current liabilities	3,176,129	6,770,573
I. Other provisions	423,983	484,267
II. Liabilities from prepayments	26,705	985,863
III. Trade accounts payable	1,549,433	1,261,806
IV. Liabilities from finance leases	254,417	287,796
V. Liabilities from percentage-of-completion	57,959	74,655
VI. Other short-term liabilities	790,830	3,563,674
VII. Deferred charges	72,802	112,512
B. Non-current liabilities	1,771,260	1,262,374
I. Other long-term provisions	193,871	176,898
II. Liabilities from finance leases	0	97,013
III. Other long-term liabilities	316,700	216,700
IV. Deferred tax liabilities	1,260,689	771,763
C. Equity	51,699,305	51,912,376
I. Subscribed capital	7,136,243	7,136,243
II. Capital surplus	66,879,105	66,820,118
III. Accumulated loss brought forward from previous year	-22,043,985	-19,519,811
IV. Net result	-272,058	-2,524,174
Liabilities and shareholders' equity	56,646,694	59,945,323

Cash Flow Statement

from January 1 to June 30, 2008

in €	2008 01/01 – 06/30	2007 01/01 – 06/30
Cash flow from ordinary operations		
Result before taxes	-272,058	-1,295,329
- Net interest income	-1,087,534	-131,958
+ Depreciation/amortisation of intangible assets and property, plant and equipment	376,205	341,964
+ Expenses from share options programmes	58,987	1,051,574
+ Changes in allowances	60,267	63,652
-/+ Profits/losses from disposal of tangible assets	0	2
-/+ Profits/losses from derivatives	0	-1,011,879
Changes to operating result before working capital	-864,133	-981,974
-/+ Changes to short and long-term provisions	-57,746	68,980
- Changes to trade accounts receivable	-349,320	-122,020
- Changes to inventories	-270,218	-405,589
- Changes to other assets	-287,930	-906,077
- Changes to prepaid expenses	-29,345	-13,858
+ Changes to trade accounts payable	287,626	150,455
-/+ Changes to other liabilities	-1,398,072	570,376
- Changes to deferred income	-39,710	-39,710
Cash flow from ordinary operations before taxes	-3,008,848	-1,679,417
- Income tax payments	-362,854	-47,646
Cash flow from ordinary operations	-3,371,702	-1,727,063

in €	2008 01/01 – 06/30	2007 01/01 – 06/30
Cash flow from investment activity		
- Acquisition of property, plant and equipment and intangible assets	-1,116,591	-424,052
+ Interest income	1,134,642	287,036
- Cash used to acquire securities and pledged bank balances	0	-1,841,869
Cash flow from investment activity	18,051	-1,978,885
Cash flow from financial activity		
+ Shareholder contributions	0	53,555,687
- Costs of issuing equity	0	-2,284,564
- Repayment of financial liabilities	-2,250,625	-1,556,372
- Repayment of liabilities from finance leases	-143,898	-143,898
- Interest paid and other expenses	-4,376	-90,375
Cash flow from financial activity	-2,398,899	49,480,478
Net change in cash and cash equivalents	-5,752,550	45,774,530
Net change in cash and cash equivalents		
Cash and cash equivalents at beginning of period	52,945,317	6,248,783
Cash and cash equivalents at end of period	47,192,767	52,023,313
Net change in cash and cash equivalents	-5,752,550	45,774,530

Statement of Changes in Equity
from January 1 to June 30, 2008

in €	Subscribed capital	Capital surplus
Balance 01/01/2007	1,413,936	23,702,071
Allocation from option programme		1,051,574
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		-5,324,853
Net result 01/01 – 06/30/2007		
Balance 06/30/2007	7,103,195	67,295,220
Allocation from option programme		52,592
Exercise of option rights	33,048	-24,786
Costs of capital increase		-502,908
Net result 07/01 – 12/31/2007		
Balance 12/31/2007	7,136,243	66,820,118
Allocation from option programme		58,987
Net result 01/01 – 06/30/2008		
Balance 06/30/2008	7,136,243	66,879,105

Net accumulated loss	Total
-19,519,811	5,596,196
	1,051,574
	0
	53,555,687
	-5,324,853
-1,295,329	-1,295,329
-20,815,140	53,583,275
	52,592
	8,262
	-502,908
-1,228,845	-1,228,845
-22,043,985	51,912,376
	58,987
-272,058	-272,058
-22,316,043	51,699,305

Notes to the Interim Report of SFC Smart Fuel Cell AG

Information about the company

SFC Smart Fuel Cell AG* (henceforth "SFC" or "the company") was established by articles of association dated December 10, 1999 under the name Gigantus Vermögensverwaltung GmbH, Hallbergmoos, Germany, and 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.

