

Q3

Nine Months Report
2008

SFC
SMART FUEL CELL

Key Figures

in k€	2008 01/01-09/30	2007 01/01-09/30	Change in %	Q3/2008	Q3/2007	Change in %
Total sales	10,453	9,632	8.5 %	2,249	2,126	5.8 %
Product sales total	8,101	7,419	9.2 %	1,928	1,329	45.1 %
Sales share of products	77.5 %	77.0 %	-	85.7 %	62.5 %	-
Sales gross margin total	1,763	1,404	25.6 %	71	428	-83.4 %
Gross margin	16.9 %	14.6 %	-	3.2 %	20.1 %	-
EBITDA	-3,188	-3,101	2.8 %	-2,205	-1,004	>100 %
EBITDA margin	-30.5 %	-32.2 %	-	-98.0 %	-47.2 %	-
EBIT	-3,772	-3,635	3.8 %	-2,412	-1,196	>100 %
EBIT margin	-36.1 %	-37.7 %	-	-107.2 %	-56.3 %	-
Net loss	-2,126	-2,032	4.6 %	-1,854	-736	>100 %
Earnings per share, diluted	-0.30	-0.46	-34.8 %	-0.26	-0.17	52.9 %

in k€	09/30/2008	12/31/2007	Change in %			
Equity	49,863	51,912	-3.9 %	-	-	-
Equity ratio	91.4 %	86.6 %	-	-	-	-
Balance sheet total	54,538	59,945	-9.0 %	-	-	-
Cash	45,526	52,945	-14.0 %	-	-	-

	09/30/2008	09/30/2007	Change in %			
Employees	105	86	22,1 %	-	-	-

Share information

Bloomberg Symbol	F3C
Reuters Symbol	CXPNX
WKN	756857
ISIN	DE0007568578
Number of shares	7,152,887
Type of shares	No-par-value shares
Stock exchange	Frankfurt, FWB
Designated Sponsor	HSBC
Stock segment	Prime Standard, Renewable Energies



Content

page

Introduction by the Management Board	4
Business Review 01/01 – 09/30/2008	6
1. Report on earnings and financial position	6
2. Report on forecasts and other forward-looking statements	11
3. Report on risks and opportunities	12
Interim Report as of September 30 2008	
Consolidated Income Statement	15
Consolidated Balance Sheet	16
Consolidated Cash Flow Statement	18
Statement of Changes in Consolidated Equity	20
Notes to the Interim Report of SFC Smart Fuel Cell AG	22
Imprint	30

Introduction by the Management Board

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

With sales up 8.5 percent from a year earlier, SFC's business continued to grow in the first three quarters of 2008. However, as consumers throughout Europe, especially those in the leisure segment, became increasingly cautious with their spending, a trend that deepened drastically from the second quarter to the third, the industry witnessed its first bankruptcies, and sales of motor homes dropped sharply. The current financial crisis has caused considerable uncertainty and led to decreased consumption across the board. The resulting impact on our company's performance is being felt not only in the leisure segment, but increasingly in the industrial segment, as well.

Although awareness of our products is growing in industrial circles thanks to marketing campaigns, exhibits at trade events and direct customer contact, we face, in addition to the challenges of the tough economic climate, considerable communication expenditure and long trial periods prior to the actual decision by customers to purchase from us. This same phenomenon was observed two to three years ago when fuel cells were first introduced in the motor home market. Nevertheless, given the strong product advantages of EFOY fuel cells, we believe that our business in the industrial segment will demonstrate a similar level of positive, sustainable growth over the next few years. The September launch of the EFOY Pro Series designed for use in demanding industrial applications, was one of the highlights during the reporting period.

SFC now has a subsidiary in Atlanta, Georgia. Establishing a team of SFC experts on the East Coast will enable us to work even more closely with our partners and customers in the region and increase our market penetration in the U.S., a key market for SFC.

In August, at this year's Caravan Salon in Düsseldorf, Europe's largest motor home and caravan show, over 40 international motor home manufacturers and dealers exhibited EFOY fuel cells at their booths. With what are now 37 OEM partners across Europe who will make EFOY fuel cells available in their 2009 models, the EFOY fuel cell has become the standard power supply on board recreational vehicles.

As the Bavarian Central Agricultural Festival got underway in Munich in September, SFC introduced a new partner for its cabin business: German agricultural retail expert BayWa AG presented the first hunting cabin with an integrated EFOY fuel cell. Finally, there is an environmentally friendly, lightweight and silent power solution for hunting cabins that ensures 24/7 power availability in the cabin in any season and weather.

