ANNUAL REPORT 2010

SFC ENERGY

SFC ENERGY AG CONSOLIDATED KEY FIGURES

in k€

	1/1–12/31/2010	1/1–12/31/2009	Change in %
Total sales	13,330	11,687	14.1 %
Product sales total	12,455	10,542	18.1 %
Sales share of products	93.4 %	90.2 %	–
Gross margin total	4,042	3,194	26.5 %
Gross margin	30.3 %	27.3 %	–
EBITDA	–3,490	–3,580	2.5 %
EBITDA margin	–26.2 %	–30.6 %	–
EBIT	–4,510	–4,507	–0.1 %
EBIT margin	–33.8 %	–38.6 %	–
Net loss	–4,123	–3,785	–8.9 %
Net loss per share, diluted	–0,58	–0,53	–9.4 %

in k€

	12/31/2010	12/31/2009	Change in %
Equity	41,721	45,860	–9.0 %
Equity ratio	90.1 %	90.9 %	–
Balance sheet total	46,312	50,442	–8.2 %
Cash (freely available)	33,560	40,544	–17.2 %

	12/31/2010	12/31/2009	Change in %
Permanent employees at 12/31	97	91	6.6 %

CONTENT

INTRODUCTION BY THE MANAGEMENT BOARD

DEAR CUSTOMERS, SHAREHOLDERS, EMPLOYEES AND FRIENDS OF SFC ENERGY AG,

2010 was an important year for us, and not just because we celebrated our 10th anniversary and moved into a new building. While economic conditions in our markets recovered slowly following the crisis, we made key strategic and structural changes in our company in order to optimally prepare SFC for the challenges and opportunities of the future.

We have further developed our strategy: We supply our customers with much more than "just" an innovative, environmentally friendly fuel cell. What they get is an all-in-one power supply solution that can be used like a portable electrical outlet. The only thing that users ultimately need to do is plug in their electrical or electronic devices and turn them on – we take care of the rest.

This concentration on system solutions reflects the insights we have gathered in many years of working with customers and systems integrators in the defense and industrial markets. Our extensive practical experience in off-grid power supply and over 20,000 SFC fuel cells sold to date are our primary strengths. They secure our competitive advantage in the numerous applications that require reliable access to power far from the grid.

We have already scored initial successes from our strategic reorientation. In 2010, we increased total sales of our power supply solutions by more than 14 percent. Our key markets Industry and Defense particularly contributed to this trend, reflecting the success of our close cooperation with established systems integrators and industrial partners in the relevant markets.

In the defense segment, SFC Energy AG made the leap from development partner to supplier of standard products in 2010. With its commercial order for a system solution combining a portable JENNY fuel cell, the SFC Power Manager, a hybrid battery and a solar panel, the Bundeswehr will now use this efficient energy network as an independent source of power for soldiers in the field. The order gave a further boost to our market position as the leading supplier of stand-alone power supply solutions for defense applications.

One further change has been evident for six months now in our reports and press releases: We changed the name of the company from SFC Smart Fuel Cell AG to SFC Energy AG in July. The new name expresses the focus of our business on all-in-one power supply solutions.

Establishing the new SFC sales and service subsidiary in the state of Maryland on the East Coast of the United States put us in an excellent position in 2010 to quickly and efficiently leverage the opportunities offered by the North American market. The defense and off-grid industrial markets continue to be our focus here, and the launch of EFOY fuel cells in the Canadian motorhome market in early January 2011 was an initial step toward our planned development of end consumer markets in the region.

The "SFC Energy Approved Program" also got underway in 2010. This program standardizes green fuel cell technology and intelligent power management solutions by SFC for defense applications and qualifies electronic devices for environmentally friendly fuel cell technology. The first SFC Energy Approved partner is major player Panasonic with its Toughbook products.

The leisure market recovered gradually from the effects of the economic crisis in 2010. Although SFC delivered fewer fuel cells on the whole in 2010 than in the prior year due to an intentional reduction in warehouse inventories in the leisure market in 2010, sales in this segment exceeded the 2009 figure slightly thanks to further optimization of the model and price mix. The EFOY brand's increasing popularity in the marine segment was very gratifying. Starting in 2010, Swedish yacht manufacturer Arcona Yachts and Estonian boat builder Ridas Yacht & Composites began offering their customers the opportunity to order boats with EFOY fuel cells as standard equipment, while Sweden's largest marine wholesaler began selling EFOY fuel cells in all of its locations throughout the country in May. A sailboat equipped with an EFOY 2200 won the transatlantic Route du Rhum 2010 single handed sailing regatta, which is held every four years.

The new name expresses the focus of our business on all-in-one power supply solutions

Our EFOY fuel cells gained further ground in the recreational vehicle segment as well. Around 50 RV manufacturers across Europe now include EFOY fuel cells in their product selection, and numerous recreational vehicles leave the factory with "EFOY-ready" wiring as a standard feature, enabling owners to subsequently install EFOY fuel cells by themselves in just minutes. For the first time, the EFOY placed second in the power generation category in the prominent reader survey conducted by "promobil" magazine. And the journey continues: After the reporting period, the EFOY fuel cell was introduced in Canada with our partner RV Care, as mentioned above.

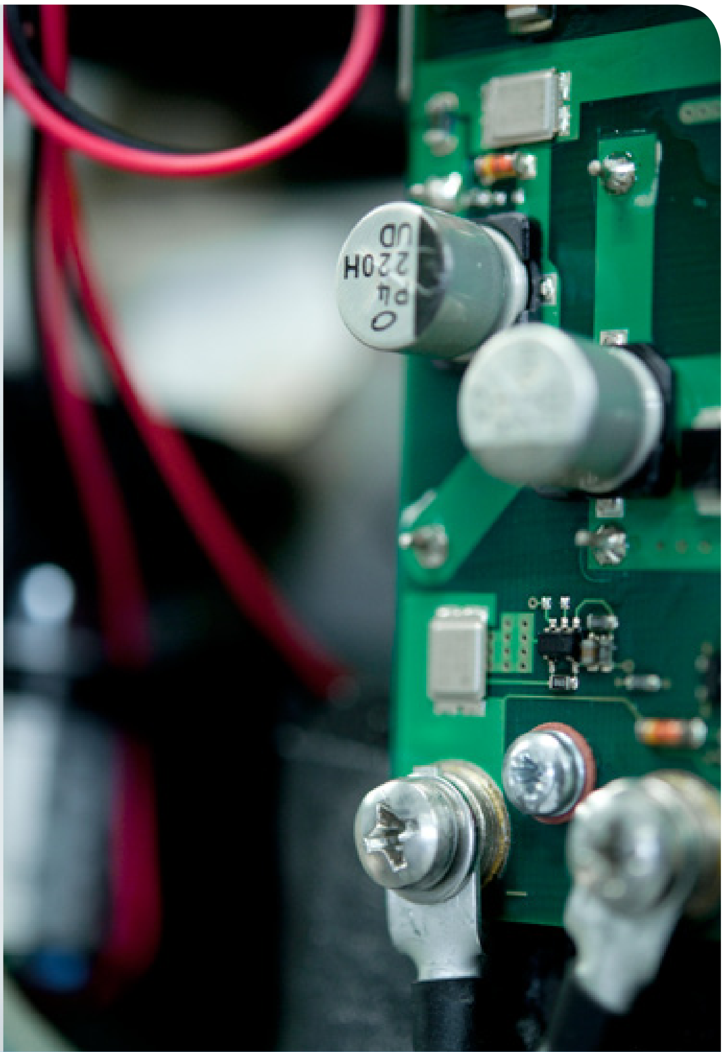
In 2010, we once again launched innovative new products in all of our markets, with the focus again on integrated solutions with superior comfort and ease of use. In addition to the EFOY Pro 2200 XT for industrial applications, another new product introduced to the market last year was the innovative, portable, plug-and-play JENNY ND Terra, an all-in-one solution providing off-grid, undetectable, long-term power for security- and defense-related applications. At the same time, we continued to press ahead with our initiatives to systematically reduce product costs and increase efficiency.

With our new major shareholder Holland Private Equity (HPE) on board, we have convinced a strong partner that fully supports our strategic direction as a supplier of off-grid power supply solutions with its sales and distribution expertise. Growth in industrial and defense markets shall be driven by strategic partnerships as well as further focus on integrated energy solutions. In this respect we are also considering acquisitative action. We therefore believe that SFC is in a good position to meet our goals of improving EBIT and cash flow and to take consistent steps towards breaking even in 2011.

On behalf of SFC Energy AG, I would like to express my sincere thanks for your support to date and invite you to stay on board as we continue our journey.

Sincerely,

Dr Peter Podesser
CEO




SFC
ENERGY

SFC ENERGY – MORE THAN FUEL CELLS – RELIABLE ENERGY SUPPLY FAR FROM ANY POWER OUTLET

10 years of fuel cells – in February 2010 SFC celebrated its first round anniversary as a company. But at SFC, 10 years of fuel cells does not merely mean 10 years of development, like it does at other manufacturers. It also represents a full decade of market experience.

Right from the outset, SFC has not only continuously improved its fuel cell products, but has also always tailored them to the needs of the market. The countless hours that SFC's technicians, engineers, chemists and sales reps have spent with customers on location – squeezing inside the rear stowage compartments of RVs and deep underbellies of boats, marching hours through the snow to the remote site of a flood early warning system, sitting in the bitter cold on the autobahn in road work vehicles, accompanying soldiers on field exercises – these are what set SFC apart.

Why? Because the depth of this practical experience has taught us what our customers truly need and helped us to sell more than 20,000 fuel cell systems worldwide at such an early stage. Each of those fuel cells functions as an ambassador for our company and enables a customer to draw on reliable power when far beyond the reach of the grid.

Users of electrical and electronic devices want to access reliable power for their applications even in remote conditions. They also want to keep costs and logistical hassle to a minimum. They want a solution that lasts. They want a lightweight, quiet, inconspicuous system. They want a product that is convenient, easy to use and good for the environment. What they don't want is to spend an inordinate amount of their own time installing a fuel cell, finding the right cables and batteries, planning hybrid operation with other energy sources like a solar module, or searching for a solution how to operate their system in rain or snow storms.

More than 20.000 fuel cell systems sold is the proof of our experience

We learned this early on out in the field and began developing complete solutions for the generation, storage and highly efficient distribution of power that are always aligned with demand. We give customers what they want: an off-grid energy supply system that will power their applications as soon as they plug them in. A clean energy source, the fuel cell remains the central component of these whole-product solutions. Some of the other components are developed in-house, but most are crafted in partnership with experts who are thoroughly familiar with the applications in question. Our technology, thus, covers the logical sequence of the energy value chain: power generation with a fuel cell, solar panel or combination of the two; power storage using intelligently designed battery systems; power distribution and charging with converters and chargers developed in-house or with trusted partners.

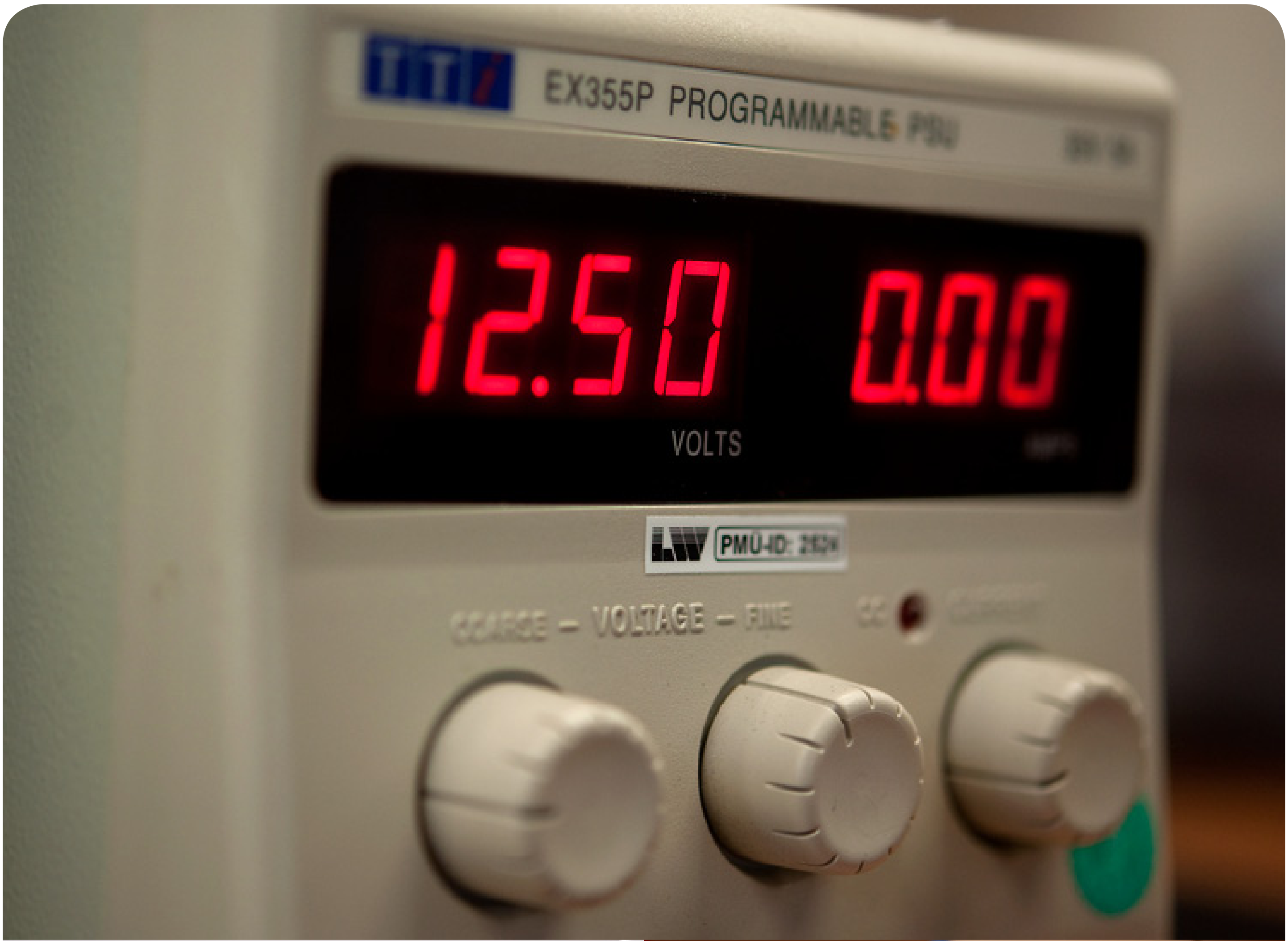
Looking ahead to doing an even better job with utmost efficiency, we made several key strategic and structural changes within our company in 2010.

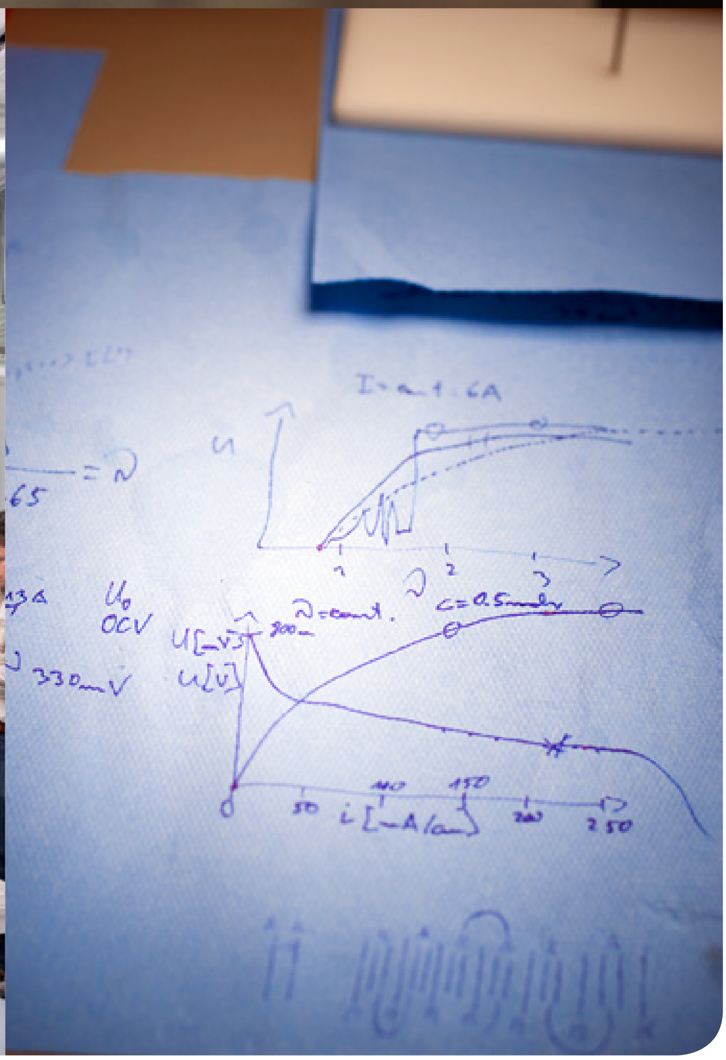
In November 2010, SFC gained a new major shareholder in Holland Private Equity (HPE). HPE is pursuing a long-term growth strategy with its investment. After canvassing the European landscape, HPE selected SFC as the best positioned company to profit greatly from the growing need for off-grid energy solutions. HPE will use its expertise to support SFC in the further industrialization of its business and execution of its strategy. The structure of our company, too, reflects our unwavering focus on the customer. Key positions are held by experienced managers, and the Supervisory Board is made up of highly knowledgeable, well-connected industry experts who advise management.

The new name SFC Energy AG is an expression of our commitment to offer our customers total energy supply solutions tailored to their specific needs. By moving into our new building in Brunnthal, outside Munich, we can efficiently direct all of our resources towards meeting this objective from a single location. Employees from the sales and marketing department just have to go down one flight of stairs to meet face-to-face with our developers and discuss the best means of transforming a specific market requirement into a real product. Engineers are just steps away from production, where they can coordinate the rollout of a manufacturing innovation with the production team. Even the employees from the US, who are in constant contact with customers in North America, are regularly at the new headquarters in order to ensure that our transatlantic operations run swiftly and smoothly.

The new name SFC Energy AG is an expression of our commitment to offer our customers total energy supply solutions

Amidst all of these changes, however, we must never lose sight of what has made SFC the company it is today: complete energy supply solutions built around SFC fuel cells that already reliably supply power to scores of electrical devices far from any outlet. Many of these solutions have garnered awards and customer recognitions. A sampling of them is provided at page 11 onwards.


EX355P PROGRAMMABLE PSU
12.50
0.00
VOLTS
VOLTAGE


OCV
330 mV

SFC PRODUCT SOLUTIONS

CIVILIAN MARKET	DEFENSE MARKET
PRODUCTS	PRODUCTS
EFOY FUEL CELLS	JENNY FUEL CELL
EFOY PRO SERIES	EMILY FUEL CELL
SYSTEMS	SYSTEMS
EFOY PROCUBE	FC 250 FUEL CELL SYSTEM
	JENNY ND TERRA
	SFC POWER MANAGER
	ELENA ENERGY NETWORK

THE EFOY FUEL CELL FAMILY

The EFOY family of fuel cells is used in end-consumer leisure applications and currently includes five models with a charging capacity of 600 to 2,200 watt hours per day. This range allows users to easily decide which model best suits their individual power needs. The fuel cells in this SFC series quietly, reliably and fully automatically supply power where and whenever it is needed on board motorhomes, caravans and sailboats, and in vacation cottages and mountain cabins.

EFOY 600, EFOY 900, EFOY 1200, EFOY 1600, EFOY 2200 charging capacity/day: 600 to 2,200 watt hours

THE EFOY PRO SERIES

The EFOY Pro Series meets the demanding requirements of professional users. Currently, SFC offers four models with a charging capacity of 600 to 2,200 watt hours per day. For greater capacity EFOY Pro fuel cells can be combined. They supply 100 % dependable, always available power to traffic, security and monitoring systems as well as off-grid sensors, measurement, radio systems, and light electric vehicles – any time of day or year, in any weather and, if desired, by remote control. Power is supplied for weeks and months at a time without any need for human intervention.

EFOY Pro 600, EFOY Pro 1200, EFOY Pro 1600, EFOY Pro 2200 charging capacity / day: 600 to 2,200 watt hours

THE EFOY PROCUBE

The EFOY ProCube is a compact power source offering operators of off-grid applications a portable and maintenance-free all-in-one power supply solution for their equipment. The EFOY ProCube is ready to use immediately – anywhere, anytime – without any adjustments or integration required. This means that the EFOY Pro Series can be deployed outdoors in any weather and during any season, even if no cabinet is available, and can even be placed underground if necessary.

EFOY Pro Cube, dimensions (L x W x H): 800 x 600 x 410 mm, weight: approx. 15 kg

THE PORTABLE JENNY FUEL CELL

The JENNY fuel cell, the smallest and lightest product in the SFC fuel cell family, is a portable power source for soldiers in the field, who take the unit along with small fuel cartridges in their vests. The JENNY fuel cell is used to operate the numerous devices soldiers carry, e. g., night vision equipment, GPS and radio systems, toughbooks, etc. That is why this fuel cell is so popular with the defense industry: It provides a significant weight reduction when compared to battery solutions

JENNY, dimensions (L x W x H): 183,6 x 74,4 x 252,3 mm, weight: 1,7 kg, charging capacity / day: 600 watt hours

THE EMILY FUEL CELL

The EMILY fuel cell utilizes the EFOY Pro technology to meet demanding power supply requirements in vehicle-based defense applications. This very robust fuel cell system supplies power to electrical equipment on board defense vehicles, such as laptops, communication and navigation systems, etc. If necessary, it can also serve as an autonomous, stationary charging station in the field.

EMILY, dimensions (L x W x H): 476 x 206 x 285,5 mm, weight: <12,5 kg, charging capacity / day: 2,200 watt hours

THE FLEXIBLE JENNY ND TERRA ALL-IN-ONE POWER SOLUTION

This portable power source is based on the commercially successful JENNY 600S fuel cell, which has won multiple awards. The unit is an autonomous, undetectable, long-term energy source for challenging security and defense applications. The system can also be placed underground for weeks and months of use without human intervention. The JENNY ND Terra is a true enabling technology that offers users completely new possibilities for deploying their systems.

JENNY ND Terra, dimensions (L x W x H): 499 x 393 x 240 mm, weight: 10,5 kg, charging capacity / day: 600 watt hours

THE SFC POWER MANAGER

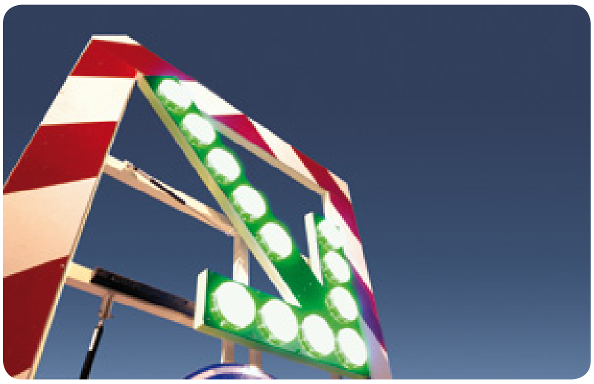
This intelligent device is part of SFC's portable power supply solutions for defense applications. The SFC Power Manager adjusts the voltage and current of the attached devices and power sources fully automatically. What is particularly practical is enabling users to avoid carrying multiple different battery types, thereby lightening their load considerably. A single power source, e. g., the JENNY fuel cell, can cover the voltage requirements of many different kinds of equipment.

SFC POWER MANAGER, dimensions (L x W x H): 131 x 87 x 41 mm, weight: 0,48 kg


600ml
BOROSILICATE GLASS 3.3
400
300
200
100
2072h..