Course of business in the first half

SFC continued to grow in the first half of 2008, posting a 9.3% increase in sales compared with the same period a year ago. Sales rose to €8,203,464 in the period under review, following €7,505,875 in the first half of 2007. The share of sales attributable to products decreased to 75.2% in the first six months of 2008, compared with 81.1% a year earlier, while that generated under joint development agreements (JDAs) increased accordingly. JDAs were the chief driver of our sales growth in the first half of 2008. In terms of product sales, we saw a substantial gain in the revenues generated with "other products," primarily because of an increase in the number of fuel cartridges sold. With sell-through rates in the leisure segment slowing, second-quarter sales fell 13.3% to €3,597,661 (Q2 2007: €4,151,308).

Higher wholesale inventories occasioned by this slowdown in sell-through rates dampened the pace of growth for us in the leisure market in the second quarter. As a result, sales in our A-Series segment for the first six months edged only 5.5% higher to €4,588,462, following €4,349,247 a year ago. Unit sales of A-Series fuel cell systems rose from 2,372 to 2,472, which represents an increase of 4.2%.

Due to our successful cooperation with the U.S. Armed Forces and German Bundeswehr, sales in the JDAs segment increased by 43.4% to €2,031,000 in the first six months of 2008, following €1,416,022 the year before. Deliveries of Power Managers under our second commercial order from the U.S. Air Force commenced in the first half of 2008. The rest of the order will ship in the third quarter. Sales in the segment decreased by 28.8% to €977,453, following €1,371,425 in the year-earlier period, with the number of Power Managers delivered dropping to 527 from 558.

Fuelled by sales growth in the JDAs segment and ongoing success in our efforts to systematically reduce the production costs of our A-Series fuel cell systems, our gross margin soared 73.4% to €1,692,789 in the first half of 2008, following €976,405 the same period a year ago. The increase in our gross margin to 20.6% for

*The company's registered office is at Eugen-Sänger-Ring 4, 85649 Brunnthal.

the period (H1 2007: 13.0%) is predominantly the result of the tremendous change in the gross margin from our A-Series segment, which jumped from 5.5% to 18.2%. The gross margin for the second quarter rose 7.3% to €823,867 (Q2 2007: €767,532).

EBIT improved by 44.3% in the first half of 2008 to minus €1,359,592, following minus €2,439,166 the same period a year ago. Two special influences had a significant impact on our earnings in the first half of 2007 (see "Result from special influences"). Without these, EBIT improved by 7.4%.

The chief influence on our financial position in the first half of 2008 was the repayment of the silent partnership investment made by tbg Technologie-Beteiligungs-Gesellschaft mbH, including final remuneration and current minimum remuneration, in the amount of €2,250,625.

The company has a healthy balance sheet. The equity ratio grew in parallel with sales and earnings, climbing from 86.6% as of December 31, 2007 to 91.3% as of June 30, 2008.

Accounting principles

The quarterly financial statements of SFC Smart Fuel Cell AG for the financial period January 1 to June 30, 2008 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as a set of condensed financial statements. These condensed financial statements do not contain all of the information required for a complete set of financial statements for a full financial year and should, therefore, be read in conjunction with the financial statements for the year ended December 31, 2007.

The accounting policies used in the preparation of these condensed financial statements are identical to those that were used in preparing the annual financial statements at December 31, 2007. The following Interpretations were applicable for the first time:

- IFRIC 11 "Group and Treasury Share Transactions": Entities were required to apply this Interpretation for financial years beginning on or after March 1, 2007. It did not impact the quarterly financial statements.
- IFRIC 12 "Service Concession Arrangements": Entities were required to apply this Interpretation for reporting periods beginning on or after January 1, 2008. It did not impact the quarterly financial statements.

The interim report is presented in euros (€). Figures stated in this report are 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 auditors have neither audited nor reviewed the interim financial statements.

