ANNUAL REPORT 2012

SFC ENERGY

SFC ENERGY AG CONSOLIDATED KEY FIGURES

in k€

	1/1–12/31/2012	1/1–12/31/2011	Change in %
Sales	31,260	15,426	102.6 %
Gross margin total	12,763	5,370	137.7 %
Gross margin	40.8 %	34.8 %	–
EBITDA	730	–4,644	–
EBITDA margin	2.3 %	–30.1 %	–
EBITDA underlying	829	–2,691	–
EBITDA margin underlying	2.7 %	–17.4 %	–
EBIT	–524	–6,615	92.1 %
EBIT margin	–1.7 %	–42.9 %	–
EBIT underlying	–961	–4,085	76.5 %
EBIT margin underlying	–3.1 %	–26.5 %	–
Net loss	–426	–6,218	93.1 %
Net loss per share, diluted	–0.06	–0.87	93.1 %

in k€

	12/31/2012	12/31/2011	Change in %
Equity	36,394	36,788	–1.1 %
Equity ratio	76.4 %	75.4 %	–
Balance sheet total	47,617	48,783	–2.4 %
Cash (freely available)	22,626	22,443	0.8 %

	12/31/2012	12/31/2011	Change in %
Permanent employees at 12/31	189	190	–0.5 %

CONTENT

INTRODUCTION BY THE MANAGEMENT BOARD

Dr Peter Podesser CEO

Gerhard Inninger CFO

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

SFC Group more than doubled consolidated sales and achieved a positive EBITDA in 2012. We successfully completed the repositioning of SFC Energy AG and the integration of PBF Group B.V., which we had acquired at the end of 2011. With these steps we have placed our company on solid footing for profitable growth in the coming years.

By focusing on the core segments Industry, Defense & Security and Consumer as well as aligning the entire organization around the development and production of integrated complete solutions we are meeting the demands of our customers and thus achieving business success.

We substantially increased sales volumes over previous year in the Industry and Defense & Security segments, those two market segments that are of key to our growth. Our convenient turnkey solutions deliver clear benefits to customers who run professional applications in these markets: Our robust fuel cell generator systems ensure that off-grid equipment will run reliably and autonomously for extended periods of time, while our customized power management solutions supply power to sensitive devices and systems with maximum efficiency.

In the Industry Segment, this strategy helped us tap new fields of application. Today, SFC Energy delivers off-grid power generation and distribution systems to customers in civilian security and surveillance, oil and gas, wind power, traffic management, environmental engineering and telecommunications. In particular, the performance of fuel cell generators in extreme temperature regions was enhanced, significantly increasing their appeal for the oil and gas sector.

With new products of PBF, we further expanded our presence in the high end power electronics market in 2012, specifically in the areas of civilian security and analytical systems, and started new attractive projects in the medical technology sector and in the semiconductor equipment industry.

Intensive co-operation of the Almelo (Netherlands) and Cluj (Romania) sites lead to first margin improvements: Combining the R&D expertise and experience in the areas of engineering and production technology with excellent access to latest electronics knowledge from one of Romania's top universities plus local manufacturing cost advantages produced the aspired benefits.

SFC Energy has been a long-standing, well-respected supplier and development partner to several international defense organizations in the area of off-grid power generation for defense and public security applications for many years now. An important milestone in 2012 was the large follow-up order of the German Bundeswehr for the equipment of soldiers with SFC energy networks. We also delivered fifty "lightweight alternative power sources" (LAPS) to the U.S. Army as additional on board power source in vehicles, and were awarded a contract by the U.S. Air Force to ready a 50-watt JENNY for production, the next generation of this portable fuel cell generator.

Solid growth in the Industry and Defense & Security segments had a stabilizing effect on our business portfolio, making us less susceptible to fluctuating demand in our third segment, Consumer. Sales in this segment declined in 2012, as the challenging economic conditions persisted and prompted customers to cut back on spending. Still, in 2012, the "EFOY" earned its fifth straight Top 3 finish in the promobil readers' choice awards and a special mention in the German Design Award competition, testaments to its good market penetration and brand recognition. We again realized significant cost savings from the introduction of the next generation of EFOY fuel cell generators with increased performance.

We substantially increased sales volumes over previous year in the Industry and Defense & Security segments.

For the organizational integration of SFC Energy and PBF we focused on a stringent post-merger integration program, the consolidation of management teams, and a consistent information policy through all group sites. We firmly believe that the fully integrated corporate group is more competitive today than twelve months ago thanks to its interlinked management team, the clear allocation of tasks and corporate wide understanding.

We would like to take this opportunity to sincerely thank all of our employees for their dedication and exceptional performance in 2012, especially for going the extra mile that a corporate merger like this requires. Being open for diversity is the most important cultural prerequisite for the successful combination of companies. It has made SFC Energy a more international and thus more attractive employer.

For the entire SFC Energy Group, we anticipate revenue growth of around ten percent and an associated further improvement of earnings figures for the full business year 2013.

On behalf of SFC Energy AG, we thank you for your interest and your support and invite you to stay with us as we continue along our path towards a successful future.

With best wishes,

The SFC Energy AG Management Board

Dr Peter Podesser
CEO

Gerhard Inninger
CFO

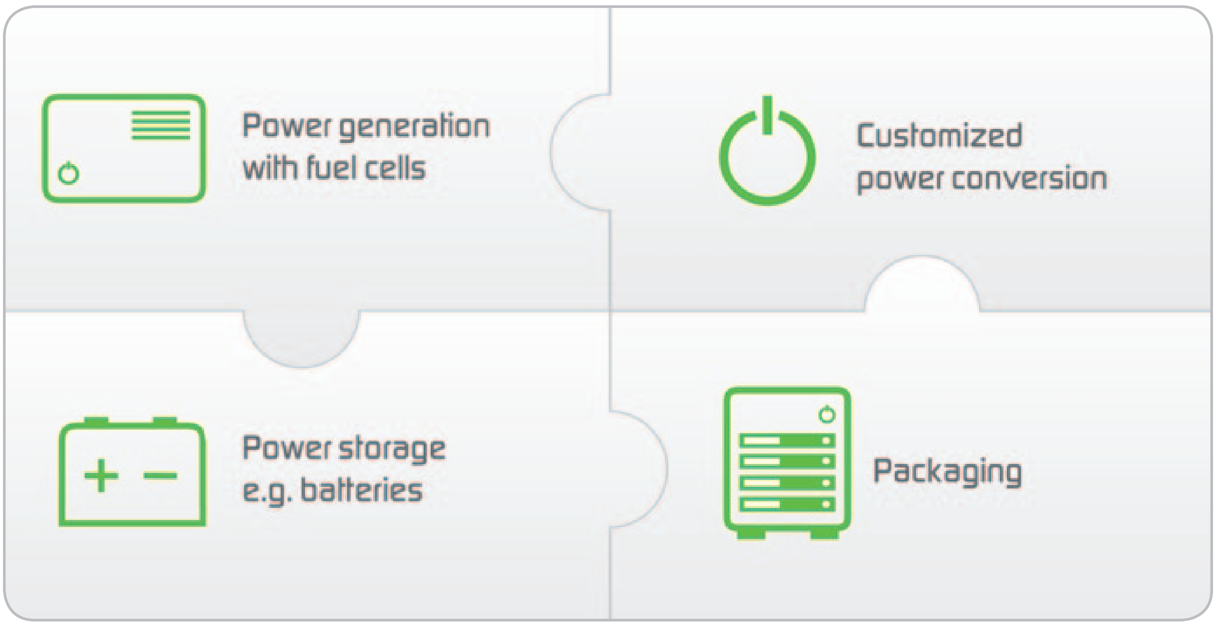
"POWER THE WAY I NEED IT" – INTELLIGENT ALL-IN-ONE SOLUTIONS FOR GENERATING AND DISTRIBUTING POWER

Despite the fact that what first comes to mind for most people when contemplating electric power is the hassle-free supply they get from outlets and batteries, the provision of power in the quality and quantity required by individual applications often necessitates considerable technical efforts on the part of operators.

When electronic devices are operated away from the grid, the biggest challenge is securing an uninterrupted power supply. Tsunami early warning systems, border surveillance equipment, warning lights for traffic or on wind turbines – these and countless other security, safety and measuring systems must be able to run reliably off the grid for weeks and months at a time. Batteries alone are nowhere near sufficient. They're large, heavy and have to be replaced, which can be quite expensive and pose logistical challenges. Replacing batteries in gas pipeline de-icing pumps, for example, routinely requires hours-long helicopter trips.

Even solar modules can't satisfy the need by themselves, since they merely provide an uninterrupted supply of power only when there's adequate sunlight. Diesel generators are loud and often need lots of maintenance, and there are many places where they can't be used at all because of environmental regulations. In scenarios like these, fuel cell generators from SFC Energy are a valuable alternative: They are compact, quiet, easy to

SFC ENERGY SYSTEM SOLUTIONS



transport and eco-friendly. They operate regardless of the weather conditions, time of day or time of year and generate power using the alcohol methanol, an eco-friendly fuel with highly superior energy density. Ten liters of methanol, which weigh around eight kilograms, can generate over eleven kilowatt-hours of electricity.

SFC Energy makes this efficient power generating technology available to customers in complete solutions that are optimally tailored to the specific requirements of individual applications. Whether customers need a vehicle-based energy solution for mobile offices, government vehicles or defense applications, an invisible power source that works underground or hidden in the trunk, a weatherproof cabinet for polar regions or an easy-to-transport "mobile socket" that can be assembled and broken down in a few simple steps, SFC delivers fully integrated all-in-one systems that can be readily combined with other alternative power generating devices, such as solar modules, wind generators and hydro generators, to form hybrid systems. The only thing customers have to do is plug in their devices and they've got reliable power anywhere they need it, for weeks and months at a time, in any climate and without any human intervention.

PREMIUM POWER SUPPLY

The crucial factor in many other stationary applications is the quality of the power that is generated. Sensitive, high-power devices such as laser equipment and electron microscopes need high quality power when they are used. To address this, PBF Group B.V., a subsidiary of SFC Energy, develops and manufactures customized superior-grade power supply systems that produce precision high-quality current with the utmost reliability. With their superior power density, these systems ensure a long service life and optimum performance of the devices operated, all at significant energy cost savings. Customers include renowned OEMs and system suppliers in Europe and abroad, many of whom seek out the proven expertise and experience of PBF's engineers while still in the planning phase of new power supply systems. For production, PBF has a well-established supply network handling small runs of products in Europe a mass production in China respectively, giving customers the added benefit of short lead times and low costs. In addition, the close working relationship with customers doesn't end with the development process. PBF remains a trusted partner during production and operation, offering efficient product life cycle management from a single source.