SFC's efforts in the defense segment also continued to bear fruit in the third quarter. Our company received a contract from the German Bundeswehr to further expand the deployability of fuel cell technology in defense applications. However, SFC's most important success in the defense segment was notched after the close of the quarter: On October 4 two fuel cell systems based on SFC technology won first and third place honours in the Wearable Power Prize competition of the U.S. Department of Defense, a contest that garnered tremendous international attention. The portable SFC fuel cell systems prevailed over some 170 competing systems under demanding, real-life test conditions in the field.

Looking at sales, the troubled economy has impacted military programmes throughout the world. Contract awards have been delayed as a result, in some cases considerably, which means that additional projects originally scheduled for 2008 are not likely to materialise.



Dr. Peter Podesser CEO

Dr. Jens Müller COO

SFC celebrated another key milestone in the company's history after the end of the quarter: On October 8 the 10,000th EFOY fuel cell was officially handed over to its buyer, a French motor home owner, in cooperation with the TRIGANO Group, France's biggest motor home and caravanning specialist. No other fuel cell company has sold so many fuel cell generators following market mechanisms, no other fuel cell company has so much experience in translating demanding individual customer requirements into easy to use, reliable and ever available mobile power solutions as SFC.

These technological and business successes are clear proof of SFC's commitment and ability to deliver on its goals. However, the current economic and financial market crisis across the globe will not spare our company's growth prospects for the short and medium term. With uncertainty plaguing the markets and all but eliminating the ability of companies to see what lies ahead, we believe that sales for this year will in a worst-case scenario slightly miss fiscal year 2007 sales; in a best-case scenario, sales growth up to ten percent may be achievable.

Nevertheless, we are confident that we are in a good position to generate medium and long-term growth and continue to enjoy corporate success thanks to our strong portfolio of both new and established products, our proven market momentum and ingenuity, and excellent partnerships in all of our markets.

We thank you for your continued 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

Shareholdings as of September 30, 2008

	Shares	Options
Management Board		
Dr. Peter Podesser (CEO)	115,800	0
Dr. Jens Müller (COO)	67,338	0
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	1,163,758	0

Business Review 01/01 - 09/30/2008

1. Report on earnings and financial position

EARNINGS POSITION

SFC continued to grow in the first three quarters of 2008, posting an 8.5% increase in sales compared with the same period a year ago. Sales rose to €10,453k in the period under review, following €9,632k in the first nine months of 2007. At 77.5%, the share of sales attributable to products in the first nine months of 2008 was largely unchanged from the 77.0% share reported a year earlier, while that generated under joint development agreements (JDAs) decreased accordingly.

Third-quarter sales climbed 5.8% to €2,249k (Q3 2007: €2,126k).

Sales by segment

The increase in unit sales of our A-Series fuel cell systems was the chief driver of our sales growth in the first nine months of 2008. In terms of product sales, we also 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)	January to September			3rd Quarter		
	2008	2007	Change in %	2008	2007	Change in %
A-Series	6,273	5,547	13.1 %	1,685	1,198	40.7 %
C-Series	304	274	10.9 %	0	20	-100.0 %
Power Manager	1,119	1,376	-18.7 %	142	4	>100.0 %
JDAs	2,352	2,213	6.3 %	320	797	-59.8 %
Other products	405	222	82.4 %	102	107	-4.7 %
Sales	10,453	9,632	8.5 %	2,249	2,126	5.8 %

Despite the ongoing deterioration in the market climate of the leisure segment, sales in our A-Series segment rose 13.1% to €6,273k in the first nine months, following €5,547k a year ago. The segment's share in total sales increased to 60.0% as a result, up from 57.6%. Unit sales of A-Series fuel cell systems advanced from 3,030 to 3,391, which represents an increase of 11.9%. Third-quarter sales of A-Series products soared 40.7% to €1,685k (Q3 2007: €1,198k).

Sales in the C-Series segment jumped 10.9% to €304k in the first nine months of 2008, up from €274k in the first nine months of 2007. The number of systems delivered rose from 16 to 19. No C-Series systems were delivered in the third quarter, compared with 1 system for €20k in sales the year before.

We filled our second commercial order from the U.S. Air Force for Power Managers in the first nine months of 2008. Sales in the segment decreased by 18.7% to €1,119k, following €1,376k in the year-earlier period, with the number of Power Managers delivered dropping to 530 from 560. Third-quarter sales increased from €4k to €142k.

Due to our successful cooperation with the U.S. Armed Forces and German Bundeswehr, sales in the JDA segment for the first nine months of 2008 increased by 6.3% to €2,352k, following €2,213k the year before. Third-quarter sales dropped 59.8% to €320k (Q3 2007: €797k). In addition to reflecting the impact of delays

in the award of follow-up orders, segment sales for the quarter were also adversely affected by the lower gross margin on a newly executed JDA attributable to budget constraints on the customer's part as well as higher costs in conjunction with an existing JDA attributable to changes in the customer's technical specifications.