MARKETS AND APPLICATIONS FOR SFC ENERGY SOLUTIONS

OFF-GRID INDUSTRIAL SYSTEMS	MOBILITY
LEISURE	DEFENSE



OFF-GRID INDUSTRIAL SYSTEMS AND MOBILITY

An increasing number of devices that are being used off-grid fulfill important functions in **traffic technology, security and monitoring systems, measuring stations, as sensors and much more**. A reliable power supply is required for these applications – in the past often posing a huge challenge for the operators of this equipment. EFOY Pro fuel cells offer a true alternative: They produce electricity on-site and can be remotely controlled, used in any weather or season and are also environmentally friendly. These fuel cells provide weight and logistics advantages over pure battery solutions, and in hybrid applications with solar systems, they can be operated in bad weather.

Additional important fields of application are the many **mobile offices** and **emergency vehicles** which already have EFOY Pro power supplies installed, ensuring that all equipment on board can be used anywhere, anytime – without requiring an idling engine for battery charging.

We are committed to developing dependable power supply concepts in the promising **e-mobility market**. SFC is currently working with several partners on solutions for generating electricity directly on board and as needed for improved independence, safety and driving comfort in electric vehicles.

MARKETS AND APPLICATIONS FOR SFC ENERGY SOLUTIONS

LEISURE

Anyone who travels extensively knows that charging electrical and electronic devices on the road can become a true nightmare when the battery is exhausted. SFC successfully began offering a solution to this problem to the owners of **motorhomes, caravans, boats and vacation cottages** several years ago. With an EFOY fuel cell on board, electricity is there when you need it, for quiet, environmentally friendly charging of on-board batteries without human intervention, again and again. EFOY fuel cells are fully automatic and highly dependable. Special feature: an EFOY fuel cell on board will significantly increase the „wellness factor", as the owner can be sure at any time that he will always have enough power for all available comfort functions.

DEFENSE

In **defense applications**, the reliable availability of power can be a life or death matter. That is why governments are very interested in products that really work. For years now, SFC has been working closely with international defense organizations on developing attractive all-in-one solutions. Our product portfolio includes small, portable power supplies, field chargers and on-vehicle power supply solutions that weigh less, save time and reduce logistics costs.


EFOY
M10
500 kg

HIGHLIGHTS 2010

02

February 2010
Former U.S. Secretary of Defense William S. Cohen, former NATO Supreme Allied Commander in Europe General Joseph W. Ralston and Dan Fata, former U.S. Deputy Assistant Secretary of Defense for European and NATO Policy, meet at SFC with the head of the Bavarian State Chancellery, Minister of State Siegfried Schneider, to discuss SFC fuel cell technology for defense and security applications.

03

March 2010
Evergreen Energy Technologies Inc., Calgary, Canada, launches its Power Pod System powered by the EFOY Pro fuel cell for remote monitoring of oil well sites and gas pipelines. The two companies join forces to market clean fuel cell technology for the oil and gas industry in Canada.

March 2010
At Intertraffic, the international trade show for infrastructure and traffic management in Amsterdam, SFC launches the new EFOY Pro 2200 XT fuel cell for off-grid industrial applications. Supplementing the existing EFOY Pro product portfolio, this fuel cell offers 50 percent more guaranteed energy capacity, thus again expanding the application range of the EFOY Pro Series.

04

April 2010
SFC and ESG Elektroniksystem- und Logistik-GmbH, automotive engineering partner to the automotive industry, present a pioneering power supply concept for electric vehicles at Hannover Messe 2010. With innovative on-board CHP (combined heat and power), customer acceptance, range, and winter performance of battery-powered vehicles can be significantly improved. Intelligently dimensioned fuel cells automatically recharge the battery when required, while at the same time producing heat for the battery and interior, thus ensuring the highest functionality and comfort of the vehicle, even in winter.

HIGHLIGHTS 2010

04

April 2010
SFC moves to the new production and development site in Brunnthal, unifying all functions in Europe in a single location. The company serves the American markets from the office on the East Coast.

05

May 2010
Readers of Europe's most popular motorhome magazine "promobil" select the EFOY fuel cell among the top three brands for the third time in a row in the annual reader's choice survey. This year, the EFOY fuel cell takes second place in the power generation category for the first time, thus further enhancing its strong profile.

May 2010
The leading Swedish marine whole-saler Thermo-produkter begins distributing EFOY fuel cells. Yacht and boat builders and owners in Sweden can now also enjoy quiet, reliable power generation on board.

06

June 2010
Arcona Yachts, Sweden's second largest boat builder, includes EFOY fuel cells in its portfolio as an independent power source on board its yachts. Buyers of the Arcona yacht series can have their new boats factory equipped with an EFOY fuel cell.

07

July 2010
SFC Smart Fuel Cell AG becomes SFC Energy AG.

HIGHLIGHTS 2010

08

August 2010
Knaus Tabbert GmbH, a leading manufacturer of caravans and recreational vehicles, and SFC announce their sales partnership at Caravan Salon. Effective immediately, the EFOY fuel cell becomes part of Knaus Tabbert's "green caravaning" concept.

09

September 2010
Panasonic, one of the world's leading developers and manufacturers of electronic products, becomes an "SFC Energy Approved Partner". The partnership includes certification of Panasonic's Toughbook products for operation with fuel cells by SFC. They receive SFC's quality seal, which verifies the environmentally friendly operation and improved efficiency of the rugged notebooks through a combination of conventional power supply and fuel cells.

September 2010
After an initial order to deliver autonomous systems for reliably supplying power to electronic devices in the field in June, SFC receives another order from Germany's Bundeswehr in September. With this order, the military is introducing the portable JENNY fuel cell as part of a new energy network for soldiers. The system comprises the portable JENNY fuel cell, the SFC Power Manager, a hybrid battery, a solar panel and a wide range of accessories. This order enables SFC to take the important step from development partner to supplier of commercial systems.

SFC Energy
SFC ENERGY
APPROVED

Sortimo

September 2010
At IAA, Sortimo International GmbH, leading manufacturer of vehicle fittings and storage systems for special-purpose vehicles, and SFC announce their collaboration on projects and technologies. The companies are jointly developing a stand-alone, modular energy supply solution for special-purpose vehicles.

HIGHLIGHTS 2010

10

October 2010
SFC launches the all-in-one, plug-and-play JENNY ND Terra solution for off-grid power supply. This autonomous and undetectable product reliably provides power for the most challenging security and defense applications. It is suitable for outdoor use in the harshest climates and can also be deployed underground.

11

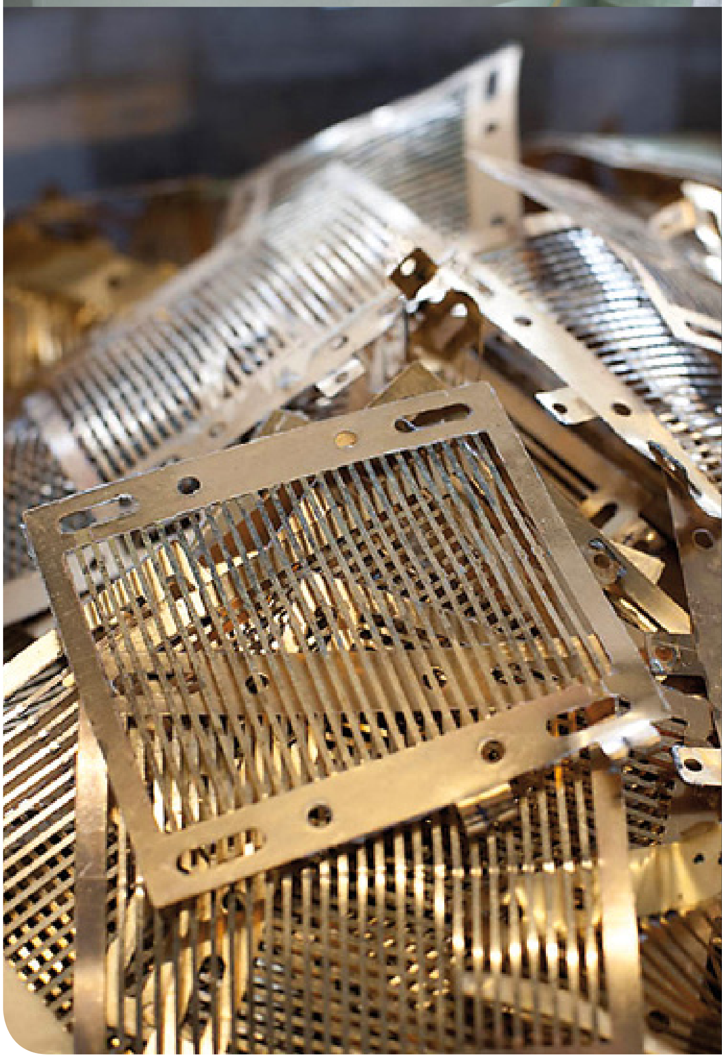
November 2010
Estonian boat builder Ridas Yacht & Composites is the first yacht manufacturer worldwide to select EFOY fuel cells as standard equipment for green power generation on board its yachts.

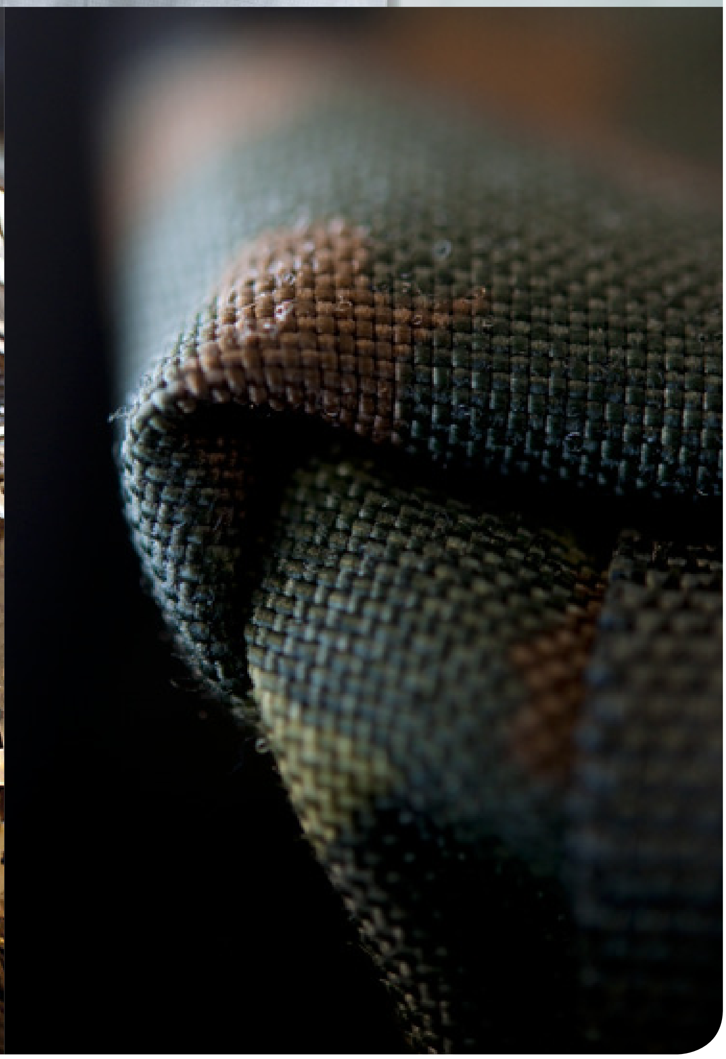
November 2010
SFC announces the acquisition of 25.01 % of the shares of SFC by Holland Private Equity from PRICAP Venture Partners AG and SFC's founder Dr Manfred Stefener, thereby becoming the company's anchor shareholder. At the end of the year, Dr Jens Müller leaves the SFC Management Board, but will continue to serve SFC in an advisory capacity.

12

December 2010
Single-hand sailor Thomas Ruyant's sailboat "Destination Dunkerque" wins the 2010 Route du Rhum transatlantic race with an EFOY fuel cell on board.

©LAURENT VIDAL





SUPERVISORY BOARD REPORT

SUPERVISION OF COMPANY MANAGEMENT

The dominant topic in financial year 2010 was the transition of the Company from a pure fuel-cell supplier to a supplier of complete energy-supply solutions. This included identification of new markets and customer needs, corresponding adjustments to the product portfolio and a strategic reorientation. The Supervisory Board actively supported these efforts by advising and holding discussions with the Management Board. During the year, the Supervisory Board performed its duties under the law, the Company's articles of association and Rules of Internal Procedure. The Supervisory Board actively supported the work of the Management Board and regularly advised and carefully monitored the management of the Company by the Management Board. The Supervisory Board also satisfied itself that the Company was managed in accordance with applicable laws and regulations. As detailed below, the Supervisory Board was involved early and directly in all fundamental decisions. The Supervisory Board reviewed transactions requiring its consent and discussed each of these with the Management Board.

SUPERVISORY BOARD MEMBERSHIP

According to section 10 paragraph 1 of the Company's articles of association, the Supervisory Board consists of six members. In financial year 2010, the following persons were members of the Supervisory Board: (i) Dr Rolf Bartke (Chairman), (ii) Rüdiger C. Olschowy (Deputy Chairman), (iii) Wolfgang Biedermann (until December 31, 2010), (iv) Jakob-Hinrich Leverkus (until December 31, 2010), (v) David Morgan and (vi) Dr Manfred Stefener.

SUPERVISORY BOARD MEETINGS

In performance of its duties, the Supervisory Board met five times during financial year 2010: on March 24 to review the financial statements for 2009; on May 6, July 26, October 27 and December 9, 2010. All of the meetings were held in person.

During the Supervisory Board meetings, the Management Board provided the Supervisory Board with comprehensive, timely information regarding the Company's revenue, profit and cash flow performance; budget planning; the Company's current position, including its risk position, risk management and corporate compliance; strategic goals; and any changes in the Company's organization and personnel. The Supervisory Board discussed the organization of the Company and the Group with the Management Board, ensured that its organization and risk management were effective, and discussed significant Company strategy and policy issues with the Management Board. At various Supervisory Board meetings, the Management Board reported to the Supervisory Board on the status of individual business units; the Company's economic, financial and strategic position, along with material developments and events (such as the relocation to the Company's new headquarters and the change of the Company's name); the Group's growth strategy; and issues relating to capital markets law. Regular topics of the discussions during the plenary sessions of the Supervisory Board further included finance and control, sales and marketing, operations, quality management, human resources, research & development, competition and patents. In addition, the Management Board regularly reported on the strategic situation of the US subsidiary of SFC Energy AG and on key developments related to that subsidiary.

Moreover, the Management Board complied with the Rules of Internal Procedure established by the Supervisory Board, routinely providing the Supervisory Board Chairman (and at regular meetings, the entire Supervisory Board) with detailed reports on significant business events affecting the Company, as well as financial data (always in comparison with the budget and the prior year). The Supervisory Board Chairman maintained close contact with the Management Board and in particular the CEO, who kept him thoroughly informed on current business events.

One of the key topics discussed at the Supervisory Board meetings during financial year 2010 was the purchase of a substantial share in the Company by a private equity investor. At various meetings, the Supervisory Board was briefed by the Company's Management Board on the strategic goals of potential investors and the resulting impact on the Company. It also received comprehensive reports on the pros and cons of each potential investor, asked questions in relation thereto and, after detailed discussions and consultations, approved a lock-up agreement with the investor HPE PRO Institutional Fund B.V.

Another significant topic at Supervisory Board meetings during financial year 2010 was the Company's M&A strategy. The Supervisory Board reviewed potential acquisitions and engagement of an M&A consulting firm to identify potential targets. It also obtained detailed information in this respect from the Management Board and other Company employees. The Supervisory Board actively participated in discussions of the Company's M&A strategy by asking questions and making proposals. It also discussed in detail with the Management Board the opportunities and risks of proposed transactions and requested additional information about them.

The Supervisory Board also dealt with Management Board issues in financial year 2010, such as annual bonuses for Management Board members for financial year 2009 and the acceptance of a post as member of a Supervisory Board by Management Board member Dr Peter Podesser, as well as the retirement as Management Board member of Dr Jens Müller as of December 31, 2010, resulting in a temporary reduction of the number of Management Board members to one person only.

At its meeting on March 24, 2010, the Supervisory Board primarily discussed the Management Report and the Annual Financial Statements prepared in accordance with the German Commercial Code and the Group Management Report and Consolidated Financial Statements prepared in accordance with IFRS for financial year 2009. In coordination with the Audit Committee and in the presence of the auditor, the Supervisory Board discussed and approved these documents. At its meeting on December 9, 2010, the Supervisory Board heard a comprehensive report from the Management Board on strategy and plans (including the budget) for 2011.

Supervisory Board members Dr Rolf Bartke (Chairman), David Morgan and Dr Manfred Stefener attended all Supervisory Board meetings in financial year 2010. Supervisory Board members Rüdiger C. Olschowy and Wolfgang Biedermann were absent and excused from one meeting, and Jakob-Hinrich Leverkus was absent and excused from two meetings. No member of the Supervisory Board was absent from more than half of the Supervisory Board meetings.

COMMITTEES

As in the past, the Supervisory Board formed two standing committees from among its members: (I) the Audit Committee, consisting of Wolfgang Biedermann (until December 31, 2010; Committee Chairman until December 21, 2010), Dr Manfred Stefener, Dr Rolf Bartke, and David Morgan (as of December 21, 2010; since then Committee Chairman); and (II) the Personnel Committee consisting of Dr Rolf Bartke (Committee Chairman), Rüdiger C. Olschowy and Jakob-Hinrich Leverkus (until December 31, 2010). The Personnel Committee met three times in financial year 2010, on March 23, July 27, and December 9, 2010. The Audit Committee met four times in financial year 2010, on January 27 (via teleconference), March 18, April 23, and October 27, 2010. With one exception, all of the meetings were attended by all committee members either in person or via teleconference.

The Audit Committee advised the Supervisory Board on the audit of the financial statements for 2009 and discussed and evaluated the auditor's findings. It assisted the Supervisory Board with issues related to providing and improving supervision of the Group, thus fulfilling its control function. In addition, the Audit Committee reviewed the Group's risk management system and the Company's existing insurance coverage. The Audit Committee discussed with the Management Board the figures for each quarter, thoroughly reviewed and discussed financial indicators, and coordinated capital market communications with the Management Board. At its meeting on March 24, 2010, the Supervisory Board adopted Rules of Internal Procedure for the Audit Committee.

The Personnel Committee assisted the Supervisory Board in preparing personnel decisions that are reserved for the Supervisory Board. For instance, the Personnel Committee considered the degree to which goals had been achieved, the termination by mutual agreement of the service contract with Management Board member Dr Müller and the renewal of the service contract with Management Board member Dr Podesser and submitted recommendations to the Supervisory Board.

CORPORATE GOVERNANCE

Information on Supervisory Board-related aspects of the Company's corporate governance can be found in the Corporate Governance Report and in the Corporate Governance Statement included in this Annual Report (page 31 ff).

Compensation of Supervisory Board members is shown individually and broken down by component in the Compensation Report, which is reproduced in this Annual Report (page 39 ff).

In financial year 2010, the Supervisory Board thoroughly examined potential conflicts of interest affecting its members and discussed and agreed upon the handling of such conflicts. In the past financial year, the Supervisory Board detected potential conflicts of interest in relation to Supervisory Board members Dr Manfred Stefener and Jakob-Hinrich Leverkus. Dr Manfred Stefener is a managing director with individual power of representation of elcomax GmbH, whose business activities include the development, production and sale of fuel cell components. As of spring 2010, elcomax GmbH apparently intends to produce and market fuel cell systems as well which are supposed to be delivered into similar markets as the products of SFC Energy AG. As a result, elcomax GmbH became a competitor of the Company. Jakob-Hinrich Leverkus is a member of the advisory board of that company.

The Company's Supervisory Board obtained a legal opinion from a renowned law firm as to which measures should be taken from a legal standpoint. In keeping with this legal opinion, the Supervisory Board decided on May 6, 2010 to exclude these two Supervisory Board members from future strategy meetings of the Supervisory Board. In consultation with the Supervisory Board, Jakob-Hinrich Leverkus and Dr Manfred Stefener resigned from the Supervisory Board with effect from December 31, 2010 and January 31, 2011, respectively. No other conflicts of interest arose during the period under review.

In accordance with the requirements of the German Corporate Governance Code, the Supervisory Board examined the efficiency of its activities also in financial year 2010. The Company is committed to complying with the recommendations of the German Corporate Governance Code. The annual Compliance Statement required from both the Management Board and the Supervisory Board is available on the Company's website **www.investor-sfc.de/en/corporate_governance.php**. It is also contained in this Annual Report (page 31 ff). The most recent statement dates from March 23, 2011.

ACCOUNTING

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed by the Annual Meeting of shareholders to audit the Company's Financial Statements and mandated for the audit by the Supervisory Board. The Supervisory Board negotiated the audit mandate, indicated the focal points of the audit and engaged the auditors. The agreed focal points for the audit were: first-time application of the new provisions of the German Accounting Law Reform Act ("Bilanzrechtsmodernisierungsgesetz" – "BilMoG"), capitalization of development costs, especially for the ELENA and EFOY 2.0 projects (phase 1 and 2); treatment of government grants, in particular the realization/cut-off as of the balance-sheet date; capitalization of leasehold improvements in connection with relocation to the new Company offices at Eugen-Sänger-Ring 7, regular auditing of the Company's internal control system with a special emphasis on its financial management and sales processes; and audits of the Group Management Report and the Consolidated Notes (particularly as regards completeness of the notes under IFRS).

The auditor audited the Annual Financial Statements of SFC Energy AG at December 31, 2010 as prepared by the Management Board in accordance with the German Commercial Code, along with the Management Report, including the bookkeeping, and issued an unqualified audit opinion. Under Section 315a of the German Commercial Code, the Group's Consolidated Financial Statements were prepared on the basis of International Financial Reporting Standards (IFRS) as applicable in the European Union. The auditor also issued an unqualified audit opinion on the Consolidated Financial Statements and the Group Management Report.

The Supervisory Board met to review the financial statements on March 23, 2011. The members received documentation on the annual and consolidated financial statements, the audit reports, and all other documents and reports in advance of the meeting, reviewed them carefully, and discussed them thoroughly during the meeting. As the Annual Financial Statements for the financial year ended December 31, 2010 show no net income for the year, no proposal for allocating net income was required from the Management Board. The auditor participated in the meeting, reported on the course of the audit and the audit reports and was available to answer questions, provide additional information, and discuss the documents.

The Supervisory Board reviewed the annual and consolidated financial statements and the corresponding management reports in light of its discussion with the auditor and the auditor's reports, and agreed with the result of the audit. Based on its own review of the annual and consolidated financial statements and the corresponding management reports, the Supervisory Board determined that it had no objections to make. At its meeting on March 23, 2011, it approved the annual and consolidated financial statements for financial year 2010 and the corresponding management reports. The Annual Financial Statements were thus established in accordance with Section 172 (1) of the German Stock Corporation Act.

The Supervisory Board would like to thank the members of the Management Board and all of the Company's employees for their deep commitment to and hard work for the Company, and for their achievements in financial year 2010.