Competent service and consulting complement the product range.

With this total solution approach throughout its entire product portfolio, the SFC Energy Group delivers maximum customer benefit, all the way from development to volume production and operation. Apart from providing cutting-edge, energy-efficient power generation and distribution systems, our teams also support users in all phases of their projects with a wide range of professional maintenance and consulting services. Innovative, sustainable technologies are translated into customized, easy-to-use, high-performing all-in-one systems that offer customers substantial added value. This creates the basis for long-term customer loyalty, strong brand equity and sustained solid growth.

INDUSTRY

THE MARKET

Power is becoming more and more important in our increasingly engineered world. Reliable solutions that enable independent operation at any time are needed to feed power to the ever rising number of devices used away from the grid. In addition, there is a growing need to "smooth out" the current when power from the grid is used to run complex, highly sensitive industrial equipment. In both of these areas, the energy supply solutions developed specifically for the industrial markets by the SFC Energy Group offer big benefits to customers:

1. Off-grid power supply

In the field of off-grid power supply, SFC Energy delivers application-specific all-in-one solutions that generate power on site, supply it exactly as needed and run autonomously for very long stretches of time. This is extremely advantageous to users, who can save considerable time, money and resources.

The areas of application are virtually limitless: SFC systems provide safe and reliable power to machines and equipment used off the grid in fields like security and surveillance, oil and gas, wind power, environmental engineering, metering, traffic management and telecommunications, to name just a few. The benefits are compelling: SFC's power supply solutions are quiet, eco-friendly, all-weather products that are equipped for remote monitoring and deliver reliable power for weeks on end without any human intervention. They can be used covertly, even underground, in switch cabinets or weatherproof boxes, on the go or in stationary applications. No matter how users deploy them: They generate reliable, round-the-clock power when it's needed – day and night, in the snow, in the heat, during a storm or during continuous rainfall. In this way, they ensure that important operations, measurements, data collection or warning systems can run at all times and substantially reduce the time and expense associated with logistics efforts and maintenance.

Products

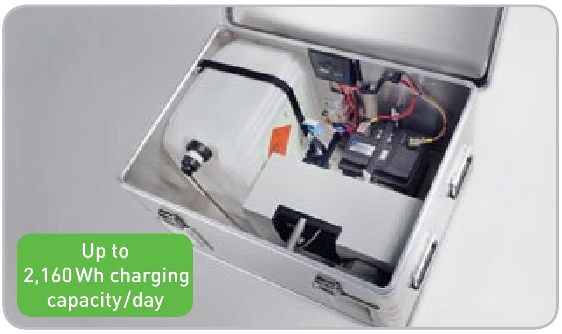
EFOY PRO FUEL CELL GENERATOR – The heart of SFC Energy's eco-friendly power supply solutions

The EFOY Pro fuel cell generator was specially developed by SFC Energy for the demanding requirements of professional applications. Lightweight, robust, capable of operating in any weather and maintenance-free, it produces power quietly, on a fully automatic basis and with practically zero emissions. The EFOY Pro offers the convenience of remote monitoring and ensures that applications can run independently for weeks and months at a time. It eliminates the need for costly service and logistics efforts, and users can be confident that their devices will be continuously powered.

Up to 2,160 Wh charging capacity/day

EFOY PROCUBE – The practical outdoor power source for all mobile and stationary applications that run outside

The EFOY ProCube is a complete power supply solution for all types of off-grid applications. An EFOY Pro fuel cell generator, a fuel cartridge, a battery and all accessories are placed in a ruggedized, weatherproof box. Since the all-terrain generator is ready for immediate use, the only thing users have to do is plug in their devices. The EFOY ProCube is suitable for a wide range of outdoor applications. Because setup takes mere seconds, it is often used in temporary scenarios. On request, it can also be combined with other power generating devices, such as solar modules, to form a hybrid system.



Up to 2,160 Wh charging capacity/day

EFOY PROCABINET – The professional switch cabinet solution for autonomous off-grid energy

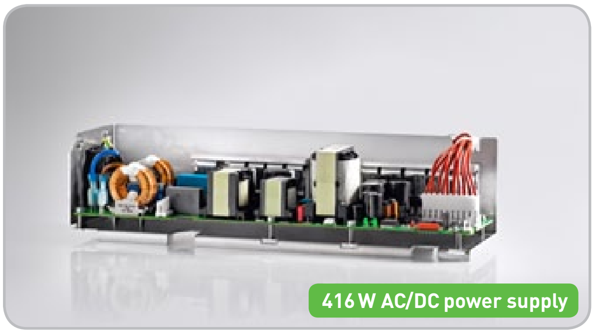
This complete power solution also offers an autonomous, off-grid power supply in any weather. The EFOY ProCabinet consists of a switch cabinet that is equipped with an EFOY Pro fuel cell generator, batteries, cabling and power distribution for 24 volts. The fuel cartridges are kept in a side cabinet. By adding optional accessories, the EFOY ProCabinet can be easily customized to accommodate individual requirements.

Up to 5,280 Wh charging capacity/day

2. Power electronics

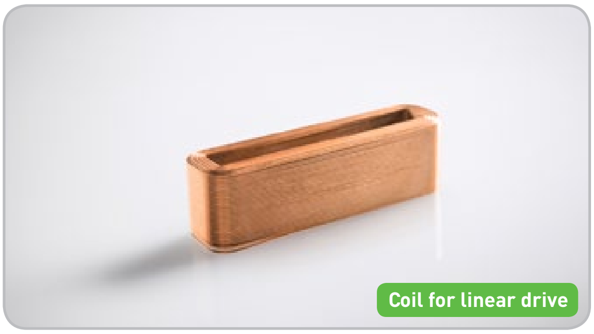
For users of highly sensitive devices, the efficient supply of "clean" power is often a big challenge. This is one of the few cases where the term "clean power" has nothing to do with eco-friendliness. Instead, it refers to the precision of the voltage curve. Having the right voltage ensures that devices can run at their optimal performance and will last for a long time – important points to consider with highly sensitive, expensive instruments like electron microscopes, semiconductor equipment, laser and hifi equipment, testing and metering devices, security systems and medical devices. This is where the highly successful, intelligent and reliable power supply solutions of PBF come into play. Thanks to these solutions, the expertise of the SFC Group now covers even more of the value chain. The PBF portfolio encompasses standard high-performance electronics components, external and internal converters, switching power supplies and coils. PBF is also highly specialized in the development and provision of customer-specific applications.

PRODUCTS


416 W AC/DC power supply


Bipolar current source 1,200 A


Deflection coil


Coil for linear drive

The following reference applications are meant to serve as a small representative sample of the wide range of PBF products:

AC/DC NETWORK COMPONENTS for LED backlight display systems

LED backlighting is a new technology that can be used to create ultra-thin, highly luminous LCD screens by using individually controllable points of light. It places extremely high mechanical and electrical demands on switch mode power supplies. The solution developed by PBF specifically for the requirements of LED back-light systems was optimized to be highly efficient and enable permanent, maintenance-free installation in the systems' rear panel.

AC NETWORK COMPONENTS for professional deployment in alarm and control systems at airports

Alarms and control systems are extremely important to the safety of people and assets at airports and train stations, as well as in public buildings and public spaces, both every day and in the event of disasters. This includes emergency management and public address systems. To help in their operation, PBF creates highly customized switch mode power supplies that are tailored to the unique requirements of the respective system components and device types.

COILS AND NETWORK COMPONENTS for electron microscopes

Electron microscopes use electrons to acquire images of the surface and interior of objects. The quality of the resulting images depends in large measure on the quality of the power supply. The AC/DC network components that PBF specially manufactures for this application deliver optimally "smoothed current", thus reducing the effects the electron beam can have on the microscope for best research results. Working side-by-side with customers, PBF also develops special deflection coils for the demanding requirements of these highly sensi-tive instruments, thereby ensuring that they perform at their optimal level.

DEFENSE & SECURITY

THE MARKET

The number of off-grid applications in the defense and security segment is rapidly rising, as well. Since batteries are very heavy, there is growing interest in alternative power supply solutions that are portable, suitable for mobile deployments or vehicle-based.

To better address threats, defense forces are increasingly moving towards the formation of specialized units that are small and flexible. These mobile forces rely heavily on a lightweight, reliable supply of off-grid power to ensure long-lasting autonomy combined with low detectability for soldiers and vehicles.

In the area of security and defense applications, SFC Energy offers a series of highly specialized all-in-one power supply solutions that offer plug-and-play convenience to soldiers when working in the field or in vehicles. These lightweight, quiet power generators can be taken anywhere with little effort. They run undetectably, are suitable for mobile and stationary settings, and can be placed underground, in a weatherproof box or on board a vehicle. They either power devices directly or recharge batteries fully automatically. Thanks to their fuel's high energy density, they ensure that equipment can be reliably powered for long periods of time, which, in turn, plays a valuable role in keeping soldiers and missions safer.

Products

SFC ENERGY NETWORK Lightweight, portable power supply for mobile deployments

The energy needs of soldiers in the field continues to grow, as they search for ways to power their electronic equipment, which includes night vision goggles, sensors, radios, computers and navigation systems. So far, they had to carry along large quantities of heavy batteries. With the SFC energy network, they can reduce their weight burden by up to 80 percent compared to conventional power supply solutions.

This hybrid approach combines the portable JENNY fuel cell generator of SFC, the intelligent SFC Power Manager, a battery and a solar panel into an integrated, easy-to-use complete system:

Soldiers can carry the lightweight JENNY fuel cell generator in their gear and use it to charge batteries in the field or supply power to their devices directly. In conjunction with the SFC Power Manager, soldiers who are sent out on missions can make optimum use of all available energy sources, including batteries, vehicle power, solar modules and fuel cells, to charge their equipment. The intelligent power distribution system automatically adjusts its output voltage to fit the requirements of the respective electrical device.

