SFC SMART FUEL CELL

ENERGY TIMES 2008

KEY FACTS ABOUT SFC

WHAT IS SFC`S CORE BUSINESS? SFC Smart Fuel Cell AG develops, produces and sells fuel cell systems. Our emphasis is on attractive, commercial power supply solutions to meet our clients' needs in off-grid situations. Our main theme: sustainable power supply solutions based on innovative, environmentally friendly technologies and offering the greatest possible customer benefit. With over 13,000 fuel cells sold, SFC has played a significant pioneering role in the commercialization of fuel cells.

HOW BIG IS SFC? We are a medium-sized enterprise that operates internationally, with about 100 employees at present and annual sales of about EUR 14.5 million in 2008.

WHERE IS SFC LOCATED? We are headquartered in Brunnthal/Munich. That is the location for our research and development center, production facilities, marketing and sales organization, and the administration unit. To expand our business in the United States, SFC has also established a subsidiary in Atlanta, Georgia, in 2008.

WHAT'S SPECIAL ABOUT SFC? There are many reasons why SFC is the fuel cell company that has sold the largest number of systems worldwide:

- All our products are based on direct methanol fuel cell technology, and use a liquid alcohol as their energy source, with an extremely high energy density. By using handy, practical, safety-tested EFOY fuel cartridges, you can pack a great deal of electricity into a very small space, with very little weight, and take it anywhere.
- There is a working international fuel infrastructure for our products. You can buy EFOY fuel cartridges at more than 1,200 sales outlets throughout Europe.
- Our products are true "plug & play" solutions: easy to install, child's play to operate, no-maintenance, reliable, impervious to weather, and environmentally friendly.

CONTENT

Dr. Peter Podesser
CEO

Dr. Jens Müller
COO

AHEAD IN ENERGY!

We've been looking for new ways to explain more clearly to you – our esteemed investors, customers, employees and friends of SFC – what sets us apart as a company. Which is why, for the first time as a part of our Annual Report, you have in your hands the first issue of SFC Energy Times: a publication that will keep you informed about our successes and innovations, and of course also about our products and markets.

SFC too was unable to escape the repercussions of the financial and economic crisis in 2008. Some of our core markets showed a significant decrease in demand. Nevertheless, once again this year we achieved numerous milestones and awards for our fuel cells – our products are now established as the power supply solution of choice in many sectors, and are already being tested and introduced in many more. Our society is getting more and more mobile, and the amount of equipment operating off-grid is constantly growing. Demand for sustainable, reliable remote power supplies has never been such an important topic as it is today.

So join us on the next few pages on an informative, entertaining tour of our product portfolio. Find out about our markets. And we hope you will even pick up some of our own inspiration and enthusiasm – for clean, functionally attractive power supply solutions and the countless applications of SFC fuel cell products.

Best regards,

Dr. Peter Podesser
CEO

Dr. Jens Müller
COO

LOTS OF POWER ON HAND – ANYTIME, ANYWHERE

No doubt you've had the experience – just when there's no power plug for forty miles around, the cell phone battery goes dead. Owners of RVs and sailboats have the same problem when they need to run equipment on board while they're under way. The situation is even more pressing in industrial applications, for example in security cameras, or when you have to warn about road hazards at construction sites along heavily traveled freeways. It's a good thing EFOY fuel cells are around. With the help of EFOY fuel cartridges, they can provide reliable electric power anywhere in the world. EFOY fuel cartridges are lightweight and chock full of electricity – a 10-liter cartridge weighing only 7.6 kilos can supply 11 kilowatt hours of electric power, the equivalent of 270 kilos of batteries. A big advantage in mobile applications especially. See for yourself just how big an advantage it is:

1) How many hours can you watch TV on an recreational vehicle with a 10-liter fuel cartridge? (For comparison, using a conventional 80 ampere hours battery: 12 hours)

- 20 hours
- 80 hours
- 130 hours

2) How many days can the freeway administration run an illuminated mobile sign trailer on a 28-liter fuel cartridge before the next maintenance is due? (For comparison, using a large 120 ampere hours battey: 0.33 days – 8 hours)

- 1 day
- 3 days
- 7 days

3) What percent of the weight of a power supply can a soldier save on a 72-hour mission by using a JENNY fuel cell system? (For comparison: the minimum load that has to be carried to date would be 13 kilos of batteries)

- 10 percent
- 50 percent
- 80 percent

4) How much farther can an electric car travel with an EFOY and a 28-liter fuel cartridge on board? (For comparison: without a power cell, a battery will go about 40 km)

- 80 km
- 250 km
- 500 km

Answers: 1) 130 hours; 2) 7 days; 3) 80 percent; 4) 500 km

WHEREVER A RELIABLE POWER SUPPLY IS NEEDED AWAY FROM THE POWER SOCKET, THAT IS WHERE YOU WILL FIND SFC FUEL CELLS.

LEISURE – “Comfortonomy” for recreational vehicles, vacation cabins, Alpine shelters, and boats. Enjoy the full convenience of noiseless power on board, anytime, anyplace.

OFF-GRID INDUSTRIAL SYSTEMS – 100% reliable weather independent electricity and low operating cost for traffic control technology, security and surveillance systems, remote sensing, and innumerable other electrical devices away from the power outlet. When you really need to a dependable equipment that will always be available and run reliably.

MOBILITY – On-board power supplies for special-purpose and emergency vehicles. Batteries always fully charged, to protect peoples’ health and safety.

DEFENSE – Portable power supplies for soldiers in the field, field charging devices and on-board power supplies for military vehicles. More mobility, more safety and protection, less weight and less time wasted recharging batteries.

MOBILITY – Convenient on-board plug-in recharging for electric vehicles below the passenger car level. Greater range, independence from power outlets, automatic battery recharging – whether you are driving, waiting in traffic, or parked.

HEALTHCARE AND MOBILE COMMUNICATIONS – Longer operating times and service life, lower weight, greater reliability and mobility for medical equipment (including mobility aids, portable pumps, monitoring and measuring devices) and for today’s portable communication devices.

INTRODUCING THE SFC FAMILY OF PRODUCTS

The EFOY fuel cell series

The EFOY fuel cell series was specially developed for consumer applications in the leisure sector. It has four models – the EFOY 600, EFOY 900, EFOY 1200 and EFOY 1600 – with a charging capacity of 600 to 1600 watt hours per day. So you can find a perfect power source for every need. Users can conveniently decide which model best meets their individual electricity requirements.

EFOY fuel cells are used mainly in leisure applications, where they provide power for electric uses on board recreational vehicles, caravans and sail boats, and in vacation cabins and Alpine shelters – reliably and entirely automatically.

The EFOY Pro Series

The EFOY Pro Series was specially developed for the demanding requirements of professional users. The EFOY Pro Series has three models – the EFOY Pro 600, EFOY Pro 1200 and EFOY Pro 1600 – with a charging capacity of 600 to 1600 watt hours per day. Multiple EFOY Pro fuel cells can be combined for applications that call for greater power.

The fuel cells in the EFOY Pro Series are sold exclusively to professional users, for applications in mobile and stationary off-grid applications. In these uses they provide 100 percent reliable energy, available anytime, for many different systems in traffic control, security and monitoring technology, for off-grid sensors, measuring and radio systems, and for electric vehicles.

The SFC Power Manager

The SFC Power Manager is an intelligent, ultra-high efficiency voltage converter that makes the Jenny fuel cell even more flexible to use. It allows batteries to be recharged en route from almost any available energy source, and makes it possible to run equipment using widely different voltages in parallel. So it significantly cuts down the weight of the batteries that used to be necessary to run such different devices.

The FC 250 Fuel Cell

This high-performance fuel cell with a rated constant output of 250 watts was developed for use as a mobile on-board power source for defense and service vehicles. It can be used for mobile or stationary applications, as a charger for all kinds of batteries for direct operation of on-board equipment. It offers dramatic weight savings over plain battery solutions, and can also be used in the field or to power stationary off-grid systems.

The Portable JENNY Fuel Cell

JENNY is SFC's portable fuel cell for military special forces in the field. It's worn in a vest on the body, together with small fuel cartridges, to run other equipment being carried. With its low weight of only about 1 kilogram, the JENNY offers dramatic weight savings of up to 80 percent compared to batteries.

The EMILY Fuel Cell

EMILY uses proven EFOY Pro technology for demanding power supply requirements in defense vehicles. This extremely ruggedized version of a fuel cell powers electrical devices on board defense vehicles – including laptops, communication systems and navigation systems – and meets military requirements.

The EFOY ProCube

Electricity in a box: The EFOY ProCube is a mobile, no-maintenance complete solution for a remote power supply. Very practical – it is ready to use right away, any time, anywhere, with no effort or expense for adaptation or integration. The EFOY ProCube makes it possible to use the EFOY Pro Series in weatherproof outdoor applications, no matter what the weather or season – even underground, if necessary. An especially useful solution for remote installations without a cabinet.

HIGHLIGHTS

FEBRUARY 2008

- SFC's Defense segment gets a € 350,000 series order for portable fuel cells to be used in an international peacekeeping mission. Jenny fuel cells and Power Managers are supplied.

APRIL 2008

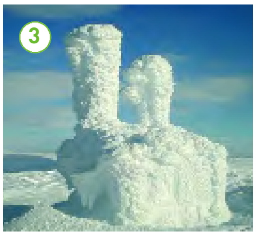
- At the Hanover Fair, SFC exhibits the first motor scooter with a built-in EFOY fuel cell in the top case: the GECO42fun.
- SFC's most powerful fuel cell to date, the FC 250 fuel cell system with a rated output of 250 watts, goes into pilot production. Development phase for the U.S. Army Operational Test Command is completed.

January February March April May June

EFOY worldwide

USA
Pipeline-Service
Sunpumper

USA CA
Monitoring of drinking water supply
Sandpiper



Norway
Off-grid measurement station
Letthus

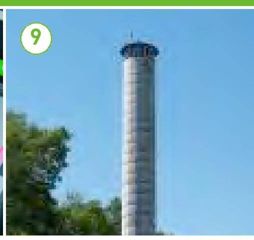
NL, Europe
Railroad security
Axit

Europe
Sailboat
Navimo, Bukh

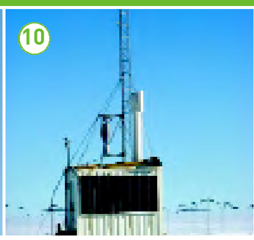
Island
Traffic supervision
Fjarorka

Switzerland
Avalanche warning system
AlpuG

Germany
Light electric vehicle
StartLab/
Fahrzeuge Stalleicher



D, Europe, US
Forest fire warning system
IQ Wireless



Antarktika
Wale canto recording
Alfred-Wegener-Institut

Japan
Caravaning
Webasto

Alpes, Skandinavia
Off-grid cabins
BayWa

JUNE 2008

- French RV maker Rapido is yet another of Europe's largest companies in the industry to choose the EFOY: top-of-the-line Rapido models will come with an EFOY fuel cell installed as standard equipment. Rapido's other RVs will be for EFOY-ready (pre-wired).
- SFC's portable M-25 fuel cell, combining DuPont components with SFC's proven commercial fuel cell products and solutions and its many years of expertise in systems integration, sees successful use in the field by the U.S. Army.

JULY 2008

- SFC achieves another breakthrough in fuel cell technology: its ultra-efficient DMFC system, at 1580 watt-hours per kilogram of fuel, has the market's highest energy density to date. It can also work at high temperatures of +55°C with undiluted fuel.
- SFC opens a sales and service branch in Atlanta, Georgia, USA.

July August September October November December

ELECTRIC POWER – SAFE AND SECURE

Safety and security are important – when assets or even people's lives are at stake, security systems have to be reliable. No matter whether we're talking about mobile security systems at major events, or cameras at airport fences, or alarm systems in parked vehicles. They all have to do their job reliably, around the clock, in all kinds of weather. But when systems like these are mobile or operated off-grid, the operator regularly has to face the problem of an available power source.

This is where conventional remote power supply systems very quickly run up against their limits. Even if a 25-watt surveillance camera draws "only" 600 watt-hours a day, ensuring an around-the-clock power supply is a real challenge.

Here a battery can provide power for only a few days – then it has to be replaced. And for that, an employee often has to drive out to the camera and swap out the dead battery for a charged one. Completely aside from the considerable outlay in time and logistics, there's always the additional risk that the camera's presence might be given away to the wrong people each time the battery is changed.

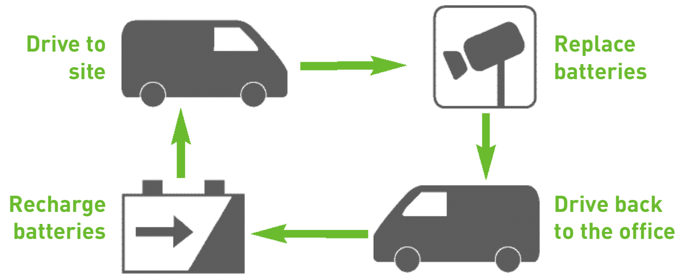
Solar cells are a genuine alternative – they do generate electricity. But only when the sun is shining. In bad weather they put out too little power. Besides, solar power systems are visible from a considerable distance and thus give clear clues to the presence of something using electric power nearby. The risk of vandalism or theft is very high as a result.

But now there is a solution that ensures a power supply around the clock, in any weather: the quiet, reliable electricity from an EFOY Pro fuel cell.

Dutch company Tedas Security Solutions is already relying on the compact, quiet fuel cells in the EFOY Pro Series. The critical advantages: The EFOY Pro can be installed where it's invisible and theft-proof, either right in the same box with the device to be powered, or simply connected to the practical EFOY ProCube with a fuel cell. A fuel cell is a low-impact power source with ultra-low detecteability – a crucial benefit in a hidden installation, for example. And best of all, an EFOY Pro can power security systems for weeks without any user involvement.

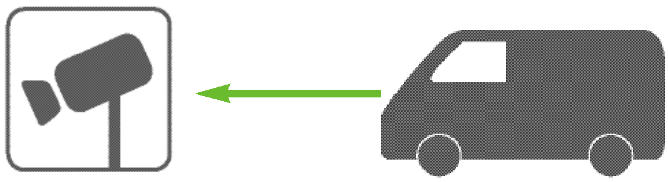
JUST ONE EXAMPLE:

Without EFOY Pro – battery replacement every 2 days



Batteries typically need replacing every 2 days.

With the EFOY-Pro – fuel cartridge replacement every 30 days



You only need to replace the fuel cartridge once a month if your're using an EFOY Pro 1600 + an M28 fuel cell.

EXAMPLE: COST SAVINGS WITH THE EFOY PRO

	Battery operation	EFOY Pro operation
Autonomy/month	2 days	26 days (28l cartridge)
Man hours/month	37.5 hours à 37,5 €	2.5 hours à 37,5 €
Motor cost/month	1,200 €	80 €
Consumption/Month	0 €	71 €
Amortization/month	0 €	671 €

HIGHLIGHTS

AUGUST 2008

- At Caravan Salon Düsseldorf 2008, 37 international RV makers include the EFOY in their catalogs. The EFOY is shown at 40 booths. Clearly the EFOY fuel cell is now the power supply to beat in recreational vehicles.
- Continuous product development and improvements reduce EFOY fuel cell fuel consumption significantly further, to less than 1 liter of methanol per kilowatt-hour of electricity.

SEPTEMBER 2008

- In cooperation with new partner BayWa AG, EFOY fuel cells enter the market in cabins for hunting, vacationing and mountainside shelter.
- SFC launches the EFOY Pro Series for professional users and exacting industrial applications. Also new on the market: the EFOY ProCube, as a mobile, weatherproof, no-maintenance power supply for outdoor applications.

January February March April May June

Data:

Distance to surveillance station:
100 km

Nominal power of the system:
approx. 50 W

Operating time per day:
24 hours

Conclusion

You will save approx. 1,690 € / month.

Including the monthly depreciation and amortization on the investment, the EFOY-Pro 1600 pays off in just 1.8 months. And that is even without costs for battery recharches and replacement batteries.

HERE IS HOW IT WORKS:

The EFOY Pro is simply connected to the battery that powers the security camera. If the battery's charge drops below a certain level while the camera is running, the EFOY Pro fuel cell switches on, completely automatically, and recharges the battery. Once the battery is recharged, the EFOY Pro automatically goes back to standby mode. The only "exhaust gases" produced in the energy generation process – which involves no moving parts or combustion – are water vapor and carbon dioxide, in quantities equivalent to what a child exhales.

On top of that, the EFOY Pro is no-maintenance, remote-controllable, and a money saver, so an investment pays for itself within a very short time.

Traffic guidance system of Autobahnmeisterei München-Nord.

OCTOBER 2008

- Portable fuel cells using SFC technology win first and third prize in the internationally highly regarded Wearable Power Prize competition of the American Department of Defense.
- SFC sells its 10,000th EFOY fuel cell. It has thus sold more fuel cell power supply solutions than all other fuel cell companies combined.
- The EFOY Pro self-sufficiency package for electric vehicles smaller than passenger cars is introduced, freeing electric vehicles from dependence on power outlets.

SFC SMART FUEL CELL – PRIZES AND AWARDS

SFC Smart Fuel Cell has been winning enthusiastic praise from market watchers and industry experts ever since it was founded. Our long list of prizes and awards offers impressive evidence of the high regard our company enjoys among an extremely wide range of businesses and industries. Once again in 2008, our products and applications attracted worldwide attention with wins in high-profile international competitions:

At its first try, an EFOY fuel cell wins Third Place in the power generator category in the "Best Brands" reader survey run by promobil magazine; the award clearly reflects the importance of the EFOY brand in the RV market.

January 2008

SFC's power supply for traffic control systems wins the 2008 Industry Prize of the Medium-Sized Business Initiative, in the "Energy" category. The Initiative recognizes products and solutions from industry that offer exceptional benefits and functionality.

April 2008

SFC wins the Frost & Sullivan 2008 Market Leadership Award. Reasons: SFC's success in internationally commercializing fuel cells, its recognized pioneer status in the market, and its significant economic success in 2007.

July 2008

SFC wins Third Place in the renowned Deloitte Fast 50 List of Germany's fastest-growing technology companies. Rankings on the list are based on cumulative percentage of sales growth over the past five years, from 2003 to 2007.

October 2008

Portable fuel cell systems based on SFC technologies win First and Third Place in the U.S. Department of Defense's Wearable Power Prize contest, a highly regarded international competition. The prototype of the portable SFC M-25 fuel cell wins First Place, which carries a purse of USD 1 million, against 170 competing systems. The Jenny 600S fuel cell, already available commercially, wins Third Place – USD 250,000.

October 2008

IMPRINT

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Annual Report 2008

SFC
SMART FUEL CELL

CONSOLIDATED KEY FIGURES

in k€	2008 01/01 – 12/31	2007 01/01 – 12/31	Change in %
Total sales	14,554	14,351	1.4 %
Product sales total	11,044	10,186	8.4 %
Sales share of products	75.9 %	71.0 %	–
Sales gross margin total	2,689	2,502	7.5 %
Gross margin	18.5 %	17.4 %	–
EBITDA	-3,694	-3,959	-6.7 %
EBITDA margin	-25.4 %	-27.6 %	–
EBIT	-4,501	-4,707	-4.4 %
EBIT margin	-30.9 %	-32.8 %	–
Net loss	-2,355	-2,524	-6.7 %
Earnings per share, diluted	-0.33	-0.49	-32.7 %

in k€	12/31/2008	12/31/2007	Change in %
Equity	49,635	51,912	-4.4 %
Equity ratio	90.5 %	86.6 %	–
Balance sheet total	54,839	59.945	-8.5 %
Cash	45,568	52,945	-13.9 %

	12/31/2008	12/31/2007	Change in %
Employees at 12/31	108	91	18.7 %

CONTENT

FOREWORD FROM THE MANAGEMENT BOARD

DEAR CUSTOMERS, SHAREHOLDERS, EMPLOYEES AND FRIENDS OF SFC SMART FUEL CELL AG,

We are pleased to present you our Company's second annual report since its IPO in May 2007. In spite of the very difficult economic environment, we were still able to increase our revenues slightly in 2008 and managed to grow even in our primary market segment, leisure vehicles.