Sales in our Other Products segment surged 82.4% to €405k in the first nine months of 2008, versus €222k 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 presence of fuel cell systems in the field. Third-quarter sales, at €102k, were down 4.7% from a year earlier (€107k) due to a considerable decrease in the sale of test equipment.

Sales by region

in k€ (unaudited)	January to September			3rd Quarter		
	2008	2007	Change in %	2008	2007	Change in %
Europe (without Germany)	4,432	3,482	27.3 %	1,139	680	67.5 %
Germany	3,495	2,072	68.7 %	756	518	45.9 %
North Amerika	2,443	4,063	-39.9 %	348	922	-62.3 %
Asia	32	9	>100.0 %	4	5	-20.0 %
Rest of world	51	6	>100.0 %	2	1	100.0 %
Sales	10,453	9,632	8.5 %	2,249	2,126	5.8 %

We achieved growth of 27.3% in Europe in the first nine months of 2008. The share of sales generated in our home market of Germany stood at 33.4% for the first nine months of 2008, following 21.5% in the previous year. The share of international sales in total sales dropped accordingly to 66.6% (Q1-Q3 2007: 78.5%).

The substantial growth in Germany, at 68.7%, is predominantly attributable to the success of our JDA with the Bundeswehr, while the sales gains in the rest of Europe are primarily the result of our shipping higher numbers of A-Series and C-Series fuel cell systems.

Sales decreased by 39.9% 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 ongoing success in our efforts to systematically reduce the production costs of our A-Series fuel cell systems, our gross margin increased 25.6% to €1,763k in the first three quarters of 2008, following €1,404k the same period a year ago. The increase in our gross margin to 16.9% for the period (Q1-Q3 2007: 14.6%) is predominantly the result of the tremendous change in the gross margin from our A-Series segment, which jumped from 6.6% to 15.1%. The gross margin for the third quarter fell 83.4% to €71k (Q3 2007: €428k), chiefly because of a steep decrease in the gross margin earned on sales in our JDA segment. The gross margin on JDAs slid from €301k the year before to €9k in the third quarter of 2008 in the wake of the developments discussed earlier.

Sales costs

We reduced our sales costs by 2.6% to €2,993k in the first nine months of 2008, down from €3,073k 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. Third-quarter sales costs, at €1,158k (Q3 2007: €1,037k), were up 11.7%.

Research and development costs

Research and development costs increased by 48.8% to €576k in the first nine months of 2008, following €387k the year before. We capitalised €860k in development costs in the period under review, compared with no development work being capitalised a year earlier. Research and development costs in the third quarter advanced 26.9% to €203k (Q3 2007: €160k). 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 €3,708k, which represents an increase of 46.5% from the previous year's €2,531k.

General administration costs

General administration costs decreased by 1.7% to €1,635k in the first three quarters of 2008, compared with €1,664k 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 38.7%. 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 third quarter, general administration costs were up 1.1% to €459k (Q3 2007: €454k).

Other operating income

Income from the valuation of open hedging instruments, specifically dollar and platinum forwards, at June 30, 2008 drove the increase in other operating income from €103k in the first nine months of 2007 to €418k in the period under review, which corresponds to an increase of 305.8%. In the third quarter, other operating income advanced from €27k to €83k.

Other operating expenses

With platinum prices plummeting in the third quarter, we faced anticipated losses of €444k on our open dollar and platinum forwards at September 30, 2008, with €19k of that amount attributable to our dollar positions and €425k to our platinum positions. At June 30, 2008 we had reported income of €280k from the measurement of these positions. As a result, we incurred expenses of €724k from the measurement of hedging instruments in the third quarter, which accounts for the vast majority of the increase in other operating expenses to €749k in the first nine months of 2008, up from €18k a year earlier. In the third quarter, other operating expenses rose to €747k, compared with negative operating expenses of €1k the year before.

Operating result (EBIT)

EBIT decreased by 3.8% in the first nine months of 2008 to minus €3,772k, following minus €3,635k the same period a year ago. Adjusted for non-recurring items, EBIT dropped 41.5% (see "Result from special influences" in the Notes), which brought the adjusted EBIT margin to minus 36.1%, following minus 27.7% a year earlier. The EBIT margin for the third quarter, traditionally a very weak quarter for sales, amounted to minus 107.2% versus minus 56.3% the year before.