Forward exchange dealing

As of the reporting date, forward exchange deals on the sale of U.S. dollars with a total volume of US\$ 2,800,000 remained open. These transactions had a positive fair value of €125,701 as of the reporting date. Hedge accounting is not utilised, so the forward transactions were classified as fair value through profit and loss, and any changes in value were recognised in the income statement under other operating income. The positive fair value is shown under other assets.

Forward commodities transactions

As of the reporting date, forward commodities transactions for hedging the price risk of the platinum used in a key fuel cell component remained open. The company has secured the price for approximately 85% of the platinum needed in the current year through previously executed commodity forwards. We also executed additional forwards in the first half of 2008 to secure the price on approximately two-thirds of our anticipated platinum requirements for fiscal 2009. Platinum prices soared in the first half of 2008. Because of the steep increase, the open platinum forwards had a positive fair value of €175,940 as of the reporting date, which has been captured under other assets. The changes in value were recognised in the income statement under other operating income.

Silent partnerships

In anticipation of the initial public offering on the Prime Standard, an effort was made in the first quarter of 2007 to reach an agreement to buy out the two silent shareholders. Additional information is available in the Notes to the financial statements for the year ended December 31, 2007.

A final agreement was reached just before the public offering.

In connection with the redemption of the silent partnership investments, SFC repaid tbg Technologie-Beteiligungs-Gesellschaft mbH its €1,500,000 contribution in full and also paid the final remuneration that had been arranged (€720,000, or 48% of the contribution) as well as the current minimum remuneration (€30,625) in January 2008.

A similar agreement was reached with Technologie Beteiligungsfonds Bayern GmbH & Co. KG ("BayKap") on redemption of its silent partnership investment of €1,022,584 and payment of a contractual final remuneration of €533,789. These payments to BayKap were already made in the second quarter of 2007.

Redemption of the silent partnership investments resulted in a one-time effect of €1,011,879 in the year-earlier period that was captured under interest and similar income.

Liabilities from percentage-of-completion

Since the volume of sales recognised on orders exceeded the prepayments received on those same orders in the first half of 2008, the liabilities from percentage-of-completion decreased by €16,696 from year's end to €57,959.

Options for employees and Management Board members

There have been no changes in SFC's share option programme since December 31, 2007.

In the first half of the 2007 financial year, there was a major, one-time effect related to the cancellation of share options. In the course of preparing the prospectus with its legal advisors in Q1 2007, SFC was advised

to eliminate the existing authorised capital I to III for the issue of share options. A final agreement on compensation was reached at the Supervisory Board meeting held on March 27, 2007. Additional information is available in the Notes to the financial statements for the year ended December 31, 2007.

The still outstanding expense from the options issued to the affected persons, which amounted to €969,910, was recognised in full pursuant to IFRS 2.28 (a) and allocated mainly to general administration costs and sales costs. These transactions will not give rise to any further expense for SFC in future periods.

The number of outstanding options as of June 30, 2008 was 4,161 (H1 2007: 12,675). These options entitle their holders to subscribe for a total of 16,644 shares.

Sales costs

Our sales costs were as follows in the first half of 2008:

in €	01/01 – 06/30/2008	01/01 – 06/30/2007
Personnel costs	881,191	757,461
Advertising and travel costs	414,738	387,674
Consultancy/commissions	277,930	230,031
One-time effect of redemption of share options	0	392,917
Other	261,917	267,691
Total	1,835,776	2,035,774

The previous year's sales costs reflected a one-time effect of €392,917 from the cancellation of share options.

Research and development costs

We capitalised €589,900 in development costs in the first half of 2008, compared with no development work being capitalised a year earlier.

Intangible assets rose accordingly to €1,555,172, compared with €1,078,082 at December 31, 2007, chiefly because of the capitalised development costs.

The figure for research and development costs in the first half of 2007 included a one-time effect from share options in the amount of €92,038.

General administration costs

Our general administration costs were as follows in the first half of 2008:

in €	01/01 – 06/30/2008	01/01 – 06/30/2007
Personnel costs	473,829	364,830
Investor relations/annual meeting	139,099	29,816
Audit and consultancy costs	124,123	46,326
Recruiting costs	90,648	102,523
Travel costs	84,618	23,603
Supervisory Board compensation	83,764	69,375
Insurance	48,044	14,512
Depreciation and amortisation	44,346	34,552
Car-operating costs	22,421	20,116
One-time effect of redemption of share options	0	484,955
Other	92,304	84,039
Set-off against grants	-26,597	-64,305
Total	1,176,599	1,210,342

The previous year's general administration costs reflected a one-time effect of €484,955 from the cancellation of share options.