As our society becomes more and more mobile, people have steadily rising expectations about comfort, safety and independence, also when far from any power socket. In more and more applications, end-users and industrial clients have been choosing power supply solutions using SFC fuel cells. That is because our products offer them a unique level of utility that no other method has been able to achieve without at least some limitations. Owners of recreational vehicles and boats are not willing to put up with the noise and exhaust fumes of a conventional generator any more. The operators of remote measurement and data collection stations need absolutely reliable power, for which solar modules, with their vulnerability to weather conditions, are not reliable enough. Users of official and special purpose vehicles want to take full advantage of the devices and functions on board even when a call takes them far away from the grid and may need to go for hours, days or even weeks without access to a power outlet.

These are only a few examples of the growing number of industrial and enduser applications in which SFC fuel cells are becoming increasingly well established. As is also evidenced by sales volumes in the market: at present more than 13,000 SFC fuel cells are in use worldwide. 4,795 of these systems were sold in 2008 alone, representing a 7.0 percent increase in sales volume for EFOY fuel cells. Thus SFC Smart Fuel Cell AG continues to perform crucial pioneering work in the commercialization of fuel cells worldwide. None of our competitors can demonstrate anything even approximating our sales volumes or our mature business model in these markets.

In 2008, SFC systematically continued to expand the market for fuel cells. By now, 37 European makers of recreational vehicles offer EFOY fuel cells in their lines of vehicles, either as standard or optional equipment. In industrial applications, we sold 39.8 percent more EFOY fuel cells than in 2007, a sign of the rising interest in our power supply solutions in this demanding segment, which sets a premium on reliability. In defense, product revenues from portable fuel cell systems were up, by 46.7 percent. Revenues from joint development agreements decreased because of delays in the award of follow-up orders. The development of product revenues as well as the first and third places that SFC fuel cell systems won in the renowned Wearable Power Prize competition run by the American Department of Defense, clearly document our Company's lead position. In mobility, we shipped our first systems, and customers operated them successfully under day-to-day conditions on the road.

We were also able to lower production cost again substantially in 2008, and thus to significantly improve our gross margin, especially thanks to the margin increases we achieved on EFOY systems. This is a path that we are firmly resolved to keep pursuing.

Once again in 2009, our business choices will be guided by the same main themes: a sustained expansion of our presence in the international markets, rigorous controls on cost, and an expansion of our technology lead in the market of sustainable remote power supplies. Combined with our successful products, widely recognized quality and customer benefits, these will be the cornerstones for our continued growth, and for further improvements in our operating profits in the years to come.

We want to thank you for placing your trust in us last year and we look forward to our ongoing work together.

With cordial regards,
The Management Board of SFC Smart Fuel Cell AG

Dr. Peter Podesser
CEO

Dr. Jens Müller
COO

SUPERVISORY BOARD REPORT

SUPERVISION OF COMPANY MANAGEMENT

The highlights of the past financial year, 2008, were the Company's continued market penetration and the establishment of a subsidiary in the United States. The Supervisory Board guided these processes by providing advice to and holding discussions with the Management Board. During the year the Supervisory Board performed the duties incumbent on it under the law and the Company's articles and supervised the Company's management by receiving reports from and holding joint meetings with the Management Board. The Supervisory Board reviewed the transactions that require its consent and discussed each of them with the Management Board.

SUPERVISORY BOARD COMPOSITION

The Supervisory Board consisted of the following six members in financial year 2007:
(i) Dr. Rolf Bartke (Supervisory Board Chairman),
(ii) Rüdiger C. Olschowy (Deputy Chairman),
(iii) Wolfgang Biedermann,
(iv) Jakob-Hinrich Leverkus,
(v) Dr. Roland Schlager (since January 24, 2008) and
(vi) Dr. Manfred Stefener.

SUPERVISORY BOARD MEETINGS

In performance of its duties, the Supervisory Board held seven meetings during financial year 2008: on March 13 (review of the financial statements for financial year 2007), May 8, June 13, July 23, August 20, October 21 and December 15, 2008. Except for the meetings on June 13 and August 20, all meetings were held with the members personally in attendance.

At the Supervisory Board, the Management Board provided the Supervisory Board with comprehensive, timely information regarding the Company's revenue, profit and cash flow trends, its budget planning, the Company's position including its risk position and risk management, corporate compliance, strategic goals, and all organizational and personnel changes. The Supervisory Board discussed the organization of the Company and the Group with the Management Board, made certain that this organization and the risk management were effective, and discussed significant issues of the Company's strategy and policies. At various Supervisory Board meetings, the Management Board reported to the Supervisory Board on the status of the individual business units, the Company's economic, financial and strategic position, and material developments and events (such as the founding of a subsidiary in Atlanta, Georgia, USA, and the effects of the economic and financial-market crisis on the Company), the Company's growth strategy, and matters of investment and securities law.

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

Another significant topic of discussion at Supervisory Board meetings during the first half of financial year 2008 was the founding of a subsidiary in the United States. At various meetings the Supervisory Board received reports from the Management Board on the current status of plans, asked questions about them, discussed the strategic importance of the project, received detailed reports on all costs, gave the Management Board recommendations on how to proceed, coordinated the procedure with the Management Board on a thorough ongoing basis and, after considering all the available information and foreseeable consequences, including the advantages and disadvantages and the effects on the Company, adopted the necessary resolutions.

Another significant topic of discussion at Supervisory Board meetings during financial year 2008 was the Company's M&A strategy. The Supervisory Board reviewed potential acquisitions and obtained thorough reports on them from the Management Board and external advisors. The Supervisory Board took an active part in discussions of the Company's M&A strategy, discussed the risks and opportunities of proposed acquisitions with the Management Board, and requested additional information about them.

The Supervisory Board also dealt with Management Board issues in financial year 2008, such as the reassignment of duties and responsibilities within the Management Board of SFC Smart Fuel Cell AG – for example, Management Board member Dr. Jens Müller was given responsibility for Production in addition to his previous duties - as well as bonus payments to Management Board members and the terms and conditions of their employment agreements. The Supervisory Board additionally addressed matters of its own internal organization, and at its meeting on May 8, 2008, elected Dr. Rolf Bartke (formerly Vice-Chairman) as its Chairman, and Rüdiger C. Olschowy (formerly Chairman) as its Vice-Chairman.

At its meeting on March 13, 2008, the Supervisory Board primarily discussed the annual financial statements and the management report for financial year 2007, as well as the single-entity financial statements under IFRS, of SFC Smart Fuel Cell AG at December 31, 2007. It discussed and approved those documents with the auditor in attendance. At the meeting on December 15, 2008, the Supervisory Board heard a comprehensive report from the Management Board on the strategy and plans (including the budget) for 2009.

Supervisory Board members Dr. Rolf Bartke (Chairman), Rüdiger C. Olschowy, Jakob-Hinrich Leverkus and Dr. Roland Schlager participated in all Supervisory Board meetings in financial year 2008. Members Wolfgang Biedermann and Dr. Manfred Stefener were each absent and excused from one meeting. Therefore, no member of the Supervisory Board was absent from more than half of the Supervisory Board meetings.

COMMITTEES

Unchanged the Supervisory Board formed two committees from among its members: (i) the Audit Committee, consisting of Wolfgang Biedermann (Committee Chairman), Dr. Manfred Stefener and Dr. Rolf Bartke, and (ii) the Personnel Committee, consisting of Dr. Rolf Bartke (Committee Chairman), Rüdiger C. Olschowy and Jakob-Hinrich Leverkus. The Personnell Committee met on July 23, 2008 and the Audit Committee met four times in 2008: on February 28, April 18, July 23 and on October 20, 2008.

The Audit Committee assisted the Supervisory Board with issues regarding how to ensure and improve the supervision of the Company and thus fulfilled the Controlling duty assigned to it. It also advised the Supervisory Board on issues regarding the focus of the financial statement audit for the 2008 financial year and establishment of the financial calendar and made recommendations to the Supervisory Board in this regard. The Audit Committee also dealt with the Company's risk management system.

The Personnel Committee assisted the Supervisory Board in preparing for the personnel decisions that are reserved for the Supervisory Board. For example, the Supervisory Board dealt with target and bonus agreements with the members of the Management Board, and with the implementation and design of the Long Term Incentive Plan adopted in 2007, and made recommendations in this regard to the Supervisory Board. In accordance with the

Corporate Governance Code, the renewal of Dr. Podesser's contract and the revision of Dr. Müller's contract were discussed by the entire Supervisory Board, and were approved on December 18, 2008.

CORPORATE GOVERNANCE

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

The compensation of the Supervisory Board members is reported individually and broken down by components in the Corporate Governance Report, which is reproduced in this annual report (page 13).

There were no conflicts of interest involving Supervisory Board members. Due to the chance of the Chairman of the Supervisory Board, the Supervisory Board has not carried out an examination of efficiency of its activities. However, the Supervisory Board plans to carry out an examination of efficiency in 2009. The Supervisory Board admits to the recommendations of the German Corporate Governance Code. The compliance statement for 2008 issued by the Management Board and the Supervisory Board is available on the Company's homepage. Further, Management Board and Supervisory Board executed the yearly compliance statement to the German Corporate Governance Code on March 23, 2009. This compliance statement issued by the Management Board and the Supervisory Board is available on the Company's homepage.

ACCOUNTING

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed by the annual meeting of shareholders to audit the Company's annual financial statements and was engaged to do so by the Supervisory Board. The Supervisory Board negotiated the audit engagement, indicated the focal points of the audit and engaged the auditors. The focal points agreed to were: For the consolidated financial statements under IFRS: Reconciliation to IFRS financial statements, completeness of the consolidation entries, completeness of the Notes. For the financial statements under HGB: Itemization of sales and receivables, completeness and measurement of provisions, measurement of inventories.

The auditor audited the annual financial statements of SFC Smart Fuel Cell AG at December 31, 2008 and the management report, including the bookkeeping, and issued an unqualified audit report. Pursuant to Section 315a of the German Commercial Code (HGB), the Company's consolidated financial statements were prepared on the basis of International Financial Reporting Standards (IFRS) in the form applicable in the European Union. The auditor also issued an unqualified audit report on these consolidated financial statements and the group management report. The audit also audited the early risk detection system at SFC Smart Fuel Cell AG pursuant to § 317(4) of the German Commercial Code and determined that the control and transparency obligations of management in the operating and strategic areas, as established by law, are being met.

The Supervisory Board meeting to review the annual financial statements was held on March 23, 2009. The consolidated financial statement documentation and the audit reports and all other documents and reports were distributed to the Board members in advance of this meeting. Because the financial statements for the financial year ended December 31, 2008, do not show any net income for the year, a proposal by the Management Board for the allocation of net income was not necessary. The auditor participated in the meeting, reported on the progression of the audit and the audit reports and was available to answer questions and discuss the documents.

The Supervisory Board agreed with the result of the audit by the auditor and determined, in the course of its own review, after holding discussions with the Management Board and the auditor, that it had no objections to make. At its meeting on March 23, 2008, it approved the financial statements and the management report for financial year 2008. The consolidated annual financial statements were thus established (§ 172 sentence 1 of the German Stock Corporation Act).

The Supervisory Board would like to express its appreciation to the Management Board and the Company's employees for their commitment and hard work for the Company and for their particular accomplishments in financial year 2008.

Brunnthal, March 23, 2009
The Supervisory Board

Dr. Rolf Bartke
Chairman

THE SHARE

PERFORMANCE OF THE INDEXES AND SFC STOCK

The DAX index was down for 2008 at the end. Though it reached a high of almost 7,226 for the year in May, in the second half it plunged about one-third to 4,127. The TecDAX lost as much as 50 percent from mid-year onward, and bottomed out for the year at 431 points on November 20.

Surveys indicate that many investors remain fundamentally convinced of the long-term potential of the Alternative Energy segment. But the general economic and financial crisis led them to pull money out of this segment as well in 2008. The consequence was that like virtually every other segment, also the SRI sector came under massive pressure in 2008.

The generally very risk-averse mood among investors was especially obvious in the declining number of IPOs in the Alternative Energy sector. A current study by Ernst and Young indicates that during the third quarter of 2008, the number of IPOs fell to its lowest level since 2003.

The price of SFC stock performed accordingly negative. With an average daily trading volume of 13,138 shares, the stock reached its high of € 17.15 for the year on January 8, and its low of € 5.30 on October 10, 2008. Until year's end, it then saw a slight recovery, to close at € 6.70 per share on December 30. The theoretical weighted average trading price for 2008 was € 10.044. A total of 3,812,060 SFC shares changed hands.

INVESTOR RELATIONS

Particularly in today's market environment, the Management Board and the investor relations officer at SFC Smart Fuel Cell AG continue to set great store on maintaining an ongoing dialogue, based on mutual trust, with investors, analysts and representatives of the business press. The same prerequisite also applied to the production of SFC Smart Fuel Cell's first Annual Report on the fiscal year 2007. This annual report was entered in the international 2007 Visions Award of the League of American Communications Professionals LACP which evaluates annual reports from all over the world. Out of 3,000 participants from 20 countries SFC's 2007 annual report won a bronze medal in the Energy Equipment & Services category.

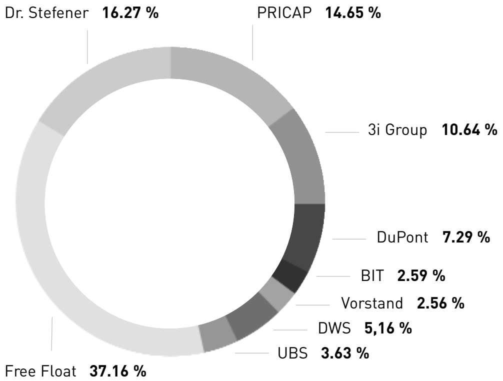
The Management Board has presented the Company's quarterly and semiannual figures at road shows and investor conferences, and in many one-to-one meetings at various financial centers in Germany and elsewhere in Europe. These were also opportunities to explain current business developments to an interested professional audience.

We are happy to note that research analysts have been taking a sharply rising interest in SFC Smart Fuel Cell AG. Where the company had three coverage sources in 2007, now six banks or research institutes regularly publish studies on SFC.

OWNERSHIP STRUCTURE OF SFC SMART FUEL CELL AG

As of December 31, 2008, 7,152,887 shares of SFC Smart Fuel Cell AG were outstanding. The free float was 37.16 percent.

SHAREHOLDER STRUCTURE



Free Float acc. to § 11 REIT reduced by:
- Management Board 2.56 %
- BIT (member of the Supervisory Board)

DEVELOPMENT OF THE SHARE 2008 - 2009 IN EURO

THANKS TO THE SHAREHOLDERS

We owe a special word of thanks to our shareholders and investors for the trust they have shown in us. To ensure the greatest possible transparency, we gladly make it possible for shareholders and any other interested party to examine public documents that provide information on the current business and future prospects of SFC Smart Fuel Cell AG. Our Web site, www.sfc.com, has extensive information about the Company, our products, our brands, and – under the "Investors" tab – everything about our stock. Materials range from information on the shareholders' meeting, to annual and quarterly reports, ad-hoc disclosures, press releases, corporate news, directors' dealings, and the calendar of financial events. We'll be happy to send you current information on request by e-mail or conventional mail.

CORPORATE GOVERNANCE REPORT

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

SFC Smart Fuel Cell AG reviews its system of corporate governance at regular intervals and introduces improvements. SFC Smart Fuel Cell AG follows all but three of the recommendations of the German Corporate Governance Code. The three exceptions are explained in our compliance statement, which can be found on page 16. We also publish our compliance statement on the Company's website at www.sfc.com. Pursuant to Section 3.10 of the German Corporate Governance Code (the "Code"), the Management Board and Supervisory Board hereby issue the following report on the corporate governance of SFC Smart Fuel Cell AG:

SERVICE AND INFORMATION FOR THE SHAREHOLDERS OF SFC SMART FUEL CELL AG

Smart Fuel Cell AG regularly informs its shareholders, as well as analysts, shareholders associations, media representatives and the interested public, through its financial calendar, which is published in the annual report, the quarterly reports and on the Company's website. As part of its investor relations activities, the Company regularly meets with analysts and institutional investors. The Company also holds an analysts' conference each year. The last such conference took place on 11 November 2008.

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

CLOSE COOPERATION BETWEEN MANAGEMENT BOARD AND SUPERVISORY BOARD

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

The Company's Supervisory Board consists of a total of six members, all of whom are elected by the shareholders. The Supervisory Board actively guides the Management Board through advice and discussions, performs the duties incumbent on it by law and the articles of association, and supervises the conduct of the Company's business on the basis of Management Board reports and joint meetings (see the Supervisory Board report, page 6. There are two Supervisory Board committees, the Audit Committee and the Personnel Committee. Since its amendment on 14 June 2007, the Code now recommends under Section 5.3.3 that the Supervisory Board form a nominating committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the shareholders' meeting. SFC Smart Fuel Cell AG believes that the formation of a nominating committee is not necessary if there are no employee representatives on the Supervisory Board, an opinion it shares with the legal literature on this subject. Therefore, it will not be forming such a committee. Other than Dr. Manfred Stefener, there are no former members of SFC Smart Fuel Cell AG's Management Board who are members of the Supervisory Board. The Management Board and the Supervisory Board believe that the Supervisory Board consists of a sufficient number of independent members.

Section 3.8 (2) of the German Corporate Governance Code recommends agreeing on a suitable deductible when companies take out D&O (directors' and officers' liability) insurance for their management board and supervisory board. In response to our inquiry, the insurer was not willing to lower the premium if there was a deductible, so that for economic reasons the current D&O insurance was taken out without agreeing upon a deductible.

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

RISK MANAGEMENT

One of the tasks of any system of good corporate governance is to deal with risks responsibly. The Management Board of SFC Smart Fuel Cell AG ensures that the Company's risk management and risk controlling are sufficient. Doing so guarantees that risks are identified in time and the degree of exposure minimised. The Risk Report, which starts on page 29 of this Annual Report, contains more detailed information about the Company's risk management.

TRANSPARENCY

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

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

The member of the Supervisory Board, Rüdiger C. Olschowy, has informed the Company that BIT Fund II GmbH & Co KG, in which he holds an ownership interest, acquired a total of 23,338 no-par shares of the Company during the period from June 12, 2008 to June 19, 2008.

The member of the Supervisory Board, Dr. Manfred Stefener, has informed the Company that Manfred Stefener Verwaltungs GmbH, in which he is acting partner, acquired 7,791 no-par shares of the Company on July 15, 2008.

The chairman of the Management Board, Dr. Peter Podesser, has informed the Company that he acquired a total of 2,500 no-par shares of the Company on June 12, 2008 and June 13, 2008.

The member of the Management Board, Dr. Jens Müller, has informed the Company that he acquired a total of 4,480 no-par shares of the Company during the period from July 7, 2008 to July 24, 2008.

All directors' dealings pursuant to Section 15a of the German Securities Trading Act are published on the Company's website at www.sfc.com. The total number of shares of SFC Smart Fuel Cell AG held by Management Board members as of December 31, 2008 equalled 2.56% of the shares issued by the Company.

ACCOUNTING AND AUDITING

The consolidated financial statements of SFC Smart Fuel Cell AG as well as the Company's interim reports are prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to the guidelines of the International Accounting Standards Board. The annual general meeting elected Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, to serve as the auditors for the 2008 financial year, and the Supervisory Board engaged the firm. The auditors participated in the Supervisory Board's discussions concerning the consolidated financial statements and reported on the material results of their audit. They found no inaccuracy in the statement concerning compliance with the German Corporate Governance Code. Shareholders and other interested parties can access the consolidated financial statements and interim reports on the Company's website.