Interest and similar income

Interest and similar income decreased from €1,797k in the first nine months of 2007 to €1,683k in the first nine months of 2008, which corresponds to a decrease of 6.3%. 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 €898k given the investment of the proceeds from the capital increase undertaken in the prior year. In the third quarter, interest and similar income rose 13.1% to €563k (Q3 2007: €498k).

Interest and similar expenses

Interest and similar expenses decreased by 80.9% in the first three quarters of 2008 to €37k, down from €194k a year earlier, as a result of the redemption in the previous year of silent partnership investments in our company. In the third quarter, interest and similar expenses decreased by 86.8% to €5k (Q3 2007: €38k).

Net loss

Our net loss widened by 4.6% in the first nine months of 2008, increasing from €2,032k to €2,126k. In the third quarter, it reached €1,854k, up 151.9% from €736k.

Earnings per share

Earnings per share under IFRS (diluted) improved to minus €0.30 in the first nine months of 2008, following negative earnings of €0.46 per share for the same period last year. Third-quarter earnings per share receded from minus €0.17 to minus €0.26.

FINANCIAL POSITION

The chief influence on our financial position in the first nine months 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 €45,526k at the end of September 2008 (September 30, 2007: €43,354k).

Cash flow from ordinary operations

The net cash used in ordinary operations increased to €5,130k in the first nine months of 2008 versus €3,076k a year ago. In addition to a higher change to the operating result before working capital, €2,629k versus €2,003k, a €1,129k decrease in other liabilities factored heavily into this increase. Other liabilities were up €118k in the year-earlier period. Reductions of €967k 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 €1,711k (Q1-Q3 2007: €616k), we had a net inflow of €177k from investment activity in the period under review. In the previous year we reported net cash used in investment activity of €6,151k primarily because of the €6,252k spent on the acquisition of securities. Cash used in the acquisition of property, plant, equipment and intangible assets rose from €515k to €1,534k. The €860k in capitalised development costs accounted for a large part of this increase.

Cash flow from financial activity

We are reporting a net outflow of €2,467k from financial activity in the first nine months 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 €46,332k 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.

Total assets were down 9.0% at the end of the period, decreasing from €59,945k as of December 31, 2007 to €54,538k as of September 30, 2008.

Trade accounts receivable rose 24.3%, from €2,000k at December 31, 2007 to €2,485k at September 30, 2008, primarily because of longer payment terms given to dealers in the leisure segment and customers in the defense segment.

The increase in other short-term assets and receivables from €479k at December 31, 2007 to €867k at September 30, 2008 is mainly due to higher receivables from grants and payments on account.

Intangible assets rose from €1,078k at December 31, 2007 to €1,768k at September 30, 2008 chiefly because of the development costs capitalised. The share of non-current assets in total assets climbed from 4.5% to 6.6%.

The decrease in liabilities from prepayments from €986k at December 31, 2007 to €19k at September 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 €1,520k at September 30, 2008, is attributable to repayment of the silent partnership investment.

Altogether, liabilities made up 8.6% 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 €49,863k at September 30, 2008, compared with €51,912k at December 31, 2007. Our equity ratio increased from 86.6% to 91.4%.

RESEARCH AND DEVELOPMENT

The focus of our research and development activities remained as follows in the period under review:

- 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 nine months of 2008 we capitalised €860k 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

The volume of new orders was up 17.9% to €8,069k in the first nine months of 2008, following €6,844k the year before. In the third quarter, SFC received €3,504k in new orders (Q3 2007: €1,454k). Altogether, the order backlog stood at €2,492k at September 30, 2008, which represents an increase of 27.1% from the previous year's €1,961k.

EMPLOYEES

As of the end of the third quarter, the company employed the following personnel:

Employees	2008	2007	Change
Management Board	2	2	0
Research and development	31	24	7
Production, logistics, quality management	27	22	5
Sales & Marketing	27	20	7
Administration	11	11	0
Permanent employees	98	79	19
Trainees, graduates, student trainees	7	7	0
Employees as at 09/30/2008	105	86	19

The number of permanent employees as of September 30, 2008 was up 24.1% to 98 (September 30, 2007: 79), which is a reflection of SFC's stronger market orientation as well as the growing number of JDAs and commercial products 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 September 2008, SFC had 11 such workers in the company (September 30, 2007: 14).

2. Report on forecasts and other forward-looking statements

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

In addition to the substantial slowdown in unit sales in the leisure market, capital outlays are now down in the industrial segment. In the wake of the international financial crisis and its impact on national economies, customers throughout Europe are cutting back on spending. The defense segment is also feeling the effects of the troubled economy. As mentioned in the half-year report, delays in budget decisions and contract awards mean that we will not be able to recognise any revenues on some projects in 2008.