Income taxes

As was the case with the annual financial statements as of and for the year ended December 31, 2007, 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 utilise the tax losses brought forward.

Result from special influences

Taking account of the two special influences from the previous year mentioned above, namely, the redemption of the silent partnership investments and cancellation of share options, the result for the first half of 2008 cannot be compared with the result from a year earlier.

However, in order to offer some comparison, we present the result after taxes and operating result adjusted for these special circumstances.

in €	01/01 – 06/30/2008	01/01 – 06/30/2007
Net loss in accordance with income statement	-272,058	-1,295,329
Effect from redemption of silent partnership	0	-1,011,879
Effect from cancellation of share options	0	969,910
Adjusted result after taxes	-272,058	-1,337,298

in €	01/01 – 06/30/2008	01/01 – 06/30/2007
Operating loss in accordance with income statement	-1,359,592	-2,439,166
Effect from cancellation of share options	0	969,910
Adjusted operating loss	-1,359,592	-1,469,256

Segment report

SFC's sales and results were as follows in the first half of 2008:

Segment	Segment sales		Segment result	
	06/30/2008	06/30/2007	06/30/2008	06/30/2007
A-Series	4,588,462	4,349,247	835,059	237,959
C-Series	304,000	254,405	169,983	129,654
JDA	2,031,000	1,416,022	645,188	490,261
Power Manager	977,453	1,371,425	263,696	297,155
Other products	302,549	114,777	-221,137	-178,623
Unallocated items	0	0	-1,964,847	-2,271,734
Total	8,203,464	7,505,875	-272,058	-1,295,329

Related party transactions

By order of the local court in Munich on January 24, 2008, Dr. Roland Schlager of Munich was appointed to the Supervisory Board. Other than Dr. Schlager's appointment, there have been no changes in the group of related parties since preparation of the annual financial statements for the year ended December 31, 2007.

There were no significant related party transactions in the first half of 2008.

Employees

SFC employed the following personnel as of the reporting date:

	06/30/2008	06/30/2007
Full-time employees	89	70
Part-time employees	6	7
Trainees, graduates, student trainees	6	8
Total	101	85

Contingent liabilities and other financial obligations

In the course of public project sponsorships, SFC has received grants for specific purposes that are subject to securing financing for the whole respective project. Until these projects are successfully completed, the grants received so far constitute a contingent liability of €814,260 as of the reporting date (€718,591 as of December 31, 2007).

Earnings per share

The following changes took place in the number of issued shares in the first half of 2008:

	01/01 – 06/30/2008	01/01 – 06/30/2007	01/01 – 06/30/2007 adjusted
Outstanding ordinary shares 01/01	7,136,243	1,413,936	1,413,936
Capital increase from company funds April 2007		4,241,808	4,241,808
Capital increase May 2007		1,447,451	1,447,451
Capital increase from share options July/October 2007			33,048
outstanding ordinary shares 06/30	7,136,243	7,103,195	7,136,243
Undiluted number of outstanding ordinary shares	7,136,243	3,069,114	5,099,924
Shares from exercisable options 01/01	0	72,792	72,792
Shares from exercisable options 06/30	0	33,048	33,048
Dilution effect	0	52,920	52,920
Diluted number of outstanding ordinary shares	7,136,243	3,122,034	5,152,844

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 dilutive effects on SFC's result.

To calculate the earnings per share, the increase in the number of ordinary shares resulting from the capital increase from share options in 2007 was used retroactively for the first half of the 2007 financial year, to maintain comparability.

Material events after the balance sheet date

At its meeting on July 23, 2008, the Supervisory Board approved the Management Board's proposal to establish a U.S. subsidiary by the end of the year.

Brunnthal, July 24, 2008
The Management Board

Dr. Peter Podesser
CEO

Dr. Jens Müller
COO

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the interim management 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 for the remaining months of the financial year.

Brunnthal, July 24, 2008

Dr. Peter Podesser
CEO

Dr. Jens Müller
COO



FINANCIAL CALENDAR

Date

Schedule

10/21/2008

Publication Nine months Report

IMPRINT

Responsible
SFC Smart Fuel Cell AG

Text & Editing
SFC Smart Fuel Cell AG

Concept & Design
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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.