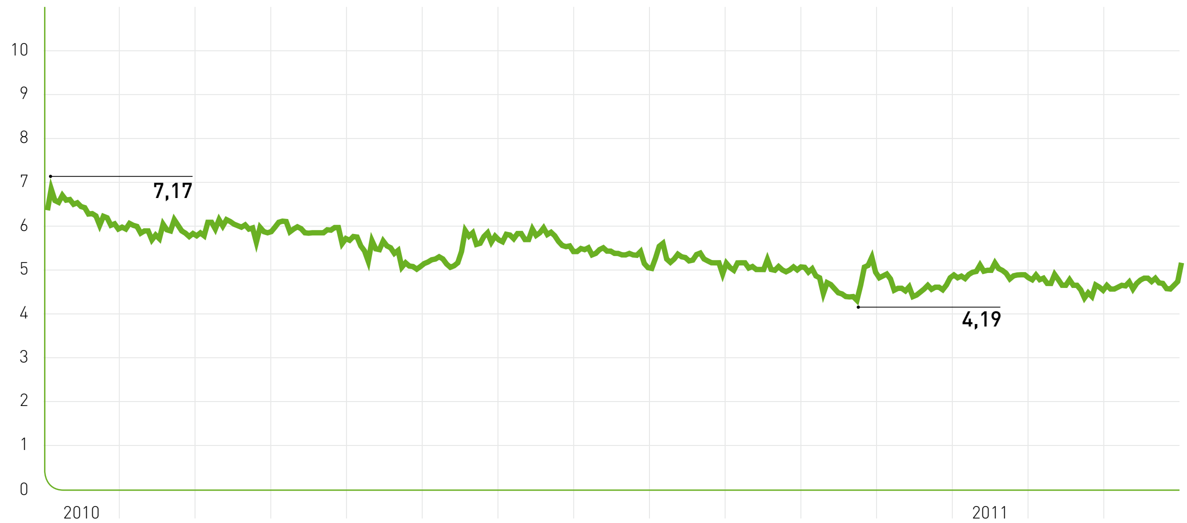
Brunnthal, March 23, 2011

Dr Rolf Bartke (Chairman)
Supervisory Board

THE SHARE

DEVELOPMENT OF THE INDEXES AND THE SFC SHARE

SFC SHARE PRICE GRAPH JANUARY 2010 TO MARCH 2011 in €



After recovering from a weak start to gain 23 % in 2009, the DAX added another 16 % in 2010, climbing from 5,976 to 6,914 points. Thus, 2010 was a much stronger year for the German stock market than initially expected. The DAX dipped to its low for the year of 5,433 points in February, then rallied on positive economic and business data, especially in the second half of 2010, despite the debt crisis in the euro area (Greece, Ireland, Spain, Portugal), U.S. and Japan. The index achieved its high for the year of 7,077 points in December. This performance was largely driven by the robust recovery in the emerging economies, particularly the BRIC countries Brazil, Russia, India and China. The international stock indexes were very mixed. The Dow Jones rose more than 11 % in 2010, while the Nikkei 225 declined about 3 %, and the EURO STOXX 50 also suffered nearly 6 %.

The TecDax could not hold pace with the DAX. It rose from 818 to 851 points for a gain of only 4 %, reaching its year-high of 870 points in January and year-low of 688 in May. The MDAX performed far better, advancing 35 % from 7,057 to 10,128 points. Like the DAX, the MDAX touched its high for the year in December, at 10,145 points. It hit its lowest level in March, at 7,243 points.

The primary market also experienced an upturn. At 14, the number of IPOs in Germany rose sharply in 2010, after stagnating in the previous year. Compared to 2009, when only € 55.6 million in new issues was floated, the total volume of IPOs on the Prime Standard reached € 2.211 billion in 2010.

SFC stock did not trend in sync with overall market developments in 2010. After starting the year at € 6.90, the SFC share achieved its year-high of € 7.17 on January 5 and dropped to its year-low of € 4.12 on November 11. The stock closed 2010 at € 4.97 with an average price for the year of € 5.55. A total of 1,807,917 SFC shares were traded, which represents an average daily trading volume of 6,228 shares or € 34,584.

INVESTOR RELATIONS

The Management Board and Investor Relations team at SFC Energy AG continued to pursue an ongoing, open dialogue with investors, shareholders and members of the financial press in 2010.

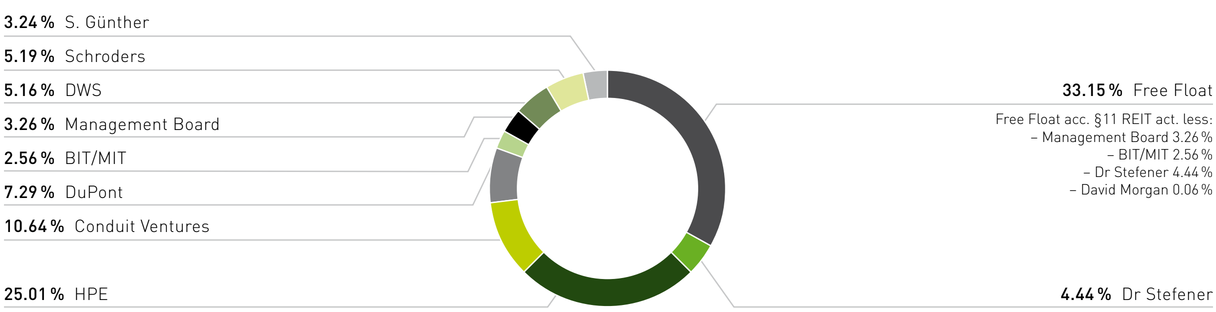
The Management Board of SFC Energy AG presented the Company's annual, half-year and quarterly figures at investor conferences and in numerous one-on-one discussions at various international financial centers. These opportunities were used to provide information about SFC Energy AG's business model and its current business performance to interest groups with knowledge of the industry. One particular focus at such meetings was the strategic decision to focus the business model on whole-product energy supply solutions. The renaming of the Company from SFC Smart Fuel Cell AG to SFC Energy AG in July 2010 was a reflection of this decision.

SFC Energy AG's investor relations work continued to ensure good visibility for the SFC share in 2010, with a total of four banks and research firms covering the Company. As in previous years, the Company received regular research coverage within the financial community at both the national and international level. Such research delivers the unbiased opinions of experts who study SFC Energy AG to shareholders and investors.

SHAREHOLDER STRUCTURE OF SFC ENERGY AG

In November 2010, Holland Private Equity B.V. (HPE) acquired equity stakes from Pricap Venture Partners AG and Dr Manfred Stefener. After the transactions closed in January 2011, HPE became the Company's largest shareholder with approximately 25.01 % of SFC's shares. HPE has agreed to a lock-up period of 12 months during which HPE will not sell any of these shares, underlining its long-term growth strategy and commitment to this investment.

SHAREHOLDERS STRUCTURE AS OF DECEMBER 31, 2010 in %



A WORD OF THANKS TO OUR SHAREHOLDERS

We owe a special word of thanks to you, our shareholders and investors, for your confidence in us. In the interest of creating as much transparency as possible, we will continue to make it possible for you to inspect public documents that provide insight into the current business and future outlook of our Company. Our website www.sfc.com offers you comprehensive information about the Company and our products and markets. Under the "Investors" tab we also provide information about the share, annual reports and quarterly reports, as well as ad hoc and other press releases, corporate news, information about directors' dealings and our financial calendar. We would also be happy to send you current information by e-mail or regular mail upon request.

CORPORATE GOVERNANCE REPORT AND STATEMENT PURSUANT TO SECTION 289A OF THE GERMAN COMMERCIAL CODE

The Management Board and the Supervisory Board of the Company issue the following report on corporate governance of SFC Energy AG pursuant to Section 3.10 of the German Corporate Governance Code. The following Report also contains the Company's corporate governance statement pursuant to Section 289a of the German Commercial Code and its Compensation Report.

The term corporate governance implies the development of a management system which leads to 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 Energy AG. Instruments of effective corporate governance are efficient cooperation between the Management Board and the Supervisory Board in a relationship of mutual trust, respect for shareholders' interests and open and current corporate communication. The Management and Supervisory Boards of SFC Energy AG are committed to upholding the principles of good corporate governance and they believe that these principles are an essential building block of the Company's success.

SFC Energy AG regularly reviews and continually seeks to improve its system of corporate governance. SFC Energy AG follows all but a few of the recommendations of the German Corporate Governance Code. These exceptions are explained in the following statement made in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz).

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

According to Section 161 of the German Stock Corporation Act (Aktiengesetz), the management board and the supervisory board of exchangelisted companies are required to declare annually that the company has complied, and will comply, with the recommendations of the Government Commission on the German Corporate Governance Code (the "Code") published by the German Federal Ministry of Justice in the official Section of the Electronic Federal Gazette (Bundesanzeiger) and/or which recommendations the company has not applied and/or will not apply. This declaration has to be made accessible to the public on a permanent basis on the company's website. Thus, companies may deviate from the recommendations of the Code but, if they do, they are required to disclose such deviations on an annual basis. The Code also allows companies to take account of sector-specific or company-specific needs. Thus, the Code helps to make corporate governance of German companies more flexible and promotes their self-regulation.

On March 23, 2011, the Management Board and the Supervisory Board of SFC Energy AG issued the following Compliance Statement pursuant to Section 161 of the German Stock Corporation Act. For the period from issuance of the last Compliance Statement of March 22, 2010 (amended on December 9, 2010) until June 1, 2010 the following statement refers to the version of the Code dated June 18, 2009, as published in the Electronic Federal Gazette (Elektronischer Bundesanzeiger) on August 5, 2009. Since June 2, 2010 the compliance statement refers to the version of the Code dated May 26, 2010, as published in the Electronic Federal Gazette (Elektronischer Bundesanzeiger) on June 2, 2010. The Compliance Statement issued on March 23, 2011 is as follows:

"In accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz) the Management and the Supervisory Board of SFC Energy 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:

- According to Section 2.3.3 Sentence 2 of the version of the Code dated May 25, 2010 the company shall assist the shareholders in the use of postal votes and proxies. The Articles of Association of SFC Energy AG do not yet provide for voting rights to be exercised through postal voting. The Company's Management and Supervisory Boards will propose at the next ordinary Annual General Meeting to authorize the Management Board in the Company's Articles of Association to provide for the exercise of voting rights in the invitation to the Annual General Meeting. If this proposal is accepted and if the Management Board allows postal voting, the Company will also support its shareholders in relation to postal voting. In addition, SFC Energy AG already allows its shareholders to be represented by a proxy appointed by SFC Energy AG and thus exercise their voting rights already before the date of the Annual General Meeting.

- According to Section 3.8 para. 2 of the Code in the version dated June 6, 2008, the Company shall agree on a suitable deductible if it takes out D&O (directors' and officers' liability) insurance for its Management Board. Pursuant to Section 3.8 para. 2 Sentence 1 of the Code in the version dated June 18, 2009 which corresponds to the provisions of Section 93 para. 2 Sentence 2 of the German Stock Corporation Act (Aktiengesetz), as amended by the Act on the Appropriateness of Management Board Compensation (VorstAG), the deductible for Management Board members must equal at least 10 % of the loss up to at least the amount of one and a half times the fixed annual compensation of the respective management board member. SFC Energy AG took out D&O insurance for the members of its Management Board prior to the promulgation of the Act on the Appropriateness of Management Board Compensation. The relevant insurance policy does not include such a deductible, and, in response to an inquiry from the Company, the insurer was not willing to lower the premium if a deductible were agreed retroactively. Pursuant to Section 23 para. 1 of the Introductory Act to the German Stock Corporation Act, as amended by the Act on the Appropriateness of Management Board Compensation (VorstAG), the deductible for Management Board members had to be adjusted to meet the requirements of the VorstAG by July 1, 2010 at the latest. Therefore, with effect from July 1, 2010 SFC Energy AG took out a new D&O policy for the members of its Management Board and its Supervisory Board that complies with the statutory requirements. As a result, since that date the Company has no longer deviated from the relevant recommendations of the Code.

- According to Section 4.2.1 Sentence 1 of the Code, the management board shall be comprised of several persons and have a chairman or spokesman. Until and including December 31, 2010 the Company's Management Board was made up of two persons, namely the Chief Executive Officer (CEO) and the Chief Operating Officer (COO). On December 31, 2010 the term of office of the Chief Operating Officer (COO) expired and the person concerned was not available for re-appointment as a member of the Management Board. Therefore, since January 1, 2011 the management duties of the Management Board are temporarily exercised by the Company's former Chief Executive Officer (CEO) alone. Among other things, this helps to ensure continuity in terms of business policy. In the medium term, the Supervisory Board intends to again appoint a second Management Board member. However, this will require a careful, orderly and comprehensive selection process. These are the reasons why, since January 1, 2011, the Management Board has been made up of just one person and has not had a chairman or spokesman.

- According to Section 4.2.3 para. 4 of the Code, care shall be taken when entering into management board contracts to ensure that any payments, including benefits, made or provided to a Management Board member on early termination of his or her contract without serious cause do not exceed the value of two years' compensation (severance payment cap) and compensate no more than the remaining term of the contract. The management board service contract entered into with the resigned Management Board member and the management board service contract executed with the remaining Management Board member which will expire on March 31, 2011 did not provide for such a severance payment cap in the event of early termination without serious cause. However, such a cap would not have become relevant anyway as these management board contracts were not terminated early. The management board service contract in effect from April 1, 2011 provides for such a cap. Hence, the Company will no longer deviate from the corresponding provisions of the Code as of that point in time.

- According to Section 5.3.1 of the Code, the Supervisory Board shall, depending on the specifics of the enterprise and the number of its members, form committees with sufficient expertise. In particular, Section 5.3.2 of the Code recommends that an Audit Committee be set up. At present, the Supervisory Board of SFC Energy AG has two standing committees, formed from among its members, namely an Audit Committee and a Personnel Committee. The Management Board and the Supervisory Board of the Company will propose to the next ordinary Annual General Meeting to amend the Company's Articles of Association to reduce the number of Supervisory Board members from six to three. If this proposal is accepted by the Annual General Meeting of SFC Energy AG, the Supervisory Board holds the view – which is consistent with the legal literature on this subject – that the efficiency of the advisory and controlling activities of a supervisory board made up of only three members cannot be increased meaningfully by setting up any committees. Therefore, if this proposal is accepted by the Annual General Meeting, the Supervisory Board will dissolve the existing committees. As a result, from that point in time onwards the Company will deviate from the recommendations set forth in Sections 5.3.1 and 5.3.2 of the Code.

- According to Section 5.3.3 of the Code, the Supervisory Boards shall form a Nominating Committee composed exclusively of shareholder representatives which will proposes suitable candidates to the Supervisory Board for recommendation to the Annual General Meeting. The Company's Supervisory Board has not set up a Nominating Committee. Consistent with the legal literature on this subject, SFC Energy AG supports the position that forming a Nominating Committee is irrelevant if no employees are represented on the Supervisory Board. It therefore refrains from setting up such a committee.

- According to Section 5.4.1 paras. 2 and 3 of the version of the Code dated May 26, 2010, the Supervisory Boards shall specify concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board and diversity. In particular, these concrete objectives shall stipulate an appropriate degree of female representation. Recommendations by the Supervisory Board to the competent election bodies shall take these objectives into account. The concrete objectives of the Supervisory Board and the status of the implementation shall be published in the Corporate Governance Report. The Company deviates from the recommendation to lay down, take account of and publish such concrete objectives. The composition of the Supervisory Board shall ensure that the Management Board is effectively advised and controlled, based on the company's best interests. To ensure compliance with these statutory requirements the Supervisory Board will continue to base its proposals of candidates primarily on the knowledge, skills and experience of eligible candidates. In this respect, the Supervisory Board will also appropriately take account of the international activities of the Company, its potential conflicts of interest, an age limit laid down in the Supervisory Board's Rules of Internal Procedure and diversity. However, the Supervisory Board holds the view that it is neither necessary nor appropriate to set concrete objectives or gender-specific quotas as this would restrict in a blanket fashion the election of suitable candidates especially at SFC Energy AG as a smaller exchange-listed company. Accordingly, the Corporate Governance Report does not mention any such objectives.

- According to Section 5.4.6 Sentence 4 of the Code, the members of the Supervisory Board shall receive fixed as well as performance-based compensation. Pursuant to the Articles of Association of SFC Energy AG this is currently the case. However, the Management Board and the Supervisory Board of the Company will propose switching to fixed-only compensation at the next ordinary Annual General Meeting. Therefore, the Company plans to deviate from the recommendations set forth in Section 5.4.6 Sentence 4 of the Code in the future. SFC Energy AG believes that a fixed compensation structure better reflects the advisory and controlling function of the Supervisory Board, which has to be performed independently of the Company's success, than a combination of fixed and performance-based compensation components. This also helps to prevent among Supervisory Board members potential conflicts of interest which could arise from performance criteria. In addition, fixed-only compensation avoids any adverse effects on the control function of the Supervisory Board that could result from aligned performance criteria for both the Management Board and the Supervisory Board."

The compliance statement is made permanently accessible on the Company's website at www.investor-sfc.de/de/en/corporate_governance.php.

STRUCTURE AND WORK OF THE MANAGEMENT AND SUPERVISORY BODIES

SFC Energy AG believes that a corporate governance system and control structure rooted in responsible behaviour and transparency are the foundation for creating value and instilling confidence in the Company. The structure of the Company's management and supervisory bodies is as follows:

Shareholders and General Meeting

The shareholders of SFC Energy AG exercise their rights in the Company at the General Meeting where they participate in decisions and vote. SFC Energy 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 Company's annual and quarterly reports and on its 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 November 23, 2010.

The Annual General Meeting of SFC Energy AG is held during the first eight months of each fiscal year. At this meeting, shareholders resolve on all matters reserved for their decision by law, including appropriation of profits, election and discharge of the acts of the members of both the Supervisory and the Management Boards, election of the auditors, amendments to the Company's Articles of Association and other matters.

In advance of the Annual General Meeting, shareholders receive in-depth information about the fiscal 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 in and prepare for the meeting. All of the documents and information pertaining to the General Meeting, including the annual report, are also published on the Company's website. To facilitate the exercise of shareholders' rights, SFC Energy AG offers any shareholder who is unable or chooses not to exercise his or her voting rights at the General Meeting in person the opportunity to have them exercised at the General Meeting through a proxy in accordance with instructions given to such proxy.

The Management Board

The Management Board of SFC Energy AG manages the Company with the goal of creating sustainable value on its own responsibility and in the best interests of the Company, i.e., with the interests of the shareholders, employees and other stakeholders in mind. The Management Board acts without being subject to instructions from any third parties and in keeping with the law, the Company's Articles of Association and the Rules of Internal Procedure laid down by the Supervisory Board for the Management Board and taking account of the resolutions by the General Meeting. When filling managerial positions within the Company, the Management Board of SFC Energy AG also takes into consideration the principle of diversity and aims for an appropriate consideration of women.

Notwithstanding the principle of overall responsibility according to which all members of the Management Board are jointly responsible for managing the Company, each member of the Management Board has sole responsibility for the area assigned to him or her. The Chief Executive Officer has primary responsibility for the overall management and business policy of the Company. He ensures coordination and consistency of business management within the Management Board and represents the Company in public. During the last fiscal year the Management Board of SFC Energy AG was composed of two members, namely Dr Peter Podesser who acted as Chief Executive Officer (CEO) and Dr Jens Müller who acted as Chief Operating Officer (COO) of the Company. Since January 1, 2011 Dr Peter Podesser has led SFC Energy AG as sole member of the Management Board for the reasons set out in the above Compliance Statement with respect to Section 4.2.1 Sentence 1 of the Code. In the medium term, the Company plans to appoint a second member to its Management Board again.

The Management and Supervisory Boards of SFC Energy AG work closely together for the good of the Company. The Management Board regularly provides the Supervisory Board with reports that offer a timely and comprehensive picture 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 the management of the Company. The strategic orientation of SFC Energy AG is also regularly coordinated with the Supervisory Board, and, in accordance with the Rules of Internal Procedure laid down by the Supervisory Board for the Management Board, material decisions by the Management Board are subject to the Supervisory Board's consent.

During the last fiscal year, there were no conflicts of interest involving the members of the Management Board of SFC Energy AG that would have required immediate disclosure to the Supervisory Board. No member of the Management Board was a member of the supervisory board of any nongroup business enterprise.

The Supervisory Board

The Supervisory Board appoints the Management Board and supervises the latter's management of SFC Energy AG. The Supervisory Board is directly involved in all decisions that are of fundamental importance for the Company. Pursuant to applicable law, the Company's Articles of Association and the Management Board's Rules of Internal Procedure or resolutions adopted by the Supervisory Board, certain matters relating to the management of the Company require the latter's consent. The Supervisory Board actively guides the Management Board through advice and discussions, performs the duties incumbent on it by law and the Company's 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 above at page 23).

The Chairman of the Supervisory Board coordinates the Supervisory Board's work, chairs its meetings and represents its interests externally. He maintains regular contact with the Management Board and in particular discusses with the latter the Company's strategy, its performance and risk management. The Supervisory Board has established for itself Rules of Internal Procedure which, within the limits set by law and the Company's Articles of Association, include among other things provisions regarding meetings of the Supervisory Board, the Supervisory Board Committees, the duty of confidentiality and the handling of conflicts of interest.

Composition of the Supervisory Board: Pursuant to the Company's Articles of Association, its Supervisory Board is composed of six members in total all of whom are elected by the Company's shareholders. Following the resignation from the Supervisory Board of Wolfgang Biedermann and Jakob-Hinrich Leverkus with effect from December 31, 2010, 24:00 h and of Dr Manfred Stefener with effect from January 31, 2011, 24:00 h the Supervisory Board currently consists of three members elected by the General Meeting, namely (i) Dr Rolf Bartke (Chairman of the Supervisory Board), a business engineer from Berlin, (ii) Rüdiger C. Olschowy (Vice Chairman of the Supervisory Board), a businessman from Schliersee, and (iii) David Morgan, a businessman from Rolvenden, Kent, UK. Following an application of the Management Board, David Morgan was initially appointed to the Supervisory Board by the Local Court of Munich with effect from March 8, 2010, before he was elected as a member of the Supervisory Board by the ordinary Annual General Meeting on Mai 6, 2010. Rüdiger C. Olschowy has resigned from the Supervisory Board with effect from the end of the Annual General Meeting on May 5, 2011.

Other than Dr Manfred Stefener (until January 31, 2011), there are no former members of the Management Board of SFC Energy AG who were or are members of the Supervisory Board. The shareholder HPE PRO Institutional Fund B.V., Amsterdam, the Netherlands, which holds more than 25 % of the voting rights in SFC Energy AG, has proposed to elect the former member of the Company's Management Board Dr Jens Müller to the Supervisory Board at the next Annual General Meeting. The Company's Management and Supervisory Boards believe that the Supervisory Board consists of a sufficient number of independent members.

In addition, at the next Annual General Meeting the Management Board and the Supervisory Board of SFC Energy AG will propose to amend the Company's Articles of Association in order to reduce the number of Supervisory Board members from currently six to only three, which corresponds to the actual number of Supervisory Board members currently holding office. As shown by current practice, a three-member Supervisory Board, on the one hand, allows the provision of effective advice to, and the exercise of effective control over the Management Board of SFC Energy AG which is a smaller exchange-listed company, and, on the other hand, a three-member board will lead to substantial cost reductions and speedier decision-making processes compared to a six-member Supervisory Board. Therefore, the Supervisory Board holds the view that a supervisory board made up of only three members will be more efficient for SFC Energy AG as a smaller exchange-listed company.

In fiscal year 2010, the Supervisory Board thoroughly examined potential conflicts of interest affecting its members and discussed and agreed upon its procedure for handling such conflicts, should they arise. Potential conflicts of interest were detected in relation to Supervisory Board members Dr Manfred Stefener and Jakob-Hinrich Leverkus. Dr Manfred Stefener is a managing director with sole power of representation of elcomax GmbH, whose business activities include the development, production and sale of fuel-cell components. Apparently, since the spring of 2010 elcomax GmbH has also sought to produce and market fuel cell systems designed for delivery into similar markets than those served by SFC Energy AG, thus in effect competing with the Company. Jakob-Hinrich Leverkus is a member of the advisory board of the same company. The Supervisory Board of SFC Energy AG obtained a legal opinion from a renowned law firm as to which measures should be taken from a legal standpoint. In keeping with this legal opinion, the Supervisory Board decided on May 6, 2010 to exclude these two Supervisory Board members from future strategy meetings of the Supervisory Board. In consultation with the Supervisory Board, Jakob-Hinrich Leverkus and Dr Manfred Stefener resigned from the Supervisory Board with effect from December 31, 2010, 24:00h and January 31, 2011, 24:00h respectively. No other conflicts of interest arose during the past fiscal year. Also, no consulting and/or other service-level agreements or contracts for work or services existed between members of the Supervisory Board and the Company.