The current economic and financial market crisis across the globe will not spare our company's growth prospects for the short and medium term. With uncertainty plaguing the markets and all but eliminating the ability of companies to see what lies ahead, we believe that sales for this year will in a worst-case scenario slightly miss fiscal year 2007 sales; in a best-case scenario, sales growth up to 10% may be achievable. As reported at the end of the first half, 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. We also opened an office in the U.S. to strengthen our business in the defense market 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 report on the first half of 2008, with the following exceptions.

Market risks

MACROECONOMIC DEVELOPMENTS

The global economy has taken a turn for the worse because of the financial crisis, with little clarity as to the exact repercussions. Current forecasts by governments and economic research institutes indicate that the momentum in the company's most important markets is slowing considerably. The ever-rising cost of energy and food is making deep cuts in consumers' purchasing power and adding to their reluctance 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 this season or the next. Also affected is the market for accessories, which could easily 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, we currently believe that some of the contracts we expected to land in 2008 will not materialise until next year or later.

INDUSTRIAL SEGMENT

With capital spending down, we are starting to see the effects the financial crisis is having on the real economy in our industrial segment. Specifically, we face slower growth and business development.

Raw material prices

With the substantial increase in the price of platinum in the first half of 2008 and market analyses at the time indicating further hikes in precious metal prices, we secured about two-thirds of our expected platinum requirements for fiscal 2009 in the second quarter. Then, contrary to expectations, the price of platinum fell sharply, causing us to report a negative fair value for our open platinum forwards when they were measured at the reporting date. If platinum prices continue to exhibit extreme volatility, we may suffer similar valuation losses in the future. As before, the rising cost of raw materials and energy in general poses a risk to our product margins.

Personnel risks

An economic slowdown tends to ease tightness in the labour market, increasing the supply of trained workers. SFC remains heavily dependent on committed, highly qualified and to a certain extent specialised employees.


Opportunities for future development

Despite the bleak economic outlook at present, the key determinants of the future development of SFC continue to lie in our ability to successfully increase our sales (by raising volumes in current markets, expanding into new regions and tapping new applications like lightweight 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.

Brunnthal, October 21, 2008



Dr. Peter Podesser
CEO



Dr. Jens Müller
COO



Clean power!

at any place and any time

Interim Report as of September 30 2008

Consolidated Income Statement	15
Consolidated Balance Sheet	16
Consolidated Cash Flow Statement	18
Statement of Changes in Consolidated Equity	20
Notes to the Interim Report of SFC Smart Fuel Cell AG	22

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.

Consolidated Income Statement

from January 1 to September 30, 2008

in €	2008 01/01 – 09/30	2007 01/01 – 09/30	2008 07/01 – 09/30	2007 07/01 – 09/30
1. Sales	10,452,548	9,632,005	2,249,084	2,126,130
2. Production costs of work performed to generate sales	-8,689,061	-8,227,806	-2,178,386	-1,698,336
3. Gross margin	1,763,487	1,404,199	70,698	427,794
4. Sales costs	-2,993,497	-3,072,907	-1,157,721	-1,037,132
5. Research and development costs	-575,518	-386,822	-202,580	-160,469
6. General administration costs	-1,635,263	-1,664,057	-458,664	-453,714
7. Other operating income	418,357	103,081	82,568	26,685
8. Other operating expenses	-749,423	-18,442	-746,567	1,056
9. Operating loss	-3,771,857	-3,634,948	-2,412,266	-1,195,780
10. Interest and similar income	1,683,119	1,796,776	563,269	497,861
11. Interest and similar expenses	-36,895	-193,536	-4,578	-38,457
12. Result from ordinary operations	-2,125,633	-2,031,708	-1,853,575	-736,376
13. Income taxes	0	0	0	0
14. Net loss	-2,125,633	-2,031,708	-1,853,575	-736,376
15. Accumulated loss brought forward from previous year	-22,043,985	-19,519,811	-22,316,043	-20,815,143
16. Net accumulated loss	-24,169,618	-21,551,519	-24,169,618	-21,551,519
Earnings per share				
undiluted	-0.30	-0.46	-0.26	-0.17
diluted	-0.30	-0.46	-0.26	-0.17