COMPENSATION REPORT

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

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

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

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

There is also a commitment to the members of the Management Board within the framework of a Company long-term incentive program to make bonus payments for the period 2009 to 2011 to the Management Board under certain circumstances and if certain performance targets are reached. The exact details of this long-term incentive program, which will be based on a phantom-stock model, will be decided shortly. The Supervisory Board has furthermore resolved that no make-up payments will be made to the members of the Management Board for 2006 through 2008, because the long term incentive program planned at that time had not yet been adopted. The provisions totaling € 216,700 that had been recognized in previous years were derecognized in financial year 2008.
Furthermore, the Company provides the two members of its Management Board with a company car. It pays the premiums for their accident, pension and life insurance up to a maximum of € 10,000 per year and has taken out directors' and officers' liability insurance on both of them.

REMUNERATION IN 2008
The remuneration of members of the Management Board totaled € 658,399 in financial year 2008. The remuneration for financial year 2008 includes a fixed salary, non-cash perquisites, variable performance-based components, and premiums for accident, retirement and life insurance. The above total includes all amounts that were paid out in 2008 or set aside as provisions in the consolidated financial statements for 2008, less the amounts that had been set aside as of December 31, 2007.

The total and individual remuneration of the individual members of the Management Board breaks down as follows:

Financial year 2008 All amounts in €	Fixed component including perquisites**	Short-term performance-based component*	Long-term component*	**Total**
Dr. Peter Podesser	311,150	27,500	50,000	388,650
Dr. Jens Müller	250,999	18,750	0	269,749
Gesamt	**562,149**	**46,250**	**50,000**	**658,399**

* The performance-based component reflects the expense set aside in provisions on the basis of the preliminary consolidated financial statements under IFRS for 2008. The differences between the provisions set aside as of December 31, 2007, and the amounts actually paid in 2008 are also included.
** Perquisites comprise the use of a company car and premiums on accident, retirement and life insurance.

The long-term component for Dr. Podesser includes a renewal bonus of € 50,000 for the early renewal of his contract as a member of the Management Board. Additionally, the provision set aside in previous years for long-term performance-based compensation for Dr. Podesser (€ 116,700) and Dr. Müller (€ 100,000) has been derecognized, and no provision for long-term performance-based compensation was recognized for financial year 2008.

Compensation of the Supervisory Board

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

The members of the Supervisory Board are entitled to reimbursement of the out-of-pocket expenses they incur for exercising their duties as Supervisory Board members, as well as inclusion in the directors' and officers' liability insurance policy the Company takes out for its governing bodies. They also receive a fixed remuneration payable after the close of the financial year of € 20,000 per member. The chairman of the Supervisory Board receives twice, and the vice chairman one and a half times, this amount. In addition, each Supervisory Board members receives € 5,000 more per year for every Supervisory Board committee he chairs and € 2,500 more per year for every Supervisory Board committee in which he serves as a member. Moreover, each member receives variable compensation in the form of a performance-based long-term incentive equal to € 100.00 for every € 0.01 by which the dividend paid on each share exceeds the sum of € 1.00 per share. This component of the compensation was not relevant for the 2008 financial year since no dividend was paid.

The following table compares the compensation of the members of the Supervisory Board for financial years 2007 and 2008:

in €	Accruals 2008 (Compensation for 2008)	Payments 2008 (Compensation for 2007)
Dr. Rolf Bartke *	43,098	24,285
Rüdiger C. Olschowy **	36,902	43,736
Wolfgang Biedermann	25,000	23,736
Achim M. Lederle ***	–	17,368
Jakob-Hinrich Leverkus	22,500	24,395
Dr. Roland Schlager ****	18,763	–
Dr. Manfred Stefener	22,500	–

* Vice-Chairman until May 7, 2008; Chairman of the Supervisory Board thereafter
** Chairman of the Supervisory Board until May 7, 2008; Vice-Chairman thereafter
*** Until October 18, 2007
**** Since January 24, 2008

In addition, sales of 2,342 Euro were realized under a supply agreement for individual components and testing equipment with Elcomax GmbH, a company over which shareholder Dr. Manfred Stefener has a significant influence. Furthermore, SFC works together with elcomax GmbH in a subsidized joint project.

SHARE OPTION PROGRAMS

The Company has a Conditional Capital II at its disposal. The purpose of the conditional capitals is to support the launch of another share option program for members of the Management Board and other Company employees that envisages the issuance of up to 44,352 options to acquire no-par-value shares of the Company's ordinary bearer stock with a notional par value of 1.00 Euro each for a term ending 31 December 2009. Given the capital increase from own funds that was completed, effective 2 April 2007 each such option would entitle its holder to acquire four shares of the Company at a price of 0.25 Euro per share.

In conjunction with the Conditional Capital II, and the in previous years existing Conditional Capital I, the Company's employees and members of its Management Board had been issued the following share options by the reporting date, taking into account the adjustment made to options not yet exercised on the basis of the capital increase for cash contributions dated 17 January 2006. Details of the SFC share option program can be found under Note (36), Share-Based Payment, in the Notes to the Financial Statements (page 73).

Following the exercise of options by the holders of share options of the Company in financial year 2008, conditional capital II came to € 127,716 as of December 31, 2008. No further exercisable options existed as of December 31, 2008, and the share option program is closed.

COMPLIANCE STATEMENT PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

Under Section 161 of the German Stock Corporation Act (AktG), the management board and supervisory board of every German stock corporation listed on an exchange must issue a declaration annually that the company has complied and will comply with the Recommendations of the German Commission on the German Corporate Governance Code as published by the Federal Ministry of Justice in the official portion of the electronic version of the German Federal Gazette, the Bundesanzeiger, and which Recommendations, if any, it has not applied or will not apply. The declaration must be made permanently available to the shareholders. Companies are thus permitted to deviate from the Code Recommendations, but are then required to disclose the fact each year. This enables companies to take account of the specific needs of their own industry or organization. Thus the Code helps German corporations' internal structures be more flexible and regulate themselves.

For the period from the last Compliance Statement of March 13, 2008, until August 7, 2008, the following statement refers to the version of the Code dated June 14, 2007, as published in the electronic version of the Bundesanzeiger on July 20, 2007. Since August 8, 2008, the statement refers to the version of the Code dated June 6, 2008, as published in the electronic Bundesanzeiger on August 8, 2008.

In accordance with Sec. 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of SFC Smart Fuel Cell AG declare that with the following exceptions, the Company has complied and will comply in full with the Recommendations of the Government Commission on the German Corporate Governance Code, as amended:

- Section 3.8 (2) recommends agreeing on a suitable deductible when companies take out D&O (directors' and officers' liability) insurance for their management board and supervisory board. In response to our in-quiry, the insurer was not willing to lower the premium if there was a deductible, so that for economic reasons the current D&O insurance was taken out without agreeing upon a deductible.

- Section 5.3.3 recommends that supervisory boards should form a nominating committee composed exclusively of shareholder representatives, which will propose suitable candidates to the supervisory board as nominees for election to that Board at the shareholders' meeting. Our Supervisory Board has not formed a nominating committee. Consistently with the legal literature on this subject, SFC Smart Fuel Cell AG supports the position that forming a nominating committee is obsolete if no employees are represented on the Supervisory Board. It therefore declines to appoint such a committee.

- Section 5.6 recommends that a supervisory board should review the efficiency of its activities on a regular basis. Due to the change in the Chair of our Supervisory Board, the Supervisory Board did not perform an efficiency review in financial year 2008. However, the Supervisory Board does plan to conduct an efficiency review in 2009.

Brunnthal, March 23, 2009

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

CONTENT

GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2008

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

GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2008

1. BUSINESS AND BACKGROUND CONDITIONS

Business activity and organizational structure
SFC Smart Fuel Cell AG ("SFC") develops, produces, and distributes novel power generation systems that are based on direct methanol fuel cell (DMFC) technology. The Group's product portfolio also includes accessories and spare parts, particularly fuel cartridges, and solutions for combining fuel cell products with other power sources and consumers (the "Power Manager"). SFC is the first company in the world with genuine series-produced commercial products in the area of methanol fuel cells for a series of target markets. The Group's German location is in Brunnthal. SFC is represented in the United States by its subsidiary SFC Smart Fuel Cell, Inc., in Atlanta.

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

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

On the market side, the Group is divided into the following segments: For the Leisure segment, the Group offers series-produced products through established commercial channels (wholesalers, retailers, and OEM's). In the Industry segment, it serves the market for off-grid, stationary power supply solutions, for such applications as environmental sensors, security equipment, and traffic technology. Defence includes a business in series products, but also development contracts and supply of prototypes to military organizations. SFC is also tapping other markets, such as power supplies in the Mobility segment, for light electric vehicles below the passenger car level, as well as on-board power supplies for special and utility vehicles.

As a result of the IPO in May 2007, SFC is solidly equipped with the capital it needs to finance future growth.

The Management Board of SFC is responsible for running the Group. The Supervisory Board appoints, monitors, and advises the Management Board and is directly involved in decisions that are of fundamental importance for the Group. Information on the remuneration structures of the Management Board and Supervisory Board is contained in the report on remuneration (Para. 4).

In financial year 2008 and previous years, the Group's focus was the establishment of markets and the associated sales growth. In addition to that objective, the Group is striving to achieve improve its operating profit (EBIT) in 2009. Within the framework of its comprehensive risk management system, numerous non-financial performance indicators such as quality parameters will be used in addition to detailed financial reporting and controlling.

Sales rose 1.4% in 2008, from € 14,351k to € 14,554k, so growth fell well short of the targeted level of 50%. Nevertheless, the Group was able to consolidate its market position in its market segments, as the only provider of commercially available, series-produced fuel cell systems, and it also achieved considerable successes in expanding business further.

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

2. ECONOMICAL AND INDUSTRIAL ENVIRONMENT: GLOBAL ECONOMY IN RECESSION

From the second half onward, the financial year 2008 was dominated by the crisis in the financial markets, which by year's end had spread to a massive crisis in the global economy whose effects on the real economy increased in speed and intensity. Even at December 31, 2008, most segments of German industry were already feeling the impact of the global decline in demand. A significant decline in overall economic output in Germany is also considered highly probable.[1]

With negative GDP growth rates of -0.4%, -0.5% and probably -1.5% to -2% in the last three quarters of 2008, the German economy is in a recession. The downtrend that has been evident in new orders and production since mid-2008 continued and accelerated as the year drew to a close. Sentiment in the manufacturing sector deteriorated significantly. There are also signs of recession in the Group's other major regional markets – the Euro Zone and the United States.

Germany: Business climate at historic low – New orders and production down significantly
The Ifo business climate index continued the decline it began in June 2008. In November and December 2008, the index slumped -4.9 and -5.1 points – further than ever before since German Reunification. In December 2008 it was at 75.8, the lowest since January 1991. In March 2008 the index had still been at 103.2. Business expectations particularly grew gloomier among makers of goods for export and capital goods. After adjustment for inflation and seasonal factors, new orders in Germany were down 6.0% in November 2008 from the month before. Domestic demand (-7.6%) performed even less well than foreign demand (-4.4%).

The recreational vehicle industry[2]
The Federal Motor Transport Authority (KBA) in Flensburg registered 20,921 new recreational vehicles in Germany in 2008, a 6.4% increase. Despite the crisis in the financial market, the German market was the only leisure vehicle market in Europe to show a rise in new registrations. But the decline in the European export markets reduced recreational vehicle production by 6.6% to 38,944 vehicles, 18,436 (47.3%) of which were delivered outside Germany. It is also important to bear in mind that the number of new registrations offers only a limited picture of conditions in the market, because new registrations are based primarily on orders placed in the previous year, and the Group sells most of its products in the aftermarket. Dealers currently have massive inventories of vehicles on their hands. One of the effects of the weak economy has been the insolvency of one of Germany's largest recreational vehicle producers.

The European Caravan Federation (ECF), the umbrella organization of the national representatives of the European leisure vehicle industry, gathers data on performance and sales volumes in the market for caravans and recreational vehicles. Based on the registration figures up to October 2008, the ECF calculates that there was a substantial decrease in new registrations of leisure vehicles in Europe during the year as a whole. Except in Germany, sales volumes for caravans and recreational vehicles were down in 2008 in every European market. For that reason, the ECF assumes that the figure for all categories of such vehicles was down about 7.5% against the year before. It projects that the european recreational vehicle market was down 5%, to 86,340 vehicles sold.

[1] BDI-Konjunktur-Report (Issue 01, January 26, 2009)
[2] Data: CIVD Caravaning Industrie Verband e.V.

Marine
The marine segment was subject to influences similar to those in the recreational vehicle market. Consumers were noticeably more reticent in this market.

Industrial market: Remote power supply solutions
Because more and more data acquisition devices are operated out in the field, far from any power outlets, the demand for reliable power supply solutions for these applications is constantly on the rise. Typical applications include off-grid sensors, surveillance tasks, security equipment, and traffic technology products. EFOY Pro fuel cells are a genuine "enabling technology" in this area, making it possible to create new remote installations with enhanced functions. The Group's market share in this segment is still small; but here too it must be noted that customers have become significantly less willing to buy.

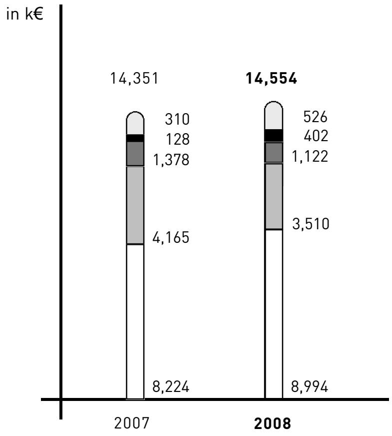
Defense
Experience indicates that the defense market is less vulnerable to changing economic conditions. However, it is characterized by less transparency, a dependency on political decisions, lower predictability, and a distinct predominance of project work.

3. EARNINGS AND FINANCIAL POSITION

Earnings position
Sales by segment in k€:

Product	**2008**	2007	Change
A-series	8,994	8,224	770
Joint Development Agreements	3,510	4,165	-655
Power Manager	1,122	1,378	-256
C-series	402	274	128
Other products	526	310	216
Total	**14,554**	**14,351**	**203**

Sales by Segment



SFC was able to increase its sales 1.4% in 2008, to € 14,554k, against the previous year (€ 14,351k).

The vast majority of the Company's growth is attributable to revenues from A-series fuel cell systems. This product's share of sales consequently rose from 71.0% for the previous year to 75.9% in 2008, while the share of sales from JDAs decreased correspondingly.

Although the market environment in the Leisure segment steadily became more difficult, revenues from A-series fuel cells increased 9.4% in 2008, to € 8,994k (€ 8,224k).

Sales from JDAs decreased 15.7% to € 3,510k (€ 4,165k). Most of the decrease came from delays in awards of follow-up contracts with the U.S. Armed Forces.

In 2008 the second series order for Power Managers was shipped for the U.S. Air Force. Sales decreased 18.6% to € 1,122k (€ 1,378k), and the number of shipped Power Managers decreased from 560 to 531.

Sales from C-series portable fuel cell systems rose 46.7% to € 402k (€ 274k) in financial year 2008. The number of shipped systems increased from 16 to 26.

Sales from other products rose 69.7% in 2008, to € 526k (€ 310k). This item includes sales of fuel cartridges and of test equipment to strategic partners. The substantial increase in fuel cartridges corresponds to the rising numbers of fuel cell systems out in the field.

Unit sales of the SFC A-series:

	2008	2007	Change
Leisure	4,210	4,108	102
Industry	499	357	142
Defense	52	14	38
Mobility	34	4	30
Total	**4,795**	**4,483**	**312**

The sale of equipment in the SFC A-series increased 7.0% to 4,795 units in financial year 2008 (2007: 4,483). All segments contributed to this growth. In the Leisure segment, contrary to general developments in the European accessories market for recreational vehicles, growth was 2.5%. The largest absolute increase in revenues came in the Industry segment. A total of 499 systems (2007: 357 systems) were delivered in 2008 for a wide variety of applications in environmental sensors, security equipment and traffic technology – a 39.8% increase. The first systems were delivered to pilot customers in the Defense and Mobility segments.

Sales by region in k€:

Europe (without Germany)	2008	2007	Change
A-series	5,908	5,548	360
C-series	288	0	288
Power Manager	23	0	23
Other products	310	155	155
Total	**6,529**	**5,703**	**826**

In the European market, SFC experienced 14.5% growth, to € 6,529k. Cooperation with our partners in the Leisure and Industry segments helped SFC expand revenues from sales of A-series fuel cell systems to our European neighbours further, to € 5,908k. For uses in an international peacekeeping mission, 18 C-series fuel cell systems were delivered to a European defense organization in 2008, for total sales of € 288k. The increase in revenues from fuel cartridges, which is shown under "Other products," derives from the larger numbers of fuel cell systems out in the field.

Germany	2008	2007	Change
A-series	2,741	2,473	268
Joint Development Agreements	1,759	1,524	235
Power Manager	0	2	-2
Other products	147	91	56
Total	**4,647**	**4,090**	**557**

Sales in Germany increased 13.6% to € 4,647k (€ 4,090k). A JDA with the Bundeswehr yielded revenues of € 1,759k, a 15.4% increase against the previous year. Additionally, A-series fuel cell systems contributed significantly to sales, with total revenues of € 2,741k, a 10.8% increase against the previous year.

North America	2008	2007	Change
Joint Development Agreements	1,751	2,641	-890
Power Manager	1,099	1,376	-277
A-series	246	169	77
C-series	98	274	-176
Other products	56	59	-3
Total	**3,250**	**4,519**	**-1,269**

Sales in North America decreased 28.1% to € 3,250k (€ 4,519k), particularly because of the lower order volume for Power Managers against the previous year, as already mentioned above, as well as 33.7% lower revenues from JDAs, and 64.2% lower revenues from C-series fuel cell systems due to delays in the award of follow-up contracts. The A series currently contributes 7.6% of sales in North America, and most systems are sold to industrial customers through partners.

Asia	2008	2007	Change
A-series	55	29	26
Other products	8	3	5
Total	**63**	**32**	**31**

Sales in Asia increased from € 32k to € 63k.€

Rest of World	2008	2007	Change
A-series	44	5	39
C-series	16	0	16
Other products	5	2	3
Total	**65**	**7**	**58**

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

GROSS MARGIN

Gross margin for financial year 2008 increased by 7.5% to € 2,689k (€ 2,502k), especially because of systematic further cost reductions on A-series fuel cell systems. The increase in our gross margin to 18.5% (17.4%) during this period is chiefly the result of the increase in the margin for the A-series from 10.4% to 17.1%.

SALES COSTS

Sales costs decreased 1.9% in financial year 2008, to € 4,297k (€ 4,378k). The figure for 2007 included a one-time effect related to the cancellation of stock options, for an amount of € 393k. Without this effect, sales costs were up 7.8%, largely because of higher personnel, travel and consulting expenses occasioned primarily by the establishment and expansion of the sales and marketing organization in the Industry and Defense applications sectors, and in the Mobility sector.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs increased by 23.1% in 2008 to € 778k (€ 632k). Development work was capitalized for an amount of € 958k for this period, as against none for the previous year. Here it should be considered that the development costs incurred under JDAs are recognized under production costs of work performed to generate sales, and grants under publicly subsidized development projects are offset against development costs. Allowing for these two effects and the capitalized development costs, total research and development costs for financial year 2008 came to € 5,059k, an increase of 21.5% against the previous year (€ 4,165k).

GENERAL ADMINISTRATION COSTS

General administration costs decreased 6.0% to € 2,165k (€ 2,303k). Without the one-time effect of € 485k from the cancellation of stock options in 2007, the increase in administration costs would have been 19.1%. This increase resulted primarily from higher personnel expenses, auditing and consulting expenses, and costs for investor relations.

OTHER OPERATING INCOME

Other operating income increased from the previous year's € 131k to € 545k, primarily because of the prize money from the awards won by SFC (first and third place) in the Wearable Power Prize Challenge of the American Department of Defense.