Committees of the Supervisory Board: There are two Supervisory Board Committees: the Audit Committee which met four times in fiscal year 2010 and the Personnel Committee which met three times in fiscal year 2010. The members of the Audit Committee are or were Wolfgang Biedermann (until December 31, 2010; Committee Chairman until December 21, 2010), Dr Manfred Stefener (until January 31, 2011), Dr Rolf Bartke and David Morgan (since December 21, 2010; since then Committee Chairman). The members of the Personnel Committee are or were Dr Rolf Bartke (Committee Chairman), Rüdiger C. Olschowy and Jakob-Hinrich Leverkus (until December 31, 2010). The Audit Committee primarily deals with accounting and risk management issues, the required independence of the auditors, the issuing of the audit mandate to the auditors, the definition of focal points for the audit and the fee arrangements. Among the Supervisory Board members currently holding office, in particular the Chairman of the Audit Committee, David Morgan, qualifies as an independent financial expert in terms of Section 100 para. 5 of the German Stock Corporation Act (Aktiengesetz). He has a longstanding professional experience as a UK chartered accountant and has held different senior financial positions in different companies. The Personnel Committee assists the Supervisory Board in particular in preparing personnel decisions that are reserved for the Supervisory Board.

Since its amendment on June 14, 2007, the Code recommends under Section 5.3.3 that the Supervisory Board set up a Nominating Committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the Annual General Meeting. SFC Energy AG believes that the setting-up of a nominating committee is irrelevant if there are no employee representatives on the Supervisory Board, an opinion it shares with the legal literature on this subject. Therefore, the Company did not and will not set up any such committee.

As explained above, at the next Annual General Meeting the Company's Management and Supervisory Boards will propose to reduce the number of Supervisory Board members from six to three. If this proposal is accepted by the General Meeting, the Supervisory Board will dissolve the existing committees. As a result, the Company will deviate from the recommendations set forth in Sections 5.3.1 and 5.3.2 of the Code. Consistent with the legal literature on this subject, SFC Energy AG holds the view that the setting up of committees within a Supervisory Board that is composed of only three members does not seem adequate and will not lead to any efficiency improvements in terms of the exercise of the advisory and controlling function. The tasks and responsibilities currently assigned to the Audit Committee and the Personnel Committee will be assumed in full by the then smaller full Supervisory Board.

Risk Management

One of the tasks of any system of good corporate governance is to deal with risks responsibly. The Management Board of SFC Energy AG ensures that the Company's risk management and risk controlling are adequate. Doing so guarantees that risks are identified in time and potential risks are minimized. More detailed information about the Company's risk management can be found in the Report on Opportunities and Risks (Section 6 of the Management Report).

Transparency

SFC Energy AG aims to secure the highest possible degree of transparency 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 via the internet. SFC Energy AG publishes ad hoc announcements as well as press releases and other corporate news on its website. The latest statement regarding the Company's 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 (Wertpapierhandelsgesetz), the members of SFC Energy AG's Management and Supervisory Boards and certain senior executives, as well as individuals and entities closely related to and affiliated with them, are required to report purchases and sales of shares in the Company and of any related financial instruments.

Management Board member Dr Peter Podesser notified SFC Energy AG that he had purchased 25,000 no-par value shares in the Company on December 7, 2010, another 25,000 no-par value shares on December 29, 2010, 1,000 no-par value shares on January 3, 2011 and 40,000 no-par value shares on February 28, 2011. Supervisory Board member David Morgan notified SFC Energy AG that he had purchased 2,000 no-par value shares in the Company on April 27, 2010 and another 2,000 no-par value shares on December 13, 2010. Supervisory Board member Rüdiger C. Olschowy notified the Company that MIT Munich Industrial Technologies AG, in which he holds shares, had purchased 20,600 no-par value shares in the Company on November 17, 2010. The then Supervisory Board member Dr Manfred Stefener notified SFC Energy AG that he had sold 846,187 no-par value shares in the Company on December 15, 2010.

All directors' dealings pursuant to Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz) are published on the Company's website at www.sfc.com. The total number of shares in SFC Energy AG held by Management Board members and Supervisory Board members as of December 31, 2010 was 3.26 % and 7.05 % of the shares issued by the Company, respectively.

Accounting and Auditing

The consolidated financial statements of SFC Energy AG as well as the Company's interim reports are prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to the guidelines of the International Accounting Standards Board. Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed by the Annual General Meeting to audit the Company's financial statements for fiscal year 2010 and engaged for the audit by the Supervisory Board. The auditors participated in the Audit Committee's discussions concerning the consolidated financial statements and reported on the material results of their audit. Shareholders and other interested parties can access the consolidated financial statements and interim reports on the Company's website.

COMPENSATION REPORT

The Compensation Report summarizes the principles applied to determine the compensation of the Management Board of SFC Energy AG and explains the amounts and the structure of the compensation. The Compensation Report also describes the underlying principles and the amounts of compensation paid to the Supervisory Board.

System of Compensation for the Management Board

Pursuant to the German Stock Corporation Act (Aktiengesetz), as amended by the Act on the Appropriateness of Management Board Compensation, the determination of the Management Board's compensation is a matter reserved for the full Supervisory Board. The compensation of the members of the Management Board consists of the following elements:

The members of the Management Board receive fixed annual compensation which is paid in twelve or thirteen monthly instalments.

In addition, the members of the Management Board receive variable compensation if predefined performance targets are met (performance-based bonus). In fiscal year 2010, the targets were for the Company to reach the amounts budgeted for sales, gross margin and EBIT, and each target was tied to 25 % of the bonus. The Supervisory Board decides in its discretion on the award of the remaining 25 % of the bonus.

Furthermore, the members of the Management Board may additionally receive bonus payments for the period from January 1, 2009 to December 31, 2013, under a long-term incentive program (LTIP) of the Group, if certain conditions and certain performance targets are met. This program is based on a phantom stock model and is divided into three performance periods of three years each: fiscal years 2009 to 2011, 2010 to 2012 and 2011 to 2013. The compensation awarded at the end of each of the three-year periods predominantly depends on the Company's share price and the attainment of a defined EVA (Economic Value Added) target for the respective period. More detailed information about the LTIP can be found in the Group Management Report below.

Finally, the members of the Management Board receive certain fringe benefits. For example, the Company provides each of the two members of its Management Board with a company car. It pays the premiums for their accident, pension and life insurance up to a maximum of € 10,000.00 per year and has taken out directors' and officers' liability insurance on both Management Board members. In fiscal year 2011, Dr Peter Podesser will additionally receive a one-off re-appointment bonus as compensation for the early renewal of his tenure of office, the entry into a new management board contract and the assumption of additional tasks as the (temporary) sole member of the Management Board.

Compensation of the Management Board in 2010

Compensation of the members of the Management Board totalled € 864,882.00 in fiscal year 2010. Compensation in fiscal year 2010 included the fixed compensation, non-cash perquisites, variable profit and performance-based compensation, expenditure for the Long-Term Incentive Program and premiums for accident, pension, and life insurance. The above total includes all amounts that were laid out in 2010 or set aside as provisions in the consolidated financial statements for 2010, less the amounts that had been set aside as of December 31, 2009. The compensation for the non-compete agreement with Dr Jens Müller in fiscal year 2010 relates to the provisions set aside for the non-compete agreement entered into which covers the first six months after termination of the management board contract.

The total and individual compensation (including non-cash perquisites) of the individual members of the Management Board in 2010 breaks down as follows:

FINANCIAL YEAR 2010					in €
	fixed compensation	short-term performance based compensation	long-term performance based compensation	Compensation for entry into non-compete agreement	Total amount
Dr Peter Podesser	320,441	141,062	4,584	0	466,087
Dr Jens Müller	249,300	68,949	487	80,000	398,735
Total	**569,740**	**210,011**	**5,071**	**80,000**	**864,822**

Compensation of the Supervisory Board

In keeping with the recommendations of the German Corporate Governance Code, the compensation of Supervisory Board members comprises a fixed and variable component. The level of the compensation was most recently adjusted at the Annual General Meeting held on April 2, 2007.

As a result of this adjustment, the members of the Supervisory Board are entitled to reimbursement of the out-of-pocket expenses they incur in exercising their duties as Supervisory Board members, including any value-added tax attributable to those expenses, and inclusion in the directors' and officers' liability insurance policy the Company has taken out for its governing bodies. They also receive a fixed compensation of € 20,000.00 per member which is payable after the close of the fiscal year. The Chairman of the Supervisory Board receives twice, and the Vice Chairman one and a half times, this amount. In addition, each Supervisory Board member receives an additional € 5,000.00 per year for every Supervisory Board committee they chair and an additional € 2,500.00 per year for every Supervisory Board committee on which they serve as a member. Moreover, each member receives variable compensation equal to € 100.00 for every € 0.01 by which the dividend paid per share exceeds the amount of € 1.00 per share. This compensation component was not relevant in fiscal year 2010 since no dividend was paid.

For the reasons explained in the above Compliance Statement in relation to Section 5.4.6 Sentence 4 of the Code, the Management and Supervisory Boards of the Company will propose switching to fixed-only compensation for the members of the Supervisory Board at the next Annual General Meeting which will amount to € 25,000.00 per member whereby the Chairman of the Supervisory Board shall continue to receive twice, and the Vice Chairman one and a half times, this amount.

The total and individual compensation (including non-cash perquisites) of the individual members of the Supervisory Board in 2010 breaks down as follows:

REMUNERATION OF THE SUPERVISORY BOARD IN 2010	in €
Dr Rolf Bartke	47,500
Rüdiger C. Olschowy	32,500
Wolfgang Biedermann	25,000
Jakob-Hinrich Leverkus	22,500
David Morgan	16,290
Dr Manfred Stefener	22,500
Total	**166,290**

Share Option Programs

There were no more share options outstanding in fiscal year 2010. Share options from the share option programs launched in prior years were last exercised in financial year 2008.

GROUP MANAGEMENT REPORT

The following Group Management Report has been prepared in the German language. It has 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 2010

1. BUSINESS AND BACKGROUND CONDITIONS

Business activity and organizational structure

SFC Energy AG ("SFC", formerly SFC Smart Fuel Cell AG) develops, produces and distributes power generation systems and components for off-grid equipment based on direct methanol fuel cell (DMFC) and other technologies; invests in the facilities required for these activities; and transacts any other related business. The Company's product portfolio also includes accessories and spare parts, particularly fuel cartridges, and solutions for combining fuel cell products with other power sources and electrical devices (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 multiple target markets.

Over the last few years, SFC has systematically expanded its business model to include a comprehensive range of off-grid energy solutions. Looking ahead, the Company will focus increasingly on providing whole-product solutions, with fuel cells continuing to constitute the core technology and core component. At their meeting on May 6, 2010, the Company's shareholders resolved to expand the corporate purpose accordingly. They also approved changing the parent company's name from SFC Smart Fuel Cell AG to SFC Energy AG for this reason. This change of name reflects the Company's goal of positioning itself in the future as a supplier of whole-product solutions for remote energy supply. The name change was entered in the Commercial Register on July 16, 2010.

The Company's German location is in Brunnthal. SFC is represented in the United States by its subsidiary SFC Energy, 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 metering processes; intelligent traffic control, monitoring, and security systems; heavier power consumption in the defense segment; changes in the political security situation; and the trend toward efficient, energy-saving power supplies. A clean, efficient off-grid energy supply is a genuine enabling technology that, according to SFC, will give many products which fail in the marketplace due to a lack of power the chance to succeed.

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 portable power sources to customers in the defense 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.

SFC is active in the following markets: for the leisure segment, SFC offers series-produced products through established commercial channels (wholesalers, retailers and OEMs). 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. Defense includes a business in series products, but also development contracts to supply prototypes to military organizations. SFC is also tapping other markets, such as power suppy in the mobility segment, for light electric vehicles that are smaller than cars, as well as onboard power supplies for public service and special vehicles.

As a result of the IPO and subscription rights offering 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 Remuneration Report.

In financial year 2010 and previous years, the main focus of the Group was on building up the Company's markets and expanding market penetration while simultaneously reducing production costs through technological innovation. In 2010, sales increased 14.1 % to € 13,330k, in line with the Group's expectations. 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. It also achieved considerable successes in the further expansion of its business and made significant improvements in its margins.

Within the framework of the existing comprehensive risk management system, numerous non-financial performance indicators such as quality parameters are used in addition to detailed financial reporting and controlling.

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

2. ECONOMIC DEVELOPMENTS AND INDUSTRY CLIMATE: GLOBAL ECONOMY HAS TOUCHED BOTTOM

Recovery from the global financial crisis was a dominant influence in financial year 2010. According to the Ifo World Economic Survey[1], the world economic climate held steady despite slight weakening in the third and fourth quarters, with the indicator remaining above its long-term average. The slight decline was due exclusively to lowered worldwide expectations for the next six months. Nonetheless, the experts responding to the survey viewed the current economic situation as better than the previous quarter's. Overall, the survey results point towards continued, if slower, global economic recovery over the next half year. Trends varied sharply from region to region, however, with the indicator continuing to fall in North America and Asia but rising in Australia and marginally in Western Europe.

Germany – Economy recovers in 2010 – Positive outlook for 2011

Increases in exports, capital spending and consumer spending generated 3.6 % growth in gross domestic product (GDP) in 2010[2], the highest in 20 years. This growth followed the biggest decline in the history of the Federal Republic – the sharp 4.7 % decline caused by the 2009 crisis.

1 Ifo Economic Forecast 2011, Ifo Institute, Nov. 2010
2 German Federal Ministry of Economics and Technology, Annual Economic Report for 2011, Jan. 2011

According to data from the German Federal Statistical Office[3], the 2010 upturn was driven primarily by exports, which gained 14.2 %. But the economy also benefited from higher investment by businesses, which spent 9.4 % more on machinery, vehicles and other equipment, while spending on construction grew 2.8 %. Consumer spending also rose, increasing 0.5 %, and even government spending increased by 2.2 %.

Foreign momentum outstripped domestic demand, and is increasingly becoming a driving force. According to data from the German Federal Ministry of Economics and Technology, foreign demand will contribute more than three-quarters of all economic activity in 2011. In particular, the economic recovery produced an upswing in employment, which reached 40.5 million in 2010, the highest since reunification.

Despite the upturn, Germany's sovereign debt reached an all-time high in 2010. Federal, state and local governments and German social security programs spent € 88.57bn more than they took in. Government debt corresponds to 3.5 % of GDP, which exceeds the 3.0 % deficit threshold established in the EU's Stability Pact. In 2009, the German government incurred only € 72.7bn in new debt, which corresponded to a 3.0 % deficit ratio.

The Ifo Business Climate Index[4] for Germany rose steadily in 2010 and moved up again in January 2011, building on last year's positive trend. The business outlook for the first six months of 2011 is positive.

Leisure market: The recreational vehicle industry[5] and the marine market

In 2010 the German caravan and recreational vehicle industry continued to recover slightly, after 2009's sharp reductions in the sizable new-vehicle inventories accumulated during the earlier boom years. In line with this trend, German production of recreational vehicles rose 34.1 %, to 30,756 vehicles. Exports also grew last year, rising 30 % to a total of 14,884 recreational vehicles and helping German dealers keep inventories of new vehicles at healthy (lower) levels. Nearly 50 % of all recreational vehicles manufactured in Germany were sold abroad.

Thanks to the turnaround in production, registration numbers increased slightly last year. Between January and December 2010, 18,139 recreational vehicles were newly registered in Germany, an increase of 3.3 % over 2009, though the current mood among manufacturers, suppliers and dealers does not point to a marked upward trend for this year. Instead it seems far more likely that the leisure market in both Germany and Europe will continue to stabilize but may decline slightly overall. Expectations in the recreational vehicle market are equally guarded, with experts defining success as increases in the low single digits. It is still possible, however, that Europe's generally upbeat economic climate will inject momentum into the caravan industry.

In all, the German caravan industry posted sales of € 470m (including accessories) in 2010, an increase of € 40m or 9.3 %

The European Caravan Federation (ECF)[6], 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. According to the latest available data, Europeans registered a total of 68,817 recreational vehicles in 2010, a 0.8 % increase. European markets were very mixed, however: registrations rose in France (up 3.5 % with 18,673 new registrations), Germany (up 3 % with 18,280 new registrations), Sweden (up 28.7 % with 3,035 new registrations), Norway (up 25.5 % with 1,857 new registrations) and Spain (up 0.5 % with 1,851 new registrations), but fell in Italy (down 10.9 % with 7,645 vehicles) and the United Kingdom (down 10.7 % with 7,169 vehicles). In 2011, ECF expects the European market to trend sideways.

3 German Federal Statistical Office Wiesbaden, preliminary results for 2010; as of January 12, 2011
4 Ifo Business Climate Germany; January 2011 Ifo Business Survey
5 Data: CIVD Caravaning Industrie Verband e. V.
6 Data: ECF European Caravan Federation

In 2009 boat production fell to barely 60 % of the peak reached in 2006, but in 2010 demand for boats and yachts improved, according to data gathered by the German Marine Federation[7]. According to the Federation, boat production was up 14 % over the previous year. Results of the trade group's year-end economic survey confirmed this positive trend, with 52.6 % of respondent companies describing business as better than in the previous year, versus only 25.5 % in 2009. Only 21.1 % of businesses reported that sales continued to decline, down from 50.3 % the year before. The recovery reached nearly every segment of the maritime market: even the new boat segment benefited from the rising tide.

Despite the cold weather early in the year, 2010 sales of equipment – the market segment that matters to SFC – remained at last year's satisfactory levels. About four-fifths of the businesses surveyed reported that sales were the same or better than in the previous year. Boat owners continued to invest in maintaining the value of their craft, and this was true not only for high-end technical accessories like heating, cooling, cooking and entertainment equipment, but also for navigation and security equipment.

Economic trends in the marine market are expected to be significantly better over the next two or three years, with 63.7 % believing that the economic upswing will continue, up from 33.3 % the previous year.

Industry: Off-grid power supply solutions

Demand for reliable remote power solutions for industrial applications also grew in 2010, given the increasing number of devices that are used far from any power outlets. Typical applications include off-grid sensors and metering devices, surveillance, security and traffic control systems, and a host of other applications. EFOY Pro fuel cells by SFC are increasingly viewed as a genuine "enabling technology" that makes it possible for many operators of remote installations to create new, more cost-efficient concepts with enhanced functions. However, converting systems and equipment that are strategically important for security to new power supply concepts does require a decision to invest – which follows a correspondingly long test phase. In 2010 this market revived slightly, thanks to its strategic importance. We therefore anticipate that this market will continue to gain importance in 2011.

Mobility

SFC is active in two segments of the mobility market: Auxiliary power units (APUs) for Special Purpose Vehicles and Combined Heat and Power Sources (CHP) to battery powered vehicles. In the first area (APU) SFC is supplying existing products to customers using conventional vehicles with internal combustion engines. Market demand is driven by an increasingly strict regulatory environment preventing vehicle users from idling the engine to generate electrical energy for battery charging. In the second area (CHP), despite receiving a good deal of public attention, this relatively young e-mobility segment is a mere development game at this time. SFC is developing fuel cell based power generation units that address the key limitations of battery vehicles, range and all year usability. As a potential solution for clean urban mobility concepts major Automotive companies plan to test SFC's solution. Although public interest and funding in this area will continue in 2011, the market is not expected to make any economic impact yet.

Defence

As a consequence of the economic crisis several European countries and the United States have implemented strict spending cuts in their defense budgets and started programmes for structural changes. Despite this overall amid environment alternative portable and mobile power solutions are enabling new formats of combat

7 Data: German Marine Federation, press release on the 2011 International Boat Show, Jan. 2011

and defense patterns. Addressing asymmetric threats defense forces are more and more moving from a monolithic formation to smaller units. Longer lasting autonomy combined with low detectability for soldiers and vehicles is an enabling capability for longer dismounted missions in such a scenario. Therefore Special Operation Forces and OEMs as well as integrators are creating an increasing demand for alternative remote power supply solutions.

3. EARNINGS AND FINANCIAL POSITION

Earnings position

Sales revenue for financial year 2010 climbed to € 13,330k from € 11,687k the previous year, an increase of 14.1 %. The share of sales attributable to products rose to 93.4 %, compared with 90.2 % a year earlier, while that generated under joint development agreements (JDAs) and other consulting services decreased accordingly.

Sales by segment

The sales increase in financial year 2010 was due primarily to higher sales of fuel cell systems in our A-Series (EFOY, EMILY, FC 250) and C-Series (JENNY) and to sales of Power Managers. This trend reflects the slight recovery in the leisure market, increased acceptance of fuel cells in industry, and heightened interest in the system solutions we offer in the defense market.

SALES BY SEGMENTS			in k€	in %
	2010	2009	Change	Change
A-Series	9,628	9,355	273	2.9
C-Series	1,089	388	701	> 100
Power Manager	794	136	658	> 100
Joint Development Agreements	875	996	–121	–12.1
Others	944	812	132	16.3
Total	**13,330**	**11,687**	**1,643**	**14.1**

In financial year 2010, sales for our A-Series segment rose 2.9 % to € 9,628k, up from € 9,355 the year before. This was due primarily to significant growth in the industry market, which posted an increase of € 780k, or 48.9 %. The leisure segment grew by € 288k, or 4.6 %, a slight increase over the previous year. In the mobility segment, sales were down significantly, decreasing by € 939k, or 88.5 %. As government economic stimulus programs expired, we were unable to repeat the sales that originated from these programs during the previous year. Once again, revenues were generated on the sale of systems specially designed for military applications (FC 250, EMILY); they totaled € 429k (€ 363k).

Sales in the C-Series segment nearly tripled, increasing from € 388k in financial year 2009 to € 1,089k in financial year 2010. The number of systems delivered rose from 31 to 69.

Sales of Power Managers also grew significantly, rising from € 136k to € 794k in financial year 2010. The number of Power Managers delivered rose from 23 to 88.

Growth in the C-Series and Power Managers was generated in large measure by the major contract awarded to SFC by the German Bundeswehr in the third quarter of 2010, a development that validates SFC's strategy to offer clients a complete energy solution. The Bundeswehr ordered SFC system solutions consisting of the portable JENNY fuel cell, the SFC Power Manager, a specially designed hybrid battery, a solar panel, and special accessories. In delivering this power network, SFC completed the transition from development partner to systems supplier and – for the first time – established the fuel cell as a core component in an active defense organization.
Sales for the JDA segment fell to € 875k in financial year 2010, down 12.1 % from € 996k in 2009. Contracts with the U.S. Armed Forces were not awarded until the end of the fourth quarter of 2010, so sales for this segment can be expected to increase again in 2011.

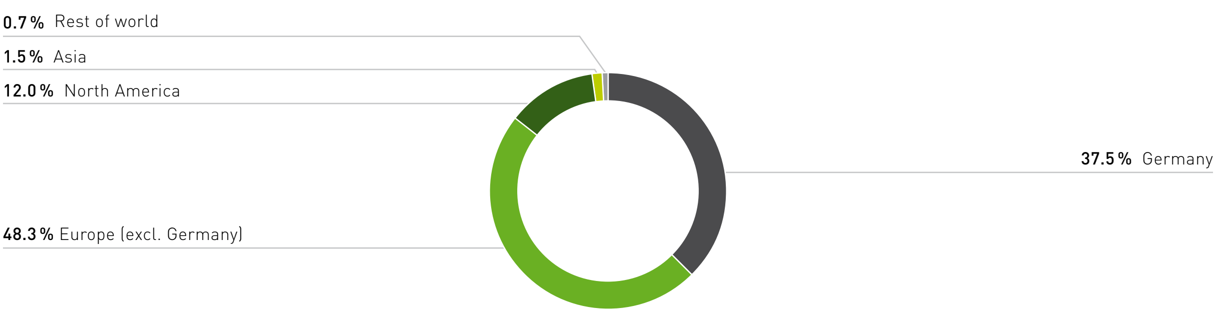
Sales in the Other segment rose to € 944k in financial year 2010, a 16.3 % increase over € 812k last year. In addition to sales of fuel cartridges, this segment captures sales of test equipment to strategic partners. Solar panels and other components of the abovementioned power network are also included for the first time. Last year's figure included sales of € 148k from consulting services. Sales of fuel cartridges were up € 112k over the previous year, an increase of 23.7 %.