Up to 600 Wh charging capacity/day

The highly efficient and flexible energy network enables the operation of a wide range of electrical equipment, stationary or mobilized. The power supply and energy management are fully automatic, silent, virtually emissions-free and undetectable.

The German Bundeswehr has been providing the SFC energy network to soldiers in the field since 2010.

EMILYCUBE 2500 Portable charging station for covert operations and camps

Military operations and command posts are often situated in rough terrain. For devices like communications equipment, data transmitters, portable radar systems and sensors, troops need an all-terrain power source that can deliver energy reliably and without detection at all times. The EMILYCube does just that, simply and conveniently: By combining a 100-watt fuel cell generator based on the proven EMILY platform, a lithium ion battery and a fuel cartridge in a lightweight, weatherproof box, this all-in-one solution, weighing only about 20 kilograms, is ready for immediate use anywhere.

Up to 2,500 Wh charging capacity/day

EMILY 2200 Reliable power to run on-board equipment in government and military vehicles

Sensors, radios, measuring devices and defense systems that are integrated into vehicles need continuous, reliable power. To date, this required starting the engine, which increased the risk of detection, produced exhaust and burned fuel. The EMILY fuel cell generator recharges the on-board batteries that power these electrical devices, doing so fully automatically, silently and without detection. It is equally suitable for use as a field-based charging station for batteries. The EMILY 2200 has been certified for military applications by the Bundeswehr and is thus officially approved for use by the German Armed Forces.

Up to 2,200 Wh charging capacity/day

CONSUMER

THE MARKET

These days, fewer and fewer people want to miss out on the convenience and security of the numerous electrical devices that make their lives easier and better, even when they're on the go. In order to make full use of these devices in any location, they have to be supplied with power, which means that mobile power supply solutions are in ever greater demand.

These "mobile power sockets" should be easy to use and make users independent of the power grid. Many RV, sailboat and cabin owners are no longer willing to tolerate the noise and smell of conventional gas or diesel-powered generators. On top of that, the number of those looking to eliminate their dependence on a solar module, and thus the weather, when it comes to having power while they vacation or enjoy a weekend getaway, be it in summer or winter, is continually on the rise. Vacationing in RVs, sailboats or cabins – in other words, in the great outdoors – is growing in popularity.

The fuel cells of the EFOY COMFORT series by SFC Energy have been the solution of choice for off-grid power supply in these challenging conditions for many years. Year after year they rank as one of the top brands in customer satisfaction surveys conducted by caravan magazines. Users value their quiet, fully automatic, completely maintenance-free operation. Once installed, these compact, efficient energy generators constantly monitor the battery's charge level and automatically switch on as soon as it needs to be recharged. Users can enjoy fully charged batteries all the time without lifting a finger.

Products

EFOY COMFORT A small, compact device that delivers a host of benefits

The EFOY COMFORT is a real asset to any RV, sailboat or cabin: Thanks to its state-of-the-art insulation and sound damping system, this fuel cell is barely audible. It runs on a fully automatic, virtually maintenance-free basis, is economical to use, and, considering that it produces practically zero harmful emissions, it's eco-friendly. With its compact design and low weight – just eight kilograms – the EFOY COMFORT delivers a great deal of energy, but requires very little space. And it guarantees a reliable supply of power anywhere, anytime: in any weather, any climate and any season.

Up to 2,520 Wh charging capacity/day

SFC MILESTONES IN 2012

SFC ENERGY AG'S MARKET BREAKTHROUGHS AND SUCCESSFUL NEW APPLICATIONS

JANUARY 2012

+++ Laika Arctic Experience 2012 with EFOY COMFORT +++

An EFOY COMFORT 140 delivers reliable on-board power under the harsh conditions of the Nordic winter during a LAIKA motorhome's two-month expedition through Denmark, Sweden and Finland, all the way to the North Cape.

MARCH 2012

+++ Another large production order from the German Bundeswehr +++

SFC's flexible power supply network, consisting of the portable JENNY fuel cell generator, SFC Power Manager, a solar module, hybrid battery and full range of accessories, reduces the weight burden of soldiers in the field, improving their mobility and endurance.

+++ EMILY 2200 receives Bundeswehr Certificate of Approval +++

The German Bundeswehr issues approval for the procurement of the EMILY 2200 fuel cell generator within its organization. Subjected to a range of military tests, the system delivers maximum performance and superior flexibility for autonomous vehicle-based applications, 24/7, in any weather.

+++ 50 lightweight power supply units delivered to the U.S. Army Operational Test Command +++

Designed as an alternative to marine batteries, the FC 100 fuel cell generator is a compact, lightweight power source for the autonomous operation of test instrumentation on board military vehicles. It can run on a continuous basis for at least 100 hours before the fuel cartridge needs to be replaced.

APRIL 2012

+++ Rittal and SFC Energy sign a cooperation agreement +++

Rittal and SFC Energy partner to develop and distribute autonomous power supply solutions covering an output range of 25 to 500 watts. As the first result of this cooperation, the EFOY ProCabinet is unveiled at the Hanover Trade Show.

MAY 2012

+++ EFOY COMFORT again named a top 3 brand in promobil reader survey +++

For the fifth consecutive year, the readers of Europe's largest motorhome magazine voted the EFOY COMFORT fuel cell generator as one of the top 3 best brands. The promobil readers' choice awards distinguish the most popular RVs and accessory brands every year.

JUNE 2012

+++ Follow-up order from Volkswagen Commercial Vehicles to equip additional toll inspection vehicles used by the German Federal Office for Goods (BAG) with the EFOY Pro fuel cell generator +++

After three years of positive experience using the EFOY Pro as the autonomous power supply on board toll inspection vehicles, BAG decides to equip additional vehicles with the fuel cell generators. The sustainable power supply concept behind the fuel cell saves money and reduces logistics efforts.

+++ EFOY COMFORT once more the on-board power source of choice in transatlantic race +++

Andrea Mura, professional sailor and winner of the 2010 Route du Rhum, uses the EFOY COMFORT 210 fuel cell generator to power the devices on board his Open 50 "Vento di Sardegna" race boat during the 2012 TwoStar two-handed transatlantic yacht race.

OCTOBER 2012

+++ EFOY receives Special Mention in German Design Award +++

The German Design Council awards the EFOY COMFORT fuel cell generator a Special Mention in the Lifestyle category of the German Design Award. The award honors exceptional design products and projects for their unique contributions to the advancement of German and international design.

NOVEMBER 2012

+++ SFC delivers major order placed by the Bundeswehr in March +++

The order volume to equip additional soldiers with the portable JENNY fuel cell generator as part of the SFC energy network comes to just under € 5 million and will be recognized in 2012 sales.

+++ Van Remmen UV Techniek and PBF develop innovative power system for UV water disinfection systems +++

The highly precise power supply that was integrated with the controller is a true unique selling point for customers, because it significantly reduces their total cost of owning Van Remmen's leading UV disinfection systems, while increasing the systems' energy efficiency.

+++ SFC Energy and ACAL sign distribution agreement +++

Effective immediately, PBF partner ACAL BFi will begin offering SFC Energy's range of EFOY Pro fuel cell generators as part of its Power Solutions portfolio, which means SFC's entire line of power generation, power conversion and power management products is being distributed by ACAL.

DECEMBER 2012

+++ U.S. Air Force awards contract to SFC Energy +++

SFC Energy is awarded a contract to ready a 50-watt portable JENNY fuel cell generator for production. The JENNY will be adapted to match users' specific requirements, have its weight load significantly reduced, and be further ruggedized.

+++ EFOY Pro fuel cell generator powers eagle watch and protection equipment +++

The U.K.'s Royal Society for the Protection of Birds selects the EFOY Pro full cell generator to power video observation of a pair of white-tailed eagles during breeding season, because it provides the longest period of operation without human intervention, while having the smallest visible footprint.

SUPERVISORY BOARD REPORT

SUPERVISION OF COMPANY MANAGEMENT

The dominant factor in financial year 2012 was the integration of Dutch PBF Group, acquired in 2011, into SFC Group. The Supervisory Board actively participated in these efforts by advising and holding discussions with the Management Board. In the year under review, the Supervisory Board performed the duties incumbent on it by law, the Company's Articles of Association and its Rules of Procedure. It closely supervised the efforts of the Management Board and regularly advised and carefully monitored the latter's management of the Company. The Supervisory Board also satisfied itself that the Company was properly managed in compliance with applicable laws and regulations. The Supervisory Board was involved early and directly in all decisions of fundamental importance for the Company, as described in more detail below. The Supervisory Board reviewed transactions requiring its consent and discussed each of these with the Management Board.

SUPERVISORY BOARD MEMBERSHIP

Pursuant to Article 10 para. 1 of the Company's Articles of Association, in financial year 2012 the Supervisory Board of SFC Energy AG was made up of three members. In financial year 2012, the members of the Supervisory Board were (i) Dr Rolf Bartke (until May 9, 2012), (ii) David Morgan, (iii) Dr Jens Thomas Müller and (iv) Tim van Delden (since May 9, 2012).

In financial year 2012, Dr Rolf Bartke initially continued to serve as Chairman of the Supervisory Board of the Company (until May 9, 2012). Since May 9, 2012 Tim van Delden has served as Chairman of the Supervisory Board. In financial year 2012, David Morgan served as Deputy Chairman of the Supervisory Board.

SUPERVISORY BOARD MEETINGS

In performance of its duties, the Supervisory Board met five times during financial year 2012: on May 27/28 (to review the financial statements for financial year 2011), on May 9, July 24, October 25 and December 6, 2012. All meetings were held in person. All Supervisory Board members attended all Supervisory Board meetings. In addition, the members of the Supervisory Board consulted one another between the meetings by telephone or email if required.

During the Supervisory Board's 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 and the Group'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 the Company's organization and risk management were effective, and discussed material 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 and the Group's economic, financial and strategic position, the Company's domestic and international growth strategy and material developments and events, for instance regarding (pending) litigation. Regular topics of the meetings of the Supervisory Board also included finance and controlling, sales and marketing, operations, quality management, human resources, research & development. In addition, the Management Board reported on the strategic situation of the international subsidiaries of SFC Energy AG and on key developments related to those subsidiaries.

Moreover, in compliance with the rules of procedure laid down for the Management Board by the Supervisory Board, the Management Board routinely provided 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 continuous and close contact with the Management Board and in particular the CEO who kept him thoroughly informed on current business events.