OTHER OPERATING EXPENSES

Because of the drastic drop in the price of platinum during the second half of 2008, valuation of platinum hedging contracts resulted in expenses totalling € 485k, which were responsible for the bulk of the increase in other operating expenses to € 495k from the previous period's € 28k.

OPERATING RESULT (EBIT)

The EBIT improved 4.4% in financial year 2008 to minus € 4,501k (minus € 4,707k). Adjusted for non-recurring items, our EBIT decreased 20.4% (see "Result from special influences" in the Notes to the consolidated financial statements). Accordingly, the adjusted EBIT margin went down to minus 30.9% (minus 26.0%).

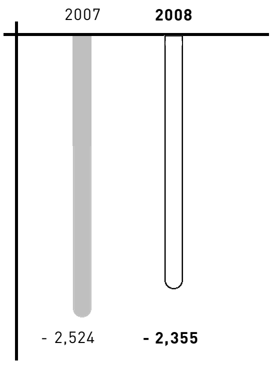
INTEREST AND SIMILAR INCOME

Interest and similar income decreased 9.4% from € 2,414k to € 2,186k. The figure for the previous year included one-time effects of € 1,012k related to redemption of the silent partnership investments in our Group. Without this effect, there would have been a significant increase of € 784k in interest, resulting from the investment of the proceeds from the capital increase from the previous year.

INTEREST AND SIMILAR EXPENSES
Interest and similar expenses decreased by 82.7% to € 40k (€ 231k) because of the silent partnership investments redeemed in the previous year's figure.

NET LOSS
Net loss improved in financial year 2008 by 6.7% to minus € 2,355k (minus € 2,524k).

Net loss in k€



NET LOSS PER SHARE
Net loss per share under IFRS (diluted) improved from minus € 0.49 to minus € 0.33.

Assets and Liabilities
The Group has a healthy balance sheet. The equity ratio grew in parallel with sales.

Total assets decreased 8.5% at December 31, 2008, against December 31, 2007, to € 54,839k (€ 59,945k).

Trade accounts receivable increased 18.6%, to € 2,372k as of December 31, 2008 (December 31, 2007: € 2,000k), especially because longer payment terms were allowed for wholesalers in the Leisure segment.

Most of the increase in other assets and receivables from € 479k to € 943k came from higher receivables from grants and prepayments made.

Intangible assets increased primarily because of capitalized development costs, from € 1,078k to € 1,825k. The ratio of long-term assets to total assets increased from 4.5% to 7.0%.

The reduction in liabilities from prepayments from € 986k to € 234k derived primarily from the execution of a JDA with the German Bundeswehr.

The decrease in other long-term liabilities to € 1,332k (€ 3,564k) was caused primarily by the redemption of the silent partnership.

Consequently the ratio of total liabilities to total assets came to 9.5% (December 31, 2007: 13.4%).

The net loss reduced shareholders' equity as of December 31, 2008, to € 49,635k, compared to € 51,912k as of December 31, 2007. Due to the lower total asset amount of the balance sheet our equity ratio however improved from 86.6% to 90.5%.

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

The financial position in financial year 2008 was, amongst others, influenced by the redemption of the silent partnership, including final remuneration and current minimum remuneration of € 2,251k for tbg Technologie-Beteiligungs-Gesellschaft mbH.

Cash and cash equivalents as of the end of December 31, 2008 came to € 45,568k (end of December 2007: € 52,945k), so that SFC continues to have comfortable liquidity reserves.

CASH FLOW FROM ORDINARY OPERATIONS
The net cash used in ordinary operations increased to € 5,220k (€ 2,695k) in financial year 2008. In addition to a deterioration in operating cash flow before changes in working capital, from minus € 2,876k to minus € 3,223k, this increase was caused primarily by the decrease of € 1,430k in other liabilities, where the previous year still showed an increase of € 1,442k. Main reasons for the substantial decrease in other liabilities were reductions of € 752k in liabilities from prepayments and of € 325k in value-added tax liabilities.

CASH FLOW FROM INVESTMENT ACTIVITY
Investment activity in financial year 2008 generated cash of € 381k (€ 3,596k) through received interest of € 2,251k (€ 1,244k). Additionally, cash used in particular for the acquisition of intangible assets increased from € 140k to € 1,061k. Most of the increase resulted from capitalized development costs of € 958k.

CASH FLOW FROM FINANCIAL ACTIVITY
Primarily through the redemption of the silent partnership mentioned above, financial activitiy used net cash of € 2,539k in financial year 2008. In the previous year, financing activities generated net cash of € 45,795k, primarily because of the successful capital market transaction associated with the move to the Prime Standard segment of the Frankfurt Stock exchange.

Research and Development
The Group continues to make considerable investments in research and development. A total of € 5,059k was spent on R&D in financial year 2008 (previous year: € 4,165k), including costs related to joint development agreements. The Group had 31 employees as of the reporting date (previous year: 26), and about one-third of personnel is working on development of direct methanol fuel cell technology and the Group's products. The Group pursues an active patent strategy to defend barriers to entry into the market, and to safeguard our own marketing options. SFC currently holds a portfolio of more than 30 different patent applications or granted patents.

The focus of the R&D activities is still as follows:

- Reduce unit costs through technological innovations in order to maximize the contribution margins of our products. A systematic development toward higher power densities, with less use of materials, was particularly continued in the fuel cell stack – the technical core of fuel cell systems, which accounts for a very large percentage of the cost;

- Significantly improve and enhance product functionality; develop new products (e.g., higher performance, new market-specific features, significantly greater robustness and reliability under strenuous ambient conditions), in order to develop new areas of application in addition to the markets already addressed

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

Plans still call for devoting a large percentage of spending to R&D, in order to build on the Group's strong position in technology and marketing. Our R&D activities received significant assistance from government funding during the period, and are likely to continue doing so in the future, for example through Germany's National Organization for Hydrogen and Fuel Cell Technology.

Capital expenditures
In financial year 2008, € 958k was capitalized for further development of fuel cell systems. Among the other items, we invested in an ultrasound welding system for fuel cartridges, so as to cut costs on fuel cartridges further. We also acquired another stack test bench to improve productivity and increase capacity. We also purchased additional injection moulding machines to facilitate further cost savings with the production of components. At year's end we made our first advance payment on tenant installations for the new SFC building, now under planning. SFC expects to begin its tenancy as of 2010.

The subscribed capital of € 71 was paid in for our subsidiary in the United States, SFC Smart Fuel Cell, Inc., of Atlanta.

Total capital expenditures in 2008 came to € 1,870k (previous year: € 647k).

New orders and order backlog:
New orders decreased 21.3% during financial year 2008 in comparison to the year before, from € 14,478k to € 11,394k. This change was particularly the result of a decrease of € 2,464k in new orders for Power Managers, to € 45k, and a decrease of € 3,263k in JDAs, to € 2,201k. Consequently the order backlog at the end of 2008 was € 1,716k, a 64.8% decrease from its year-earlier level (€ 4,876k).

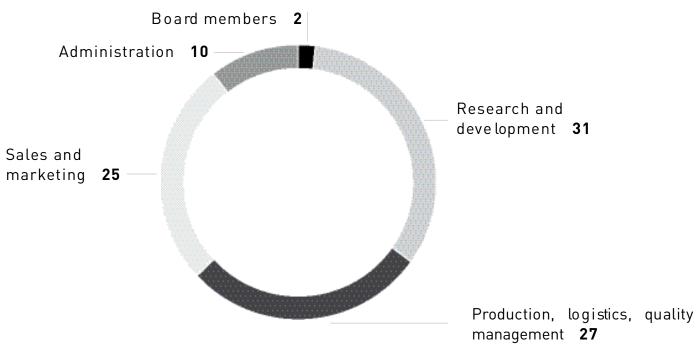
Employees at year end:

	2008	2007	Change
Board members	2	2	0
Research and development	31	26	5
Production, logistics, quality management	27	21	6
Sales and marketing	25	19	6
Administration	10	10	0
Permanent employees*	**95**	**78**	**17**
Trainees, graduates, and student trainees	10	10	0
Number of employees at year end*	**105**	**88**	**17**

* Part-time employees are weighted

The 21.8% increase in permanent employees reflected SFC's growing market orientation and the rising volume of series products under development.

Employees per division in 2008



Summary
In summary, from the above business situation it can be concluded that at the reporting date the Group had a solid net asset and financial picture. However, if the earnings situation remains negative, the overall picture could undergo adverse changes over the long term.

4. REMUNERATION REPORT

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

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

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

There is also a commitment to the members of the Management Board within the framework of a Company long-term incentive program to make bonus payments for the period 2009 to 2011 under certain circumstances and if certain performance targets are reached. The exact details of this long-term incentive program, which will be based on a phantom-stock model, will be decided shortly. The Supervisory Board has furthermore resolved that no make-up payments will be made to the members of the Management Board for 2006 through 2008, because the long term incentive program planned at that time had not yet been adopted. The provisions totalling € 216,700 that had been recognized in previous years were derecognized in financial year 2008.

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

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

Accordingly, members of the Supervisory Board are entitled to reimbursement of cash expenditures in connection with performance of their duties on the Supervisory Board and to inclusion in the D&O liability insurance that the Company obtains for its executive bodies. They also receive fixed compensation of € 20,000 per individual member which is payable after the financial year ends. The chairman of the Supervisory Board receives 200% and his deputy receives 150% of the amount of that remuneration. Each member of the Supervisory Board also receives additional annual compensation of € 5,000 for each committee of the Supervisory Board that he chairs and € 2,500 for each committee of the Supervisory Board on which he serves as a member. Each member also receives variable compensation of € 100.00 for each € 0.01 of dividends per share that are distributed in excess of € 1.00 in dividends per share.

Information that is to be included in the Notes to the financial statements in accordance with § 314 sentence 1 No. 6 of the German Commercial Code (HGB) can be found in those Consolidated Notes.

Other related parties
Please see the section entitled "Related-party transactions" in the Notes.

5. INFORMATION ACCORDING TO § 315 (4) HGB)

The share capital of SFC Smart Fuel Cell AG totals € 7,152,887.00 and is divided into 7,152,887 ordinary bearer shares with no-par value representing a notional amount of our share capital of € 1.00 per share. The share capital is completely paid-up. Each share confers one vote.

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

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

Dr. Manfred Stefener**	16.27 %
PRICAP Venture Partners AG	14.65 %
3i Group Investments LP	10.64 %

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

The appointment and dismissal of members of the Management Board of SFC Smart Fuel Cell AG proceed from §84 and §85 of the German Stock Corporation Act (AktG) and §7(2) of the Articles of Association.

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

* These are the most recently reported holdings pursuant to the German Securities Trading Act (WpHG), which may differ from those as of December 31, 2008.
** Directly and indirectly attributable shares

The Management Board, with the approval of the Supervisory Board, is authorized to increase the share capital of the Company by as much as € 3,568,121.00 one or several times on or before May 7, 2013, by issuing new ordinary bearer shares with no par value in return for cash or non-cash consideration. All shareholders are to be granted a subscription right. The subscription right of the shareholders may be excluded with the approval of the Supervisory Board subject to certain conditions. Pursuant to §5(6) of the Articles of Association, the terms of the capital increase are specified by the Management Board with the approval of the Supervisory Board.

The Corporation has a conditional capital II for conducting share option programs. Following the exercise of options by holders of Company share options in financial year 2008, conditional capital II came to € 127,716.00 at December 31, 2008. As of the same date, there were no longer any share options to be exercised; the share option program is terminated.

The shareholders' meeting on May 8, 2008, authorized the Company to repurchase its own shares on or before November 7, 2009, up to a limit of ten percent of the Company's share capital as of May 8, 2008. This authorization had not been utilized by the balance sheet date.

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

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

6. REPORT ON RISKS AND REWARDS

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

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

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

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

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

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

Market risks
ECONOMIC DEVELOPMENTS
Due to the financial crisis, the world economy is currently in a downswing whose full repercussions cannot be foreseen. Current projections by governments and economic research institutes show a substantial decline in economic dynamism in the Group's most important markets. Additionally, high rates of inflation for energy and food are significantly reducing consumer buying power, and reinforcing consumers' current reluctance to spend.

LEISURE SEGMENT
This reluctance to spend is having a particularly strong impact on the markets for leisure vehicles in Europe, which have seen substantial declines since mid-year – in double digits, in some cases. At present, market experts see no turnaround for the current year or next year. This development will also affect the accessories business, further increasing the risk that sales revenues from EFOY fuel cells will perform below plans throughout Europe this season.

DEFENSE SEGMENT
In the United States in particular, a slowdown in budget approvals and in the award of contracts from the military was evident in 2008 in the sectors of relevance for SFC. From today's vantage point, it must be assumed that new contract awards to SFC that had been expected in 2008 will be postponed to subsequent years as a consequence of this development.

INDUSTRY SEGMENT
The industrial market is showing the first impact of the financial crisis on the real economy. Lower investing activity is evident, entailing the risk of slower growth and a slower development of the market.

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

Patent risks
As the intellectual property situation becomes more complicated and products become more complex, there is a certain risk of possible patent infringement by SFC. As a result of its unique position as a supplier of commercial direct methanol fuel cell systems, SFC has obtained intellectual property rights or filed applications for them (about 20 patents or notifications of grant received so far), which put us in a strong position in relation to our competitors.

In the course of monitoring patents we discovered that a potentially relevant competitive patent was granted in Europe in March 2008. Within the deadline period for objections, other organizations filed two objections that SFC believes may withstand scrutiny. Additionally, SFC has reached contractual agreements with the holders of the intellectual property rights, so that no risk worthy of mention is to be expected any longer from this European patent. SFC is also in advanced negotiations to achieve sound legal protection in other countries as well, in regard to potentially relevant patents granted there.

Competition
SFC currently occupies a unique position thanks to its technological leadership and its lead in the area of marketing. That lead is safeguarded among other things by intellectual property rights, swift action, and focusing on a single technological concept. Some competitors – particularly in the U.S. defense segment – have at least comparable access to the market, which primarily results in the risk of losing our leadership position. Ongoing monitoring of the competition in this connection noted the first deliveries of prototypes by competitors in the defense business in the United States. SFC still has no known competitor in the leisure and remote power supply target markets which already offers comparable products commercially. There are risks from first announcements of competing products or substitutes that could provoke uncertainty among market participants and lead to a loss of sales for SFC.

Purchasing and production-related risks
SFC purchases the components and equipment it needs to make its fuel cell systems from various manufacturers and does not produce them itself. The supplier industry for SFC components is, however, only partially prepared for the specific requirements of the developing mass market for fuel cells. To avoid overdependence on certain suppliers, the Group is working to diversify its suppliers and is entering into intensive cooperative ventures to that end. The associated risks are being reduced through professional quality and supplier management. Nevertheless, insufficient availability of all components procured from suppliers poses a risk in the event that these components cannot be made available on time, at the planned cost, or in the necessary quality.

Foreign exchange and commodities risks
Particularly due to the volume of its business with the U.S. armed forces, SFC generates a portion of its sales in U.S. dollars, while expenses and expenditures are also lower in U.S. dollars. Therefore, forward exchange deals on the sale of a total of USD 2.8 million were executed for 2008. Of this volume, USD 0.4 million was swapped, and will be sold in 2009. Because of delays in the award of contracts under JDAs with the U.S. armed forces, no further forward exchange deals were entered into as of the reporting date. In that respect the foreign exchange risk relates only to the portion of sales that were not hedged.

Due to the substantial rise in the price of platinum in the first half of 2008 and the market estimate at that time that precious metals prices would continue to rise, about 85% of the expected platinum consumption currently expected for 2009 was hedged in the second quarter. The price of platinum fell drastically and unexpectedly in the second half of 2008, leading to a substantial book loss due to the remeasurement of open forward deals. Given very volatile changes in the price of platinum, similar impairment losses could occur in the future as well. The rising costs of raw materials and energy continue to pose risks that could have adverse effects on product margins.

Financial and liquidity risks
Sales and contribution margins were not sufficient to make the Company profitable during the reporting period. SFC's strategic orientation and its chosen expansion strategy require continued massive efforts to expand which must be financed to ensure future business success, particularly in the areas of product development, production, tapping additional market segments, building up the sales and distribution infrastructure, and the general growth of our organization. The funds received by the Company from the public offering in May 2007 were raised for that expansion effort. Liquidity surpluses will be invested in low-risk financial securities (such as money market funds, time deposits) until they are used within the framework of our growth strategy.

Consequently, the current liquidity risk from fluctuating payment flows is rated as very low. Nevertheless, there is a risk in the event that a major market participant or a bank can no longer meet its payment obligations to SFC.

SFC's default rate stayed within reasonable limits in 2008 (0.1% of sales) due to our customer structure (high percentage of military customers, industrial customers, and wholesales, low percentage of private end customers). There is a certain risk from the fact that our ten largest customers – including four military customers and six German and foreign wholesalers in the leisure segment – accounted for 71% of sales in 2008. We are counteracting this risk by generating new customers and expanding our sales from existing customers.

Personnel risks
The economic slowdown tends to ease the labour market and ensure higher availability of well qualified employees. SFC remains dependent on committed, highly qualified, and to a certain extent specialized employees. Given our growth plans, there is a risk that an inability to recruit key personnel could become a bottleneck for the Group's planned growth. SFC is attempting to stay competitive on the labour market by increasing use of performance-related salary components, flat hierarchies, and early assignment of responsibilities. In spite of an obvious shortage of applicants, SFC was still attractive as an employer in 2008 and was able to hire new employees with good qualifications in all segments, thereby fulfilling additional prerequisites for achieving our growth targets.

Information technology risks
The Company's information technology structures were analyzed further in 2008 and upgraded to fulfil more demanding requirements for the exchange of data and for data protection. The technical prerequisites for IT support to enhance further Group growth were also included. Important features like failsafe protection, redundancy, restoration of availability after failures, backup and archiving functions were expanded significantly. The Group is currently working to ensure that its communication and IT meet the requirements for real-time integration of outside employees working in the sales force and employees who are travelling.

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

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

Opportunities for future development
Although the overall economic environment is becoming more difficult at the moment, the most important factors that will determine SFC's future development are measures to increase sales (increased volume in existing markets, regional expansion, developing new applications like mobility and off-grid cabins) and reduce costs based on technological innovation. SFC has the chance to build on its current lead thanks to its mature technology and its marketing and to set widely-recognized standards for remote power supplies in the low- and medium-power range. Additional opportunities could result from external factors: Lower commodities prices and advantageous foreign exchange trends could have positive effects on our profitability.

7. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There were no material events after the balance sheet date.

8. REPORT ON FORECASTS

The Management Board firmly believes that SFC will remain capable of defending its leading position in the promising market for independent power supply using fuel cells based on methanol. The technology base is considered as strong as ever, and was reconfirmed during the period by such achievements as winning the Wearable Power Prize from the U.S. Department of Defense. However, clients' reluctance to spend is receiving significant reinforcement from the international financial and economic crisis. Apart from the substantial slowdown in sales in the leisure market, the industrial market is now also showing lower investing activity. In defense, budget decisions and new contract awards to SFC are being delayed. The current economic and financial situation in all international markets will affect our Group's short-term and medium-term growth projections. Because of the current uncertainty, and the extremely low visibility associated with the situation, no serious forecasts are possible at present.

In financial year 2009, management will seek significant growth in the Industry and Defense segments. An important strategic goal is to make the Group less vulnerable to the wide seasonable and economic fluctuations in the leisure market, by drawing on a more diversified base. A further goal for financial year 2009 is to improve operating profit (EBIT) through further sales growth and consistent reductions in the costs of our products even if cash flows initially remain negative.