UNIT SALES OF THE SFC A-SERIES

	2010	2009	Change	Change in %
Leisure	3,125	3,268	–143	–4.4
Industry	634	550	84	15.3
Mobility	31	394	–363	–92.1
Defence	41	29	12	41.4
Total	**3,831**	**4,241**	**–410**	**–9.7**

Unit sales of A-Series fuel cell systems dropped from 4,241 to 3,831, down 9.7 % from last year. The growth in A-Series revenue resulted primarily from shifts in the model mix towards higher-performing fuel cell systems and reflects the success of the EFOY 2200 and EFOY Pro 2200 models, which were launched in the fourth quarter of 2009.

SALES BY REGION



The overall sales growth in financial year 2010 was largely attributable to significant growth in Europe. Sales in North America, by contrast, declined. In Germany, sales remained at last year's levels, reducing the proportion of domestic sales to 37.6 %, down from 42.8 % in 2009. As a result, international sales rose to 62.4 % of total sales, up from 57.2 % the previous year.

SALES IN EUROPE (EXCL. GERMANY)			in k€	in %
	2010	2009	Change	Change
A-Series	5,874	4,347	1,527	35.1
C-Series	86	146	–60	–41.1
Power Manager	65	52	13	25.0
Other	412	320	92	28.8
Total	**6,437**	**4,865**	**1,572**	**32.3**

In Europe, sales rose to € 6,437k, up 32.3 % over € 4,865 the previous year. This increase is predominantly attributable to higher unit sales of A-Series fuel cell systems in the leisure and industry markets.

SALES IN GERMANY			in k€	in %
	2010	2009	Change	Change
A-Series	3,170	4,439	–1,269	–28.6
C-Series	921	38	883	> 100
Power Manager	470	0	470	n. a.
Joint Development Agreements	0	236	–236	–100.0
Other	447	289	158	54.7
Total	**5,008**	**5,002**	**6**	**0.1**

In Germany, sales rose to € 5,008k in financial year 2010, up 0.1 % from € 5,002k the previous year. Sales of A-Series fuel cell systems contracted sharply in the mobility and leisure segments. In addition, no revenue was realized from JDAs with the German Bundeswehr, in contrast to the previous year. The sharp increase in the C-Series, Power Manager and Other segments is largely the result of the major Bundeswehr contract mentioned above.

SALES IN NORTH AMERICA			in k€	in %
	2010	2009	Change	Change
Joint Development Agreements	875	760	115	15.1
A-Series	348	447	–99	–22.1
Power Manager	252	76	176	> 100
C-Series	58	192	–134	–69.8
Other	63	189	–126	–66.7
Total	**1,596**	**1,664**	**–68**	**–4.1**

North American sales fell to € 1,596k, down 4.1 % from € 1,664k in 2009. This is primarily because consulting services, which came to € 148k the previous year, did not continue into 2010.

SALES IN ASIA			in k€	in %
	2010	2009	Change	Change
A-Series	148	111	37	33.3
C-Series	24	0	24	n. a.
Power Manager	7	0	7	n. a.
Other	16	11	5	45.5
Total	**195**	**122**	**73**	**59.8**

In 2010, sales in Asia rose to € 195k, up 59.8 % from € 122k last year. This growth is largely attributable to higher sales of A-Series and C-Series fuel cell systems.

SALES REST OF WORLD			in k€	in %
	2010	2009	Change	Change
A-Series	88	11	77	> 100
C-Series	0	12	– 12	– 100.0
Power Manager	0	8	– 8	– 100.0
Other	6	3	3	100.0
Total	**94**	**34**	**60**	**> 100**

SFC itself is currently not actively marketing its products in Asia or other parts of the world.

Gross margin: Gross margin grew to € 4,042k in financial year 2010, up 26.5 % from € 3,194k in 2009. This was due primarily to the abovementioned sales in the A-Series segment and to increased sales of defense industry products, especially the C-Series and Power Manager. Gross margin of the A-Series rose by € 362k, or to 29.8 % from 26.8 % last year expressed as a percentage of sales. As a result, the gross margin on total sales for financial year 2010 increased significantly to 30.3 % (27.3 %). Additional cost savings on fuel cartridges contained in the Other segment are also worth mentioning: with sales volume up € 112k from the previous year, gross margin improved by € 40k. The € 10k decrease in gross margin for the Other segment is chiefly attributable to the absence of the high-margin consulting services contained in the previous year's sales.

Platinum is used in a core component of fuel cells. Between December 31, 2009 and December 31, 2010, the price of platinum rose from $1,475/ounce to $1,752/ounce, an 18.8 % increase (versus a 60 % increase the previous year). Although the rise in platinum prices put pressure on our gross margin, the higher costs were offset by income from forward deals used to hedge platinum. This income is reported under other operating Income.

Sales costs: In financial year 2010, sales costs rose 6.9 % to € 4,751k (€ 4,445k), primarily due to setup of our US sales organization.

Research and development costs: In 2010 research and development costs increased 25.4 %, rising to € 1,891 from € 1,508 the previous year. Development costs in the amount of € 1,071k (€ 980k) and proprietary patents in the amount of € 30k (€ 59k) were capitalized in the reporting period. It is important to note that development costs incurred as part of JDAs are reported as production costs of work performed to generate sales, and that any subsidies received for government-sponsored development projects are offset against development costs. Adjusted for these two effects and adding back in the capitalized development costs and patents, true research and development expenditures in 2010 totaled € 4,725k, which represents an increase of 5.2 % from the previous year's € 4,493k.

General administration costs: In 2010 general administration costs decreased by 3.6 % to € 2,052k, compared with € 2,129k the year before. This was primarily due to lower consulting expenses and costs for investor relations.

Other operating income: Other operating income fell 45.3 %, down from € 417k a year ago to € 228k in 2010, predominantly because of lower income from the measurement of open platinum forwards.

Other operating expenses: Other operating expenses rose from € 36k to € 87k in 2010, largely because of higher expenses from exchange rate differences.

Operating result (EBIT): The Group's EBIT for financial year 2010, at minus € 4,510k, remained near the previous year's level (minus € 4,507k). Adjusted EBIT margin improved to minus 33.8 % (minus 38.6 %).

Interest and similar income: Interest and similar income fell 45.0 %, from € 744k to € 409k. Lower interest rates were the chief reason for this decrease.

Net loss: The net loss widened by 8.9 % to € 4,123k in financial year 2010, following a net loss of € 3,785k the year before.

Earnings per share: Earnings per share under IFRS (diluted) dropped from minus € 0.53 to minus € 0.58.

Financial position

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

Net cash outflows increased to € 6,982k in 2010, up from € 5,023k in the previous year.

Cash and cash equivalents amounted to € 33,560k at the end of December 2010 (end of December 2009: € 40,544k).

Cash flow from ordinary operations: The net cash used in ordinary operations increased to € 4,635k in financial year 2010, versus € 3,677 a year ago. One important reason for this was our tax refund: the amount refunded in the prior-year period was € 719k, but the 2010 refund was only € 212k. In addition, net working capital (inventories plus trade receivables minus trade payables) increased by € 1,665k in 2010, as compared with a € 100k increase in 2009.

Cash flow from investment activity: Net cash used for investment activity totaled € 2,347k in the period under review, versus € 1,227 last year. The increase was due primarily to the purchase of a term deposit in the amount of € 570k, which was pledged, like a bank guarantee, against the lease on SFC's new building. In addition, interest received decreased by € 426k.

Cash flow from financial activity: Net cash used for financial activity decreased from € 120k in 2009 to € 0k in 2010, primarily because the previous year's figure included € 118k used to repay liabilities from finance leases.

Assets & Liabilities

The Group's balance sheet remains healthy, with an equity ratio of 90.1 % (December 31, 2009: 90.9 %).

Total assets were down 8.2 % to € 46,312 as of December 31, 2010, decreasing from € 50,442k as of December 31, 2009.

Inventories rose to € 1,937k, a 45.9 % increase over € 1,328 in 2009. This was due to increased sales, higher sales volumes for defense products, and the need to stock our US subsidiary's warehouse.

Sales growth also generated a 23.3 % increase in trade accounts receivable, which rose to € 2,713k (versus € 2,200k in 2009).

Non-current assets rose from € 4,846k as of December 31, 2009 to € 6,145k as of December 31, 2010, due primarily to capitalized development costs and investments in property, plant and equipment. The share of non-current assets in total assets climbed from 9.6 % to 13.3 %. It should be noted that the building occupied by SFC is under long-term lease and is not shown under non-current assets.

Among current liabilities, the main change occurred in trade accounts payable, which decreased from € 1,957k as of December 31, 2009, to € 1,384k as of December 31, 2010.

Altogether, liabilities made up 9.9 % of total liabilities and shareholders' equity (December 31, 2009: 9.1 %).

With the net loss for the period, shareholders' equity decreased to € 41,721k as of December 31, 2010, compared with € 45,860k as of December 31, 2009.

Research and development

The Group continues to make considerable investments in research and development. A total of € 4,725k was spent on R&D in financial year 2010 (previous year: € 4,493), including costs related to joint development projects. At 28 (previous year: 29), the number of employees working on developing direct methanol fuel cell technology and incorporating it into the Group's products accounts for about one-third of personnel. 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 our research and development activities remained as follows in financial year 2010:

- Reduce unit costs through technological innovations, particularly for our fuel cell stacks, which represent the technical core of fuel cell systems and also account for a very large portion of the systems' production costs. Here we continued our efforts to systematically increase power density and reduce degradation while cutting back on the amount of material used.

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

- Significantly improve reliability, robustness and durability in devices developed for the industry market in order to make products even more attractive and build on the Group's technological edge.

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

On top of these focal points, we placed greater emphasis in financial year 2010 on developing total energy supply solutions, typically consisting of a fuel cell system, hybrid battery, power management and accessories – and even solar cells in some cases – in order to better meet customer requirements, especially in the defense, industry and mobility markets.

We plan to keep R&D expenses high 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 the National Organization for Hydrogen and Fuel Cell Technology (NOW).

Capital expenditures

In financial year 2010, € 1,071k (€ 980k) was capitalized for further development of fuel cell systems, power managers and network solutions. Other investments included: various types of injection molding equipment to continue reducing costs for SFC products; an automatic filling system for fuel cartridges; a testing station for incoming goods to improve quality; and equipment for new construction of a production, development and administration building into which SFC moved at the beginning of April 2010.

Total capital expenditures in 2010 came to € 2,593k (€ 2,351k). Of that amount, € 246k (€ 304k) was financed by government grants and deducted from the costs of the respective investments. The remaining capital expenditures were financed by our own resources.

New orders and order backlog

The change in the volume of new orders in financial year 2010 was affected by the high volume of new orders received for A-Series civilian EFOY fuel cell systems in the fourth quarter of 2009. New orders for EFOY fuel cells declined from € 10,160 last year to € 7,710 in 2010, putting overall order intake below the previous year.

A significant milestone was achieved in the defense market in the third quarter of 2010, when the German Bundeswehr awarded a major contract to SFC (see section 3 above).

And in the fourth quarter of 2010, SFC won another contract from the U.S. Army Operational Test Command (ATEC). The 18-month contract covers development and delivery of 100-watt field chargers. The new order, which totals just under $2m, includes a development phase and subsequent delivery of a small series of 100-watt field chargers.

These two contracts significantly increased new orders for defense products – our C Series, Power Managers and A Series (FC 100, FC 250, and EMILY). Total new orders rose from € 792k in 2009 to € 2,994 in financial year 2010.

Overall, new orders dropped 2.4 %, from € 13,384k in 2009 to € 13,068k in financial year 2010, putting the order backlog at € 3,150k at the end of 2010, a 7.7 % decline from the previous year's total of € 3,412k.

Employees at year end

As of December 31, 2010, the Company employed the following permanent personnel:

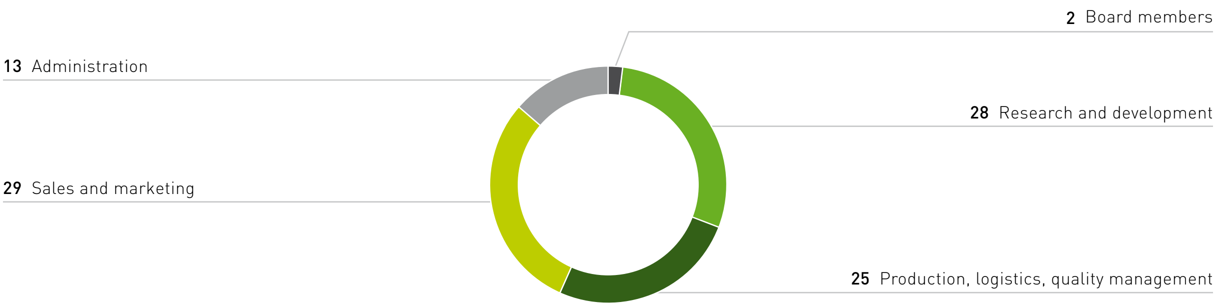
EMPLOYEES

	12/31/2010	12/31/2009	Change
Board members	2	2	0
Research and development	28	29	–1
Production, logistics, quality management	25	24	+1
Sales and marketing	29	25	+4
Administration	13	11	+2
Permanent employees	**97**	**91**	**+6**

SFC employed 8 (7) trainees, graduates and student trainees as of December 31, 2010.

As of December 31, 2010, the Company had 97 permanent employees, up slightly from 91 the previous year.

EMPLOYEES PER DIVISION IN 2010



Summary

In summary, 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 our Management Board complies with the statutory requirements of the German Stock Corporation Act.

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

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

There are also agreements to make bonus payments to the members of the Management Board within the framework of a long-term incentive program for the period January 1, 2009, to December 31, 2013, under certain circumstances and if certain performance targets are reached. This program is based on a phantom-stock model and is divided into three individual three-year performance periods that include financial years 2009 to 2011, 2010 to 2012, and 2011 to 2013. The remuneration at the end of each three-year period is paid in the form of cash and substantially depends on the price of the SFC share and achievement of a defined EVA (economic value added) for that period.

We also provide a company car to both members of the Management Board. The Group 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. SFC has also obtained directors and officers liability insurance for both of them; effective July 1, 2010, these policies include a deductible equal to 10 % of the loss up to a maximum of one and a half times the fixed annual compensation of the respective Management Board member.

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 Group 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. 6a of the German Commercial Code (HGB) can be found in the Notes to the Consolidated Financial Statements.

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 Energy 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 and indirectly own capital exceeding 10 % of the voting rights are listed in the table below[8]:

SHAREHOLDER	in %
Holland Private Equity Management B. V. (by HPE PRO Institutional Fund B. V.)	25.01
Conduit Ventures Limited (by Conduit Ventures General Partner II Limited und Conduit Ventures IIA LP)	10.64

Shareholders have no special rights that confer control.

Members of the Management Board of SFC Energy AG are appointed and removed in accordance with §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.

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 on one or over several occasions on or before May 7, 2013, by issuing new ordinary bearer shares with no par value in return for cash or non-cash consideration (authorized capital 2008). 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(5) of the Articles of Association, the terms of the capital increase are specified by the Management Board with the approval of the Supervisory Board.

The Company has a conditional capital II in the amount of € 127,716.00 for conducting share option programs. As of December 31, 2010, there were no longer any share options to be exercised; the share option program is terminated.

8 These are the holdings that had been reported to SFC pursuant to the German Securities Trading Act (WpHG) by preparation of the Group management report.)

The shareholders' meeting on May 6, 2010, authorized the Management Board to repurchase its own shares on or before May 5, 2015, up to a limit of ten percent of the Company's share capital as of May 6, 2010. This authorization had not been utilized by the balance sheet date.

There are currently no agreements at SFC Energy 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, systematically uses and continues to develop suitable instruments for identifying, analyzing and measuring risks and determining the appropriate course of 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 material risks listed below result from SFC's business activity.

Market risks

Macroeconomic developments: The situation of the global economy is still such that there is little clarity as to the exact repercussions of the downturn. Current projections by governments and economic research institutes do contain indications that the Group's most important markets have bottomed out, but there are currently no reliable signs of an imminent, sustainable economic recovery. As a result, uncertainty continues to make planning and forecasts difficult.

Leisure: This uncertainty continues to plague the European markets for recreational vehicles. Market experts do not see any clear reversal of the trend at this time. Sales of accessories are also affected, which further increases the risk that sales of EFOY fuel cells will be off throughout Europe this season.

Industry: The difficult climate for customers in the public sector and expiration of government economic stimulus programs, as well as ongoing lengthy test phases and complex decision-making processes, are the dominant factors affecting the industry market. These factors entail the risk of slower growth and slower market development. The worsening sovereign debt crisis is also capable of putting the brakes on growth in this segment.

Mobility: The mobility market is also affected by the expiration of economic stimulus programs and could face medium-term risks as government austerity measures intensify.

Defense: The defense market remains extremely unpredictable because it is less transparent, is driven by political decisions and developments, does not readily lend itself to forecasting and is heavily project-based. Because of this, we assume that the orders SFC is expecting to get may be pushed back even further, despite the fact that initial calls for bids and notices concerning future calls for bids have been publicly announced. In addition, military spending may fall amid restructuring talks and steep increases in national debt in many countries. This also constitutes a risk.

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 Group'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. During the 2010 reporting period we continued to generate additional cost savings without sacrificing quality: examples of this include stacks – a core component of fuel cell systems – and fuel cartridges. 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 more complex, there remains a certain risk of possible patent infringement by SFC. However, 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 (around 20 patents or decisions to grant received so far), which put us in a strong position relative to our competitors. SFC works continuously with experienced patent attorneys to ensure that it is operating in full compliance with the law by staying abreast of patents that may be relevant to the Company, including those granted in other countries.

Competition

SFC enjoys a unique position today thanks to our leadership in DMFC systems technology and our marketing edge. Some of the ways we protect this advantage include intellectual property rights, swift action and a resolute focus on a single technological concept. Some of our competitors – particularly those 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. For example, ongoing monitoring of the competition in this connection brought to our attention the first deliveries of prototypes by competitors in the defense business in the United States. And the first competing products are now appearing on the market in our leisure and remote power supply target markets. Consequently, there are risks from announcement effects and actual substitutes that could provoke uncertainty among market participants and lead to a loss of sales for SFC. We are countering these risks by bringing focus and innovation to our continuing product development efforts.

Purchasing and production-related risks

SFC purchases components and equipment it needs to manufacture 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, SFC is working to diversify its suppliers and is entering into intensive cooperative projects 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 required 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, with corresponding expenses and expenditures in U.S. dollars. With the expansion of our U.S. subsidiary, SFC had no significant surplus of U.S. dollars in 2010, and hedging was therefore unnecessary. Of the forward exchange deals entered into in 2009, only $0.11m was swapped in late 2009 and sold in early 2010. Given our existing contracts with the U.S. Armed Forces, we expect the U.S. dollar surplus to rise again in financial year 2011. As of the reporting date, no forward exchange deals had yet been entered into for 2011. As a result, the unhedged portion of sales is exposed to foreign exchange risk.

We hedged a large part of our expected platinum requirements for financial year 2010. Based on an assessment of the market, we did not hedge our expected platinum requirements for financial year 2011 in the year under review. As a result, the unhedged portion of our platinum requirements is subject to price risk. Assuming that our volume projections for financial year 2011 are correct, and basing our calculations on a steady dollar and the price of platinum at December 31, 2010, a 5 % change in the price of platinum would change our result by about € 42k.

As in the past, the possibility exists that volatile price trends for the dollar or for platinum could result in book losses when forward deals are remeasured.

In general, rising raw material and energy costs continue to pose a risk to our product margins.

Financial and liquidity risks

Sales and contribution margins were not sufficient to make the Group profitable during the reporting period. SFC's strategic orientation requires 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 Group from the public offering in May 2007 were raised for this expansion effort. Cash is being deposited with various banks in low-risk investments (such as money market funds and time deposits) until it is 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 that a major customer or a bank may no longer meet its payment obligations to SFC.

The Group's default rate stayed within reasonable limits in 2010 (0.01 % of sales) due to our customer structure (high percentage of military customers, industrial customers, and wholesalers, low percentage of private end customers). There is a certain risk from the fact that our ten largest customers – including two military customers and five German and foreign wholesalers in the leisure segment – accounted for 54 % of sales in 2010. We are counteracting this risk by generating new customers and expanding our sales from existing customers.

Interest rate risks

Interest rate risk results primarily from the investment of cash. As part of the capital increase in 2007, shares were also placed in the United States. In that context, SFC also had to assume the contractual obligation to comply with certain tax laws in the United States. Consequently, no investments may exceed a three-month term at present. In that respect, the net interest income or loss of SFC is materially influenced by short-term interest rates on the capital markets.

Personnel risks

SFC remains heavily dependent on committed, highly qualified and to a certain extent specialized employees. Given our growth plans and the improving economy, 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 labor market by increasing its use of performance-related salary components, flat hierarchies, and early assignment of responsibilities. SFC was an attractive employer in 2010 and was able to recruit new employees with good qualifications, thereby fulfilling additional prerequisites for achieving our growth targets.

IT risks

We have continued to expand important IT features like reliability, redundancy and restoring availability after outages, as well as backup and archiving functions. In addition, we have modified the infrastructure of our new building to reduce communications-related risks over the long term and have brought our security system up to state of the art. We have also secured our connections to outside employees as well as the redundant direct link between our Brunnthal location and our U.S. subsidiary.

Regulatory risks

The business 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 regulatory background conditions in various markets and countries. In some cases, the authorities have objected to product labeling and distribution channels in Germany and Austria. SFC is working to obtain a legal clarification. It cannot be excluded that the applicable requirements may become stricter (for example, due to stricter anti-terror legislation, 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. SFC could be obliged to organize additional product and safety training to dealers to ensure proper qualification of their personnel.

CONCLUSION

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

The key determinants of SFC's future development lie in our ability to successfully increase our sales (by raising volumes in current markets; expanding into new regions; tapping new markets by concentrating on delivering system solutions and new applications like mobility; and expanding our series business in the defense industry) and to use innovative technologies to reduce our costs. SFC has the opportunity to build on its current lead thanks to its mature technology and marketing power and to continue to be the recognized standard-setter for off-grid energy supply in the low and medium-power range.

Additional opportunities may present themselves as a result of external factors: earnings could benefit from falling raw material prices and favorable exchange rate developments.

7. GROUP-ACCOUNTING RELATED INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM

SFC has an internal control and risk management system for the (group) accounting process. This system defines appropriate structures and processes and implements them in the organization. It is designed to ensure timely, uniform and accurate bookkeeping of all business processes and transactions. It also ensures compliance with laws and accounting rules.

Changes to the laws, accounting standards and other official bulletins are regularly analyzed with regard to relevance and effects on the consolidated financial statements, and the resulting changes are made to our internal systems and processes.

Our internal control system is based not only on defined control mechanisms, such as computerized and manual coordination processes, but also on separation of duties and compliance with work instructions.

Bookkeeping for our U.S. subsidiary is performed by the parent company, which ensures that accounting standards are applied uniformly throughout the Group.

Consolidation and certain coordination work are performed by the Accounting Department at the parent company on the basis of information received from the consolidated companies. Because of the size of the Group, there is no separate group accounting department. Computerized controls are monitored by the employees in the Accounting Department and supplemented with manual tests. As a rule at least two people review everything at every level. Certain release processes must be complied with throughout the entire accounting process.