During financial year 2012, as in previous years, the Company's M&A strategy was an important topic at the Supervisory Board meetings. The Supervisory Board reviewed potential acquisitions and acquisition targets in Germany and internationally, obtained detailed information on them from the Management Board as well as from employees of the M&A consulting firm engaged by the Company. It also raised questions and took an active part in discussions of the Company's M&A strategy, discussed the risks and opportunities of proposed acquisitions with the Management Board in detail, and requested additional information about them.

A key topic discussed at Supervisory Board meetings in financial year 2012 was the continued integration of Dutch PBF Group, acquired in financial year 2011, into SFC Group. In various meetings the Supervisory Board was provided by the Management Board with extensive information about the integration of PBF Group into SFC Group, the integration of research & development activities, standardization of corporate branding and the achievement of the earn-out targets laid down in the share purchase agreement. Moreover, the Supervisory Board actively supported the efforts of the Management Board to further integrate PBF Group into SFC Group. The Supervisory Board analyzed, discussed and evaluated PBF Group's financial data for each quarter, the first half year and financial year 2012 as a whole, in each case also on a stand-alone basis. In addition, the Supervisory Board discussed, jointly with the Management Board as well as internally, the terms and conditions of the mutually agreed departure of a managing director of PBF Group and, after thorough deliberation, agreed to the conclusion of a voluntary redundancy agreement.

In financial year 2012, the Supervisory Board also dealt with Management Board issues such as annual bonuses for Management Board members for financial year 2011 and targets for annual bonuses for financial year 2012.

At its meeting on March 27/28, 2012, 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 2011. It discussed and approved these documents with the auditor in attendance. At the Supervisory Board meeting on May 9, 2012, topics of discussion included, among other things, personnel changes within the management of Dutch PBF Group, the potential objectives of a strategic takeover or partnership and Supervisory Board issues such as the election of the Chairman and Deputy Chairman as well as the organization of Supervisory Board meetings in financial year 2012. At its meeting on July 24, 2012, the Supervisory Board, among other things, dealt with financial data for the first half year, the outlook for financial year 2012 as a whole, the Company's risk management reporting and personnel issues. The topics discussed at the Supervisory Board meeting on October 25, 2012 included, among other things, the financial report for the third quarter, personnel matters and the results of a review of the costs incurred by the Company for external consultants. At its meeting on December 6, 2012, the Supervisory Board heard a comprehensive report from the Management Board on strategy and planning (including the budget) for 2013. Topics discussed at this meeting on December 6, 2012 also included the new regulations for the transportation of fuel cells, conclusion of a settlement agreement with a PBF Group customer because of alleged quality deficiencies in products delivered by PBF and the financial calendar for 2013.

The Supervisory Board members attended all meetings of the Supervisory Board in financial year 2012.

In addition, the members of the Supervisory Board participated in a joint strategy workshop with the Management Board, selected senior management and executive staff of the Company in September 2012, to address and discuss, in particular, questions regarding the further growth strategy and strategic orientation of the Company as well as the short- and midterm planning.

COMMITTEES

The Supervisory Board did not set up any committees in financial year 2012 as it is of the opinion – which is consistent with the legal literature on this subject – that the efficiency of the advisory and controlling activities of a three-member board cannot be meaningfully increased by doing so.

CORPORATE GOVERNANCE

Information on Supervisory Board-related aspects of the Company's corporate governance can be found in the corporate governance report which is reproduced in the annual report (page 29) as part of the statement pursuant to Section 289a of the German Commercial Code.

Compensation of Supervisory Board members is shown individually and broken down by component in the compensation report, which is reproduced in the annual report (page 35).

In financial year 2012, as in previous years, 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. In the year under review, the Supervisory Board identified a potential conflict of interest regarding Supervisory Board member David Morgan. Conduit Ventures Ltd., the Company's major shareholder, holds an equity interest in one potential business partners, distribution partners and/or acquisition targets (the "CV-Companies"). As David Morgan is the Chairman of the Advisory Board of Conduit Ventures Ltd., the Company's Supervisory Board decided in its meeting on October 25, 2012, that David Morgan should abstain from voting on any potential resolution involving a CV-Company. However, as the Company did not subsequently pursue a specific business relationship with a CV-Company, the Supervisory Board did not adopt a resolution on that matter in financial year 2012.

No other conflicts of interest arose during the period under review.

The Company is committed to complying with the recommendations of the German Corporate Governance Code. The annual declaration of conformity required from the Management and Supervisory Boards is available on the Company's homepage at www.sfc.com/en/investors/corporate-governance#header. The most recent declaration dates from March 22, 2013. It is also reproduced in the annual report (on page 29).

ACCOUNTING

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, was chosen and appointed by the annual general meeting to audit the Company's financial statements for financial year 2012 and engaged for the audit by the Supervisory Board. The Supervisory Board negotiated the audit engagement, indicated the focal points of the audit and engaged the auditors. The agreed focal points for the audit were: (i) For the IFRS consolidated financial statements: Impairment testing of goodwill and carryforward of values resulting from purchase price allocation. (ii) HGB statutory: Revenue Recognition; accounting-related internal control system for the cycles: revenue cycle, inventory management, and wages & salaries; completeness and valuation of provisions; impairment assessment for financial assets of PBF Group.

The auditor audited the annual financial statements of SFC Energy AG as of December 31, 2012 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 22, 2013. 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, 2012, 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 the auditor's reports as well as its discussion with the auditor, 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 22, 2013, it approved the annual and consolidated financial statements for financial year 2012 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 as well as for their achievements in financial year 2012.

Brunnthal, March 22, 2013

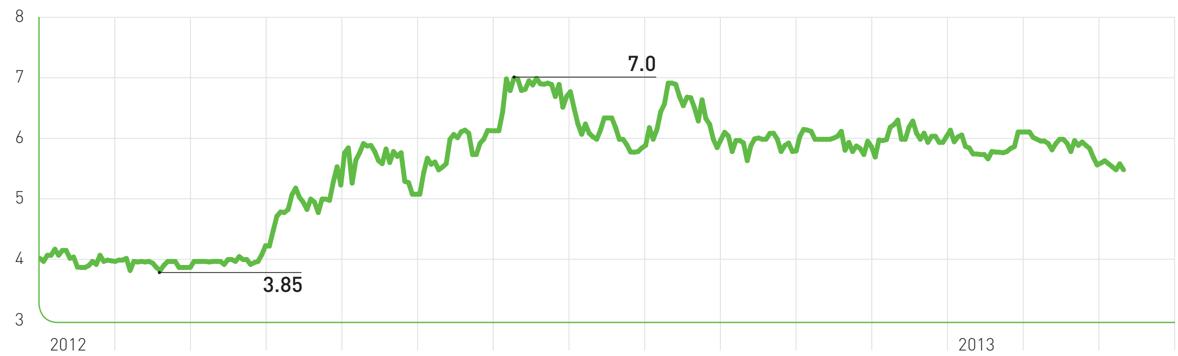
The Supervisory Board

Tim van Delden
Chairman

THE SHARE

DEVELOPMENT OF THE INDEXES AND THE SFC SHARE

SFC SHARE PRICE GRAPH JANUARY 2012 TO MARCH 2013 in €



STOCK MARKETS 2012

For the stock markets, 2012 was a year marked by the ongoing financial and debt crisis. Fears of a collapse of entire national economies dominated headlines in the financial press. There were heavy losses for a while, but there were also extensive countermeasures undertaken by central banks. This opening of the monetary floodgates led to a massive year-end rally on the trading floor. The billions in bailouts provided by the European Central Bank (ECB) may have ruined popular investments like call and time deposits for savings-minded investors, but for stocks they helped spark a renaissance.

The upturn on the DAX at year's end was preceded by a strong first quarter and a weak second quarter. Ultimately, however, the performance of Germany's leading index was euphoric. The DAX rose 29 percent to close 2012 at 7612.39. The TecDAX ended the year at 828.11 points, for a gain of 21 percent. The run on midcap stocks catapulted the MDax to its highest level since 2007: It finished the year at 11914 points.

For investors of green stocks, by contrast, 2012 was the third disappointing year in a row. The RENIXX World (Renewable Energy Industrial Index) stood at 168.69 points at year-end, for a loss of 30 percent (2011: 241.28 points). Back in 2010, the leading renewables' indicator had shed 29 percent; in 2011, it slid a full 54 percent. Around the world, solar stocks were among 2012's biggest losers. Their prices continued to drop because of the fierce competition and immense cost pressure that firms active in the renewable energy sector face. Although the global expansion of renewable energy proceeds unabated, investors needed a strong stomach in 2012. Even Germany's OekoDaX declined 54 percent in 2012 to 47.62 points.

SFC Energy AG's share, however, moved largely independently of the major stock indexes in 2012. After starting in January 2012 at € 4.03, it bottomed out at € 3.85 on February 15. It then rebounded as the market acknowledged the stable business development shown by Company figures and reached its year high of € 7.00 on July 10. The price stayed at or near € 6.00 for the remainder of the period and closed the year at € 6.05.

In all, 1,944,611 SFC shares changed hands on Xetra and the Frankfurt trading floor during the reporting year. Daily trading volume averaged 7,656 shares.

INVESTOR RELATIONS

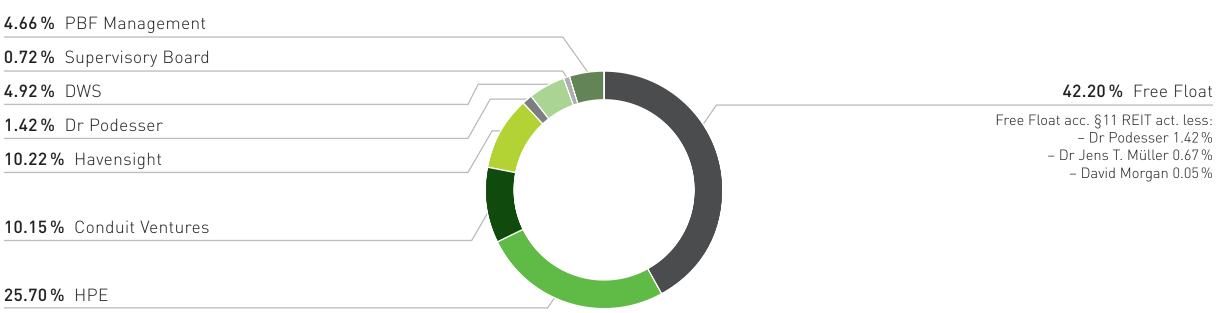
In 2012 the Management Board and Investor Relations team at SFC Energy AG continued to pursue an ongoing dialogue with investors, shareholders, analysts and members of the business and financial press.