Brunnthal, March 12, 2009

Dr. Peter Podesser
CEO

Dr. Jens Müller
COO

CONTENT

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR JANUARY 1 TO DECEMBER 31, 2008

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

Consolidated Income Statement

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2008

in €	see Notes	2008 01/01 – 12/31	2007 01/01 – 12/31
1. Sales	(1)	14,553,797	14,351,008
2. Production costs of work performed to generate sales	(2)	-11,864,594	-11,849,276
3. Gross margin		**2,689,203**	**2,501,732**
4. Sales costs	(3)	-4,296,871	-4,377,686
5. Research and development costs	(4)	-777,743	-631,676
6. General administration costs	(5)	-2,165,240	-2,303,231
7. Other operating income	(6)	544,741	131,425
8. Other operating expenses	(7)	-495,096	-27,972
9. Operating loss		**-4,501,006**	**-4,707,408**
10. Interest and similar income	(8)	2,185,565	2,413,849
11. Interest and similar expenses	(9)	-40,021	-230,615
12. Loss from ordinary operations		**-2,355,462**	**-2,524,174**
13. Income taxes	(10)	0	0
14. Net loss		**-2,355,462**	**-2,524,174**
15. Accumulated loss brought forward from previous year		-22,043,985	-19,519,811
16. Net accumulated loss		**-24,399,447**	**-22,043,985**
Net loss per share			
undiluted		-0.33	-0.49
diluted		-0.33	-0.49

Consolidated Balance Sheet

AT DECEMBER 31, 2008

ASSETS in €		see Notes	12/31/2008	12/31/2007
A.	**Current assets**		**50,997,198**	**57,265,258**
I.	Inventories	(15)	1,151,000	1,280,700
II.	Trade accounts receivable	(16)	2,371,846	2,000,187
III.	Receivables from percentage-of-completion	(17)	151,148	0
IV.	Income tax receivables	(18)	718,733	463,229
V.	Other short-term assets and receivables	(19)	943,472	478,970
VI.	Cash and cash equivalents	(20)	45,567,521	52,945,317
VII.	Cash and cash equivalents with limitation on disposal	(21)	45,320	45,320
VIII.	Deferred charges and prepaid expenses	(22)	48,158	51,535
B.	**Non-current assets**		**3,842,296**	**2,680,065**
I.	Intangible assets	(23)	1,824,941	1,078,082
II.	Property, plant and equipment	(24)	1,146,996	830,220
III.	Other long-term assets and receivables	(19)	204,045	0
IV.	Deferred tax assets	(10)	666,314	771,763
	Assets		**54,839,494**	**59,945,323**

LIABILITIES AND SHAREHOLDERS' EQUITY in €		see Notes	12/31/2008	12/31/2007
A.	**Current liabilities**		**4,294,769**	**6,770,573**
I.	Other provisions	(25)	526,915	484,267
II.	Liabilities from prepayments	(26)	233,879	985,863
III.	Trade accounts payable	(27)	2,050,326	1,261,806
IV.	Liabilities from finance leases	(28)	118,182	287,796
V.	Liabilities from percentage-of-completion	(29)	0	74,655
VI.	Other short-term liabilities	(30)	1,332,375	3,563,674
VII.	Deferred charges	(31)	33,092	112,512
B.	**Non-current liabilities**		**909,895**	**1,262,374**
I.	Other long-term provisions	(25)	243,581	176,898
II.	Liabilities from finance leases	(28)	0	97,013
III.	Other long-term liabilities	(30)	0	216,700
IV.	Deferred tax liabilities	(10)	666,314	771,763
C.	**Equity**		**49,634,830**	**51,912,376**
I.	Subscribed capital	(32)	7,152,887	7,136,243
II.	Capital surplus	(32)	66,879,638	66,820,118
III.	Other changes recognized directly in equity	(32)	1,752	0
IV.	Accumulated loss brought forward from previous year	(32)	-22,043,985	-19,519,811
V.	Net loss	(32)	-2,355,462	-2,524,174
	Liabilities and shareholders' equity		**54,839,494**	**59,945,323**

Consolidated Cash Flow Statement

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2008 TO DECEMBER 31, 2008

in €	see notes	2008 01/01-12/31	2007 01/01-12/31
Cash flow from ordinary operations			
Result before taxes		**-2,355,462**	**-2,524,174**
- Net interest income	(8), (9)	-2,145,544	-1,171,355
+ Depreciation/amortisation of intangible assets and property, plant and equipment	(12), (23), (24)	806,592	748,049
+ Expenses from share options programs	(36)	72,003	1,104,166
- Changes in allowances	(15), (16)	-8,510	-20,407
+ Losses from disposal of assets	(23), (24)	0	2
-/+ Profits/losses from derivatives	(35)	408,166	-1,011,879
Changes to operating result before working capital		**-3,222,755**	**-2,875,598**
+ Increase/decrease in short and long-term provisions	(25)	94,896	45,360
- Changes to trade accounts receivable	(16)	-374,856	-361,797
+/- Changes to inventories	(15)	141,407	-321,081
- Changes to other assets	(17), (18), (19)	-885,530	-21,525
+ Changes to prepaid expenses	(22)	3,376	17,575
+/- Changes to trade accounts payable	(27)	788,520	-147,268
-/+ Changes to other liabilities	(26), (28), (29), (30)	-1,430,428	1,441,764
- Changes to deferred income	(31)	-79,420	-79,420
Cash flow from ordinary operations before taxes		**-4,964,790**	**-2,301,990**
- Income tax payments		-255,504	-392,803
Cash flow from ordinary operations		**-5,220,294**	**-2,694,793**

in €	see notes	2008 01/01-12/31	2007 01/01-12/31
Cash flow from investment activity			
- Acquisition of intangible assets	(23)	-1,060,604	-139,911
- Acquisition of property, plant and equipment	(24)	-809,622	-507,401
+ Cash provided by disposal of securities and pledged bank balances		0	2,999,550
+ Interest income		2,251,400	1,243,884
Cash flow from investment activity		**381,174**	**3,596,122**
Cash flow from financial activity			
+ Shareholder contributions	(32)	4,161	53,563,949
- Costs of issuing equity	(32)	0	-5,777,761
- Repayments of financial liabilities		-2,250,625	-1,556,372
- Repayment of liabilities from finance leases		-266,627	-287,796
- Interest paid and other expenses		-25,585	-146,813
Cash flow from financial activity		**-2,538,676**	**45,795,207**
Net change in cash and cash equivalents		**-7,377,796**	**46,696,536**
Net change in cash and cash equivalents			
Cash and cash equivalents at beginning of period	(20)	52,945,317	6,248,783
Cash and cash equivalents at end of period	(20)	45,567,521	52,945,317
Net change in cash and cash equivalents		**-7,377,796**	**46,696,536**

Material Non-Cash Transactions
As in the previous year, there were no material non-cash transactions in financial year 2008.

Consolidated Statement of Changes in Equity

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2008

in €	see notes	Subscribed capital
Balance 01/01/2007		**1,413,936**
Allocation from option program	(32), (36)	
Capital increase from company funds	(32)	4,241,808
Capital increase from IPO on Prime Standard	(32)	1,447,451
Costs of capital increase	(32)	
Exercise of option rights	(32), (36)	33,048
Net result		
Balance 12/31/2007		**7,136,243**
Allocation from option program	(32), (36)	
Exercise of option rights	(32), (36)	16,644
Currency exchange	(32)	
Net result		
Balance 12/31/2008		**7,152,887**

Consolidated Statement of Income and Expense Recognized

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2008 TO DECEMBER 31, 2008

in €	2008	2007
Net loss for the period	-2,355,462	-2,542,174
Changes recognized directly in equity from the translation of foreign subsidiaries' results	1,752	0
Total results recognized directly in equity	**-2,353,710**	**-2,524,174**

All amounts are attributable in full to equity holders of the parent company.

	Capital surplus	Other changes recognized directly in equity	Net accumulated loss	Total
	23,702,071	**0**	**-19,519,811**	**5,596,196**
	1,104,166			1,104,166
	-4,241,808			0
	52,108,236			53,555,687
	-5,827,761			-5,827,761
	-24,786			8,262
			-2,524,174	-2,524,174
	66,820,118	**0**	**-22,043,985**	**51,912,376**
	72,003			72,003
	-12,483			4,161
		1,752		1,752
			-2,355,462	-2,355,462
	66,879,638	**1,752**	**-24,399,447**	**49,634,830**

Consolidated Summary of Fixed Assets

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2008 TO DECEMBER 31, 2008

in €	Acquisition or production cost		
	01/01/2008	Additions	12/31/2008
A. Intangible assets			
Software	274,220	53,426	327,646
Patents and licences	59,533	0	59,533
Intangible assets from own production	1,305,402	1,007,178	2,312,580
Intangible assets	**1,639,155**	**1,060,604**	**2,699,759**
B. Property, plant and equipment			
Technical equipment, plant and machinery	101,615	411,705	513,320
Other equipment, fixtures and fittings	834,539	397,917	1,232,456
Other equipment, fixtures and fittings from financial leasing	816,218	0	816,218
Property, plant and equipment	**1,752,372**	**809,622**	**2,561,994**

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2007 TO DECEMBER 31, 2007

in €	Acquisition or production cost			
	01/01/2007	Additions	Disposals	12/31/2007
A. Intangible assets				
Software	225,234	67,389	-18,403	274,220
Patents and licences	59,533	0	0	59,533
Intangible assets from own production	1,232,880	72,522	0	1,305,402
Intangible assets	**1,517,647**	**139,911**	**-18,403**	**1,639,155**
B. Property, plant and equipment				
Technical equipment, plant and machinery	62,902	38,713	0	101,615
Other equipment, fixtures and fittings	418,717	468,688	-52,866	834,539
Other equipment, fixtures and fittings from financial leasing	816,217	0	0	816,217
Property, plant and equipment	**1,297,836**	**507,401**	**-52,866**	**1,752,371**

Accumulated depreciation or amortisation			Book value	
01/01/2008	Depr. or amort. financial year	12/31/2008	12/31/2008	12/31/2007
-90,052	-52,665	-142,717	184,929	184,168
-48,129	0	-48,129	11,404	11,404
-422,892	-261,080	-683,972	1,628,608	882,510
-561,073	**-313,745**	**-874,818**	**1,824,941**	**1,078,082**
-46,912	-53,095	-100,007	413,313	54,703
-341,314	-232,793	-574,107	658,349	493,225
-533,925	-206,959	-740,884	75,334	282,293
-922,151	**-492,847**	**-1,414,998**	**1,146,996**	**830,220**

Accumulated depreciation or amortisation				Book value	
01/01/2007	Depr. or amort. financial year	Depr. or amort. on disposals	12/31/2007	12/31/2007	12/31/2006
-57,917	-50,538	18,403	-90,052	184,168	167,317
-47,683	-446	0	-48,129	11,404	11,850
-176,316	-246,576	0	-422,892	882,510	1,056,564
-281,916	**-297,559**	**18,403**	**-561,073**	**1,078,082**	**1,235,731**
-36,415	-10,497	0	-46,912	54,703	26,487
-174,551	-219,627	52,864	-341,314	493,225	244,166
-313,559	-220,366	0	-533,925	282,293	502,658
-524,525	**-450,490**	**52,864**	**-922,151**	**830,220**	**773,311**

Consolidated Segment Information

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2008 TO DECEMBER 31, 2008

in €	A-Series 12/31/2008	A-Series 12/31/2007	C- Series 12/31/2008	C- Series 12/31/2007	JDA 12/31/2008	JDA 12/31/2007
Assets	917,843	531,372	7,674	3,363	187,307	158,204
Inventories	991,096	1,255,302	8,800	0	0	0
Trade accounts receivable	1,936,444	1,949,097	63,441	0	340,122	20,680
Other segment assets	610,368	265,796	174,138	8,855	151,148	0
Cash and cash equivalents	0	0	0	0	0	0
Segment assets	**4,455,751**	**4,001,567**	**254,053**	**12,218**	**678,577**	**178,884**

	A-Series 01/01 – 12/31/2008	A-Series 01/01 – 12/31/2007	C- Series 01/01 – 12/31/2008	C- Series 01/01 – 12/31/2007	JDA 01/01 – 12/31/2008	JDA 01/01 – 12/31/2007
Sales	8,994,259	8,223,785	402,192	273,969	3,509,396	4,165,224
Production costs	-7,456,425	-7,370,056	-198,407	-133,673	-2,515,499	-2,726,096
Gross margin	**1,537,834**	**853,729**	**203,785**	**140,296**	**993,897**	**1,439,128**
Operating costs not attributable to products						
Operating results						
Financial result						
Result from ordinary operations						
Income taxes						
Result after taxes						

	Power Manager		Other products		Unallocated items		Consolidated financial statements	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007
	79,488	20,734	92,638	36,902	1,686,987	1,157,727	2,971,937	1,908,302
	27,111	0	123,993	25,398	0	0	1,151,000	1,280,700
	0	0	31,839	30,410	0	0	2,371,846	2,000,187
	0	0	0	0	1,796,216	1,490,846	2,731,870	1,765,497
	0	0	0	0	45,612,841	52,990,637	45,612,841	52,990,637
	106,599	**20,734**	**248,470**	**92,710**	**49,096,044**	**55,639,210**	**54,839,494**	**59,945,323**

	01/01 – 12/31/2008	01/01 – 12/31/2007	01/01 – 12/31/2008	01/01 – 12/31/2007	01/01 – 12/31/2008	01/01 – 12/31/2007	01/01 – 12/31/2008	01/01 – 12/31/2007
	1,121,684	1,378,083	526,266	309,947	0	0	14,553,797	14,351,008
	-844,718	-1,079,154	-849,545	-540,297	0	0	-11,864,594	-11,849,276
	276,966	**298,929**	**-323,279**	**-230,350**	**0**	**0**	**2,689,203**	**2,501,732**
							-7,190,209	-7,209,140
							-4,501,006	**-4,707,408**
							2,145,544	2,183,234
							-2,355,462	**-2,524,174**
							0	0
							-2,355,462	**-2,524,174**

Notes to the Consolidated Financial Statements

FOR THE FINANCIAL YEAR FROM JANUARY 1, 2008 TO DECEMBER 31, 2008

1. GENERAL INFORMATION

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

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

On May 14, 2002, the shareholders of SFC Smart Fuel Cell GmbH resolved to transform the Company into a stock corporation (Aktiengesellschaft) to be known as "SFC Smart Fuel Cell AG".

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

Accounting principles
The consolidated financial statements at December 31, 2008, were prepared in accordance with International Financial Reporting Standards (IFRS). IFRS includes the IFRS sta tements approved by the International Accounting Standards Board, the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

These are the Company's consolidated financial statements. All EU-compliant standards in force for the 2008 financial year were applied. The consolidated financial statements reflect fairly the assets, financial condition and earnings of SFC. As described below, standards were occasionally applied even before they had come into force.

SFC Smart Fuel Cell, Inc., headquartered in Atlanta, Georgia, USA, was formed as a wholly-owned subsidiary of SFC by filing articles of incorporation on July 25, 2008. Consequently SFC has prepared consolidated financial statements for the first time for financial year 2008. Because SFC Smart Fuel Cell Inc. had not begun business operations as of the balance sheet date, the figures in the consolidated financial statements for financial year 2008 are comparable with the previous year's figures from the single-entity financial statements of SFC.

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

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

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

The Supervisory Board and the Management Board will authorize the publication of this consolidated financial statements on March 23, 2009.

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

Accounting Standards Applied
For financial year 2008, all relevant accounting standards were applied that are compulsory for financial years beginning on or after January 1, 2008. This includes the following interpretations that were applicable for the first time:

- IFRIC 11 "Group and Treasury Share Transactions": IFRIC 11 contains instructions on the treatment of share-based payment arrangements that grant an entity's own stock or stock issued by other group companies. This interpretation was obligatory for financial years beginning on or after March 1, 2007. It had no effect on the consolidated financial statements.

- IFRIC 12 "Service Concessions": IFRIC 12 governs the recognition and measurement of an operator's obligations and rights under what are known as "service concessions". This interpretation was obligatory for financial years beginning on or after January 1, 2008. It had no effect on the consolidated financial statements.

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

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

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

- IFRS 2 "Share-Based Payment": The new version of IFRS 2, released in January 2008, is required to be used for financial years beginning on or after January 1, 2009. The amendments primarily concern the definition of vesting conditions and the provisions for cancellation of a plan by a party other than the issuing entity. No material effects are expected from these new provisions on the presentation of the assets, financial condition or earnings situation.

- IFRS 3 "Business Combinations": The amended standard was released in January 2008, and is to be used for financial years beginning on or after July 1, 2009. The new version of IFRS 3 provides an option in the recognition of non-controlling interests: they may be measured at fair value or at the proportionate share of identifiable net assets. The proportionate share already held is remeasured if control of the entity is subsequently acquired, and the change is recognized in profit or loss. Since the Group has not carried out any business combinations to date, the interpretation has no effect at present.

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

- IAS 23 "Borrowing Costs": The amended standard was released in March 2007 and is to be used for financial years beginning on or after January 1, 2009. For qualifying assets, the new version of IAS 23 eliminates the option to use the "immediate expensing model" for borrowing costs, and makes capitalization mandatory. It is not expected that this new provision has material effects on the presentation of the assets, financial condition or earnings situation.

- IAS 27 "Consolidated and Separate Financial Statements": The amended standard was released in January 2008, and is to be applied to financial years beginning on or after July 1, 2009. Dividends from jointly controlled entities, associates, and subsidiaries are to be recognized in the income statement, irrespective of whether the payout is made from profits before the acquisition date or not. If the distributions for one year exceed the total profit for that year, an impairment test must be applied. It is not expected that this new provision has material effects on the presentation of the assets, financial condition or earnings situation.

• IAS 32 "Financial Instruments: Presentation": The amended IAS 32 was released in February 2008, and is to be used for financial years beginning on or after January 1, 2009. Certain instruments are now expected from the definition of financial liabilities. It is not expected that this new provision has material effects on the presentation of the assets, financial condition or earnings situation.

• IFRIC 13 "Customer Loyalty Programs": The interpretation addresses accounting by companies that award bonus credits (loyalty points or airline miles) to customers, who receive them when they buy other goods or services. The interpretation was released in June 2007 and is required to be used for financial years beginning on or after July 1, 2008. No effects on the presentation of the assets, financial condition or earnings situation are expected from application of this interpretation.

• IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction": IFRIC 14 gives general guidelines for determining the upper limit of pension fund surpluses that can be carried as an asset under IAS 19. The interpretation was released in July 2007 and is required to be used for financial years beginning on or after July 1, 2008. No effects on the presentation of the assets, financial condition or earnings situation are expected from application of this interpretation.

• IFRIC 15 "Agreements for the Construction of Real Estate": This interpretation was released in July 2008 and is to be used for financial years beginning on or after January 1, 2009. The aim of the interpretation is to standardize accounting practices by entities that develop real estate and that, in this capacity, sell units such as apartments or houses, "off plan" – that is, before construction is complete. No effects on the presentation of the assets, financial condition or earnings situation are expected from application of this interpretation.

• IFRIC 16 "Hedges of a Net Investment in a Foreign Operation": IFRIC 16 was published in July 2008 and is to be used for financial years beginning on or after October 1, 2008. The aim of the interpretation is to clarify two issues that arise under the two standards IAS 21 "The Effects of Changes in Foreign Exchange Rates," and IAS 39 "Financial Instruments: Recognition and Measurement" in connection with the recognition of hedges of foreign exchange rates within an entity and in its foreign operations. No effects on the presentation of the assets, financial condition or earnings situation are expected from application of this interpretation.

• IFRIC 17 "Distributions of Non-Cash Assets to Owners": This interpretation was released in November 2008, and governs how an entity should measure as cash other assets that it distributes to shareholders as dividends. IFRIC 17 is to be used for financial years beginning on or after July 1, 2009. No effects on the presentation of the assets, financial condition or earnings situation are expected from application of this interpretation.