The Management Board is responsible for implementing and monitoring the internal control system. This includes the (group) accounting-related internal control system. Given the size of the Group, there is no internal audit function within the Group.

The Management Board of SFC Energy AG has reviewed the accounting-based internal control system and believes that it was fully functional in financial year 2010. The effectiveness of the internal control system is monitored by the Audit Committee of the Supervisory Board of SFC Energy AG in accordance with the requirements of the Accounting Rule Modernization Act (Bilanzrechtsmodernisierungsgesetz), which went into force in May 2009. It is important to note that an internal control system does not provide absolute certainly that material misstatements in the financial statements are avoided or discovered, regardless of how it is designed.

8. DECLARATION ON CORPORATE GOVERNANCE

On March 23, 2011, the Management Board issued the Declaration on Corporate Governance pursuant to §289a of the German Commercial Code. This declaration is available on the Internet at www.investor-sfc.de/en/corporate_governance.php.

9. FORECAST REPORT

The Management Board fully believes that SFC is capable of defending its leading position in the promising market for independent energy supply using fuel cells powered by methanol.

Our growth in the industry and defense markets – and especially the major contract awarded to SFC by the German Bundeswehr in the third quarter of 2010 – validates SFC's strategy to offer clients a complete energy solution. The Bundeswehr ordered SFC system solutions consisting of the portable JENNY fuel cell, the SFC Power Manager, a specially designed hybrid battery, a solar panel, and special accessories. Delivery of this power network marked SFC's transition from development partner to systems supplier and – for the first time – established the fuel cell as a core component for an active defense organization.

With some 20,000 fuel cell generators delivered and several million hours of operation accumulated in the field, the Management Board believes that the Group also has a clear advantage over competitors in terms of marketing.

For 2011 organic sales growth is expected to be similar to that achieved in 2010 with the defense and industry markets providing most of the improvement. In the leisure market management expects to see stable sales with some growth provided by the Canadian market launch. The first quarter may again suffer from our customers' destocking in the leisure sector. Growth in industry and defense markets shall be generated by strategic partnerships as well as further focus on integrated energy solutions. This may also include acquisitive action. Sales growth combined with next steps of product cost reduction shall be the basis for significant improvements in EBIT and cash flow resulting into concrete steps towards break even.

In 2012 management sees SFC well positioned to further strengthen these developments; whilst regional expansion of the leisure business in North America should have a stronger impact on overall growth expectations. At the same time efficiency gains throughout the organization will contribute to the further improvement of EBIT and Cash Flow.

10. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date.

Brunnthal, March 23, 2011

Dr Peter Podesser
Management Board

CONSOLIDATED FINANCIAL STATEMENTS

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 FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2010

in €

		see Notes	1/1–12/31/2010	1/1–12/31/2009
1.	Sales	(1)	13,330,178	11,687,382
2.	Production costs of work performed to generate sales	(2)	–9,287,856	–8,493,278
3.	**Gross margin**		**4,042,322**	**3,194,104**
4.	Sales costs	(3)	–4,751,085	–4,445,176
5.	Research and development costs	(4)	–1,890,860	–1,507,728
6.	General administration costs	(5)	–2,052,233	–2,129,109
7.	Other operating income	(6)	228,089	416,867
8.	Other operating expenses	(7)	–86,571	–35,747
9.	**Operating loss**		**–4,510,338**	**–4,506,789**
10.	Interest and similar income	(8)	408,846	743,630
11.	Interest and similar expenses	(9)	–21,769	–21,621
12.	**Loss from ordinary operations**		**–4,123,261**	**–3,784,780**
13.	Income taxes	(10)	0	0
14.	**Consolidated net loss**		**–4,123,261**	**–3,784,780**
15.	Accumulated loss brought forward from previous year		–28,184,227	–24,399,447
16.	**Net accumulated loss**		**–32,307,488**	**–28,184,227**
	NET LOSS PER SHARE	(33)		
	undiluted		–0,58	–0,53
	diluted		–0,58	–0,53

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2010

in €

	2010	2009
Consolidated net loss	**–4,123,261**	**–3,784,780**
Result from currency translations	–15,828	10,448
Total results recognized directly in equity	**–15,828**	**10,448**
Total comprehensive income	**–4,139,089**	**–3,774,332**

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

There are no deferred tax effects on the total results recognized directly in equity.

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2010

	ASSETS			in €
		see Notes	12/31/2010	12/31/2009
A.	**Current assets**		**40,167,297**	**45,596,399**
I.	Inventories	(14)	1,936,612	1,327,600
II.	Trade accounts receivable	(15)	2,713,062	2,200,369
III.	Receivables from Percentage-of-Completion	(16)	3,833	6,930
IV.	Income tax receivables	(17)	103,567	212,176
V.	Other short-term assets and receivables[1]	(18)	1,280,052	1,260,404
VI.	Cash and cash equivalents	(19)	33,560,171	40,543,600
VII.	Cash and cash equivalents with limitation on disposal	(20)	570,000	45,320
B.	**Non-current assets**		**6,145,106**	**4,846,064**
I.	Intangible assets	(21)	2,946,698	2,410,796
II.	Property, plant and equipment	(22)	2,335,363	1,681,233
III.	Other long-term assets and receivables	(18)	66,540	63,285
IV.	Deferred tax assets	(10)	796,505	690,750
	Assets		**46,312,403**	**50,442,463**

1 Deferred charges and prepaid expenses were reported in a separate line item at December 31, 2009. At December 31, 2010, they were reported with other short-term assets and receivables. The previous year's figures have been restated accordingly.

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2010

	LIABILITIES AND SHAREHOLDERS' EQUITY			in €
		see Notes	12/31/2010	12/31/2009
A.	**Current liabilities**		**3,177,805**	**3,444,426**
I.	Other provisions	[23]	547,265	571,606
II.	Liabilities from prepayments	[24]	3,583	18,321
III.	Trade accounts payable	[25]	1,384,029	1,957,452
IV.	Other short-term liabilities	[26]	1,242,928	897,047
B.	**Non-current liabilities**		**1,413,189**	**1,137,539**
I.	Other long-term provisions	[23]	500,865	264,241
II.	Other long-term liabilities	[26]	115,819	182,548
III.	Deferred tax liabilities	[10]	796,505	690,750
C.	**Equity**		**41,721,409**	**45,860,498**
I.	Subscribed capital	[27]	7,152,887	7,152,887
II.	Capital surplus	[27]	66,879,638	66,879,638
III.	Other changes in equity not effecting profit or loss	[27]	-3,628	12,200
IV.	Accumulated loss brought forward from previous year	[27]	–28,184,227	–24,399,447
V.	Consolidated net loss	[27]	–4,123,261	–3,784,780
	Liabilities and shareholders' equity		**46,312,403**	**50,442,463**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2010

in €

		see Notes	1/1–12/31/2010	1/1–12/31/2009
	Cashflow from ordinary operations			
	Result before taxes		**–4,123,261**	**–3,784,780**
–	Net interest income	(8), (9)	–387,077	–722,009
+	Depreciation/amortization of intangible assets and property, plant and equipment	(12), (21), (22)	1,020,083	927,212
+	Expenses from Long Term Incentive Plan	(31)	7,899	182,548
–/+	Changes in allowances	(14), (15)	–36,739	1,962
+/–	Losses/gains from disposal of property, plant and equipment	(21), (22)	6,466	–251
–	Profits from derivatives	(30)	–90,799	–306,067
	Changes to operating result before working capital		**–3,603,428**	**–3,701,385**
+	Changes to short and long-term provisions	(23)	190,721	45,475
–/+	Changes to trade accounts receivable	(15)	–511,939	180,744
–	Changes to inventories	(14)	–579,685	–187,829
+/–	Changes to other assets	(16), (17), (18)	84,852	–60,689
–	Changes to trade accounts payable	(25)	–573,423	–92,874
+/–	Changes to other liabilities	(24), (26)	248,934	–333,706
–	Changes to deferred income	(34)	0	–33,092
	Cashflow from ordinary operations before taxes		**–4,743,968**	**–4,183,356**
+	Income tax refunds	(34)	108,609	506,557
	Cashflow from ordinary operations		**–4,635,359**	**–3,676,799**

1 Deferred charges and prepaid expenses were reported in a separate line item at December 31, 2009. At December 31, 2010, they were reported with other short-term assets and receivables. The previous year's figures have been restated accordingly.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2010

in €

		see Notes	1/1–12/31/2010	1/1–12/31/2009
	Cashflow from investment activity			
–	Investments in intangible assets from development projects	(21)	–1,070,800	–979,700
–	Investments in other intangible assets	(21)	–88,816	–93,074
–	Investments in property, plant and equipment	(22)	–1,061,669	–974,531
+	Bank balances released	(20)	45,320	750,000
+	Interest and similar income	(8), (18)	394,986	820,524
–	Bank balances pledged	(20)	–570,000	–750,000
+	Proceeds from disposal of property, plant and equipment	(22)	4,225	252
	Cashflow from investment activity		**–2,346,754**	**–1,226,529**
	Cashflow from financial activity			
–	Repayment of liabilities from finance leases	(22)	0	–118,182
–	Interest paid and other expenses	(9)	–207	–1,745
	Cashflow from financial activity		**–207**	**–119,927**
	Net change in cash and cash equivalents		**–6,982,317**	**–5,023,255**
	Currency effects on cash and cash equivalents		–1,112	–666
	Net change in cash and cash equivalents			
	Cash and cash equivalents at beginning of period	(19)	40,543,600	45,567,521
	Cash and cash equivalents at end of period	(19)	33,560,171	40,543,600
	Net change in cash and cash equivalents		**–6,982,317**	**–5,023,255**

Material Non-Cash Transactions

As in the previous year, there were no material non-cash transactions in financial year 2010.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2010

in €

	see Notes	Subscribed capital	Capital surplus	Other changes in equity not effecting profit or loss	Net accumulated loss	Total
Balance 01/01/2009		**7,152,887**	**66,879,638**	**1,752**	**–24,399,447**	**49,634,830**
Total comprehensive income						
Consolidated net loss					–3,784,780	–3,784,780
Result from currency translation recognized in equity	(27)			10,448		10,448
Balance 12/31/2009		**7,152,887**	**66,879,638**	**12,200**	**–28,184,227**	**45,860,498**
Total comprehensive income						
Consolidated net loss					–4,123,261	–4,123,261
Result from currency translation recognized in equity	(27)			–15,828		–15,828
Balance 12/31/2010		**7,152,887**	**66,879,638**	**–3,628**	**–32,307,488**	**41,721,409**

CONSOLIDATED SEGMENT REPORTING
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2010

in €

	A-Series		C- Series		JDA	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Assets	1,029,028	1,076,559	88,777	18,445	114,329	110,383
Inventories	1,192,570	1,043,737	461,089	106,223	0	0
Trade accounts receivable	1,634,829	1,682,570	145,817	38,857	481,365	405,282
Other segment assets	1,149,570	779,087	0	245,479	3,833	6,930
Cash and cash equivalents	0	0	0	0	0	0
Segment assets	**5,005,997**	**4,581,953**	**695,683**	**409,004**	**599,527**	**522,595**
	1/1 – 12/31/2010	1/1 – 12/31/2009	1/1 – 12/31/2010	1/1 – 12/31/2009	1/1 – 12/31/2010	1/1 – 12/31/2009
Sales	9,627,595	9,354,604	1,089,149	387,751	874,691	996,561
Production costs of work performed to generate sales	–6,758,154	–6,847,485	–583,697	–172,337	–601,326	–613,465
Gross margin	**2,869,441**	**2,507,119**	**505,452**	**215,414**	**273,365**	**383,096**
Operating costs not attributable to products						
Operating results						
Financial result						
Result from ordinary operations						
Income taxes						
Result after taxes						

in €

Power Manager		Other products		Unallocated items		Consolidated financial statement	
12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
43,803	5,089	190,945	90,193	3,815,179	2,791,360	5,282,061	4,092,029
156,547	43,222	126,406	134,418	0	0	1,936,612	1,327,600
301,880	25,877	149,171	47,783	0	0	2,713,062	2,200,369
42,887	0	0	0	1,054,207	1,202,049	2,250,497	2,233,545
0	0	0	0	34,130,171	40,588,920	34,130,171	40,588,920
545,117	**74,188**	**466,522**	**272,394**	**38,999,557**	**44,582,329**	**46,312,403**	**50,442,463**
1/1 – 12/31/2010	1/1 – 12/31/2009	1/1 – 12/31/2010	1/1 – 12/31/2009	1/1 – 12/31/2010	1/1 – 12/31/2009	1/1 – 12/31/2010	1/1 – 12/31/2009
794,237	135,962	944,506	812,504	0	0	13,330,178	11,687,382
–399,273	–56,939	–945,406	–803,052	0	0	–9,287,856	–8,493,278
394,964	**79,023**	**–900**	**9,452**	**0**	**0**	**4,042,322**	**3,194,104**
						–8,552,660	–7,700,893
						–4,510,338	**–4,506,789**
						387,077	722,009
						–4,123,261	**–3,784,780**
						0	0
						–4,123,261	**–3,784,780**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2010

1. GENERAL INFORMATION

SFC Energy AG (the "Company" or "SFC"), formerly SFC Smart Fuel Cell AG, is a stock corporation domiciled in Germany. The Company's headquarters has been located at Eugen-Sänger-Ring 7, 85649 Brunnthal since April 6, 2010 (previously Eugen-Sänger-Ring 4). The Company is registered in the Commercial Register of the Local Court of Munich under number HRB 144296. At their meeting on May 6, 2010, the Company's shareholders resolved to change the Company's name from SFC Smart Fuel Cell AG to SFC Energy AG. The name change was entered in the Commercial Register on July 16, 2010. The principal activities of the Company and its subsidiary (the Group) are described in Note 35 "Disclosures on consolidated segment reporting."

Accounting principles

In application of §315a HGB ("Consolidated Financial Statements under International Accounting Standards), the consolidated financial statements at December 31, 2010, were prepared in accordance with the International Financial Reporting Standards (IFRS) and the related interpretations of the International Accounting Standards Board (IASB) as they are to be applied in the European Union pursuant to Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards.

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 these consolidated financial statements on March 23, 2011.

Accounting Standards Applied

For financial year 2010, all relevant accounting standards were applied that are compulsory in the EU for financial years beginning on or after January 1, 2010. This includes the following interpretations that were applicable to the Group for the first time, but had no impact on the consolidated financial statements:

Amendments to IFRS 2 "Share-Based Payment": The IASB published "Group Cash-settled Share-based Payment Transactions" in June 2009. Entities are required to apply the amendments retrospectively for annual periods beginning on or after January 1, 2010. The amendments serve to clarify the scope of IFRS 2 and its interaction with other standards.

Revised IFRS 3 "Business Combinations" and amendments to IAS 27 "Consolidated and Separate Financial Statements": The revised standard and amendments were released in January 2008 and are effective for annual periods 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. Other significant changes relate to acquisitions achieved in stages. Changes in the ownership interest of a subsidiary that do not result in a loss of control are recognized directly in equity. Acquisition-related costs are to be fully expensed going forward.

Amendments to IAS 39: "Financial Instruments: Recognition and Measurement": In July 2008 the IASB published an amendment to IAS 39 entitled "Eligible Hedged Items." The amendments clarify how the basic principles of hedge accounting apply in two special situations: designation of inflation risks as the hedged item and designation of a one-sided risk in a hedged item. Entities were required to apply the amendments for annual periods beginning on or after July 1, 2009.

IAS 39 "Financial Instruments: Recognition and Measurement" and IFRIC 9 "Reassessment of Embedded Derivatives": In March 2009, the IASB released an amendment entitled "Embedded Derivatives" to clarify the accounting for embedded derivatives in the event of reclassification of hybrid financial instruments from the "Fair Value through Profit and Loss" category. Entities were required to apply the amendments for annual periods beginning on or after June 30, 2009.

Changes from the "Annual Improvements Project" 2008–2009 (AIP): This omnibus standard to amend multiple standards and interpretations was published in April 2009. It brings about changes related to issues of presentation, carrying values and measurement as well as changes in terminology or editing changes that have minimal effects on accounting. The majority of the amendments required initial application for annual periods beginning on or after January 1, 2010.

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 or (EU) November 1, 2009.

IFRIC 18 "Transfers of Assets from Customers": IFRIC 18 was published in January 2009. The interpretation clarifies how to account for cases in which an entity receives an item of property, plant or equipment from a customer or the cash to construct or acquire the item. IFRIC 18 is obligatory for transfers of assets that occurred on or after July 1, 2009 or (EU) November 1, 2009.

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

Amendments to IFRS 7 "Financial Instruments: Disclosures": In October 2010, the IASB released amendments to IFRS 7 entitled "Transfers of Financial Assets." The amendments require enhanced disclosures for transactions that lead to a transfer of financial assets. The purpose of the amendments is to allow users of financial statements to improve their understanding of any risks that may remain with the entity that transferred the assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011, with early adoption permitted. The EU is expected to endorse the amendments in the second quarter of 2011.

IFRS 9 "Financial Instruments": In November 2009, the IASB published new requirements for classifying and measuring financial assets. Pursuant to IFRS 9, financial assets are to be measured either at amortized cost or fair value. IFRS 9 goes into effect for annual periods beginning on or after January 1, 2013. Thus far, the EU has not endorsed the standard.

Additions to IFRS 9 "Financial Instruments": In October 2010, the IASB issued requirements on the accounting for financial liabilities. The amendments add requirements on accounting for financial liabilities to the "Financial Instruments" standard issued in November 2009. If the fair value option is elected for a financial liability, the amount of change in the fair value that is attributable to changes in the credit risk of the liability shall be presented in other comprehensive income and not in profit or loss. Entities are required to apply the amendments for annual periods beginning on or after January 1, 2013.

Amendments to IAS 12 "Income Taxes": In December 2010, the IASB released "Deferred Tax: Recovery of Underlying Assets" concerning assets that are measured using the fair value model in IAS 40. The amendment introduces a rebuttable presumption that the carrying amount of underlying assets is recovered entirely by sale. The EU is expected to endorse the amendments in the third quarter of 2011.

Revised IAS 24 "Related Party Disclosures": The IASB published a revised version of IAS 24 in November 2009. The revised standard provides a partial exemption from the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after January 1, 2011.

Amendments to IAS 32 "Financial Instruments: Presentation": In October 2009, the IASB issued an amendment to IAS 32 entitled "Classification of Rights Issues." The amendments address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Subject to certain requirements, such rights are to be classified as equity going forward. The amendments are effective for annual periods beginning on or after February 1, 2010.

Amendments from the "Annual Improvements Project" 2008–2010 (AIP): In May 2010, as part of the annual improvements process to improve IFRSs, the IASB issued an omnibus standard amending six standards and one interpretation. The majority of the amendments are effective for annual periods beginning on or after January 1, 2011.

Amendments to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction": In November 2009, the IASB issued amendments to IFRIC 14, which is an interpretation of IAS 19 "Employee Benefits," entitled "Prepayments of a Minimum Funding Requirement." The purpose of the amendments is to correct unintended consequences of IFRIC 14. They allow entities to recognize prepayments of minimum funding contributions for a defined benefit plan as an asset. The interpretation is mandatory for annual periods beginning on or after January 1, 2011, at the latest.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments": In November 2009, the IFRS Interpretation Committee (formerly IFRIC) issued guidance on the accounting for equity instruments that a debtor issues in full or partial settlement of a financial liability after it has renegotiated the terms of the liability with its creditor. The interpretation is mandatory for annual periods beginning on or after July 1, 2010, at the latest.

The Company currently projects that, with the exception of IFRS 9, use of the new and revised IFRSs will have no impact at all or no material impact on the consolidated financial statements.

Use of assumptions and estimates

The preparation of the consolidated 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. As of December 31, 2010, the carrying amount of recognized provisions was € 1,048,130 (previous year: € 835,847). Portions of the warranty provisions relate to long-term obligations. The long-term portion came to € 500,865 at December 31, 2010 (previous year: € 264,241). The discounting factor is 3.9 % on the portion that is first due after two years, while it is 4.07 % on the portion that is due after 3 years (previous year: 4.0 %). For further information, see Note 23 "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 to the extent the criteria of IAS 38.57 are fulfilled. In financial year 2010, development costs and proprietary patents of € 1,100,536 (previous year: € 1.038.846) were capitalized. Amortization of these intangible assets from own production for 2010 came to € 554,566 (previous year: € 386,934). The carrying amount of intangible assets from own production as of the reporting date was € 2,798,318 (previous year: € 2,252,348). 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, after deduction of the other deferred tax assets, 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 2010, because of higher deferred tax liabilities, the carrying amount of the deferred tax assets on tax loss carryforwards was increased by € 46,451 (previous year: € 239,868). As a result, the recognized figure for deferred tax assets offsettable against loss carryforwards as of December 31, 2010, was € 737,201 (previous year: € 690,750).

- Measurement of **share-based payment**: The Company set up a Long Term Incentive Plan for members of the Management Board and selected executives during the previous financial year. The resulting expenses for financial year 2010 were € 7,899 (previous year: € 182,548). For further information about these programs, the fundamental assumptions and the resulting expenses, see Note 34 "Share-Based Payment".

- **Partial realization of profits:** SFC performs development assignments under the Joint Development Agreements (JDA). At December 31, 2010, the carrying amount for receivables from percentage-of-completion was € 3,833 (previous year: € 6,930). Revenues from development contracts came to € 874,691 in financial year 2010 (previous year: € 996,561). With respect to income disclosure, please see Section 2 "Accounting Principles" and with regard to the carrying amounts, please see Note 16 "Receivables from Percentage-of-Completion".

- **Write-down of non-financial assets:** The Group evaluates all non-financial assets at each balance sheet date to determine whether there are indications of impairment. No impairment losses (previous year: € 28,172) were recognized on intangible assets during financial year 2009. Please see Note 21 "Intangible Assets".

- **Impairment of receivables**: Management estimates write-downs for receivables expected to be uncollectible based on past experience and the current economic environment. There were write-downs of € 1,314 (previous year: € 7,142) at December 31, 2010. See Note 30 "Financial Instruments".

- **Fair values of financial assets or liabilities:** The book values of trade accounts receivable, other short-term financial assets, cash and cash equivalents, trade accounts payable and other short-term liabilities are close to the fair values because they are exclusively short-term. The fair values of the derivative financial instruments shown in the consolidated financial statements are determined on the basis of observed market parameters (particularly interest, foreign exchange, and commodities prices). See Note 30 "Financial Instruments" for additional details.

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 SFC as the ultimate parent company and 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. In conjunction with the change of name from SFC Smart Fuel Cell AG to SFC Energy AG, SFC Smart Fuel Cell, Inc. was also renamed in financial year 2010 to SFC Energy, Inc.

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, 2010

SHARES IN AFFILIATED COMPANIES

Name of company	Registered office	Share in %	Equity in €	Net result in €
SFC Energy, Inc.	Atlanta (USA)	100	–1,500,235	–1,125,028

Consolidation methods

Capital is consolidated in compliance with IAS 27 "Consolidated and Separate Financial Statements" 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.

Profits on the supply of goods within the Group, which are captured in the carrying amount of inventories, were eliminated in financial year 2010. Deferred tax assets were recognized on the differences resulting from the elimination of intra-Group profits.

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 transaction exchange rate. Gains or losses arising from foreign currency translation are recognized in the income statement.

The 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 in equity not affecting profit or loss.

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

					in €
		Average rate	Rate on reporting date	Average rate	Rate on reporting date
		2010	Dec, 31, 2010	2009	Dec, 31, 2009
US-Dollar	USD	0.75415	0.74705	0.71685	0.69589

2. ACCOUNTING PRINCIPLES

Revenue recognition

SFC generates the predominant portion of its revenues from the sale of fuel cell systems in the A-series (EFOY, EMILY, FC 250). The EFOY product is mostly used in the leisure sector, primarily for caravans and boats. In addition, the industrial version, EFOY Pro, is being sold with increasing success for off-grid industrial applications and is also used for applications in the mobility market. The Company made its first-ever sales of A series systems specifically developed for the defense segment (FC 250, EMILY) in financial year 2009.