Consolidated Balance Sheet

as at September 30, 2008

ASSETS in €	09/30/2008	12/31/2007
A. Current assets	50,936,276	57,265,258
I. Inventories	1,277,500	1,280,700
II. Trade accounts receivable	2,485,437	2,000,187
III. Receivables from percentage-of-completion	105,177	0
IV. Income tax receivables	546,055	463,229
V. Other short-term assets and receivables	867,461	478,970
VI. Cash and cash equivalents	45,525,588	52,945,317
VII. Cash and cash equivalents with limitation on disposal	45,320	45,320
VIII. Deferred charges and prepaid expenses	83,738	51,535
B. Non-current assets	3,601,745	2,680,065
I. Intangible assets	1,767,537	1,078,082
II. Property, plant and equipment	1,091,392	830,220
III. Other long-term assets	230,144	0
IV. Deferred tax assets	512,672	771,763
Assets	54,538,021	59,945,323

LIABILITIES AND SHAREHOLDERS' EQUITY in €	09/30/2008	12/31/2007
A. Current liabilities	3,608,711	6,770,573
I. Other provisions	404,585	484,267
II. Liabilities from prepayments	19,026	985,863
III. Trade accounts payable	1,425,205	1,261,806
IV. Liabilities from finance leases	187,046	287,796
V. Liabilities from percentage-of-completion	0	74,655
VI. Other short-term liabilities	1,519,902	3,563,674
VII. Deferred charges	52,947	112,512
B. Non-current liabilities	1,066,403	1,262,374
I. Other long-term provisions	187,031	176,898
II. Liabilities from finance leases	0	97,013
III. Other long-term liabilities	366,700	216,700
IV. Deferred tax liabilities	512,672	771,763
C. Equity	49,862,907	51,912,376
I. Subscribed capital	7,152,887	7,136,243
II. Capital surplus	66,879,638	66,820,118
III. Accumulated loss brought forward from previous year	-22,043,985	-19,519,811
IV. Net result	-2,125,633	-2,524,174
Liabilities and shareholders' equity	54,538,021	59,945,323

Consolidated Cash Flow Statement

from January 1 to September 30, 2008

in €	2008 01/01 – 09/30	2007 01/01 – 09/30
Cash flow from ordinary operations		
Result before taxes	-2,125,633	-2,031,708
- Net interest income	-1,646,224	-591,362
+ Depreciation/amortisation of intangible assets and property, plant and equipment	583,360	533,950
+ Expenses from share options programmes	72,003	1,073,856
+ Changes in allowances	43,204	24,297
+ Losses from disposal of tangible assets	0	2
-/+ Profits/losses from derivatives	443,932	-1,011,879
Changes to operating result before working capital	-2,629,358	-2,002,844
- Changes to short and long-term provisions	-83,984	-50,981
-/+ Changes to trade accounts receivable	-489,398	400,086
- Changes to inventories	-35,855	-948,604
- Changes to other assets	-752,122	-180,007
- Changes to prepaid expenses	-32,203	-20,332
+/- Changes to trade accounts payable	163,398	-147,507
-/+ Changes to other liabilities	-1,128,572	117,584
- Changes to deferred income	-59,565	-59,565
Cash flow from ordinary operations before taxes	-5,047,659	-2,892,170
- Income tax payments	-82,825	-183,957
Cash flow from ordinary operations	-5,130,484	-3,076,127

in €	2008 01/01 – 09/30	2007 01/01 – 09/30
Cash flow from investment activity		
- Acquisition of property, plant and equipment and intangible assets	-1,533,988	-515,473
- Cash used to acquire securities and pledged bank balances	0	-6,252,191
+ Interest income	1,711,430	616,465
Cash flow from investment activity	177,442	-6,151,199
Cash flow from financial activity		
+ Shareholder contributions	4,161	53,563,769
- Costs of issuing equity	0	-5,340,739
- Repayment of financial liabilities	-2,250,625	-1,556,372
- Repayment of liabilities from finance leases	-215,847	-215,847
- Interest paid and other expenses	-4,376	-118,599
Cash flow from financial activity	-2,466,687	46,332,212
Net change in cash and cash equivalents	-7,419,729	37,104,886
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	45,525,588	43,353,669
Net change in cash and cash equivalents	-7,419,729	37,104,886

Statement of Changes in Consolidated Equity

from January 1 to September 30, 2008

in €	Subscribed capital	Capital surplus
Balance 01/01/2007	1,413,936	23,702,071
Allocation from option programme		1,073,857
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		-5,390,739
Exercise of option rights	32,328	-24,246
Net result 01/01 – 09/30/2007		
Balance 09/30/2007	7,135,523	67,227,371
Allocation from option programme		30,309
Exercise of option rights	720	-540
Costs of capital increase		-437,022
Net result 10/01/ – 12/31/2007		
Balance 12/31/2007	7,136,243	66,820,118
Allocation from option programme		72,003
Exercise of option rights	16,644	-12,483
Net result 01/01 – 09/30/2008		
Balance 09/30/2008	7,152,887	66,879,638