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

• IFRS 1 "First-Time Adoption of IFRS"

• IFRS 3 "Business Combinations"

• IFRS 4 "Insurance Contracts"

• IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations"

• IFRS 6 "Exploration for and Evaluation of Mineral Resources"

• IAS 26 "Accounting and Reporting by Retirement Benefit Plans"

• IAS 28 "Investments in Associates"

• IAS 29 "Financial Reporting in Hyperinflationary Economies"

• IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions"

• IAS 31 "Investments in Joint Ventures"

• IAS 40 "Investment Property"

• IAS 41 "Agriculture"

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

Assumptions and estimates relate mainly to:

- Measurement of **provisions**, and particularly warranty provisions: management estimates are used to measure provisions. Uncertainties are taken into account by increasing provisions where necessary. As of December 31, 2008, the carrying amount of recognized provisions was € 770,496 (previous year: € 661,165). Portions of the warranty provisions relate to long-term obligations. The long-term portion came to € 243,581 at December 31, 2008 (previous year: € 176,898). The discounting factor is 4%. For further information, see Note 25 "Other provisions".

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

- **Mandatory capitalization** of self-produced **intangible assets**: Based on management's planning and estimate, development costs are capitalized beginning in financial year 2006. The capital increase in financial year 2006 helped to secure SFC's long-term focus, which is necessary to generate uses for the results of our development activities. In financial year 2008, development costs of € 957,800 (previous year: € 0) were capitalized. Scheduled amortization of capitalized development costs for 2008 came to € 153,305 (previous year: € 153,305). The carrying amount of capitalized development costs as of the reporting date was € 1,417,714 (previous year: € 613,218). For further information, see "Intangible assets" under Section 2, "Accounting Principles".

- The recognition of **deferred tax assets**, particularly for losses carried forward: The maximum amount at which deferred tax assets are recognized on losses carried forward is the amount at which they can be offset against deferred tax losses, since the availability of future taxable income to offset tax loss carryforwards cannot be predicted with sufficient certainty. In financial year 2008, because of higher deferred tax liabilities, an adjustment of € 7,699,190 was recognized in deferred tax assets (previous year: € 7,321,076). The recognized figure for deferred tax assets as of December 31, 2008, was € 666,314 (previous year: € 771,763).

- Measurement of **share options**: The Company set up several share option programs in previous years. The resulting expenses for financial year 2008 were € 72,003 (previous year: € 1,104,266). For further information about these programs, the fundamental assumptions and the resulting expenses, see Note 36 "Share-Based Payment".

- **Partial realization of profits**: SFC performs development assignments under the Joint Development Agreements (JDA). At December 31, 2008, the carrying amount for receivables from percentage-of-completion was € 151,148 (previous year: € 74,655 in liabilities from percentage-of-completion). Revenues from development contracts came to € 3,509,396 in financial year 2008 (previous year: € 4,165,224). With respect to income disclosure, please see Section 2 "Accounting Principles" and with regard to the carrying amounts, please see Note 17 "Receivables from Percentage-of-Completion" and Note 29 "Liabilities from Percentage-of-Completion."

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

Scope of consolidation

The consolidated financial statements include the single-entity financial statements of SFC as the ultimate parent company, and those of its U.S. subsidiary.

A subsidiary is any entity in which the Group has the power to govern the financial and operating policies; this control is regularly accompanied by a share of more than 50% of the voting rights. Subsidiaries are consolidated (full consolidation) as of the date on which the Group acquires control. They are deconsolidated as of the date on which the Group no longer has control.

SFC Smart Fuel Cell, Inc., headquartered in Atlanta, Georgia, USA, was formed as a wholly-owned subsidiary of SFC by filing articles of incorporation on July 25, 2008. SFC's consolidated financial statements fully consolidated SFC Smart Fuel Cell, Inc. as of the date of the opening balance sheet.

The annual financial statements of the consolidated companies, which have been prepared in conformity with their national GAAPs, have been reconciled with IFRS and adjusted to reflect the Group's accounting principles.

The financial year of the consolidated companies is the same as the calendar year (January 1 through December 31).

Shareholdings as of December 31, 2008

Name of company	Registered office	Share in %	Equity in €	Net result in €
Shares in affiliated companies				
SFC Smart Fuel Cell, Inc.	Atlanta (USA)	100	-35,933	-37,756

Consolidation methods

Subsidiaries' capital is consolidated in compliance with IAS 27 "Consolidated and Separate Financial Statements under IFRS" by offsetting the carrying amount of the equity interest against the subsidiary's equity as of the date of the opening balance sheet.

The effects of all material intra-Group transactions are eliminated. Receivables and liabilities between consolidated companies are offset against one another. All income and expenses from intra-Group transactions are likewise eliminated.

There was no occasion to eliminate intra-Group profits, and it was not necessary to recognize deferred tax items as a consequence of consolidation measures.

Foreign currency translation

In the single-entity financial statements of the consolidated companies, which are prepared in the local currency, SFC measures foreign currency transactions arising from business activities in accordance with IAS 21 "Effects of Changes in Foreign Exchange Rates" using the exchange rate applicable on the reporting date. Gains or losses arising from foreign currency translation are recognized in the income statement.

Consolidated companies' single-entity financial statements prepared in foreign currency are translated on the basis of the concept of functional currency under IAS 21 "Effects of Changes in Foreign Exchange Rates," using the modified closing rate method. Since SFC's subsidiary generally does business autonomously in financial, economic and organizational terms, the functional currency is identical with the Company's local currency.

Consequently assets and liabilities are translated at the exchange rate applicable on the reporting date; equity is translated at historical rates; and expenses and income are translated at the average rate. The difference resulting from foreign currency translation is offset with no effect on profit or loss, and is recognized separately in equity as other changes recognized directly in equity.

The exchange rate for the foreign currency that is of material interest to the Group evolved as follows:

		Average exchange rate	Exchange rate on the reporting date
in €		2008	2008
US-Dollar	USD	0,74403	0,70950

2. ACCOUNTING PRINCIPLES

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

Revenues are also generated from the sale of portable fuel cells, the so-called C-series, with the JENNY and M25 products, as well as from the sale of fuel cartridges and other products.

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

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

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

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

Amortization periods are as follows:

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

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

Development costs are capitalized in accordance with IAS 38 "Intangible Assets" if a newly developed asset can be clearly defined, is technically feasible and is intended either for the Company's own use or is to be sold. Capitalization also presumes that it is likely that the development costs will be covered by future cash flows and the development expenses can be reliably measured. Capitalized development costs are amortized on a straight line basis over the expected useful life of the asset. The useful life of the development costs to be amortized is 5 years. Where requirements for capitalization are not met, expenses are recognized in the year in which they arise. Research costs are shown as current expenses under IAS 38.

There are no intangible assets with an unlimited useful life.

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

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

The depreciation periods are:

• Technical plant and machinery	3 – 10 Years
• Other equipment, fixtures and fittings	3 – 13 Years

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

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

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

In financial year 2008, as in the previous year, there were no write-downs of intangible assets or property, plant and equipment.

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

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

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

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

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

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

Financial assets
Financial assets within the meaning of IAS 39 are classified as financial assets at fair value through profit and loss, receivables, held-to-maturity investments, or available-for-sale assets.

Financial assets are measured at fair value at initial recognition. In the case of financial assets not fair valued through profit or loss, transaction costs directly attributable to the acquisition of the financial asset or the issue of the financial liability are also included.

SFC decides the classification of its financial assets at initial recognition, and reviews this classification at the end of each fiscal year wherever permitted and appropriate. As of the reporting date, the Group had not classified any financial assets as "held to maturity" or "available for sale."

Except for derivative financial instruments, the Group has no financial assets at fair value through profit or loss. Please see the notes on "Derivative Financial Instruments."

Receivables are measured at amortized cost using the effective interest rate method.

This category particularly includes trade accounts receivable, other assets, and cash and cash equivalents.

A financial asset is derecognized when the Group loses control over the contractual rights that gave rise to the financial asset.

Impairment of financial assets
Financial assets or groups of financial assets are tested for impairment at each balance sheet date. An impairment loss is recognized immediately in the income statement. Financial assets are impaired if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset that there has been a negative change in the expected cash flows from the financial investment.

Trade accounts receivable are measured at amortized cost, less appropriate write-downs for recognizable individual risks; this corresponds to the market value.

Other financial assets and receivables are recognized at amortized cost. If there are doubts as to whether such other financial assets are collectible, write-downs are applied for the individual case.

Government grants
Government grants consist of sponsorship for development activities by SFC, and were received for the development of new fuel cell systems.

If development costs are capitalized pursuant to IAS 38 "Intangible Assets", the grants for assets are carried as a reduction in the cost of the asset involved. If the prerequisites for capitalization are not met, the grants are carried as a reduction of research and development costs and general administration costs.

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

Deferred tax liabilities are recognized on the basis of tax rates applicable at the time of realization.

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

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

Financial liabilities
Financial liabilities are classified at initial recognition, in accordance with IAS 39, as fair valued through profit or loss or as measured at amortized cost.

SFC decides the classification of its financial liabilities at initial recognition, and reviews this designation at the end of each financial year, wherever permissible and appropriate.

Except for derivative financial instruments, the Group has no financial assets at fair value through profit or loss. Please see the discussion under "Derivative Financial Instruments."

Financial liabilities measured at amortized cost are measured at initial recognition at the fair value of the received consideration less the transaction costs associated with the borrowing. After initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

A financial liability is derecognized when the underlying obligation has been discharged, cancelled or expired.

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

Hedge accounting is not used.

3. NOTES ON THE CONSOLIDATED INCOME STATEMENT

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

in €	01/01 – 12/31/2008	01/01 – 12/31/2007
Sales	14,553,797	14,351,008
thereof from PoC	3,509,396	4,165,224

For a breakdown of sales by product, see the consolidated segment information and the explanations under Note 40 "Consolidated Segment Information".

(2) Production costs of work performed to generate sales
Production costs of work performed to generate sales are as follows:

in €	01/01 – 12/31/2008	01/01 – 12/31/2007
Cost of materials	7,719,706	8,025,240
Personnel costs	2,644,118	2,638,753
Depreciation and amortisation	348,739	294,223
Transport costs	276,514	217,734
Warranties	196,721	103,141
Cost of premises	174,524	163,392
Consultancy	133,545	118,943
Other	370,727	287,850
Total	**11,864,594**	**11,849,276**

(3) Sales costs
Sales costs are as follows:

in €	01/01 – 12/31/2008	01/01 – 12/31/2007
Personnel costs	1,731,773	1,499,286
Advertising and travel costs	1,288,720	1,421,529
Consultancy/commissions	668,332	498,655
One-time effect of redemption of share options	0	392,917
Other	608,046	565,299
Total	**4,296,871**	**4,377,686**

The figure from the previous year includes a one-time effect of € 392,917 from the redemption of share options. For more information on share options, see Note 36 – Share-Based Payment.

(4) Research and development costs
Research and development costs are as follows:

in €	01/01 –12/31/2008	01/01 – 12/31/2007
Cost of materials	1,262,761	608,396
Personnel costs	773,327	359,349
Depreciation and amortisation	279,615	308,932
Consultancy and patents	73,417	6,543
Cost of premises	41,871	34,563
One-time effect of redemption of share options	0	92,038
Other	112,521	28,930
Capitalization of self-produced assets	-957,800	0
Set-off of grants	-807,969	-807,075
Total	**777,743**	**631,676**

The figure from the previous year included a one-time effect of € 92,038 from the redemption of share options. For more information on share options, see Note 36 – Share-Based Payment.

(5) General administration costs
General administration costs are as follows:

in €	01/01 – 12/31/2008	01/01 – 12/31/2007
Personnel costs	850,307	797,093
Audit and consultancy costs	326,971	247,263
Investor relations/annual meeting	242,360	121,579
Supervisory Board compensation	168,694	138,589
Travel costs	156,797	119,390
Depreciation and amortisation	102,743	105,081
Recruiting costs	97,279	176,213
Insurance	88,008	63,371
Car-operating costs	44,879	27,149
Costs of hardware and software support	38,323	41,672
One-time effect of redemption of share options	0	484,955
Other	184,732	107,802
Set-off against grants	-135,853	-126,927
Total	**2,165,240**	**2,303,231**

The figure from the previous year included a one-time effect of € 484,955 from the redemption of share options. For more information on share options, see Note 36 – Share-Based Payment.

(6) Other operating income
Other operating income is as follows:

in €	01/01 – 12/31/2008	01/01 – 12/31/2007
Prize money	430,857	0
Income from sale and lease back	79,420	79,420
Income from other periods	9,427	23
Income from mark-to-market of derivatives	609	21,844
Other	24,428	30,138
Total	**544,741**	**131,425**

The prize money came from prizes (first and third place) won by SFC in financial year 2008 in the "Wearable Power Prize Challenge" of the U.S. Department of Defense.

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

(7) Other operating expenses
Other operating expenses can be broken down as follows:

in €	01/01 – 12/31/2008	01/01 – 12/31/2007
Expenses from the market valuation of derivatives	484,911	0
Foreign exchange transaction losses	5,470	24,492
Expenses from other periods	4,481	3,478
Other	234	2
Total	**495,096**	**27,972**

(8) Interest and Similar Income
Interest and similar income was as follows:

in €	01/01 – 12/31/2008	01/01 – 12/31/2007
Fixed interest income	2,069,857	802,837
Interim gains on sales of securities	104,031	586,826
One-time effect of redemption of silent investments	0	1,011,879
Other	11,677	12,307
Total	**2,185,565**	**2,413,849**

The interim gains on sales of securities come from securities acquired and sold again over the course of the year. The Group no longer held securities at the reporting date.

The previous year's figure for interest and similar income included an effect from the redemption of silent partnerships. For more information, see Note 35 – Financial Instruments.

(9) Interest and Similar Expense
Interest and similar expense was as follows:

in €	01/01 – 12/31/2008	01/01 – 12/31/2007
Interest-like expenses	35,604	92,074
Interest on silent partnerships	4,375	137,949
Other	42	592
Total	**40,021**	**230,615**

(10) Income taxes
As in the previous year, income taxes for financial year 2008 came to € 0.

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

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

As it was the case as of 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 will be able to utilize the tax losses brought forward. Thus, with the subsequent netting of our deferred tax assets and liabilities, the change in the applicable tax rate was of no relevance to the deferred taxes we reported on our balance sheet and, thus, had no impact on our income tax expense/income for the period.

Deferred tax assets and liabilities were as follows:

in €	2008	2007
Tax rate	27.40 %	27.40 %
Deferred tax assets		
for receivables from contract development	174,013	296,525
for liabilities from finance leasing	41,419	136,167
from loss carryforwards	8,150,072	7,660,147
Write-down of deferred tax assets	-7,699,190	-7,321,076
Total	**666,314**	**771,763**
Deferred tax liabilities		
for intangible assets	460,903	263,720
for fixed assets from finance leasing	20,626	77,292
for receivables under contract production	166,432	396,838
for other assets	12,911	11,342
for provisions	5,442	22,571
Total	**666,314**	**771,763**

Subject to the operating audit, at the balance sheet date there were tax losses carried forward in the amount of approximately € 30,776,700 (2007: € 28,310,735) for corporate income tax and approximately € 28,382,000 (2007: € 25,939,333) for trade tax. As mentioned above, the maximum amount of deferred tax assets recognized on tax loss carryforwards was the amount at which they can be offset against deferred tax liabilities, because future use of these loss carryforwards cannot yet be established with sufficient certainty. Please see the explanations of the assumptions and estimates in these Notes. The tax loss carryforwards are exclusively losses carried forward in Germany, which in principle can be carried forward indefinitely.

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

in €	2008	2007
Tax rate	27.40 %	
Net loss	-2,355,462	-2,524,174
Expected tax charge	-645,397	-928,896
Deviations		
1. Adjustments for changes in tax rate	0	2,527,996
2. Change in write-down of deferred tax assets	378,114	137,114
3. Taxes from permanent differences – non-deductible expenses	-29,786	-35,267
4. Taxes from permanent differences – IPO costs	0	-2,129,246
5. Non-deductible expense from share options	19,714	406,333
6. Other	277,355	21,966
Tax charge pursuant to consolidated income statement	**0**	**0**

(11) Cost of materials
Cost of materials was as follows:

in €	01/01 –12/31/2008	01/01–12/31/2007
Raw materials and supplies and related goods	7,847,292	7,868,918
Related services	1,393,210	1,041,411
Set-off against grants	-424,263	-439,958
Total	**8,816,239**	**8,470,371**

(12) Depreciation and amortization
Depreciation and amortization of assets is set forth in the Consolidated Summary of Fixed Assets.

The consolidated income statement was prepared in accordance with the cost-of-sales method and includes pro rata depreciation and amortization for property, plant and equipment and intangible assets in the production costs, sales costs, research and development costs and general administration costs.

(13) Personnel expenses and employees
Personnel expenses were as follows:

in €	01/01–12/31/2008	01/01–12/31/2007
Wages and salaries	4,697,096	3,673,328
Expense from share options	72,003	1,104,166
Statutory social security expenses	768,081	585,719
Variables/bonuses	302,327	713,979
Other social security expenses/pensions	126,710	126,124
Other	33,307	61,076
Capitalization of development costs	-328,319	0
Set-off against grants	-330,093	-259,839
Total	**5,341,112**	**6,004,553**

The clearing account for other non-cash compensation is included under the line item for “Wages and salaries.”

The statutory social security expenses include the Company’s share of € 422,561 in contributions to the public pension insurance system (previous year: € 316,714).

The average number of employees was as follows:

	01/01–12/31/2008	01/01–12/31/2007
Full-time employees (incl. Management Board)	90	70
Part-time employees	6	7
Trainees/students awaiting diploma	7	7
Total	**103**	**84**

(14) Result from special influences
Taking account of the two special influences in financial year 2007 (the redemption of the silent partnerships and the cancellation of share options), the result for financial year 2008 cannot be compared with the result for the previous year (for further explanation, see Notes 35 and 36). However, in order to offer some economic comparison, we present this result after taxes and the operating result from financial year 2007 after adjustment for the special circumstances.

in €	01/01–12/31/2008	01/01–12/31/2007
Net loss in accordance with income statement	-2,355,462	-2,524,174
Effect from redemption of silent partnership	0	-1,011,879
Effect from cancellation of share options	0	969,910
Adjusted result after taxes	**-2,355,462**	**-2,566,143**

in €	01/01–12/31/2008	01/01–12/31/2007
Operating loss in accordance with income statement	-4,501,006	-4,707,408
Effect from cancellation of share options	0	969,910
Adjusted operating loss	**-4,501,006**	**-3,737,498**

4. NOTES ON THE CONSOLIDATED BALANCE SHEET

(15) Inventories
Inventories had a remaining term of less than one year, and consisted of the following:

in €	12/31/2008	12/31/2007
Raw materials and supplies	779,600	955,500
Unfinished goods	65,700	139,900
Finished goods	305,700	185,300
Total	**1,151,000**	**1,280,700**

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

in €	12/31/2008	12/31/2007
Raw materials and supplies – before impairment	806,662	987,149
Impairment	-27,062	-31,649
Net book value	**779,600**	**955,500**

in €	12/31/2008	12/31/2007
Unfinished and finished goods – before impairment	411,012	371,931
Impairment	-39,612	-46,731
Net book value	**371,400**	**325,200**

A total of € 40,827 for impairment of inventories (previous year: € 48,723) was expensed in financial year 2008. The carrying amount of fair-valued inventories as of the balance sheet date was € 98,249 (previous year: € 39,320).

Expenses for inventories in financial year 2008 came to € 6,270,773 (previous year: € 6,766,061), and are included in the cost of materials.

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

in €	12/31/2008	12/31/2007
Trade accounts receivable – gross	2.388.255	2.013.399
Allowances for risk of default	-16.409	-13.212
Trade accounts receivable – net	**2.371.846**	**2.000.187**

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

(17) Receivables from Percentage-of-Completion
In the receivables from percentage-of-completion, production costs incurred (including profit contributions) are set off against prepayments received. Because the revenues realized in financial year 2008 exceed the prepayments received, there were receivables from percentage-of-completion as of the reporting date.

in €	12/31/2008	12/31/2007
Proceeds shown	3,509,396	4,165,224
Partial settlements and advance payments received	3,358,248	4,239,879
Receivables/Liabilities from percentage-of-completion	**151,148**	**-74,655**
thereof production costs incurred	2,515,499	2,726,096

In financial year 2007, the payments received exceeded the revenues to be generated in that year, so that the excess amounts were shown as liabilities from percentage-of-completion as of the reporting date.