Revenues are being generated to an increasing degree from the sale of portable fuel cells, the so-called C-series (JENNY), in the defense market.

The "Power Manager" is also used in this market. The Power Manager is a versatile electronic converter that enables and facilitates charging and operation of various types of electronic equipment and batteries with different power sources.

In the area of Joint Development Agreements ("JDA") SFC develops products customized to the needs of the client. The Joint Development Agreements are development contracts carried out by the Company together with various public and private clients.

Revenues are also generated from the sale of fuel cartridges, test equipment, other products for network solutions and, in 2009, from consulting services.

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

Other revenues are 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 of work performed to generate 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
- Licenses 3 years

Customizing costs for acquired ERP software as costs directly attributable to the acquisition are allocated to intangible assets. 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 fittingss 3 – 13 years

Cost of borrowing

If the production phase of an item of plant or equipment extends over a long period of time, any borrowing costs incurred until completion of the asset are capitalized as part of acquisition or manufacturing costs in accordance with the provisions of IAS 23. As during the previous year, there were no such borrowing costs during financial year 2010.

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 possible correction of the estimated useful life or a possible reduction in value. 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 (greater 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).

There were no indications of impairment in financial year 2010. Thus, there was no need to perform an impairment test on intangible assets or on property, plant and equipment.

Accordingly, no impairment losses were recognized on intangible assets in financial year 2010 (previous year: € 28,172). See Note 21 "Intangible Assets".

Similarly, as during the previous year, there was no need for write-downs of 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. As during the previous year, there were no leases classified as finance leases during financial year 2010.

The rental and leasing payments from the Group's 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, loans and 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 from the previous year, the Group has no financial assets at fair value through profit or loss as of the reporting date. Please see the notes on "Derivative Financial Instruments".

Securities acquired and sold again during the previous year for trading purposes are also categorized as financial assets at fair value through profit or loss, since they were acquired with the intention of reselling them in the short term. As a result of sales over the course of the year, there were no such items at the reporting date.

Loans and receivables are measured at amortized cost using the effective interest rate method. This category particularly includes trade accounts receivable, other financial assets and receivables, 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. Investments in research, process development, pilot production infrastructure and the costs of studying product field quality have also received subsidies.

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, production costs of work performed to generate sales, and general administration costs.

Investment grants are deducted directly from acquisition 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 forward 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 higher 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, taking into account future income from the recycling of fuel cells. 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.

Except for derivative financial instruments from the previous year, the Group has no financial liabilities 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 any 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 or cancelled or has 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 €
	1/1–12/31/2010	1/1–12/31/2009
Sales	**13,330,178**	**11,687,382**
there of from PoC	874,691	996,561

For a breakdown of sales by product, see the consolidated segment reporting and the explanations under Note 35 "Disclosures on consolidated segment reporting".

(2) Production costs of work performed to generate sales

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

		in €
	1/1–12/31/2010	1/1–12/31/2009
Cost of materials	6,212,255	5,911,987
Personnel costs	1,567,363	1,545,993
Cost of premises	452,897	120,499
Depreciation and amortization	283,288	285,764
Transport costs	253,164	258,301
Warranties	191,155	46,013
Consultancy	63,230	99,969
Other	310,819	276,617
Set-off against grants	–46,315	–51,865
Total	**9,287,856**	**8,493,278**

(3) Sales costs

Sales costs are as follows:

in €	1/1 – 12/31/2010	1/1 – 12/31/2009
Personnel costs	2,340,235	2,165,337
Advertising and travel costs	1,024,318	1,001,036
Consultancy/commissions	567,384	614,517
Other	819,148	664,286
Total	**4,751,085**	**4,445,176**

(4) Research and development costs

Research and development costs are as follows:

in €	1/1 – 12/31/2010	1/1 – 12/31/2009
Personnel costs	2,138,624	2,135,738
Cost of materials	809,979	776,985
Depreciation and amortization of self produced assets	554,566	415,106
Cost of premises	271,631	86,933
Consultancy and patents	144,919	210,640
Other depreciation and amortization	55,453	81,678
Other	148,560	172,824
Capitalization of self-produced assets	–1,100,536	–1,038,846
Set-off against grants	–1,132,336	–1,333,330
Total	**1,890,860**	**1,507,728**

(5) General administration costs

General administration costs are as follows:

		in €
	1/1 – 12/31/2010	1/1 – 12/31/2009
Personnel costs	1,010,281	951,694
Audit and consultancy costs	286,252	353,050
Supervisory Board compensation	166,290	168,333
Investor relations/annual meeting	144,758	211,966
Travel costs	140,011	165,597
Depreciation and amortization	109,193	123,180
Insurance	88,443	87,775
Car-operating costs	46,050	54,940
Costs of hardware and software support	39,283	38,714
Recruiting costs	6,250	12,456
Other	242,897	254,264
Set-off against grants	–227,475	–292,860
Total	**2,052,233**	**2,129,109**

(6) Other operating income

Other operating income is as follows:

		in €
	1/1 – 12/31/2010	1/1 – 12/31/2009
Income from mark-to-market of derivatives	90,799	306,151
Foreign exchange transaction gains	56,256	64,738
Income from other periods	940	3,538
Income from sale and leaseback	0	33,092
Other	80,094	9,348
Total	**228,089**	**416,867**

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

(7) Other operating expenses

Other operating expenses can be broken down as follows:

		in €
	1/1–12/31/2010	1/1–12/31/2009
Foreign exchange transaction losses	68,358	31,526
Expenses from other periods	8,593	1,129
Expenses from the market valuation of derivatives	0	84
Other	9,620	3,008
Total	**86,571**	**35,747**

(8) Interest and similar income

Interest and similar income was as follows:

		in €
	1/1–12/31/2010	1/1–12/31/2009
Interest income from liquid funds	406,758	726,456
Other	2,088	17,174
Total	**408,846**	**743,630**

(9) Interest and similar expense

Interest and similar expense is shown in the table below:

		in €
	1/1–12/31/2010	1/1–12/31/2009
Interest-like expenses	21,562	21,610
Other	207	11
Total	**21,769**	**21,621**

(10) Income taxes

As in the previous year, income taxes for financial year 2010 came to € 0.

The assessment rate for trade tax (Gewerbesteuer) in the District of Brunnthal is 330. This resulted in a trade tax rate of 11.55 % and a total corporate income tax rate (including corporate income tax and the solidarity surcharge) for SFC of 27.4 %.

Income taxes are calculated for the foreign subsidiary using the applicable tax rate for the specific country.

Deferred tax assets and liabilities were as follows:

in €	12/31/2010	12/31/2009
Tax rate	**27.4 %**	**27.4 %**
Deferred tax assets		
for liabilities from contract development	20,683	0
for liabilities from finance leasing	38,621	0
from loss carryforwards	10,749,202	9,274,180
Write-down of deferred tax assets	–10,012,001	–8,583,430
Total	**796,505**	**690,750**
Deferred tax liabilities		
for intangible assets	774,070	628,134
for other assets	22,435	56,712
for other liabilities	0	5,904
Total	**796,505**	**690,750**

Subject to the operating audit, at the balance sheet date there were tax losses carried forward in the amount of approximately € 39,696,633 (2009: € 35,484,375) for corporate income tax and approximately € 35,761,205 (2009: € 32,699,383) 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 after deducting other deferred taxes, 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 and the United States, which in principle can be carried forward indefinitely in Germany, while they expire after 20 years in the United States.

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 €
	2010	2009
Tax rate	**27.4 %**	**27.4 %**
Net loss	**–4,123,261**	**–3,784,780**
Expected tax charge	**–1,129,773**	**–1,037,030**
Deviations		
1. Change in write-down of deferred tax assets	1,428,571	884,241
2. Differences in the tax rate	–133,879	21,302
3. Taxes from permanent differences – non-deductible expenses	–23,928	–25,825
4. Other	–140,991	157,312
Tax charge pursuant to consolidated income statement	**0**	**0**

(11) Cost of materials

Cost of materials (before set-offs against grants and capitalization of self-produced intangible assets) was as follows:

		in €
	1/1 – 12/31/2010	1/1 – 12/31/2009
Raw materials and supplies and related goods	6,349,451	6,132,546
Related services	877,762	720,250
Total	**7,227,213**	**6,852,796**

(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 of work performed to generate sales, sales costs, research and development costs and general administration costs.

(13) Personnel expenses and employees

Personnel expenses (before set-offs against grants and capitalization of self-produced intangible assets) were as follows:

in €	1/1–12/31/2010	1/1–12/31/2009
Wages and salaries	5,219,078	5,032,042
Social security expenses required by law	843,827	799,818
Variables/bonuses	826,127	633,673
Other social security expenses/pensions	161,167	141,347
Expenses from Long Term Incentive Plan	7,899	182,548
Other	–1,595	9,334
Total	**7,056,503**	**6,798,762**

The social security expenses required by law include the Company's share of € 443,918 in contributions to the public pension insurance system (previous year: € 436,136).

The average number of permanent employees was as follows:

	1/1–12/31/2010	1/1–12/31/2009
Full-time employees (incl. Management Board)	91	89
Part-time employees	6	6
Total	**97**	**95**

There was also an average of 10 (previous year: 10) trainees, graduates, and student trainees during the year.

4. NOTES ON THE CONSOLIDATED BALANCE SHEET

(14) Inventories

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

		in €
	12/31/2010	12/31/2009
Raw materials and supplies	1,449,100	925,700
Unfinished goods	67,063	112,300
Finished goods	420,449	289,600
Total	**1,936,612**	**1,327,600**

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

		in €
	12/31/2010	12/31/2009
Raw materials and supplies – before impairment	1,468,697	954,050
Impairment	–19,597	–28,350
Net book value	**1,449,100**	**925,700**

		in €
	12/31/2010	12/31/2009
Unfinished and finished goods – before impairment	514,907	451,454
Impairment	–27,395	–49,554
Net book value	**487,512**	**401,900**

A total of € 27,395 for impairment of inventories (previous year: € 76,648) was expensed in financial year 2010.

(15) Trade accounts receivable

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

		in €
	12/31/2010	12/31/2009
Trade accounts receivable – gross	2,714,376	2,207,511
Allowances for risk of default	–1,314	–7,142
Trade accounts receivable – net	**2,713,062**	**2,200,369**

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

(16) 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 2010 exceed the prepayments received, there were receivables from percentage-of-completion as of the reporting date.

		in €
	12/31/2010	12/31/2009
Proceeds shown	874,691	996,561
Partial settlements and advance payments received	870,858	989,631
Receivables from percentage-of-completion	**3,833**	**6,930**
there of production costs incurred	601,326	613,465

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 2010, estimated total project costs did not change from the previous year (previous year increase: € 96,296, primarily due to changes in technical specifications). Furthermore, the project volume for orders denominated in foreign currencies increased € 18,296 because of adjustments in contractual terms and conditions, as well as changes in exchange rates (previous year: € 118,806). Consequently, sales increased € 18,296 in 2010 (previous year: € 118,806), and the gross margin increased € 18,296 (previous year: € 22,511). As in the previous year, the change in total project costs will not change costs in subsequent years.

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

As in the previous year, no borrowing costs were incurred in conjunction with work and services provided under JDAs.

(17) 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.

(18) 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.

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

		in €
	12/31/2010	12/31/2009
Receivables from grants	933,562	818,264
Prepayments made	192,355	143,016
Deferred income	39,383	35,334
Interest receivables on time depostit	29,216	15,357
Market value of derivates	0	150,108
VAT receivables	0	50,417
Other	85,536	47,908
Total	**1,280,052**	**1,260,404**

The amounts for the previous year have been increased by deferred charges and prepaid expenses totaling € 35,334, which were still shown separately during the previous year. This was done to comply with international practices. As in the previous year, deferred charges and prepaid expenses as of December 31, 2010, relate in particular to prepaid maintenance costs and fees for research.

Other assets and receivables include financial assets in the amount of € 962,778 (previous year: € 983,729).

(19) Cash and cash equivalents

Cash and cash equivalents consist of cash and current account balances and of time and call deposit accounts at banks that are due within three months.

(20) Cash and cash equivalents with limitations on disposal

During the previous year, there were a bank guarantee in the amount of € 31,320 in connection with the lease for the Company's business premises for the use of office space at Eugen-Sänger-Ring 4 und 6, Brunnthal (StartPoint) and 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, both of which were returned during the second quarter of 2010. There has been a bank guarantee in the amount of € 570,000 in connection with the new lease for the Company's building at Eugen-Sänger-Ring 7 since the first quarter of 2010.

Time deposits in the amount of € 570,000 (previous year: € 45,320) were pledged to secure these lease guarantees.

For the platinum futures during the previous year, Deutsche Bank required a margin line of € 750,000 during the previous year, which was deposited as security in March 2009. The entire deposited amount was then released by the end of 2009.

(21) Intangible assets

For a statement of intangible assets, please see the Consolidated Summary of Fixed Assets.

Grants of € 1,359,811 (previous year: € 1,626,190) were received in connection with development activities and were shown as a reduction of research and development costs and of general costs of administration. Costs of € 1,070,800 (previous year: € 979,700) were capitalized as development costs. The additions to intangible assets from own production shown in the Consolidated Summary of Fixed Assets for financial years 2009 and 2010 also include costs in connection with SFC's patents. An impairment loss of € 28,172 was recognized on capitalized costs for patents during the previous year, because some patent applications were no longer being pursued and were abandoned.

(22) Property, plant and equipment

Property, plant and equipment is shown in the Consolidated Summary of Fixed Assets.

Grants of € 246,489 (previous year: € 304,310) were received for investments in research, process development and pilot production infrastructure and offset directly against acquisition costs.

The sale and leaseback agreement that expired on May 31, 2009 was a finance lease related to SFC's IT and laboratory equipment. Expenses from the sale and leaseback agreement were reported for the last time during the previous year (depreciation of € 75,334 and interest expense of € 1,733). Income from the sale was deferred and distributed over the expected term on a straight-line basis. With regard to the distribution of deferred income under IFRS, refer to item 6, "Other operating income".

(23) Other provisions

Other provisions are shown in the following tables:

in €

	1/1/2010	Addition	Interest cost added back	Use	Reversal	12/31/2010	thereof with a remaining term > 1 year
Warranties	835,847	494,479	21,562	303,758	0	1,048,130	500,865
Total						**1,048,130**	**500,865**

in €

	1/1/2009	Addition	Interest cost added back	Use	Reversal	12/31/2009	thereof with a remaining term > 1 year
Warranties	770,496	665,513	19,876	620,038	0	835,847	264,241
Total						**835,847**	**264,241**

Part of the provision for warranties is related to long-term liabilities. This portion, in the amount of € 500,865 (previous year: € 264,241), is shown as other provisions under long-term liabilities. The provision was recognized in the amount of the cash value of the net contribution to fulfillment of the obligation. The amount was discounted to present value using an interest rate of 3.9 % on the portion that is due after two years or 4.07 % on the portion that is due after three years (previous year: 4 %). The effects of changes in the interest rate were negligible.

(24) Liabilities from prepayments

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

(25) Trade accounts payable

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

(26) Other liabilities

Other short-term liabilities were as follows:

		in €
	12/31/2010	12/31/2009
Variables/bonuses	801,110	593,969
Wage tax	86,325	89,016
Prohibition of competition	80,000	0
Outstanding vacation	79,309	111,621
Severance and release from duties	57,786	21,613
VAT	50,398	0
Trade association contributions	42,700	39,700
Overtime	9,985	3,348
Compensatory tax for the severely disabled	9,180	8,070
Social security	7,245	6,297
Employee invention compensation	1,300	8,725
Supervisory Board compensation	0	5,000
Market value of derivates	0	84
Other	17,590	9,604
Total	**1,242,928**	**897,047**

Other long-term liabilities include the expensed obligation from the Long Term Incentive Plan for members of the Management Board and selected executives. See Note 31 "Share-based payment" for the details of that agreement.

Other liabilities include financial liabilities of € 42,700 (previous year: € 39,784).

(27) 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 (prior year: € 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.

Capital surplus: The capital surplus at the reporting date stood at € 66,879,638 (previous year: € 66,879,638).

Conditional capital: The parent company has a conditional capital II in the amount of € 127,716 for implementation of share option programmes. There were no more rights for the exercise of options at December 31, 2010, and the stock option programme has ended.

Authorized capital: The Management Board is 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 (authorized capital 2008). As a general 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.

Authorization to acquire own shares: The shareholders' meeting on May 6, 2010, authorized the Management board to acquire its own shares by May 5, 2015, up to 10 % of the Company's share capital on May 6, 2010. No use had been made of this authorization as of the balance sheet date.

The shareholders' meeting on May 12, 2009, authorized the Management board to acquire its own shares by November 11, 2010, up to 10 % of the Company's share capital on May 12, 2009. No use was made of this authorization.

Other changes in equity without effect on profit or loss: The other changes in equity without effect on profit or loss relate to changes resulting from foreign currency translation for the foreign subsidiary, with no effect on the consolidated income statement.

5. OTHER DISCLOSURES

(28) 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.

There were no identifiable contingent liabilities as of the reporting date.

(29) Other financial liabilities

The other financial liabilities result from leases entered into.

Obligations under operating leases: The Company has financial liabilities under operating leases, particularly from the leases for the business premises and from motor vehicle, printer, and copier leases.

Operating expenses of € 947,341 (previous year: € 421,319) from operating leases were recognized in the current financial year.

The total minimum rental payments under non-terminable agreements under operating leases which had an initial or remaining term of more than one year as of the reporting date were made up as follows, broken down by due date:

OPERATE LEASES		in €
	12/31/2010	12/31/2009
Rental payments within 1 year	1.242.247	920.051
Rental payments between 1 and 5 years	4.298.539	4.127.094
Rental payments > 5 years	4.737.876	6.845.180

Order commitments: The Group has purchasing commitments of € 4,317,394 (previous year: € 4,479,944). These relate primarily to blanket orders for components for fuel cell systems.

(30) Financial instruments

The following table shows the financial assets and liabilities by measurement category and class:

		in €
Carrying amounts pursuant to the balance sheet	12/31/2010	12/31/2009
Financial assets		
Assets carried at amortized cost		
Trade accounts receivable	2,713,062	2,200,369
Receivables from percentage-of-completion	3,833	6,930
Other assets and receivables (less derivatives)	962,778	833,621
Cash and cash equivalents	33,560,171	40,543,600
Cash and cash equivalents with limitation on disposal	570,000	45,320
Assets measured as at fair value through profit or loss		
Derivatives with positive market value	0	150,108
Financial liabilities		
Liabilities carried at amortized cost		
Trade accounts payable	1,384,029	1,957,452
Other liabilities (less derivatives)	42,700	39,700
Liabilities measured as at fair value through profit or loss		
Derivatives with negative market value	0	84

Derivatives from the previous year 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." They are recognized at their fair value in income or expense at each balance sheet date. Because those fair values are determined on the basis of observed market parameters (such as interest rates, exchange rates, and commodities prices), they are categorized as level 2 of the three-level fair value hierarchy of IFRS 7.

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 category are as follows:

		in €
	2010	**2009**
Financial assets		
Assets carried at amortized cost		
Trade accounts receivable		
Income from write-downs of trade accounts receivable	4,798	13,847
Expense from write-downs of trade accounts receivable	0	–6,940
Income from currency translation of trade accounts receivable	50,661	58,446
Expense from currency translation of trade accounts receivable	–32,790	–21,622
Cash and cash equivalents		
Interest income	406,758	726,456
Interest expense	–207	–11
Net result of assets carried at amortized cost	**429,220**	**770,176**
Assets measured as at fair value through profit or loss		
Income from mark-to-market of derivatives with positive market value	90,799	306,151
Income from the sale of securities	0	850
Net result of assets measured as at fair value through profit or loss	**90,799**	**307,001**
Financial liabilities		
Liabilities carried at amortized cost		
Income from currency translation of trade accounts payable	5,595	6,291
Expense from currency translation of trade accounts payable	–35,568	–9,903
Net result of liabilities carried at amortized cost	**–29,973**	**–3,612**
Liabilities measured at the present value of minimum lease payments		
Interest expense from finance leases	0	–1,733
Net result of the liabilities measured at the present value of minimum lease payments	**0**	**–1,733**
Liabilities measured as at fair value through profit or loss		
Expense from mark-to-market of derivatives with negative market value	0	–84
Net result of liabilities measured as at fair value through profit or loss	**0**	**–84**

Capital management: SFC considers a strong financial profile for the Group to be a fundamental requirement for further growth. SFC's strategic orientation, and especially its chosen expansion strategy, will require further massive buildup 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 they are used to implement the growth strategy, excess liquidity has been invested with various banks in low-risk securities (e. g., money market funds, time deposits).

SFC's articles of association do not define any capital requirements. SFC is authorised to acquire its own shares up to the amount of ten percent of its share capital by May 5, 2015.

The table below shows the Company's equity and total assets as of each reporting date:

		in €
	12/31/2010	12/31/2009
Equity	**41,721,409**	**45,860,498**
As a percentage of total capital	90,1	90,9
Long-term liabilities	1,413,189	1,137,539
Short-term liabilities	3,177,805	3,444,426
Liabilities	**4,590,994**	**4,581,965**
As a percentage of total capital	9,9	9,1
Total capital	**46,312,403**	**50,442,463**

Thanks to its good level of capital resources and an equity ratio of 90.1 %, SFC is well positioned for the planned growth of the Group.

Derivatives: There are no further financial derivatives as of the balance sheet reporting date on December 31, 2010.

The commodity futures (platinum) that were shown during the previous year with a positive market value of € 150,108 hedged 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 2010 for a total of 600 ounces of platinum, equivalent to roughly USD 0.66 million. Hedging transactions during the previous year were shown under "other liabilities".

The currency forward that was shown during the previous year with a negative market value of € 84 was entered into to hedge the U.S. dollar exchange rate with a term at the end of January 2010. The total volume was USD 110,000. The currency forward was shown under "other liabilities." The market values of financial derivatives, as confirmed by the banks, were determined using mathematical procedures and based on market data at 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 and are discussed below.

Risks and hedging policy: As a result of SFC's international activities, changes in exchange rates, commodities prices and interest can affect the assets, financial condition and earnings of the Group. There are also credit and liquidity risks associated with market price risks or that accompany a worsening of the operating business or disruptions to financial markets.

The Management Board of SFC has entered into hedging transactions with the objective of managing and thereby minimizing risk factors. SFC may enter into derivative financial instruments only with the consent of the Management Board, and such instruments are used only for hedging.

Credit risk: Credit risk results primarily from trade accounts receivable. The risk consists of the possibility of default by a contractual partner because the customer structure is characterized by different large customers. To prevent the credit risk, creditworthiness is checked by reviewing credit information files for selected customers, and regular status reports with an early warning function are obtained. Deliveries to new customers are generally subject to advance payment. All past-due receivables are also discussed weekly as part of receivables management, and steps are taken with the responsible sales employees.

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 or during the previous year. Receivables from the sale of products are secured through a reservation of ownership.

The two largest customers account for € 481,365 and € 255,844 respectively (previous year: € 481,385 and € 423,221) of the trade accounts receivable totaling € 2,713,062 (previous year: € 2,200,369). There are no other material risk concentrations.