The Management Board of SFC Energy AG presented the Company's quarterly, half-year and annual figures at investor conferences and in one-on-one discussions around the world. These opportunities were used to provide in-depth information about SFC Energy AG's business model and its current business performance to interest groups with knowledge of the industry.

SHAREHOLDER STRUCTURE

The shareholder structure of SFC Energy AG was essentially unchanged in 2012. More than 50 percent of the shares are held by large institutional investors that accompany and support the Company's efforts to grow. Some 42 percent of the shares are in free float.

SHAREHOLDERS STRUCTURE AS OF DECEMBER 31, 2012 in %



ANALYST RESEARCH

In July 2012, Deutsche Bank joined the list of prestigious institutions that regularly cover SFC Energy AG, bringing the total number of banks/equity research firms raising the profile of the SFC share to three. International research studies on SFC Energy were published within the financial community. This type of research provided shareholders and investors with unbiased expert opinions on SFC Energy AG. Current research studies that SFC is permitted to publish are available on the Internet at www.sfc.com under the menu item Investors.

GENERAL MEETING OF SHAREHOLDERS

SFC Energy AG's 2012 annual general meeting was held on May 9 at Haus der Bayerischen Wirtschaft in Munich. The shareholders and shareholder representatives in attendance were given a detailed presentation on business developments and earnings, as well as a report on the 2011 accounts. Results for the first quarter of 2012 and the outlook were also discussed. More than 60 percent of the Company's share capital was represented, and all of the resolutions presented to the shareholders were adopted with large majorities. A detailed agenda and results of the voting are available on the Internet at www.sfc.com under the menu item Investors.

DIRECTORS' SHAREHOLDINGS

	12/31/2012
Management Board	
Dr Peter Podesser	106,800
Gerhard Inninger	0
Supervisory Board	
Tim van Delden	0
David Morgan	4,000
Dr Jens T. Müller	50,000

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

The Management and Supervisory Boards 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 report below also contains the Company's corporate governance statement pursuant to Section 289a of the German Commercial Code ("Handelsgesetzbuch" – "HGB") and its compensation report. It is part of the management report ("Lagebericht").

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 controlling 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 controlling 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 up-to-the-minute 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 compliance statement made in accordance with Section 161 of the German Stock Corporation Act ("Aktiengesetz" – "AktG").

DECLARATION OF CONFORMITY 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 exchange-listed 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 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. This 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.

For the period as of the issuance of the last Compliance Statement of March 27, 2012, until June 14, 2012, the following statement refers to the version of the Code dated May 26, 2010, as published in the electronic version of the Bundesanzeiger on July 2, 2010. Since June 15, 2012, the statement refers to the version of the Code dated May 15, 2012, as published in the Bundesanzeiger on June 15, 2012.

In accordance with Section 161 of the German Stock Corporation Act *(Aktiengesetz)* the Management Board 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 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. The Supervisory Board of SFC Energy AG comprises of only three members. 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. As a result, the Company deviates 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 Board shall form a Nominating Committee composed exclusively of shareholder representatives which will propose suitable candidates to the Supervisory Board for recommendation to the 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. As a result, the Company deviates from the recommendation set forth in Section 5.3.3 of the Code.

- According to Section 5.4.1 paras. 2 and 3 of the Code, the Supervisory Board 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. In addition, according to the Code in the version of May 15, 2012, the concrete objectives shall include the number of independent Supervisory Board members. 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, the number of independent Supervisory Board members, 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 genderspecific 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 with a Supervisory Board comprised of only three members. Accordingly, the Corporate Governance Report does not mention any such objectives. As a result, the Company deviates from the recommendation set forth in Section 5.4.1 paras. 2 and 3 of the Code.

- According to Section 5.4.6 Sentence 4 of the Code in the version of May 26, 2010, the members of the Supervisory Board shall receive fixed as well as performance-based compensation. The Supervisory Board members of SFC Energy AG receive a fixed-only compensation. The Company 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 Code in the version of May 15, 2012, does not any longer recommend a performance-based compensation of the Supervisory Board members. Accordingly, the Company does not deviate from Section 5.4.6 Sentence 4 of the Code as of June 15, 2012.

The declaration of conformity can be accessed at any time via the Company's website at www.sfc.com/en/investors/corporate-governance#header.

STRUCTURE AND WORK OF THE MANAGEMENT AND SUPERVISORY BODIES

SFC Energy AG believes that a corporate governance system and controlling structure rooted in responsible behavior 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 co-determination and supervisory rights at the Annual General Meeting which occurs at least once a year. 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 further regularly meets with analysts and institutional investors. The Company also holds an analysts' conference each year. The last such conference took place on November 13, 2012.

The annual general meeting of SFC Energy AG is held during the first eight months of each financial year. At this meeting, shareholders resolve on all matters reserved for their decision by law, including appropriation of profits, election and approval of the actions of the members of the Supervisory Board, approval of the actions of the Management Board, 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 financial year under review and the pending agenda items through the annual report and the invitation notice, both of which make it easier for them to exercise their rights and prepare for the meeting. All of the documents and information pertaining to the annual general meeting, including the annual report, are also published on the Company's website. To facilitate the exercise of shareholders' rights, SFC Energy AG offers any shareholder who is unable or chooses not to exercise his or her voting rights at the annual general meeting in person the opportunity to have them exercised at the annual 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 annual general meeting. When filling management positions within the Company, the Management Board of SFC Energy AG also takes into consideration the principle of diversity and seeks to ensure appropriate representation 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 past financial year, the Management Board of SFC Energy AG comprised of two members, Dr Peter Podesser, who serves as Chief Executive Officer (CEO), and Gerhard Inninger, who serves as Chief Financial Officer (CFO).

The Management and Supervisory Boards of SFC Energy AG work closely together for the good of the Company. The Management Board regularly reports to the Supervisory Board providing 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. 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 financial 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 non-group business partnership.

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 continuously supervises the conduct of the Company's business on the basis of Management Board reports and joint meetings (see the Supervisory Board report, page 21).

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.

Supervisory Board Membership

Pursuant to Article 10 para. 1 of the Company's Articles of Association, in financial year 2012 the Supervisory Board of SFC Energy AG was made up of three members, which were elected by the shareholders. In financial year 2012, the members of the Supervisory Board were (i) Dr Rolf Bartke (until May 9, 2012), (ii) David Morgan, (iii) Dr Jens Thomas Müller and (iv) Tim van Delden (since May 9, 2012).

In accordance with the recommendations of the German Corporate Governance Code, the members of the Supervisory Board were elected individually at the Annual General Meeting on May 9, 2012.

Of the Supervisory Board members currently in office, David Morgan especially qualifies as an independent financial expert within the meaning of Section 100 Subsection 5 AktG. He served many years as a UK auditor, and for several years, he has held various prominent positions in the field of corporate finance. Until its dissolution in financial year 2011, David Morgan also served as Chairman of the Company's Audit Committee.

The Supervisory Board has not specified any concrete objectives regarding its composition. To ensure compliance with the legal requirements the Supervisory Board will continue to base its proposals of candidates to the shareholders primarily on the knowledge, skills and experience of eligible male and female candidates. In this respect, the Supervisory Board will also appropriately take account of the international activities of the Company, potential conflicts of interest, the number of independent members of the Supervisory Board, 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.

Except for Dr Jens Thomas Müller, who was elected to the Company's Supervisory Board at the proposal of the Company's shareholder HPE PRO Institutional Fund B.V., Amsterdam, The Netherlands, which holds more than 25 percent of the voting rights in SFC Energy AG, no other former members of the Management Board of SFC Energy AG have sat or sit on the Company's Supervisory Board. The Company's Management and Supervisory Boards believe that the Supervisory Board consists of an adequate number of independent members.

In financial year 2012, as in previous years, 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. In the year under review, the Supervisory Board identified a potential conflict of interest regarding Supervisory Board member David Morgan. Conduit Ventures Ltd., the Company's major shareholder, holds an equity interest in one potential business partners, distribution partners and/or acquisition targets (the "CV-Companies"). As David Morgan is the Chairman of the Advisory Board of Conduit Ventures Ltd., the Company's Supervisory Board decided in its meeting on October 25, 2012, that David Morgan should abstain from voting on any potential resolution involving a CV-Company. However, as the Company did not subsequently pursue a specific business relationship with a CV-Company, the Supervisory Board did not adopt a resolution on that matter in financial year 2012.

The Supervisory Board's term of office amounts to five years. The current term of office ends at the close of the Annual General Meeting 2017.

Supervisory Board Committees

In financial year 2012, the Supervisory Board had not formed any committees since it is – consistent with the legal literature on this subject – of the opinion that the setting up of committees within a supervisory board made up of only three members does not seem necessary and will not lead to any efficiency improvements in terms of the exercise of the advisory and controlling functions. The setting-up of a nominating committee is – according to the view of the Supervisory Board – further irrelevant since there are no employee representatives on the Company's Supervisory Board.

Disclosure of relevant corporate governance practices

There are no relevant corporate governance practices at SFC Energy AG over and above the legal obligations.

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 Risks and Rewards of the Group 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 declarations of conformity 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 in financial year 2012 that he sold (i) a total of 3,800 no-par value shares in the Company on August 30, 2012, (ii) another 66,200 no-par value shares on August 30, 2012, through PP Vermögensverwaltungs GmbH, a company controlled by Mr Podesser, and (iii) another 30,000 no-par value shares on August 31, 2012.

All directors' dealings pursuant to Section 15a of the German Securities Trading Act are published on the Company's website at www.sfc.com. The total number of shares in SFC Energy AG held by Management Board members as of December 31, 2012 was 1.42 %, which were held solely by Dr Peter Podesser. As of this date, the members of the Supervisory Board held 0.72 % of the shares issued by the Company.

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 ordinary annual general meeting to audit the Company's financial statements for financial year 2012 and engaged for the audit by the Supervisory Board. The auditors participated in the Supervisory Board'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 used 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, 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 equal monthly installments.