Adjustments made to the estimates were treated as changes in estimates in accordance with IAS 8 "Accounting Policies: Changes of Estimates and Errors". The effects thereof were recognized in the income statement. In financial year 2008, estimated total project costs increased € 52,461 against the previous year (previous year: decrease of € 55,855), primarily because of changes in technical specifications. Furthermore, the project volume for orders denominated in foreign currencies increased by € 1,366 because of changes in exchange rates (previous year: decrease of € 36,034). Consequently, sales decreased € 9,940 in 2008 (previous year: increase of € 55,992), and the gross margin decreased € 62,051 (previous year: increase of € 148,284). The change in total project costs will result in a € 350 increase in costs in subsequent years (previous year: € 36,437).

Receivables from percentage-of-completion have remaining terms of less than one year.

(18) Income tax receivables
The income tax receivables relate to refunds of withholding tax on capital (including the solidarity surcharge), and have a remaining term of less than one year.

(19) Other Assets and Receivables
Other long-term assets and receivables pertain to prepayments made for the purchase of components for circuit boards and their assembly. They are recognized at present value. An interest rate of 8% is applied for discounting.

Other short-term assets and receivables were due in less than one year, and consisted of the following:

in €	12/31/2008	12/31/2007
Receivables from grants	580.462	274.651
Prepayments made	138.100	0
VAT receivables	122.786	0
Interest receivable on time deposits / securities	92.251	158.086
Market value of derivatives	609	21.844
Other	9.264	24.389
Total	**943.472**	**478.970**

Other assets and receivables include financial assets in the amount of € 673,322 (previous year: € 454,580).

(20) Cash and Cash Equivalents
Cash and cash equivalents consist of cash and current accout surplus bank account balances and of time deposit and term money accounts at banks that are due within three months.

(21) Cash and Cash Equivalents with Limitations on Disposal
There is a bank guarantee in the amount of € 31,320 (previous year: € 31,320) in connection with the lease for the Company's business premises for the use of office space at Eugen-Sänger-Ring 4 and 6, Brunnthal (StartPoint).

There is also a bank guarantee to Woltering GmbH on account of the lease for business premises to use office space and parking spaces at Eugen-Sänger-Ring 17, Brunnthal, in the amount of € 14,000 (previous year: € 14,000).

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

(22) Prepaid Expenses
As in the previous year, prepaid expenses at December 31, 2008, relate to deferred maintenance costs and fees for designated sponsoring and research as a result of the Company's listing on the stock exchange.

(23) Intangible Assets
For a statement of intangible assets, please see the Consolidated Summary of Fixed Assets.

Grants of € 943,821 (previous year: € 934,003) were received in connection with development activities and were shown as a reduction of research and development costs and of general administration costs. Costs of € 957,800 (previous year: € 0) were capitalized as development costs.

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

The additions to intangible assets shown in the Consolidated Summary of Fixed Assets for financial year 2008 also relate to costs in connection with SFC's patents.

(24) Property, Plant and Equipment
Property, plant and equipment is shown in the Consolidated Summary of Fixed Assets.

(25) Other Provisions
Other provisions are shown in the following table:

in €	01/01/2008	Addition	Interest cost added back	Use	Reversal	12/31/2008	thereof with a remaining term > 1 year
Warranties	559,565	569,015	14,435	372,519	0	770,496	243,581
Provision for promotions	101,600	0	0	92,700	8,900	0	0
Total						**770,496**	**243,581**

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

Part of the provision for warranties is related to long-term liabilities. This portion, in the amount of € 243,581 (previous year: € 176,898), is shown as other provisions under long-term liabilities. The provision was recognized in the amount of the cash value of the expected expenses. The amount was discounted to present value using an interest rate of 4%.

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

(26) Liabilities from prepayments

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

Liabilities from prepayments include € 224,095 in prepayments received (previous year: € 983,864) relating to a percentage-of-completion project, and thus representing liabilities from production orders.

(27) Trade accounts payable
All trade accounts payable are due in less than one year.

(28) Liabilities from finance leases
Details of the minimum lease payments under the sale and lease back agreement are as follows:

in €	12/31/2008	12/31/2007
Future minimum lease payments		
< 1 year	119,915	308,965
1 to 5 years	0	98,746
> 5 years	0	0
Interest portion of future minimum lease payments		
< 1 year	1,733	21,169
1 to 5 years	0	1,733
> 5 years	0	0
Cash value of future minimum lease payments		
< 1 year	118,182	287,796
1 to 5 years	0	97,013
> 5 years	0	0

Finance leasing resulted in the following expenses:

in €	12/31/2008	12/31/2007
Interest expense	21,169	43,551
Depreciation	206,959	220,366
Recognised expense	**228,128**	**263,917**

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

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

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

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

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

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

(29) Liabilities from percentage-of-completion

At December 31, 2007, there were € 74,655 in liabilities from percentage-of-completion. More detailed information is provided under Note 17.

(30) Other liabilities

Other short-term liabilities were as follows:

in €	12/31/2008	12/31/2007
Market value of derivatives	511,184	0
Variables/bonuses	388,149	464,100
Outstanding vacation	137,305	140,480
Wage tax, VAT, withholding tax on capital	113,254	406,714
Trade association contributions	30,900	24,500
Severance and release from duties	28,373	0
Supervisory Board compensation	27,500	138,589
Social security	21,035	40,665
Employee invention compensation	12,025	19,810
Overtime	6,268	7,526
Liabilities from silent partnerships	0	2,246,250
Covenants not to compete	0	32,600
Other	56,382	42,441
Total	**1,332,375**	**3,563,674**

Other short-term liabilities at December 31, 2007, included liabilities from silent partnerships in the amount of 2,246,250. See Note 35, Financial Instruments, concerning the dissolution of the silent partnerships.

At December 31, 2007, there were also other long-term liabilities in the amount of € 216,700. These related to long-term bonus payments. Because the interest rate effect is negligible, no discounting was applied to these liabilities in financial year 2007.

Other liabilities include financial liabilities of € 542,084 (previous year: € 2,270,750).

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

(32) Equity
Changes to SFC's equity are shown in the Consolidated Statement of Equity.

SUBSCRIBED CAPITAL
At the balance sheet date, subscribed capital amounted to € 7,152,887 and was divided into 7,152,887 bearer shares without par value, with a notional amount of € 1.00 per no-par-value share. The subscribed capital has been fully paid in. Each share confers one vote. Shareholders have no special rights that confer control.

In financial year 2008, SFC employees exercised the remaining 4,161 share options to acquire 4 shares each, and accordingly increased the share capital by € 16,644. Of this amount, € 4,161 was paid up in cash and € 12,483 was drawn from the capital surplus. See Note 36 regarding the agreements on share-based payment.

At December 31, 2007, subscribed capital stood at € 7,136,243.

At the shareholders' meeting on April 2, 2007, it was resolved to increase capital from the capital surplus by € 4,241,808 from € 1,413,936. This capital increase was implemented when it was recorded in the Commercial Register on April 20, 2007. The capital surplus reduced accordingly.

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

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

CAPITAL SURPLUS
The capital surplus at the reporting date stood at € 66,879,638.

The expense associated with the share options issued in financial year 2006 increased the capital surplus by € 72,003. As explained above, the sum of € 12,483 was withdrawn because of the exercise of share options in 2008.

At December 31, 2007, the capital surplus stood at € 66,820,118.

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

CONDITIONAL CAPITAL

The parent company has a conditional capital II in the amount of € 144,360. The conditional capital was to be used to establish a share option program for members of the Management Board and Company employees that originally provided for the grant of up to 44,352 options to acquire the Company's ordinary bearer shares as no-par-value shares with a notional value of € 1.00. The program was to remain in effect until December 31, 2009. Because of the capital increase from the capital surplus that was implemented, since April 2, 2007, every share option has entitled its holder to subscribe to four shares at a strike price of € 0.25 per share.

In connection with conditional capital II and the conditional capital I that existed in previous years, employees and members of the Management Board of the Company were granted option rights until the reporting date, allowing an adjustment for unexercised options, because of the capital increase in return for cash contributions of January 17, 2006. See Note 36, Share-Based Payment, for details of the SFC share option program.

After the exercise of the options the subscribed capital stood at € 7,152,887, and the capital surplus was € 66,879,638. As of the reporting date there were no longer any exercisable option rights; in that sense the stock option program has closed.

Following the exercise of the options, conditional capital II came to € 127,716.

In financial 2007 the parent company had conditional capital I and conditional capital II, which were increased to € 21,504 and € 155,904, respectively, by resolution of the shareholders' meeting on April 2, 2007, because of the capital increase from the capital surplus. The conditional capitals were to be used to set up the share option program as discussed above.

Following the exercise of the options, subscribed capital at December 31, 2007, stood at € 7,136,243, the capital surplus was € 66,820,118, and the total of conditional capital I and conditional capital I was € 144,360.

AUTHORIZED CAPITAL

On May 8, 2008, the shareholders' meeting resolved to create a new authorized capital 2008 in the amount of € 3,568,121. The Management Board was empowered to increase the Company's subscribed capital by up to € 3,568,121 on one or more occasions before May 7, 2013, with the Supervisory Board's consent, by issuing new no-par-value bearer shares, in exchange for cash or in-kind contributions. As a rule, shareholders are to be granted preemptive rights to subscribe to these shares. However, under certain circumstances the shareholders' preemptive rights may be excluded with the Supervisory Board's consent.

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

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

On May 10, 2007, with the Supervisory Board's consent, the Management Board exercised this authorization and resolved to increase the share capital of € 5,655,744 by up to € 1,615,927, to as much as € 7,271,671, by issuing up to 1,615,927 new no-par-value bearer shares.

After implementation of the transactions discussed above, the authorized capital 2007 amounts to € 1,380,421.

AUTHORIZATION TO ACQUIRE OWN SHARES

The shareholders' meeting on May 8, 2008, authorized the Company to acquire its own shares by November 7, 2009, up to 10% of the Company's share capital on May 8, 2008. No use had been made of this authorization as of the balance sheet date.

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

OTHER CHANGES RECOGNIZED DIRECTLY IN EQUITY
The other changes recognized directly in equity relate to changes resulting from foreign currency translation for the foreign subsidiary, with no effect on the consolidated income statement.

5. OTHER DISCLOSURES

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

As part of government sponsorship of projects, non-repayable project-specific grants were paid to SFC, subject to securing financing for the entire project. Until the projects are successfully completed, there is a contingent liability in the amount of € 185,000 (previous year: € 718,591) with respect to the grants received thus far.

(34) Other financial liabilities
The other financial liabilities result from leases entered into.

OBLIGATION UNDER OPERATE LEASES
The Company has financial liabilities under operate leases, particularly from the leases for the business premises and from motor vehicle leases.

Operating expenses of € 395,804 (previous year: € 347,799) from operate leases were recognized in the current financial year.

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

in €	
Operate Leases	
Rental payments within 1 year	328,925
Rental payments between 1 and 5 years	3,849,726
Rental payments > 5 years	6,687,631

ORDER COMMITMENTS
The Group has purchasing commitments of € 4,256,023 (previous year: € 1,297,478). These relate primarily to blanket orders for components for fuel cell systems.

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

The following table shows the book values pursuant to the balance sheet for all financial instruments by category:

in €	12/31/2008	12/31/2007
Financial Assets		
Assets carried at amortized cost		
Trade accounts receivable:	2,371,846	2,000,187
Receivables from percentage-of-completion	151,148	0
Other assets and receivables (less derivatives)	672,712	432,736
Cash and cash equivalents	45,567,521	52,945,317
Cash and cash equivalents with limitation on disposition:	45,320	45,320
Assets measured as at fair value through profit or loss		
Derivatives with positive market value	609	21,844
Financial Liabilities		
Liabilities carried at amortized cost		
Trade accounts payable	2,050,326	1,261,806
Liabilities from finance leases	118,182	384,809
Liabilities from percentage-of-completion	0	74,655
Other liabilities (less derivatives)	30,900	2,270,750
Liabilities measured as at fair value through profit or loss		
Derivatives with negative market value	511,184	0

In the 2007 individual financial statements per IFRS, the line item for "Assets carried at amortized cost" included income tax receivables for an amount of € 463,229, which represented non-financial assets within the meaning of IFRS 7. Additionally, other assets and receivables (less derivatives) were shown in the amount of € 457,126, which included non-financial assets of € 24,390. The figures from the previous year have been revised accordingly.

Furthermore, the line item for "Liabilities carried at amortized cost" in 2007 included liabilities from prepayments in the amount of € 985,863, which represented non-financial liabilities within the meaning of IFRS 7. Additionally, other liabilities (less derivatives) were shown in the amount of € 3,780,374, which included non-financial liabilities of € 1,509,624. The figures from the previous year have been revised accordingly.

Derivatives with a positive market value are shown on the consolidated balance sheet under "other assets", and derivatives with a negative market value are shown under "other liabilities."

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

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

in €	12/31/2008	12/31/2007
Financial Assets		
Assets carried at amortized cost		
Expense from write-downs of trade accounts receivable	16,409	13,212
Income from currency translation of trade accounts receivable	4,841	4,078
Expense from currency translation of trade accounts receivable	2,974	17,097
Income from currency translation of other assets and receivables	108	0
Expense from currency translation of other assets	254	2,599
Interest income on cash and cash equivalents	2,081,534	815,143
Interest expense on cash and cash equivalents	42	8,863
Assets measured as at fair value through profit or loss		
Income from mark-to-market of derivatives with positive market value	609	21,844
Income from the sale of securities	104,031	586,826
Financial Liabilities		
Liabilities carried at amortized cost		
Interest expense from finance leases	21,169	43,551
Income from currency translation of trade accounts payable	3,430	12,784
Expense from currency translation of trade accounts payable	2,243	4,797
Liabilities measured as at fair value through profit or loss		
Income from the redemption of silent partnerships (one-time effect)	0	1,011,879
Interest paid on silent partnerships	4,375	137,949
Expense from the interest cost added back on silent partnerships	0	28,206
Expense from mark-to-market of derivatives with negative market value	484,911	0

CAPITAL MANAGEMENT

SFC's strategic orientation, and especially its chosen expansion strategy, will require further massive build-up efforts that will have to be financed to ensure future business success – particularly in product development, production, tapping further market segments, building the sales and distribution structure, and an organization that is growing in general. The funds brought in through the May 2007 public stock offering were raised specifically for this purpose. Until used in connection with the growth strategy, liquidity surplus will be invested in low-risk financial securities (such as money market funds, time deposits).

DERIVATIVES

At the balance sheet date December 31, 2008, there were the following financial derivatives. They are used exclusively to hedge currency risks and to even out fluctuations in the purchase price of raw materials (platinum):

in €	Fair Value
Currency forwards (dollar)	609
Commodity futures (platinum)	-511,184
	-510,575

Currency forwards showed a positive market value; the value for commodity futures was negative.

The currency forwards for each year include:

Fiscal 2008

	Trade Date	Maturity/ expiration date	Volume (USD)	Hedging rate	Exchange rate at balance sheet date
Currency forward U.S. dollar – Deutsche Bank	12/19/2008	02/17/2009	400,000	1.3923	1.3977

Fiscal 2007

	Trade Date	Maturity/ expiration date	Volume (USD)	Hedging rate	Exchange rate at balance sheet date
Currency forward US-Dollar – Deutsche Bank	11/30/2007	07/31/2008	900,000	1.4742	1.4712
Currency forward US-Dollar – Deutsche Bank	12/14/2007	07/31/2008	900,000	1.4545	1.4712
Currency Forward Plus Chance US Dollar – Deutsche Bank	12/14/2007	09/26/2008	1.000,000	1.484	1.4712

The commodity futures existing at the balance sheet date hedge the price of platinum, which is a core component of the fuel cells. As part of platinum hedging, commodities futures were entered into with terms as of the end of various quarters in 2009 for a total of 600 ounces of platinum, equivalent to roughly USD 1.1 million.

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

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

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

CREDIT RISK

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

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

Write-downs during the financial year were as follows:

in €	2008	2007
Write-downs at 01/01/	13,212	0
Additions	16,409	13,212
Use	13,212	0
Write-downs at 12/31/	16,409	13,212

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

in €	12/31/2008	12/31/2007
Receivables per itemisation	2,388,254	2,015,535
Specific write-downs	-16,409	-13,212
Foreign currency translation	0	-2,136
Not past due	1,821,736	1,931,757
Up to one month past due	498,457	45,899
One to three months past due	43,587	15,327
Three to six months past due	7,236	7,204
More than six months past due	830	0
Receivables per balance sheet	**2,371,846**	**2,000,187**

The outstanding receivables that are neither overdue nor written down are highly credit-worthy, because of the current client base. There was no indication as of the balance sheet date that any defaults were to be expected in regard to these receivables.

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

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

12/31/2008	Total	1 year	2 years	3 years	5 years	7 years	>7 years
Trade accounts payable	2,050,326	2,050,326					
Lease obligations	118,182	118,182					
Other financial liabilities	542,084	542,084					
Total cash outflow	**2,710,592**	**2,710,592**	**0**	**0**	**0**	**0**	**0**
Cash and cash equivalents	45,612,841	45,612,841					
Trade accounts receivable	2,371,846	2,371,846					
Other financial assets	673,321	673,321					
Total cash inflow	**48,658,008**	**48,658,008**	**0**	**0**	**0**	**0**	**0**
Net liquidity from financial instruments	45,947,416	45,947,416	0	0	0	0	0

12/31/2007	Total	1 year	2 years	3 years	5 years	7 years	> 7 years
Trade accounts payable	1,261,806	1,261,806					
Lease obligations	384,809	287,796	97,013				
Other financial liabilities	2,270,750	2,270,750					
Total cash outflow	**3,917,365**	**3,820,352**	**97,013**	**0**	**0**	**0**	**0**
Cash and cash equivalents	52,990,637	52,990,637					
Trade accounts receivable	2,000,187	2,000,187					
Other financial assets	454,580	454,580					
Total cash inflow	**55,445,404**	**55,445,404**	**0**	**0**	**0**	**0**	**0**
Net liquidity from financial instruments	51,528,039	51,625,052	-97,013	0	0	0	0

The figures from the previous year for other financial receivables and liabilities were revised as explained above.

INTEREST RATE RISK
SFC is not subject to any material interest rate risk. Accordingly, no hedges have been taken out.

Because the Company does not hold any instruments with a variable interest rate, an interest rate change would not have a material influence on cash flows. Given the present situation, no sensitivity analysis was applied to assess interest rate risks by showing the impact on profit, loss and equity of hypothetical changes in relevant risk variables.

EXCHANGE RATE RISK
Particularly on account of its volume of business with the U.S. armed forces, SFC generates a portion of its revenues in U.S. dollars, which is accompanied by lower expenditures and expenses in U.S. dollars. Therefore, currency forwards were entered into for 2008 to sell a total of USD 2.8 million. Of this amount, USD 0.4 million was swapped and will be sold in 2009. Because of delays in the award of JDAs with the U.S. armed forces, no further currency forwards beyond those transactions were entered into as of the reporting date. Therefore, there is exchange rate risk only with respect to the unhedged portion of the revenues. The existing U.S. dollar derivatives at the balance sheet date would have led to a € -14,363 change in the foreign currency result if the rate had fluctuated by - 5% and to a € 14,363 change in the foreign currency result if the rate had fluctuated by + 5%.

PRICE CHANGE RISK
Due to the platinum it uses in production and the related commodity futures, SFC is subject to a change in the price of platinum. Moreover, platinum is usually traded in the U.S. dollars, which results in additional value risks in connection with platinum futures depending on the performance of the U.S. dollar. At the balance sheet date a 5% increase in the price of platinum would have resulted in the recognition of a € 19,751 increase in the fair value of the derivative, whereas a decrease in the price of platinum would have resulted in a € 19,751 decrease in fair value. A simultaneous 5% increase in the exchange rate for the U.S. dollar would have resulted in an additional € 18,170 change in fair value, while a 5% decrease would have resulted in a minus € 20,083 change in fair value.