Net accumulated loss	Total
-19,519,811	5,596,196
	1,073,857
	0
	53,555,687
	-5,390,739
	8,082
-2,031,708	-2,031,708
-21,551,519	52,811,375
	30,309
	180
	-437,022
-492,466	-492,466
-22,043,985	51,912,376
	72,003
	4,161
-2,125,633	-2,125,633
-24,169,618	49,862,907

Notes to the Interim Report of SFC Smart Fuel Cell AG

Information about the company

SFC Smart Fuel Cell AG¹ (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 Brunthal 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 three quarters

SFC continued to grow in the first three quarters of 2008, posting an 8.5% increase in sales compared with the same period a year ago. Sales rose to €10,452,548 in the period under review, following €9,632,005 in the first nine months of 2007. At 77.5%, the share of sales attributable to products in the first nine months of 2008 was largely unchanged from the 77.0% share reported a year earlier, while that generated under joint development agreements (JDAs) decreased accordingly. The increase in unit sales of our A-Series fuel cell systems was the chief driver of our sales growth in the first nine months of 2008. In terms of product sales, we also saw a substantial gain in the revenues generated with "other products", primarily because of an increase in the number of fuel cartridges sold. Third-quarter sales climbed 5.8% to €2,249,084.

Despite the ongoing deterioration in the market climate of the leisure segment, sales in our A-Series segment rose 13.1% to €6,273,263 in the first nine months, following €5,547,249 a year ago. Unit sales of A-Series fuel cell systems advanced from 3,030 to 3,391, which represents an increase of 11.9%. Sales in the C-Series segment jumped 10.9% to €304,000 in the first nine months of 2008, up from €273,969 in the first nine months of 2007. The number of systems delivered rose from 16 to 19.

Due to our successful cooperation with the U.S. Armed Forces and German Bundeswehr, sales in the JDA segment for the first nine months of 2008 increased by 6.3% to €2,351,603, following €2,213,101 the year before. Third-quarter sales dropped 59.8% to €320,603 (Q3 2007: €797,079). In addition to reflecting the impact of delays in the award of follow-up orders, segment sales for the quarter were also adversely affected by the lower gross margin on a newly executed JDA attributable to budget constraints on the customer's part as well as higher costs in conjunction with an existing JDA attributable to changes in the customer's technical specifications.

We filled our second commercial order from the U.S. Air Force for Power Managers in the first nine months of 2008. Sales in the segment decreased by 18.7% to €1,119,293, following €1,375,982 in the year-earlier period, with the number of Power Managers delivered dropping to 530 from 560.

¹The company's registered office is at Eugen-Sänger-Ring 4, 85649 Brunthal.

Fuelled by ongoing success in our efforts to systematically reduce the production costs of our A-Series fuel cell systems, our gross margin increased 25.6% to €1,763,487 in the first three quarters of 2008, following €1,404,199 the same period a year ago. The increase in our gross margin to 16.9% for the period (Q1-Q3 2007: 14.6%) is predominantly the result of the tremendous change in the gross margin from our A-Series segment, which jumped from 6.6% to 15.1%. The gross margin for the third quarter fell 83.5% to €70,698 (Q3 2007: €427,794), chiefly because of a steep decrease in the gross margin earned on sales in our JDA segment. The gross margin on JDAs slid from €300,514 the year before to €9,020 in the third quarter of 2008 in the wake of the developments discussed earlier.

EBIT decreased by 3.8% in the first nine months of 2008 to minus €3,771,857, following minus €3,634,948 the same period a year ago. Two special influences had a significant impact on our earnings in the first three quarters of 2007 (see "Result from special influences"). Without these, EBIT was down 41.5%.

The chief influence on our financial position in the three quarters 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, climbing from 86.6% as of December 31, 2007 to 91.4% as of September 30, 2008.

Accounting principles

The quarterly financial statements of SFC Smart Fuel Cell AG for the financial period January 1 to September 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.

Formation of a U.S. subsidiary

With articles of incorporation dated July 25, 2008, SFC Smart Fuel Cell, Inc. with headquarters in Atlanta, Georgia, USA, was established as a wholly owned subsidiary of SFC. As a result, the quarterly financial statements as of and for the period ended September 30, 2008 represent SFC's first set of consolidated 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\$ 1,600,000 remained open. These transactions had a negative fair value of €19,069 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 expenses. The negative fair value is shown under other liabilities.

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 secured the price for approximately 85% of the platinum it expected to need this year through previously executed commodity forwards. We also executed additional forwards in the first three quarters of 2008 to secure the price on approximately two-thirds of our anticipated platinum requirements for fiscal 2009. Because of the sharp drop in the price of platinum in the third quarter, our open platinum forwards had a negative fair value of €424,862 as of the reporting date, which has been captured under other liabilities. The changes in value were recognised in the income statement under other operating expenses.