In addition, the members of the Management Board receive variable compensation if predefined performance targets are met (performance-based bonus). In financial year 2012, the targets were for the Company to reach the amounts budgeted for sales, gross margin in percent and EBITDA underlying, and each target was tied to 33.3 % of the bonus. Under a long-term incentive program (LTIP) of the Group, the members of the Management Board may additionally receive bonus payments for the period of the term of their service agreements, under certain circumstances and if certain performance targets are met. Dr Peter Podesser participates in the LTIP since 2009, Gerhard Inninger participates in the programme as of 2012. As equivalent compensation for financial year 2011 Gerhard Inninger had received a one-off payment of € 18,750.00, which was paid in January 2012. The LTIP is based on a so called phantom stock model and is divided into different performance periods of three years each: financial years 2009 to 2011, 2010 to 2012 and 2011 to 2013 (Dr Peter Podesser) or financial years 2012 to 2014 (Dr Peter Podesser and Gerhard Inninger). The cash 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.

In addition, 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, which provides for a retention of 10 % of the damage or one and a half times the fixed annual compensation.

Management Board's Compensation in 2012

Compensation of the members of the Management Board totaled € 969,523.00 in financial year 2012. Compensation in financial year 2012 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 2012 or set aside as provisions in the consolidated financial statements for 2012, less the amounts that had been set aside as of December 31, 2011.

The total and individual compensation (including non-cash perquisites) of the individual members of the Management Board in 2012 breaks down as follows:

FINANCIAL YEAR 2012 in €

	Fixed compensation	Short-term performance-based compensation	Long-term performance-based compensation	Total amount
Dr Peter Podesser	370,648	187,939	114,201	672,788
Gerhard Inninger	210,626	51,005	44,104	296,735
Total	**572,274**	**238,944**	**158,305**	**969,523**

Compensation of the Supervisory Board

The members of the Supervisory Board receive a fixed-only compensation in the amount of € 25,000.00 per member, with the Chairman of the Supervisory Board and his deputy respectively receiving twice and one and a half times this amount.

Moreover, 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.

The compensation (including non-cash perquisites) of the individual members of the Supervisory Board in 2012 breaks down as follows:

FINANCIAL YEAR 2012	in €
	Total
Dr Rolf Bartke, Chairman until 09/05/12	17,760
Tim van Delden, Chairman since 09/05/12	32,240
David Morgan, Deputy Chairman	37,500
Dr Jens Müller	25,000

There were no more share options outstanding in fiscal year 2012. 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 2012

1. BUSINESS AND BACKGROUND CONDITIONS

Business activity and organizational structure

The SFC Group (the "Group") comprises SFC Energy AG ("SFC"), Brunnthal, Germany, and its subsidiaries, as well as P&E Interholding B.V., Almelo, Netherlands, and its subsidiaries ("PBF Group" or "PBF").

The Company's German location is in Brunnthal. SFC is represented in the United States by its subsidiary SFC Energy, Inc. in Rockville, Maryland, USA. PBF is headquartered in Almelo, Netherlands, and Cluj, Romania.

The corporate purpose of SFC Energy AG, which was officially amended at the Annual General Meeting held on May 9, 2012, is to develop, produce and market energy supply systems and their components on the basis of fuel cell and other technologies as well as to invest in the industrial installations this requires and conduct all 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.

PBF is a global enterprise that specializes in the development and production of custom designed solutions, such as switched mode network components, external transformer units, power cabinets and special coils.

Over the last few years, SFC has systematically expanded its business model to include a comprehensive range of off-grid energy solutions. The Company is increasingly focusing on providing whole-product solutions, with fuel cells continuing to constitute the core technology and core component.

The business of PBF has been fully recognized in the consolidated financial statements since the initial consolidation date of December 1, 2011.

SFC is benefiting from several important techno-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 market; 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 motor homes) 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 market. 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 consumer market, SFC offers series-produced products through established commercial channels (wholesalers, retailers and OEMs). In the industry market, it serves the market for off-grid, stationary power supply solutions for such applications as environmental sensors, security equipment and traffic technology. The market for defense and security includes a business in series products, but also development contracts to supply prototypes to military organizations.

PBF develops and manufactures reliable high-tech power supply systems. This technology-oriented company works closely with its customers to customize solutions such as switched mode network components, external transformer units, power cabinets and special coils. Its product designs range from relatively simple open frames to extremely complex, efficient power cabinets produced in small to medium-sized series volumes of just a few or tens of thousands of units per year.

PBF's products are used predominantly in the industry market, including for applications in medicine, research & science and semiconductors. It also serves the defense and security market. Most of its products are sold through distribution partners, but some are sold directly to customers.

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 compensation structures of the Management Board and Supervisory Board is contained in the Compensation Report.

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.

For internal steering purposes, the Management Board uses sales, the operating result before depreciation and amortization (EBITDA) and the operating result (EBIT).

In financial year 2012, 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 2012, sales increased 102.6 % to € 31,260k, largely because of the acquisition of PBF at the end of the previous year. The Group was able to consolidate its market position in its market segments, achieve considerable successes in the further expansion of its business and significantly improve its margins. With the acquisition of PBF, the Company has considerably strengthened its position in the market for industrial applications. In addition, the result for the year improved, up from minus € 6,218k to minus € 426k.

2. ECONOMIC DEVELOPMENTS AND INDUSTRY CLIMATE: EURO ZONE CRISIS CONTINUES TO WEIGH DOWN THE ECONOMY AND RECOVERY

The eighteen-month long global economic slowdown continued in the second half of 2012 due to the European debt crisis. According to information from the Ifo Institute[1], all key economic regions were affected. Under the impact of the crisis, players in both the public and private sector started to consolidate their finances, which had a serious adverse effect on the demand for consumer and capital goods.

Operating on the premise that there will be no further escalation in the euro crisis, the Ifo Institute predicts a period of economic weakness in all major advanced and emerging economies in the winter of 2012/13, followed by a slight acceleration in world economic expansion for the rest of 2013. Overall, the institute projects a drop of 0.2 % in gross domestic product for the euro area in 2013, with variations among the individual E.U. member states. Aggregate production is set to contract further in the crisis-afflicted countries (with the exception of Ireland). However, after a clearly weak phase at the turn of the year, more stable economies like Germany, Finland and Austria will leave the downturn behind them in 2013.

Germany – Growth slows in 2012 – Gradual recovery forecast for 2013 and 2014

According to Germany's Federal Ministry of Economics and Technology (BMWi)[2], the German economy lost steam in 2012. The BMWi attributes this to weak global economic development and the crisis of confidence in the euro zone, but believes the period of weakness is temporary and that growth will pick up again appreciably in the course of 2013 largely because of domestic demand.

According to calculations by Germany's Federal Statistical Office (Destatis)[3], Germany's gross domestic product (GDP) rose 0.7 % for the full year 2012, against much stronger growth in the previous two years because of the catch-up process following the worldwide economic crisis of 2009 (4.2 % in 2010 and 3.0 % in 2011). With this kind of growth, the German economy proved to be resistant in a difficult economic environment and capable of withstanding the European recession. However, even it cooled significantly in the second half of 2012. Foreign trade was very robust in 2012: Adjusted for inflation, Germany exported 4.1 % more goods and services in 2012 than during the previous year. Imports rose by 2.3 %. The balance of exports and imports – the trade surplus – contributed 1.1 percentage points to GDP growth in 2012, making it once again the main driving force behind the German economy, according to Destatis. The development of domestic demand was mixed: Consumption was up by 0.8 % for households and 1.0 % for the public sector, but for the first time since the crisis of 2009 capital formation did not contribute positively to GDP growth. Instead, capital formation decreased, in some cases significantly. In construction, it fell 1.1 % and in machinery and equipment by as much as 4.4 %. In the service branches, price-adjusted gross value added increased, in part considerably, from 2011. However, both industry excluding construction (– 0.8 %) and construction (– 1.7 %) were negative. Total price-adjusted gross value added of all economic sectors rose 0.7 %, just like GDP.

For the sixth consecutive year, employment reached a record level in 2012 (41.6 million).

Germany showed a balanced budget in 2012 for the first time since 2007. According to provisional calculations by the Federal Statistical Office, federal, state and local governments as well as social security funds recorded a net lending of € 2.2 billion at the end of the year. Compared with the previous year, the federal government considerably reduced its deficit again, while municipalities and especially the social security funds achieved surpluses, as they had in 2011.

1 ifo Economic Forecast 2012/2013, Ifo Institute, December 13, 2012
2 German Federal Ministry of Economics and Technology (BMWi), 2013 Annual Economic Report, January 16, 2013
3 German Federal Statistical Office Wiesbaden, Press release 17/2013; January 15, 2013

In January 2013, the Ifo Business Climate Index[4] for German industry and trade rose for the third time in a row. Assessments of the current business situation were somewhat more positive again after having deteriorated in the previous month. There was considerable improvement in future business perspectives. The German economy has made a promising start to the New Year.

Consumer[5]

Developments in the leisure vehicle industry varied across Europe. After experiencing growth of 2.5 % in the first half of 2012, the European market for RVs and pull-behind campers came under the influence of the debt crisis as the year progressed, with new sales of leisure vehicles ultimately falling to around 145,650 units, according to figures released by the European Caravan Federation (ECF)[6]. Europe-wide, there were 73,250 newly registered pull-behind campers, for a decrease of 9.5 %. By contrast, there were 72,400 newly registered RVs, for a drop of just 3.0 %. Germany, Austria and Switzerland were the only countries to report an increase in the total number of new registrations. In Norway there was growth in RVs, while in the U.K. registration numbers remained stable. The figures in all other countries declined. The ECF sees a great risk for the German leisure vehicle industry. Around 60 % of all RVs and pull-behind campers manufactured in Germany were exported to other European countries before the crisis. Now, the export figure is down to nearly 50 %. The association believes severe production cutbacks are inevitable if the market weakness in Europe persists.

According to the German Marine Industry Association (BVWW)[7], business in the recreational marine industry continued to deteriorate in 2012. Last year's earnings were particularly hard hit by declining sales of new and used boats and yachts. Business in other areas of the industry, including the ones important to SFC – equipment, accessories, service, maintenance, even boat rental and diving – was either flat with the previous year or showed slight growth. Overall, Germany's marine industry fared far better than the other European markets in a difficult climate shaped by the financial crisis. But even at that, German boat manufacturers suffered significant losses due to weak demand from the export markets. Boat production fell some 23 % in 2012. On the whole, the association anticipates growth of 3 % to 5 % across all segments of the recreational marine industry in 2013. The new regulation that eliminates the need for a license to drive boats with engines up to 15 horse power is expected to stimulate the boat market.