Silent Partnerships

TECHNOLOGIE BETEILIGUNGSFONDS BAYERN GMBH & CO KG
On November 22, 2000, SFC entered into an agreement with Technologie Beteiligungsfonds Bayern GmbH & Co KG ("BayKap") for a silent partnership in the amount of € 1,022,584.

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

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

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

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

TBG TECHNOLOGIE-BETEILIGUNGS-GESELLSCHAFT MBH
On May 9, 2000, SFC entered into two materially identically contracts with Technologie-Beteiligungs-Gesellschaft mbH ("tbg") regarding silent partnerships in the amount of € 750,000 each.

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

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

On April 17, 2007 an agreement was entered into with tbg Technologie-Beteiligungs-Gesellschaft mbH ("tbg") pursuant to which its contribution would be repaid in full and the final compensation agreed to contractually, the embedded derivative, would be settled with a payment of € 720,000 (or 48% of the contribution). Both these amounts were paid in January 2008. The resulting obligations at December 31, 2007, were shown under other short-term liabilities.

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

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

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

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

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

in €	12/31/2008	12/31/2007
Market values of the silent partnerships	0	-1,500,000

The silent partnerships no longer existed at December 31, 2008.

(36) Share-based payment
In previous financial years, the SFC issued share options in several tranches to the Management Board and other employees. These options were classified as equity-settled share-based payments. There are no plans for cash settlement.

At the start of financial year 2008, only 4,161 share options were outstanding, and these were exercised in full in the third quarter of 2008. The options from the remaining tranches had already been either exercised, redeemed or forfeited in previous years. The following table shows the evolution of share options for the current financial year:

	Tranche 1	Tranche 2	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8
Grant date	07/22/2003	10/19/2004	06/13/2005	07/01/2005	07/17/2006	09/30/2006	02/28/2007
Maximum term (years)	6.45	5.20	4.55	5.00	3.46	4.92	0.25
Strike price (€)	1.00	1.00	1.00	1.00	1.00	1.00	63.00
Options outstanding at beginning of 2007 reporting period	1,008	2,484	6,030	10,674	4,917	4,032	0
Options granted in the 2007 period	0	0	0	0	0	0	10,000
Options forfeited in the 2007 period	0	0	0	0	252	0	0
Options redeemed in the 2007 period	0	504	756	10,674	504	4,032	10,000
Options exercised in the 2007 period	1,008	1,980	5,274	0	0	0	0
Exercisable options at 12/31/2007	0	0	0	0	0	0	0
Options outstanding at beginning of the 2008 reporting period	0	0	0	0	4,161	0	0
Options exercised in the 2008 period	0	0	0	0	4,161	0	0
Options outstanding at the end of the 2008 period	0	0	0	0	0	0	0

During the current fiscal year, there were no cancellations or changes in existing plans. In financial year 2007, share options held by Dr. Peter Podesser, Dr. Jens Müller and Oliver Freitag were redeemed by mutual consent under an agreement with the Company. In settlement, the interested persons received 75% of the value of the option in cash. Since this transaction represented a cancellation within the meaning of IFRS 2, the still outstanding expense relating to the stock issue to the affected persons, in the amount of € 969,910, was recognized in general administration costs and sales costs, and in research and development costs.

The weighted average price per share at the exercise date of the options for those options exercised in the current financial year was € 7.59. For the 8,082 options exercised in July 2007, and the 180 options exercised in October 2007, the weighted average prices per share at the exercise date were respectively € 30.72 and € 14.97.

GENERAL TERMS AND CONDITIONS OF THE OPTION AGREEMENTS

Tranche 1, 2, 4 and 6

- The options cannot be exercised until the end of a vesting period of two years, and can be exercised only within 10 banking days of the determination of the annual financial statements, within 10 banking days after the publication of quarterly figures, and during the first 10 banking days in the month of December.

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

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

- The beneficiaries are entitled to sell 50% of the shares they receive no earlier than 12 months after they exercise the options. If beneficiaries intend to sell shares acquired under the option on or after the first trading day after the completed IPO, and after this lock-up period has expired, they must obtain the Company's consent to do so. The Company may refuse its consent if it has a justified interest in doing so.

Tranche 5
- Exercise of the options is not subject to a vesting period. Therefore, they can be exercised immediately.

- If an individual's Management Board employment agreement ends before October 31, 2007, the Company can require the individual in question to transfer the shares to the Company or to a person named by the Company. The number of shares covered by this rule is 33 shares per month between the termination of the employment relationship and October 31, 2007. This clause does not apply after the termination of the employment relationship after a trade sale or IPO.

- From the foregoing provisions it was determined that the vesting period is the period from the grant date to September 30, 2007, because as of that date, the Company can no longer demand that any more shares be given back.

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

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

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

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

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

No options were granted in the current financial year, and no further options are outstanding. The weighted average remaining term of the options outstanding at the end of the 2007 reporting period was 2 years. The strike price for the options outstanding at the end of the 2007 reporting period was € 1.00.

The weighted average fair value of the options granted in 2007 (Tranche 8) was € 78.58. It was determined on the basis of the following parameters, using a modified Black-Scholes-Merton model:

	2007
Share price on valuation date	140.00
Expected term of the options	0.25
Exercise price at the expected exercise date (€)	63.00
Expected dividend yield	0.00 %
Risk-free interest rate for the term	3.56 %
Expected volatility for the term	100 %

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

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

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

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

The expense recognized for benefits received during the financial year was as follows:

in k€	12/31/2008	12/31/2007
Period expense from equity based compensation transactions	72	1,104

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

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

Persons in key positions at SFC are the Management Board members and the Supervisory Board members along with close members of their families. The Management Board and the Supervisory Board were made up as follows in financial years 2007 and 2008:

MANAGEMENT BOARD MEMBERS
- Dr. Peter Podesser, Simbach, a businessman (Chairman)
- Dr. Jens Müller, Munich, who holds a degree in chemistry

SUPERVISORY BOARD MEMBERS
- Dr. Rolf Bartke, Berlin, a business engineer (Chairman since May 8, 2008; previously deputy chairman since April 2, 2007)
- Rüdiger Olschowy, Schliersee, a businessman (deputy chairman since May 8, 2008; previously Chairman)
- Jakob-Hinrich Leverkus, Hamburg, a businessman (deputy chairman until April 2, 2007; thereafter an ordinary member)
- Wolfgang Biedermann, Hamburg, a businessman
- Dr. Roland Schlager, Munich, a businessman (as of January 24, 2008)
- Dr. Manfred Stefener, Munich, an engineer
- Achim M. Lederle, Munich, a businessman (until October 18, 2007)
- Thomas J. Faughnan, Kenneth Square, USA, a businessman (until March 31, 2007)

Companies that are directly or indirectly controlled by members of management in key positions or are under their significant influence are also classified as "related parties" under IAS 24 "Related Party Disclosures".

The following overview shows the transactions with related parties.

Transactions 2008

in €	Receivables	Payables	Income	Expenses
Persons in key positions	0	324,543	0	620,104
Companies with significant influence	0		2,342	0
Total	**0**	**324,543**	**2,342**	**620,104**

Revenues of € 2,342 were realized under a supply relationship for individual components and testing equipment with elcomax GmbH, an entity under the significant influence of shareholder Dr. Manfred Stefener. Additionally, SFC operates together with Elcomax GmbH under a joint grant project.

Transactions 2007

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

In addition to the redemption of share options and the related recognition of expense, as described in Note 36, material transactions also included the work with DuPont Chemical and Energy Operations Inc. Until July 1, 2007, DuPont, as an investor with a seat on the Supervisory Board, qualified as a related party of SFC. As part of a JDA with DuPont, the provision of C-Series systems and test equipment resulted in revenues of € 456,032 in the first six months of 2007.

The other changes in the agreement with DuPont are no longer covered by the disclosure obligations under IAS 24 because DuPont is no longer classified as a related party.

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

The compensation of persons in key positions was as follows:

	2008		2007	
in €	**Fixed portion**	**Variable portion**	Fixed portion	Variable portion
Management Board	562,149	96,250	585,643	381,250
Supervisory Board	168,763	0	138,589	0
Total	**730,912**	**96,250**	**724,232**	**381,250**

The variable portion includes a renewal bonus for the early renewal of the contract of a member of the Management Board, in the amount of € 50,000. The provision of € 216,700 set aside in prior years for long-term results-based compensation has been written back, and no new provision for long-term results-based compensation was recognized in financial year 2008. The variable portion for financial year 2007 furthermore includes the difference between provisions for previous members of the Management Board and the amounts actually paid in 2007.

The fixed portion in financial year 2008 includes compensation of former Supervisory Board members of € 0 (previous year: € 69,744).

The Management Board's variable compensation includes a long-term component of € 50,000 (previous year: € 200,000).

Total and individual payments to the Management Board break down as follows for the individual members:

Financial year 2008

in €	fixed compensation	short-term performance based compensation	long-term compensation	Total
Dr. Peter Podesser	311,150	27,500	50,000	388,650
Dr. Jens Müller	250,999	18,750	0	269,749
Total	**562,149**	**46,250**	**50,000**	**658,399**

Financial year 2007

in €	fixed compensation	short-term performance based compensation	long-term performance based compensation	Total
Dr. Peter Podesser	301,150	110,000	100,000	511,150
Dr. Jens Müller	210,999	75,000	100,000	385,999
Total	**512,149**	**185,000**	**200,000**	**897,149**

(38) Earnings per Share
The number of outstanding shares during the financial year was as follows:

in €	01/01-12/31/2008	01/01-12/31/2007
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/October 2007		33,048
Capital increase from share options July 2008	16,644	
Outstanding ordinary shares 12/31	**7,152,887**	**7,136,243**
Undiluted number of outstanding ordinary shares	**7,143,178**	**5,099,924**
Diluted number of outstanding ordinary shares	**7,143,178**	**5,099,924**

Pursuant to IAS 33 "Earnings per Share", the effects of potential shares must be taken into account in determining the diluted earnings per share only if their conversion to ordinary shares would reduce the earnings per share from continuing operations, or would increase the loss per share for the period for continuing operations. Thus diluted earnings per share are not calculated under the assumption that potential shares will be exercised (exercisable options). The figures for the previous year have been revised accordingly.

There are no dilutive effects on SFC's earnings.

The entire profit or loss for the period is attributable to equity holders of the parent company, and is included in the computation of undiluted and diluted earnings per share.

(39) Disclosures on the consolidated cash flow statement
The consolidated cash flow statement shows the origin and use of cash flows. In accordance with IAS 7 "Cash Flow Statements", cash flows from ordinary operations are distinguished from cash flows from investment activities and cash flows from financial activities.

Income tax payments pertained to withholding tax on capital and the solidarity surcharge, and most were withheld from interest credits when time deposits matured.

The liquidity surpluses generated from the IPO in 2007 are invested in short-dated, low-risk financial securities. The interest received on these securities is attributed to the cash flow from investment activity. Interest payments are captured in the cash flow from financial acitivity.

The "cash" item in the cash flow statement contains the "cash and cash equivalents" discussed in Note 20.

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

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

- A-Series

- C-Series

- Joint Development Agreements ("JDA")

- Power Manager

- Other products

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

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

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

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

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

A separate "unallocated item" includes all amounts that cannot be attributed to one of the above segments, as well as the effects of consolidation.

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

There is no offsetting between the segments.

The net result from interest income and interest expenses is shown in the financial result.

Sales by region were as follows:

in €	12/31/2008	12/31/2007
Germany		
A-Series	2,741,519	2,472,883
JDA	1,758,922	1,524,029
Power Manager	0	2,101
Other products	146,897	91,185
Total Germany	**4,647,338**	**4,090,198**
Europe		
A-Series	5,908,408	5,547,495
C-Series	288,000	0
Power Manager	22,256	0
Other products	310,169	155,405
Total Europe (not including Germany)	**6,528,833**	**5,702,900**
Asia		
A-Series	55,086	28,888
Other products	7,842	3,227
Total Asia	**62,928**	**32,115**
North America		
A-Series	245,740	169,575
C-Series	98,192	273,969
JDA	1,750,473	2,641,197
Power Manager	1,099,428	1,375,982
Other products	56,226	58,579
Total North America	**3,250,059**	**4,519,302**
Rest of the world		
A-Series	43,506	4,944
C-Series	16,000	0
Other products	5,133	1,549
Total rest of the world	**64,639**	**6,493**
Total	**14,553,797**	**14,351,008**

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

Sales of € 4,647,338 (previous year: € 4,090,198) were generated at SFC's headquarters in Germany. All other countries generated sales of € 9,906,459 (previous year: € 10,260,810).

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

in €	A-Series	JDA	Other products	Revenues	As a percentage of total revenues
2008					
Bundesamt für Wehrtechnik	0	1,758,922	0	1,758,922	12.09 %
2007					
Trigano Service	2,166,270	0	52,600	2,218,870	15.46 %
Euro Accessoires	1,713,615	0	25,723	1,739,338	12.12 %
Bundesamt für Wehrtechnik	0	1,524,029	0	1,524,029	10.62 %

The depreciation and amortization on fixed assets contained in the production costs are broken down by segment as follows:

in €	01/01-12/31/2008	01/01-11/31/2007
A-Series	249,105	208,297
C-Series	2,083	1,318
JDA	50,836	62,015
Power Manager	21,573	8,128
Other products	25,142	14,465
Total	**348,739**	**294,223**

Additions to fixed assets break down among the segments as follows:

in €	12/31/2008	12/31/2007
A-Series	577,594	180,246
C-Series	4,829	1,141
JDA	117,871	53,664
Power Manager	50,022	7,033
Other products	58,297	12,517
Total	**808,613**	**254,601**

Fixed assets and additions to fixed assets were assigned to the segments in the ratio of write-downs per segment to total write-downs.

All rights arising from intangible assets, as well as all property, plant and equipment, are attributable to SFC, having its registered office and principal place of business in Germany.

Additionally, other assets and receivables of € 204,045 (previous year: € 0) attributable to the A Series existed as of the balance sheet date.

(41) Auditor's Fees

The auditor's fees were:

in €	01/01-12/31/2008	01/01-12/31/2007
Financial statements	55,272	68,536
Other certificates and reports	0	205,119
Total	**55,272**	**273,655**

(42) Declaration of Conformity under the German Corporate Governance Code
The Management Board and Supervisory Board have issued a Declaration of Conformity in accordance with § 161 of the German Stock Corporation Act (AktG). It was published on the website of SFC Smart Fuel Cell AG on March 13, 2008. This Declaration of Conformity will remain available on the Internet for the next five years, and will thus be permanently available to shareholders. It is published in the Annual Report as part of the Corporate Governance Report.

(43) Material events after the balance sheet date

There were no material events after the balance sheet date.

Brunnthal, March 12, 2009
The Management Board

Dr. Peter Podesser
CEO

Dr. Jens Müller
COO

SFC Smart Fuel Cell AG, Brunnthal
Responsibility Statement

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

Brunnthal, March 12, 2009

Dr. Peter Podesser CEO	Dr. Jens Müller COO

Independent Auditor's Report

We have audited the consolidated financial statements prepared by SFC Smart Fuel Cell AG, Brunnthal, – comprising the consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, consolidated statement of income and expense recognized, consolidated summary of fixed assets, consolidated segment information, and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation are the responsibility of the Parent Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of SFC Smart Fuel Cell AG, Brunnthal, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March16, 2009

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

signed: Voit
Wirtschaftsprüfer
[German Public Auditor]

signed: Papadatos
Wirtschaftsprüfer
[German Public Auditor]

Financial Calendar

Date	Schedule
04/28/2009	Publication of Quarterly Report
05/12/2009	Annual General Meeting
07/30/2009	Publication Half year Report
10/28/2009	Publication Nine months Report

IR-Contact

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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 Group'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.

Imprint

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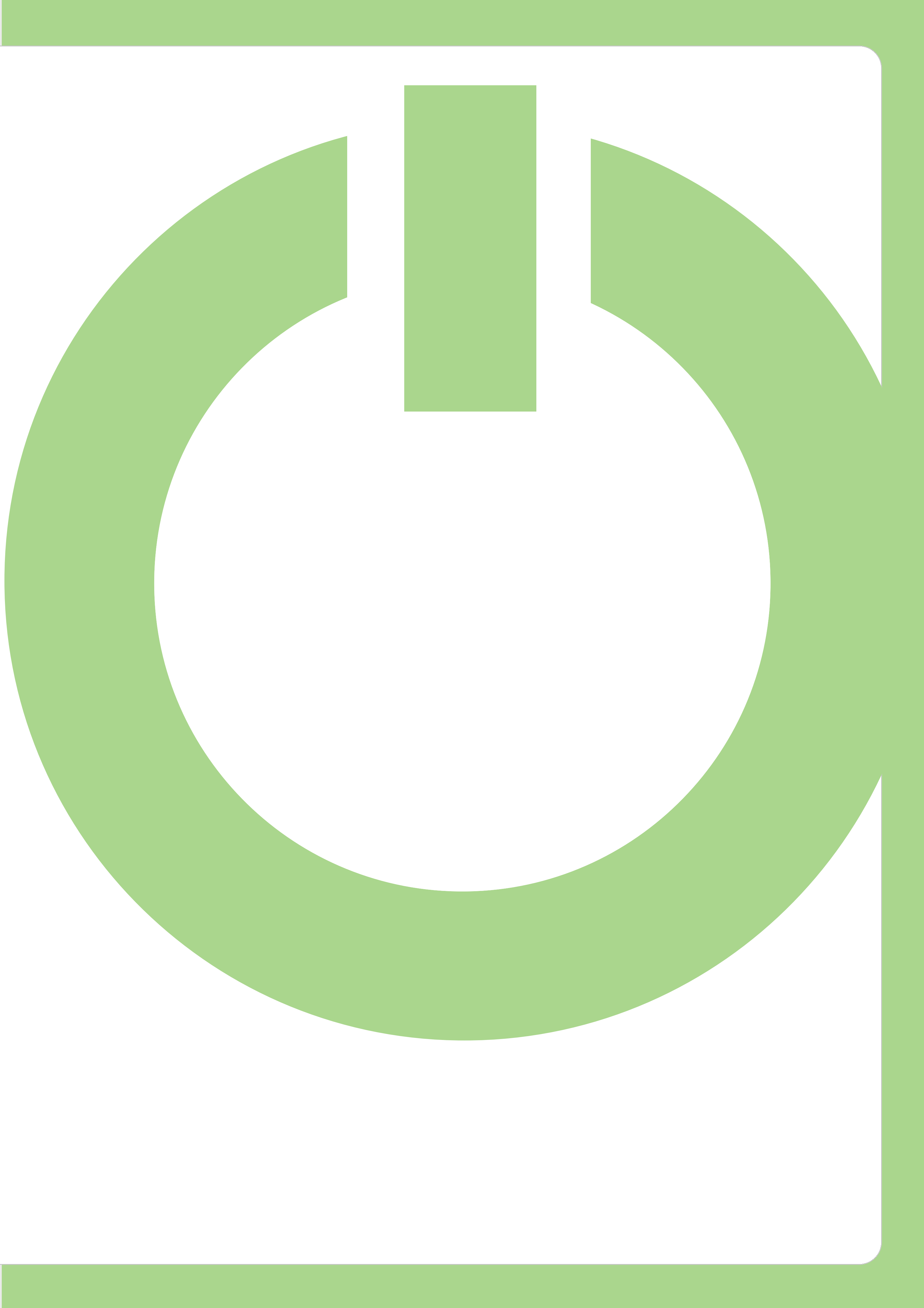
Reponsible
SFC Smart Fuel Cell AG

Text & Edition
SFC Smart Fuel Cell AG

Concept & Design
Sophie Huppert
Kommunikationsberatung



SFC
SMART FUEL CELL