Write-downs during the financial year were as follows:

in €	2010	2009
Write-downs at 1/1	**7,142**	**16,409**
Additions	0	6,940
Use	–1,030	–2,360
Releases	–4,798	–13,847
Write-downs at 12/31	**1,314**	**7,142**

SFC's past-due, but as yet unimpaired trade accounts receivable in the amount of € 546,612 (previous year: € 247,883) can be broken down as follows:

in €	12/31/2010	12/31/2009
Gross book value of the impaired receivables	1,564	10,986
Specific write-downs	–1,314	–7,142
Net book value of the impaired receivables	**250**	**3,844**
Not past due or impaired	2,166,200	1,948,642
Gross book value of the impaired receivables		
Up to one month past due and not impaired	455,686	132,801
One to three months past due and not impaired	6,973	113,423
Three to six months past due and not impaired	76,667	0
Over six months past due and not impaired	7,286	1,659
Receivables per balance sheet	**2,713,062**	**2,200,369**

The outstanding receivables that are neither past due nor impaired 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.

There are also credit risks with regard to cash. This cash substantially includes short-term time and call deposits and immediately available deposits at banks. SFC is exposed to credit risks associated with the investment of liquid funds to the extent the banks fail to meet their obligations. To minimize this risk, the banks in which the investments are made are carefully chosen, and the investments are divided among several banks. Moreover, only short-term time deposits have been made, which are covered by the deposit insurance of the banks. The maximum risk position corresponds to the book value of the cash as of the reporting date.

Liquidity risk: Liquidity risk describes the possibility that SFC may not be able to meet its payment obligations. This risk was counteracted by the capital increase in May 2007. SFC still has adequate cash reserves to be able to finance the further planned growth of the Group.

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.

						in €
	12/31/2010			12/31/2009		
	Total	1 year	> 1 year	Total	1 year	> 1 year
Original financial liabilities						
Trade accounts payable	1,384,029	1,384,029		1,957,452	1,957,452	
Other financial liabilities	42,700	42,700		39,700	39,700	
Derivative financial liabilities						
Derivatives with negative mark-to-market	0	0		84	84	
Total cash outflow	**1,426,729**	**1,426,729**	**0**	**1,997,236**	**1,997,236**	**0**
Original financial assets						
Cash and cash equivalents	34,130,171	34,130,171		40,588,920	40,588,920	
Trade accounts receivable	2,713,062	2,713,062		2,200,369	2,200,369	
Other financial assets	962,778	962,778		833,621	833,621	
Derivative financial assets						
Derivatives with positive mark-to-market	0	0		150,108	150,108	
Total cash inflow	**37,806,011**	**37,806,011**	**0**	**43,773,018**	**43,773,018**	**0**
Net liquidity from financial instruments	**36,379,282**	**36,379,282**	**0**	**41,775,782**	**41,775,782**	**0**

Interest rate risk: Interest rate risk results primarily from the investment of cash. As part of the capital increase in 2007, shares were also placed in the United States. In that context, SFC also had to assume the contractual obligation to comply with certain tax laws in the United States. Consequently, no investments may exceed a three-month term at present. In that respect, the net interest income or loss of SFC is materially influenced by short-term interest rates. An increase or decrease of 50 basis points in the interest rate level would increase the net interest income or loss by € 171,670 (previous year: € 214,324). The Group is not subject to any other material interest rate risk from variable-interest instruments.

Due to the aforementioned restrictions, SFC has defined no risk management objectives or actions. Risk is measured during the year in the context of the rolling year-end forecast.

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. There was no hedging in 2010, since there was no material U.S. dollar surplus due to the establishment of the subsidiary in the United States.

USD 0.11 million from currency forwards entered into for 2009 was swapped in late 2009 and sold in early 2010. The existing U.S. dollar derivatives shown at the balance sheet date would have led to a € 3,817 change in the foreign currency result if the rate had fluctuated by –5 % and to a € 3,817 change in the foreign currency result if the rate had fluctuated by +5%.

Foreign currency translation of the assets and obligations of SFC Energy Inc. as of December 31, 2010, would have had an effect of € 75,012 on the Group's equity if the rate had fluctuated by –5 % and an effect of € 75,012 on the Group's equity if the rate had fluctuated by +5 %.

Measurement of SFC Energy AG's foreign currency receivables and liabilities as of December 31, 2010, would have led to a € 131,861 change in the foreign currency result if the rate had fluctuated by –5 % and would have led to a € 131,861 change in the foreign currency result if the rate had fluctuated by +5 %.

The objective of foreign currency management is to minimize exchange rate losses in comparison with budget assumptions. For that purpose, an open USD balance sheet is calculated on the basis of actual and planned USD positions and adjusted in the context of the rolling year-end forecast. If large open positions exist, most of the open balance is hedged with currency forwards to the extent significant deviations from the budgeted assumptions result from the forecast and from market expectations.

Price risk for platinum: Due to platinum, which is one of the raw materials used in fuel cells, SFC is subject the risk of a change in the price of platinum. Moreover, platinum is usually traded in U.S. dollars, which results in additional value risks in connection with platinum futures depending on the performance of the U.S. dollar. Where applicable SFC uses derivative financial instruments and hedges the price of platinum quarterly to partially hedge the costs of platinum that are recognized in the price calculation.

No further financial derivatives existed at the balance sheet date December 31, 2010.

Based on the derivatives shown for the previous year at the balance sheet date December 31, 2009, we refer to the notes above under "Derivatives," according to which a 5% increase in the price of platinum would have resulted in the recognition of a € 30,448 increase in the fair value of the derivative, whereas a decrease in the price of platinum would have resulted in a € 30,448 decrease in fair value. A simultaneous 5% increase in the exchange rate for the U.S. dollar would have resulted in an additional € 7,310 change in fair value, while a 5% decrease would have resulted in a € 8,079 change in fair value.

(31) Share-based payment

The Supervisory Board adopted a Long Term Incentive Plan (LTIP 2009 – 2011) for members of the Management Board in March 2009 (tranche 1). The Supervisory Board approved the participation of additional selected executives in July 2009 and July 2010 (tranche 2). This plan, which will run for a total of five years, is intended to reward the contribution by members of the Management Board and selected executives to the added value of the company. The plan includes variable compensation in the form of phantom shares, each of which is based on the total value of one SFC share. A phantom share gives the holder the right to an equivalent cash payment in the amount of the applicable price of the share and a distribution equivalent to a dividend. There is no entitlement to SFC shares. The plan was not revoked or changed during financial 2010 or during the previous year.

The plan is divided into various sub-tranches with different performance periods of three calendar years each. The performance period for the first sub-tranche of tranche 1 begins on January 1, 2009, and the other two sub-tranches each start one year later. The performance period for tranche 2 also starts on January 1, 2009, for the first sub-tranche and one year later for the second sub-tranche. At the beginning of each performance period, a provisional allotment value is calculated based on the ratio of the allotment volume to the weighted average market price of the SFC share during the first three months of the respective performance period. An allotment volume of € 220,000 each has been defined for the first and second sub-tranches of tranche 1. The allotment volume was originally € 190,000 for the first sub-tranche of tranche 2 and € 155,000 for the second sub-tranche of tranche 2. The number of provisionally allotted phantom shares is 36,001 units for the first sub-tranche of tranche 1 as of December 31, 2010 (previous year: 36,001 units) and 35,208 units (previous year: 32,892 units) for the second sub-tranche of tranche 1 and is 31,094 units for the first sub-tranche of tranche 2 (previous year: 31,904) and 24,813 units for the second sub-tranche of tranche 2. An allotment volume of € 120,000 (previous year: € 220,000) is currently assumed for the third sub-tranche of tranche 1; the number of provisionally allotted phantom shares is estimated on the basis of a price trend that is simulated as part of the Monte Carlo model.

The disbursement takes place after the end of each performance period based on the final number of phantom shares for a performance period at the average market price of the SFC share during the first three months after the end of each performance period. The final number of phantom shares depends on a success factor that is determined on the basis of defined EVA (Economic Value Added) target variables. If the employment relationship ends, there is no allotment for performance periods that have not yet begun. Except in the event of extraordinary termination, for tranche 1 the phantom shares for a performance period that is running at the time of resignation are disbursed pro rata based on the number of phantom shares that were provisionally allotted at the beginning of the relevant performance period. There will be pro rata disbursement of tranche 2 except in the case of ordinary termination based on conduct or extraordinary termination by SFC and except in the case of effective ordinary termination by an executive.

The phantom shares for 2010 are shown in the following table:

	Tranche 1.1	Tranche 1.2	Tranche 1.3	Tranche 2.1	Tranche 2.2
Number of phantom shares	36,001	35,208	39,186	31,094	24,813
Maximum term (years)	3.0	4.0	5.0	3.0	3.0
Contractual remaining term on 12/31/2010 (years)	1.0	2.0	3.0	1.0	2.0
Outstanding number of phantom shares at the beginning of the 2010 reporting period (1/1/2010)	36,001	32,892	31,994	27,003	0
Phantom shares awarded during the 2010 reporting period	0	2,316	7,192	0	24,813
Phantom shares forfeited during the 2010 reporting period	0	0	14,543	0	0
Phantom shares exercised during the 2010 reporting period	16,367	16,000	0	1,637	0
Phantom shares expired during the 2010 reporting period	0	0	0	0	0
Phantom shares outstanding at the end of the 2010 reporting period (12/31/2010)	19,634	19,208	24,643	25,366	24,813
Exercisable phantom shares at the end of the 2010 reporting period (12/31/2010)	0	0	0	0	0

The phantom shares that were exercised under tranche 1.1, tranche 1.2, and tranche 2.1 are phantom shares to which employees who left the program in 2010 are entitled and that were disbursed. The estimated number of provisionally allotted phantom shares in tranche 1.3 was calculated on the basis of a Monte Carlo simulation and may change at subsequent balance sheet dates as a function of the actual trend for the price of the SFC share.

The phantom shares for the previous year are shown in the following table:

	Tranche 1.1	Tranche 1.2	Tranche 1.3	Tranche 2.1
Number of phantom shares	36,001	32,892	31,994	31,094
Maximum term (years)	3.0	4.0	5.0	3.0
Contractual remaining term on 12/31/2090 (years)	2.0	3.0	4.0	2.0
Outstanding number of phantom shares at the beginning of the 2009 reporting period (1/1/2009)	0	0	0	0
Phantom shares awarded during the 2009 reporting period	36,001	32,892	31,994	31,094
Phantom shares forfeited during the 2009 reporting period	0	0	0	4,091
Phantom shares exercised during the 2009 reporting period	0	0	0	0
Phantom shares expired during the 2009 reporting period	0	0	0	0
Phantom shares outstanding at the end of the 2009 reporting period (12/31/2009)	36,001	32,892	31,994	27,003
Exercisable phantom shares at the end of the 2009 reporting period (12/31/2009)	0	0	0	0

The phantom shares that have been awarded have been classified and measured as share-based payment with cash settlement. The fair market value of the phantom shares is measured again on each balance sheet date using a Monte Carlo simulation, taking in account the conditions under which the phantom shares were awarded. The measurement for the options that were still outstanding at December 31, 2010, and December 31, 2009, was based on the following parameters:

Measurement date	12/31/2010	12/31/2009
Remaining term (years)	2.0 – 3.0	2.0 – 4.0
Share price on the measurement date	€ 4.97	€ 6.67
Strike price	€ 0.00	€ 0.00
Expected volatility	38.09 % – 51.18 %	57.03 % – 70.24 %
Risk-free interest rate	0.66% – 1.28 %	1.38 % – 2.35 %
Dividend yield	0.00 %	0.00 %

The term in each case is the period from the measurement date to the end of each performance period. The expected volatility is based on the assumption that future trends can be concluded from the historic volatility, so the volatility that actually occurs may differ from the assumptions. The weighted average of the fair market value of the tranche 2.1 phantom shares issued during the reporting period is € 4.96 as of the reporting date (previous year: € 5.94). The LTIP will result in the following expense for SFC AG from cash-settled share-based payments as of December 31, 2010:

		in €
	12/31/2010	12/31/2009
Current expense from cash settled share-based payment transactions	7,899	182,548

An obligation of € 190,447 (of which € 115,819 was long-term) was expensed under other liabilities (previous year € 182,548, of which € 182,548 was long-term).

(32) 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 2009 and 2010:

Management Board Members

Dr Peter Podesser, Simbach am Inn, a businessman (Chairman)
Dr Jens Müller, Munich, who holds a degree in chemistry (until December 31, 2010)

Supervisory Board Members:

Dr Rolf Bartke, Berlin, a business engineer (Chairman)
Rüdiger Olschowy, Schliersee, a businessman (deputy chairman)
Wolfgang Biedermann, Hamburg, a businessman (until December 31, 2010)
Jakob-Hinrich Leverkus, Hamburg, a businessman (until December 31, 2010)
David William Morgan, Rolvenden (Great Britain), MA ACA, a businessman (as of March 8, 2010)
Dr Roland Schlager, Munich, a businessman (until November 30, 2009)
Dr Manfred Stefener, Munich, an engineer (until January 31, 2011)

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 2010				in €
	Receivables	Payables	Income	Expenses
Persons in key positions	0	652,639	0	1,031,112
Companies with significant influence	3,100	0	30,752	0
Total	**3,100**	**652,639**	**30,752**	**1,031,112**

TRANSACTIONS 2009				in €
	Receivables	Payables	Income	Expenses
Persons in key positions	0	521,367	0	1,019,861
Companies with significant influence	3,478	0	18,299	0
Total	**3,478**	**521,367**	**18,299**	**1,019,861**

Revenues of € 30,752 (previous year € 18,299) 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.

The compensation of persons in key positions was as follows:

				in €
	2010		2009	
	Fixed portion	Variable portion	Fixed portion	Variable portion
Management Board	569,740	295,082	547,113	301,861
Supervisory Board	166,290	0	168,333	0
Total	**736,030**	**295,082**	**715,446**	**301,861**

The variable portion includes the expense for the Long Term Incentive Programme for members of the Management Board in the amount of € 5,071 (previous year € 163,111). The recorded expense for the agreed six-month prohibition of competition after Dr Müller's Management Board contract ends is also included for financial 2010 (under "Compensation for prohibition of competition" in the following table).

FINANCIAL YEAR 2010					in €
	fixed compensation	short-term performance based compensation	long-term performance based compensation	compensation prohibition competition	Total
Dr Peter Podesser	320,440	141,062	4,584	0	466,086
Dr Jens Müller	249,300	68,949	487	80,000	398,736
Total	**569,740**	**210,011**	**5,071**	**80,000**	**864,822**

FINANCIAL YEAR 2009					in €
	fixed compensation	short-term performance based compensation	long-term performance based compensation	compensation prohibition competition	Total
Dr Peter Podesser	311,150	82,500	88,970	0	482,620
Dr Jens Müller	235,963	56,250	74,141	0	366,354
Total	**547,113**	**138,750**	**163,111**	**0**	**848,974**

(33) Earnings per share

Earnings per share are calculated by dividing the net income for the year that is attributable to equity holders of the parent company by the average number of shares in circulation. The number of outstanding shares at the balance sheet date (7,152,887 shares) did not change during the financial year or the previous year. As during the previous year, there were no dilution effects that would have had to be taken into account when determining the number of outstanding shares or any dilutive effects on SFC's earnings.

(34) 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. The "cash" item in the cash flow statement corresponds to the "cash and cash equivalents" item in the balance sheet.

Income tax refunds pertained to withholding tax on capital and the solidarity surcharge, and most were with-held from credited interest when time deposits matured.

Because SFC has invested surplus cash in short-term, low-risk financial securities, the interest that is received is allocated to the cash flow from investment activity. The interest payments are shown in the net cash used in financial activity.

The changes to deferred income during the previous year related to deferred gains on sales from the sale and leaseback transactions.

(35) Disclosures on consolidated segment reporting

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

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

The A-series are the series produced fuel cells (EFOY, EMILY, FC, 250).

The C-series (JENNY) involves miniaturized portable fuel cells that resulted from 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 a versatile electronic converter that enables and facilitates charging and operation of various types of electronic equipment and batteries with different power sources.

The sales in the area of "other" relate primarily to the sale of fuel cartridges with methanol to fill the fuel cells, testing equipment for the qualification of components of fuel cell systems, other products for network solutions, and consulting services in financial year 2009.

A separate "adjustment 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 are 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 €
	1/1–12/31/2010	1/1–12/31/2009
Germany		
A-Series	3,169,848	4,438,644
C-Series	920,425	38,044
JDA	0	236,737
Power Manager	470,068	0
Other	447,947	288,361
Total Germany	**5,008,288**	**5,001,786**
Europe		
A-Series	5,874,410	4,346,628
C-Series	86,295	145,633
Power Manager	65,151	52,105
Other	411,395	320,909
Total Europe (not including Germany)	**6,437,251**	**4,865,275**
North America		
A-Series	347,558	446,684
C-Series	58,449	192,084
JDA	874,691	759,824
Power Manager	251,824	76,169
Other	63,020	189,330
Total North America	**1,595,542**	**1,664,091**
Asia		
A-Series	147,621	111,592
C-Series	23,980	0
Power Manager	6,797	0
Other	15,956	10,815
Total Asia	**194,354**	**122,407**
Rest of the world		
A-Series	88,158	11,057
C-Series	0	11,990
Power Manager	398	7,688
Other	6,187	3,088
Total rest of the world	**94,743**	**33,823**
Total	**13,330,178**	**11,687,382**

Sales by region were determined on the basis of the customer's registered office. Sales of € 5,008,288 (previous year: € 5,001,786) were generated at SFC's headquarters in Germany. All other countries generated sales of € 8,321,890 (previous year: € 6,685,596).

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

	A-Series	C-Series	Power Manager	Other products	Revenues in €	Total revenues in %
2010						
Customer B	42,391	859,445	453,068	150,432	1,505,336	11.29
2009						
Customer A	1,122,192	0	0	47,957	1,170,149	10.01

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

in €	1/1–12/31/2010	1/1–12/31/2009
A-Series	198,728	236,526
C-Series	17,145	4,052
JDA	22,080	24,252
Power Manager	8,459	1,118
Other	36,876	19,816
Total	**283,288**	**285,764**

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

in €	1/1–12/31/2010	1/1–12/31/2009
A-Series	432,741	538,619
C-Series	37,334	9,228
JDA	48,079	55,226
Power Manager	18,421	2,546
Other	80,298	45,125
Total	**616,873**	**650,744**

Fixed assets and additions to fixed assets were assigned to the segments in the ratio of depreciation and amortization per segment to total depreciation and amortization.

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

Additionally, other assets and receivables of € 66,540 (previous year: € 63,285) attributable to the A-series existed as of the balance sheet.

(36) Auditor's fees

The auditor's fees were:

		in €
	1/1 – 12/31/2010	1/1 – 12/31/2009
Financial statements	71,000	68,000
Tax consultancy	7,468	2,163
Total	**78,468**	**70,163**

(37) Declaration of Conformity under the German Corporate Governance Code

The Management Board and Supervisory Board issued a Declaration of Conformity in accordance with §161 of the German Stock Corporation Act (AktG). It was published on March 22, 2010, and an update was published on December 9, 2010, on the website of Energy AG. 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.

(38) Material events after the balance sheet date

There were no material events after the balance sheet date.

Brunnthal, March 23, 2011

Dr Peter Podesser
Management Board

APPENDIX TO THE NOTES

CONSOLIDATED SUMMARY OF FIXED ASSETS
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2010

in €

		Acquisition or production cost				
		1/1/2010	Additions	Disposals	Currency effects	12/31/2010
A.	**Intangible assets**					
	Software	361,574	59,080	–16,055	–338	404,261
	Patents and licences	59,533	0	0	0	59,533
	Intangible assets from own production	3,233,904	1,100,536	0	0	4,334,440
	Intangible assets	**3,655,011**	**1,159,616**	**–16,055**	**–338**	**4,798,234**
B.	**Property, plant and equipment**					
	Technical equipment, plant and machinery	663,615	36,195	–15,501	0	684,309
	Other equipment, fixtures and fittings	2,054,163	1,025,474	–220,632	–194	2,858,811
	Property, plant and equipment	**2,717,778**	**1,061,669**	**–236,133**	**–194**	**3,543,120**

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2009

in €

		Acquisition or production cost			
		1/1/2009	Additions	Disposals	12/31/2009
A.	**Intangible assets**				
	Software	327,646	33,928	0	361,574
	Patents and licences	59,533	0	0	59,533
	Intangible assets from own production	2,312,580	1,038,846	–117,522	3,233,904
	Intangible assets	**2,699,759**	**1,072,774**	**–117,522**	**3,655,011**
B.	**Property, plant and equipment**				
	Technical equipment, plant and machinery	513,320	152,824	-2,529	663,615
	Other equipment, fixtures and fittings	1,232,456	821,707	0	2,054,163
	Other equipment, fixtures and fittings from financial leasing	816,218	0	–816,218	0
	Property, plant and equipment	**2,561,994**	**974,531**	**–818,747**	**2,717,778**

in €

Accumulated depreciation or amortisation					Book value	
1/1/2010	Depr. or amort. financial year	Disposals	Currency effects	12/31/2010	12/31/2010	12/31/2009
–214,530	–68,706	15,923	28	–267,285	136,976	147,044
–48,129	0	0	0	–48,129	11,404	11,404
–981,556	–554,566	0	0	–1,536,122	2,798,318	2,252,348
–1,244,215	**–623,272**	**15,923**	**28**	**–1,851,536**	**2,946,698**	**2,410,796**
–181,147	–98,165	14,023	0	–265,289	419,020	482,468
–855,398	–298,646	211,551	25	–942,468	1,916,343	1,198,765
–1,036,545	**–396,811**	**225,574**	**25**	**–1,207,757**	**2,335,363**	**1,681,233**

in €

Accumulated depreciation or amortisation					Book value	
1/1/2009	Depr. or amort. financial year	Disposals	Write-down	12/31/2009	12/31/2009	12/31/2008
–142,717	–71,813	0	0	–214,530	147,044	184,929
–48,129	0	0	0	–48,129	11,404	11,404
–683,972	–386,934	117,522	–28,172	–981,556	2,252,348	1,628,608
–874,818	**–458,747**	**117,522**	**–28,172**	**–1,244,215**	**2,410,796**	**1,824,941**
–100,007	-83,668	2,528	0	–181,147	482,468	413,313
–574,107	–281,291	0	0	–855,398	1,198,765	658,349
–740,884	–75,334	816,218	0	0	0	75,334
–1,414,998	**–440,293**	**818,746**	**0**	**–1,036,545**	**1,681,233**	**1,146,996**

SFC ENERGY AG, BRUNNTHAL
RESPONSIBILITY STATEMENT

To the best of my 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 23, 2011

Dr Peter Podesser
Management Board

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by the SFC Energy AG, Brunnthal, – comprising the income statement and statement of comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity, the segment reporting, and the notes to the consolidated financial statements – and the group management report for the business year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to §315a Abs. 1 HGB („German Commercial Code") 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 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 the SFC Energy AG, Brunnthal, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to §315a Abs. 1 HGB 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, 23 March 2011

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Voit
Wirtschaftsprüfer
(German Public Auditor)

ppa. Häussermann
Wirtschaftsprüfer
(German Public Auditor)

FINANCIAL CALENDAR 2011

April 28, 2011	Publication of quarterly report
May 5, 2011	Annual general meeting
July 27, 2011	Publication half year report
October 27, 2011	Publication nine months report

SHARE INFORMATION

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

INVESTOR-RELATIONS CONTACT

Barbara von Frankenberg
Head of Investor Relations and Public Relations
SFC Energy AG
Eugen-Saenger-Ring 7
85649 Brunnthal
Germany

Phone: +49 (0) 89 / 673 592 – 378
Fax: +49 (0) 89 / 673 592 – 169
Email: barbara.frankenberg@sfc.com

IMPRINT

SFC Energy AG
Eugen-Saenger-Ring 7
85649 Brunnthal
Germany
Phone: +49 (0) 89 / 673 592 – 0
Fax: +49 (0) 89 / 673 592 – 369

Responsible: SFC Energy AG
Editing: SFC Energy AG
Concept and Design: Anzinger | Wüschner | Rasp

Statements about the future
This interim report contains statements and information about the future. Such passages contain such word 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.