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.

Receivables from percentage-of-completion

Since the volume of sales recognised on orders exceeded the prepayments received on those same orders in the first three quarters of 2008, we had receivables from percentage-of-completion totalling €105,177 as of the reporting date, versus liabilities from percentage-of-completion of €74,655 as of December 31, 2007.

Other long-term assets

The company had other long-term assets of €230,144 as of the reporting date relating to payments on account made under a contract concerning the ongoing supply of labour and materials for the commercial production of control boards, control panels and reservoir boards.

Options for employees and Management Board members

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

In the third quarter of 2008, employees of SFC exercised their remaining 4,161 options to subscribe for 4 shares per option. The share capital was increased accordingly by €16,644, with the sum of €4,161 paid up in cash and the other €12,483 taken from capital surplus.

There were thus no more options outstanding at September 30, 2008, versus 4,341 outstanding options a year earlier.

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.

Sales costs

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

in €	01/01-09/30/2008	01/01-09/30/2007
Personnel costs	1,358,407	1,141,120
Advertising and travel costs	829,011	820,982
Consultancy/commissions	400,619	365,736
One-time effect of redemption of share options	0	392,917
Other	405,460	352,152
Total	2,993,497	3,072,907

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 €859,800 in development costs in the first three quarters of 2008, compared with no development work being capitalised a year earlier.

Intangible assets rose accordingly to €1,767,537, 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 three quarters 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 three quarters of 2008:

in €	01/01-09/30/2008	01/01-09/30/2007
Personnel costs	713,925	562,790
Audit and consultancy costs	195,504	82,468
Investor relations/annual meeting	163,376	50,020
Supervisory Board compensation	126,264	106,250
Travel costs	107,730	72,554
Recruiting costs	96,040	160,802
Depreciation and amortisation	71,680	58,796
Insurance	68,432	34,568
Car-operating costs	33,375	27,767
One-time effect of redemption of share options	0	484,955
Other	161,168	131,888
Set-off against grants	-102,231	-108,801
Total	1,635,263	1,664,057

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 three quarters 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 €	01/01-09/30/2008	01/01-09/30/2007
Net loss in accordance with income statement	-2,125,633	-2,031,708
Effect from redemption of silent partnership	0	-1,011,879
Effect from cancellation of share options	0	969,910
Adjusted result after taxes	-2,125,633	-2,073,677

in €	01/01-09/30/2008	01/01-09/30/2007
Operating loss in accordance with income statement	-3,771,857	-3,634,948
Effect from cancellation of share options	0	969,910
Adjusted operating loss	-3,771,857	-2,665,038

Segment report

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

Segment (in €)	Segment sales		Segment result	
	09/30/2008	09/30/2007	09/30/2008	09/30/2007
A-Series	6,273,263	5,547,249	944,159	363,535
C-Series	304,000	273,969	169,983	140,297
JDA	2,351,603	2,213,101	654,208	790,775
Power Manager	1,119,293	1,375,982	275,377	298,425
Other products	404,389	221,704	-280,240	-188,834
Unallocated items	0	0	-3,889,120	-3,435,906
Total	10,452,548	9,632,005	-2,125,633	-2,031,708

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 three quarters of 2008.

Employees

SFC employed the following personnel as of the reporting date:

	09/30/2008	09/30/2007
Full-time employees	92	72
Part-time employees	6	7
Trainees, graduates, student trainees	7	7
Total	105	86

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 €896,910 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 three quarters of 2008:

	01/01-09/30/2008	01/01-09/30/2007
Outstanding ordinary shares 01/01	7,136,243	1,413,936
Capital increase from company funds April 2007		4,241,808
Capital increase May 2007		1,447,451
Capital increase from share options July 2007		32,328
Capital increase from share options July 2008	16,644	
Outstanding ordinary shares 09/30	7,152,887	7,135,523
Undiluted number of outstanding ordinary shares	7,141,791	4,420,992
Shares from exercisable options 01/01	0	72,792
Shares from exercisable options 09/30	0	720
Dilution effect	0	36,756
Diluted number of outstanding ordinary shares	7,141,791	4,457,748

Under IAS 33 "Earnings per Share" the effect of potential shareholdings needs to be considered for purposes of 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.

Material events after the balance sheet date

The company is not aware of any material events after the balance sheet date affecting the course of business.

Brunnthal, October 21, 2008
The Management Board

Dr. Peter Podesser
CEO

Dr. Jens Müller
COO

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.



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