Accordingly, the marine industry is cautiously optimistic about the future. Only 64.8 % of the companies surveyed expect the economy in the coming years to equal or top last year.

Defense & Security

International defense and security organizations were also affected by the financial crisis in 2012. In addition, given the ongoing reforms and restructuring in several major European and international defense organizations, fewer new projects involving the commercial use of autonomous power generators based on fuel cell technology were started. And yet, interest in alternative power generation solutions that are portable, mobile and suitable for vehicle-based applications and enable new combat and defense strategies continued to rise in 2012 and already resulted in new orders. To better address asymmetrical/terrorist threats, defense forces are increasingly moving away from a monolithic formation to smaller units. Longer-lasting autonomy combined with low detectability for soldiers and vehicles is vital for longer missions.

4 Ifo Business Climate Index Germany; Ifo Business Survey January 2013
5 Data: CIVD Caravaning Industrie Verband e.V., Press release of January 14, 2013
6 Data: European Caravan Federation (ECF), Press release of January 14, 2013
7 Data: German Marine Industry Association (BVWW), Press release on the Boot 2013 International Boat Show, January 2013

Industry

There is still no official data about the number of electric and electronic devices that are used off-grid for industrial applications, because the markets are extremely diverse. Overall, there was a continuation of the trend toward devices that are used far from any power outlets, such as off-grid sensors and metering devices; surveillance, security and traffic control systems; and on-board equipment for government vehicles and service vans. At the same time, demand grew for integrated, user-friendly power sources that enable such equipment to run reliably under any weather conditions and be controlled remotely. Users are looking for autonomous power supplies for mobile and stationary applications outdoors and underground, as well as in cabinets, trailers and weatherproof boxes. Likewise, demand is growing for autonomous units to charge batteries used on board conventional vehicles with internal combustion engines. Environment regulations now prohibit vehicle users from idling the engine for on-board battery charging.

For assessing the economic development of the markets relevant to PBF (power electronics and switched mode network components), we draw on information provided about the sub-segment of the electronics industry referred to as "electronic components & systems" in the industry statistics of the German Electrical and Electronic Manufacturers' Association (ZVEI)[8].

ZVEI[9] reports that total orders in the electronics industry receded by 8 % in the period from January to November 2012, with the year-on-year decrease in domestic orders at 14 % and in foreign orders at 1 %.

Industry sales were down 2 % from 2011 over the same period, with domestic sales declining by 2.5 % and foreign sales by 2 %. ZVEI estimates that the decrease for the full year 2012 will also be at 2 %, on expected total sales for 2012 of € 175 billion. For 2013, it anticipates an increase in sales to € 177 billion.

Production declined by 2 % as well in the period from January to November 2012, and ZVEI believes that the decrease for all of 2012 will be the same. After survey responses by companies in the industry indicated that they had raised their production plans in December 2012 for the second time in a row, 85 % of those polled said they would be raising their output or keeping it at its current level for the next three months. According to its latest forecast, ZVEI expects production in the German electronics industry to increase by 1.5 % in 2013. The association sees solid growth potential for applications in the areas of climate protection, energy and resource efficiency, promotion of alternative energy, intelligent technology, solutions for demographic change as well as security and infrastructure.

Market experts within the ZVEI's Electronic Components division[10] were projecting in November 2012 that the electronic components and systems sub-segment would see sales decline a good 3 % to around € 16.8 billion for the full year 2012. For the current year, they expect growth of 0.5 % to € 16.9 billion.

Experts believe that the global market for electronic components experienced a nearly 2 % contraction on a U.S. dollar basis to USD 460 billion for all of 2012. For Europe, they peg the decline at 8 % using the dollar as the base currency, with sales of a good USD 59 billion. Asia-Pacific is likely the only region to have kept sales constant with the previous year.

The forecast for the global electronic components market in 2013 is growth of around 4 % to USD 480 billion. For Europe, ZVEI experts predict good 1 % growth and sales of around USD 60 billion, with the financial crisis still causing problems for the euro zone. Asia-Pacific is set to experience above-average growth again, with an increase of about 6 %, followed by the U.S. at 3 % and Japan at 2 %.

8 Zentralverband Elektrotechnik- und Elektronikindustrie e. V.
9 ZVEI-Konjunkturbarometer January 2013
10 ZVEI press release 131/2012, November 13, 2012

3. EARNINGS AND FINANCIAL POSITION

Earnings position

The SFC Group posted sales of € 31,260k in 2012, which is more than double the volume of sales reported in the same period a year ago (€ 15,426k). This figure includes € 12,981k in sales from Dutch company PBF, which was acquired at the end of previous year and initially consolidated as of December 1, 2011. Because of this acquisition, there is only limited comparability with the prior-year figures, in which PBF is included for only one month (sales of € 891k).

Nevertheless, sales for SFC went from € 14,535k to € 18,279k, for an increase of 25.8 % from the prior year.

Sales by segment

In 2012, the Group started to break down its segment reporting into the markets Industry, Defense & Security and Consumer. This change is making it easier to put the individual markets and customers at the center of management decisions.

The following table shows a comparison of segment sales for the 2012 and 2011 financial years:

SALES BY SEGMENT			in k€	in %
Segment	2012	2011	Change	Change
Industry	17,500	4,573	12,927	282.7
Defense & Security	8,922	4,408	4,514	102.4
Consumer	4,838	6,445	–1,607	–24.9
Total	**31,260**	**15,426**	**15,834**	**102.6**

Sales in the Industry segment rose from € 4,573k to € 17,500k. This was predominantly attributable to the € 12,650k in sales contributed by PBF (€ 891k). However, SFC also posted an increase in sales, which were up 31.7 % from € 3,682k to € 4,850k. As already touched on, it is important to note that last year marks the first time PBF was consolidated for a full year.

The number of EFOY units sold increased from 826 to 974. Another reason for the substantial sales growth was a shift in the unit sales mix towards higher-performing classes. Growth was particularly robust in the oil and gas sector and in traffic technology.

Sales in the Defense & Security segment were € 8,922k against € 4,408k, for an increase of 102.4 %. The delivery to the German Armed Forces in the fourth quarter of 2012 of 185 energy networks consisting of the portable JENNY fuel cell, Power Manager and various accessories at a volume of € 4,751k, was the chief reason for the increase. This more than compensated for the declining sales from joint development agreements (JDAs) attributable to contract expirations. JDA sales dropped from € 1,859k to € 501k. The number of EMILY, FC 100 fuel cells delivered increased from 82 to 111. This product accounted for € 1,649k in sales in the Defense & Security segment. PBF contributed € 331k to the segment's sales.

Sales in the Consumer market were down 24.9 % in 2012, dropping from € 6,445k to € 4,838k, with the number of fuel cells sold decreasing from 2,422 to 1,663. Generally weaker demand in the European markets was the chief reason for the lower sales.

Sales by region

The overall sales growth in financial year 2012 was the result of SFC's growth in Germany and first full-year consolidation of PBF.

SALES BY REGION			in k€	in %
	2012	2011	Change	Change
Europe (without Germany)	12,799	5,868	6,931	118.1
Germany	12,583	4,757	7,826	164.5
North America	3,316	3,468	–152	–4.4
Asia	2,316	591	1,725	291.9
Rest of the world	246	742	–496	–66.8
Total	**31,260**	**15,426**	**15,834**	**102.6**

In Europe (excluding Germany), a major market, PBF achieved sales of € 8,191k, while SFC had sales of € 4,608k. More than half of PBF's sales were generated in the Netherlands. The year-on-year change at SFC (previous year: € 5,441k) was predominantly due to the aforementioned decrease in fuel cell sales to the consumer market.

In Germany, the increase in revenue was primarily caused by the aforementioned order from the German Armed Forces. PBF generated sales of € 2,683k in Germany.

Revenues were nearly constant in North America.

PBF, in particular, made a mark in Asia, with sales of € 1,807k. SFC recorded follow-on projects involving industrial applications in Singapore.

Gross margin

Gross margin was up 137.7 % to € 12,763k (€ 5,370k) in financial year 2012, mostly because of the abovementioned doubling of sales, shifts in the share of sales between the segments and cost savings with the EFOY COMFORT fuel cell. Overall, the Group achieved a gross margin of 40.8 % (34.8 %).

SFC's gross margin was € 8,538k, or 46.7 %. With last year's margin at 35.4 %, that marks a significant improvement of more than 10 percentage points. On the sales side, this was attributable to the revenue growth in the Industry segment and an improved margin in the Defense & Security segment resulting from the higher product sales. On the production side, technical improvements led to substantial cost savings compared to the previous year in the manufacture of the EFOY COMFORT fuel cell.

PBF achieved a gross margin of € 4,225k, or 32.5 %. PBF achieves lower gross margins than SFC because of its distributor model.

Sales costs

Despite a doubling of sales, sales costs rose just 19.7 % to € 5,862k in 2012 (€ 4,896k).

Research and development costs

In 2012 research and development costs increased 67.8 %, rising to € 4,257k from € 2,537k the previous year. Development costs in the amount of € 380k (€ 326k) and internally generated patents in the amount of € 3k (€ 9k) were capitalized in the reporting period. There were no impairment charges on capitalized development costs in 2012. Additionally, 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 2012 totaled € 6,046k, which represents an increase of 16.7 % from the previous year's € 5,183k.

General administration costs

General administration costs increased by 32.8 % to € 3,555k in 2012 (€ 2,677k) because of the growth in the consolidated group.

Other operating income

Other operating income increased by € 552k, from € 197k the previous year to € 749k in 2012. A total of € 536k of this increase is attributable to the reversal of impairment losses previously recognized on capitalized development costs. The reversal was attributable to new insight gained from the large-scale order for portable fuel cells, mentioned previously, that was placed by the German Bundeswehr. The reversal was made in the first quarter of 2012. This line item also captures the € 124k in income from the reversal of a provision for contract termination as well as foreign exchange transaction gains.

Other operating expenses

Other operating expenses decreased considerably in 2012 to € 362k. The previous year's figure included exceptional items of € 1,478k: specifically, anticipated losses from rent expenses (€ 597k), costs associated with the acquisition of PBF (€ 511k), expenses from contract terminations (€ 323k) and other expenses (€ 47k).

Restructuring expenses

There were no restructuring expenses in 2012. A total of € 474k in restructuring expenses was reported the previous year in connection with layoffs.

Operating result (EBIT)

The Group's EBIT improved considerably, climbing to minus € 524k from minus € 6,615k in financial year 2011. There were some one-off items in financial year 2012. Adjusted for these effects, EBIT was as follows:

	in k€	
	2012	shown in
Operating result as shown in income statement	**–524**	
Reversal of impairment charges on capitalized development costs	–536	Other operating income
Income from the reversal of provisions for contract terminations	–124	Other operating income
Costs attributable to potential acquisitions	133	Other operating expenses
Expenses from contract terminations	90	Other operating expenses
EBIT underlying	**–961**	

The underlying EBIT margin improved to minus 3.1 % (minus 26.5 %).

Interest and similar income

Interest and similar income dropped by half in 2012, from € 427k to € 214k, due to the lower interest rates.

Result for the year

The result for 2012 came to minus € 426k, following minus € 6,218k the previous year. This includes the above-mentioned exceptional items in the total amount of € 437k for financial year 2012.

Earnings per share

Earnings per share under IFRS (undiluted and diluted) improved from minus € 0.87 to minus € 0.06.

Non-financial performance indicators

The sustainable development of the Group is a high priority for the Management Board. In terms of non-financial metrics and performance indicators, the board draws primarily on the following, regularly collected employee-based measures and sustainability indicators in its management of the business:

- Number of employees and professional development
- Data on occupational safety and the number of workplace accidents
- Quality indicators, assessments and failure rates

Sustainability is a key factor in the Group's long-term business success. SFC strives to maximize its environmental efficiency in everything it does. This approach is at the heart of product development as well as production processes. SFC also acknowledges its social responsibility towards employees.

To achieve production that is as environmentally sound as possible, the Group works continuously to optimize its use of resources. The measures it takes in this regard often reduce costs, as well.

Superior quality is the key to being a top green business. In addition to ensuring long product life, it guarantees the lowest possible failure rates in the manufacturing process. SFC is ISO 9001 certified and hopes to have its environmental management system certified to ISO 14001 in 2013.

With respect to sustainable corporate governance, SFC offers its employees a motivating, socially equitable work environment. Our goal is to have satisfied employees who want to work for the company for a long time. Professional development is tailored employees' individual circumstances at SFC. In addition to providing field-specific training, we offer continuing education opportunities in areas that are relevant to any discipline, like project management, team building, software classes and foreign language courses. SFC gives its employees an appropriate stake in the Company's success in the form of a variable compensation component.

Financial position

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

After reporting a net cash outflow of € 11,131k in 2011, we had a net inflow of € 184k in 2012.

At the end of December 2012, the Company had available cash and cash equivalents of € 22,626k (end of December 2011: € 22,443k). Furthermore, € 285k (€285k) in time deposits was pledged as a lease security deposit.

There were current liabilities to banks in the amount of € 372k as of the reporting date (previous year: € 759k in total liabilities to banks, € 200k of which was non-current).

Cash flow from ordinary operations

There was a net cash outflow of € 4,317k from ordinary operations in the previous year versus a net cash inflow of € 1,258k in the year under review.

The significantly improved result was one reason for this. Another was that there was only a minor increase in net working capital (inventories plus trade accounts receivable minus trade accounts payable) despite the purchase of platinum in the fourth quarter of 2012. The increase was € 321k in financial year 2012 compared with € 1,041k the year before.

Cash flow from investment activity

Net cash used for investment activity totaled € 657k in the period under review, versus € 6,412k the previous year. The increase in the prior year was due primarily to payments relating to the acquisition of PBF in the amount of € 6,000k. In addition, investments in intangible assets and property, plant and equipment declined despite the changed size of the Company, from € 1,131k the previous year to € 878k in financial year 2012.

Cash flow from financial activity

Net cash used for financial activity increased to € 416k in 2012 (€ 402k), almost exclusively because of the payment of € 388k towards financial liabilities of PBF.

Assets & liabilities

The Group's balance sheet remains healthy, with an equity ratio of 76.4 % (December 31, 2011: 74.3 %).

Total assets were down by an insignificant 3.9 % at the end of the period, decreasing from € 49,538k as of December 31, 2011 to € 47,617k as of December 31, 2012.

Inventories rose from € 4,907k to € 5,815k due to the increase in the number of EFOY fuel cells in stock. At the end of 2012, the value of the platinum and ruthenium reported under inventories was € 1,215k (€ 1,148k).

Despite the sales growth, there was a 17.4 % decrease in trade accounts receivable, from € 4,474k to € 3,696k due to payments received at the end of the year.

The most significant intangible assets are the goodwill of the PBF Group in the amount of € 6,140k (€ 6,140k), other intangible assets relating to the acquisition of the PBF Group in the amount of € 2,227k (€ 2,620k) and capitalized development costs in the amount of € 2,087k (€ 1,715k). The decrease in other intangible assets relating to the PBF acquisition reflects the scheduled depreciation of the customer relationships, technology and order book acquired. With respect to the capitalized development costs, the sum of € 380k was capitalized, € 544k amortized, and € 536k added back in 2012, the last item being based on an impairment reversal attributable to new findings.

Non-current assets decreased from € 15,607k to € 14,020k. The share of non-current assets in total assets fell slightly, from 31.5 % to 29.4 %. It should be noted that the building occupied by SFC is under long-term lease, but is not shown under non-current assets pursuant to IFRS rules.

Current liabilities rose from € 7,487k to € 7,662k. This is partly due to an increase in VAT liabilities from € 2k to € 619k. Another factor affecting this figure was the reclassification of € 669k of the earn-out component from the PBF acquisition to a current liability as of December 31, 2012. At the previous year's reporting data, the full amount of the earn-out component (€ 1,288k) was captured in non-current liabilities. At December 31, 2012, the portion in non-current liabilities was € 645k. This portion of the earn-out component is expected to be settled in 2014.

Altogether, liabilities made up 23.6 % of total liabilities and shareholders' equity (December 31, 2011: 25.7 %).

Largely because of the net loss for the period, shareholders' equity decreased to € 36,394k as of December 31, 2012, compared with € 36,788k at December 31, 2011.

Research and development

The Group continues to make considerable investments in research and development. A total of € 6,046k was spent on R&D in financial year 2012 (previous year: € 5,183k), including costs related to joint development projects. At 60 (23 at SFC and 37 at PBF), the number of employees working on developing direct methanol fuel cell technology and power supplies and incorporating them into the Group's products accounts for almost one-third of personnel. SFC pursues an active patent strategy to expand the barriers to entry in its markets and to safeguard its own competitiveness and marketing options. SFC currently holds a portfolio of 15 granted patents.

The focus of SFC's research and development activities remained as follows in financial year 2012:

- Reduce unit costs through technological innovations and an improved operating strategy, 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, thereby increasing margins.

- Significantly enhance product functionality; develop new products in order to tap fresh areas of application in addition to the markets already addressed.

- Significantly improve the reliability and robustness of devices developed for the industry market, including their ability to operate under harsh environmental conditions, in order to make products even more attractive and build on SFC's technological edge.

- The first pilot projects with a significant increase in output power were successfully tested and presented to the first customers in the industry and defense markets.

- Miniaturize the products and simultaneously increase capacity in order to successfully tap markets, particularly in the defense industry, with demanding specifications for portable energy sources.

- Develop 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 & security and industry markets.

The areas of emphasis of PBF's research and development activities were as follows:

- The development department worked on nine projects, two of which are research studies, in the area of network component solutions in the 220W to 400W range.

- PBF has also begun research in the area of buck-boost PFC converters that should lead to greater efficiency over a large input voltage range.

The following joint projects were launched by PBF and SFC:

- Development of an energy solution that provides reliable power to customers with industrial applications that need to run in the harshest of conditions.

- Design of a new, efficient, lower-cost Power Manager for broader military application.

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). The volume of subsidies in 2012 (including the administration cost portion) was € 1,339k (€ 1,382k).

Capital expenditures

In financial year 2012, € 380k (€ 326k) was capitalized for the further development of fuel cell systems and PBF products. At SFC, other major purchases included CRM software and injection molding equipment for achieving further cost savings. Capital expenditures at PBF related mainly to the improvement of its ERP software and the purchase of machines for the site in Cluj, Romania.

Total capital expenditures in 2012 came to € 878k (€ 1,131k). They were funded using our own resources.

New orders and order backlog

New orders for SFC in financial year 2012 totaled € 18,479k, for a more than satisfactory increase of 46.4 % on the prior year (€ 12,621k). The volume of new orders in the Defense & Security segment was € 8,277k, while the Industry segment recorded new orders of € 5,225k and Consumer € 4,977.

This put the order backlog at € 1,420k as of the end of 2012, an increase of 16.4 % from the previous year's total of €1,220k.

PBF had an order backlog of € 8,144k at the end of 2012 (€ 5,782k), for an increase of 40.9 % compared to the volume at December 31, 2011. PBF's new orders in 2012 came to € 15,343k.

For the Group, the order backlog was € 9,564k at year end (€ 7,002k).

Employees at year end

As of December 31, 2012, the Group employed the following permanent personnel:

EMPLOYEES

	12/31/2012	12/31/2011	Change
Board members	2	2	0
Research and development	60	60	0
Production, logistics, quality management	74	72	+2
Sales and marketing	34	34	0
Administration	19	22	–3
Permanent employees	**189**	**190**	**–1**

The Group employed 11 (12) trainees, graduates and student trainees as of December 31, 2012.

SFC had 88 permanent employees as of December 31, 2012, which is fewer than the previous year (94). The decrease is attributable to the restructuring program that was carried out in 2011, under which five employees first left the Company in 2012.

The number of employees at PBF increased from 96 to 101. The increase occurred at the site in Cluj, Romania, mostly in production.

All in all, the number of employees in the Group was nearly unchanged from the previous year's reporting date.

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 turns negative, the overall picture could undergo adverse changes over the long term.

4. COMPENSATION REPORT

The compensation report summarizes the principles used 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, 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 equal monthly installments.

In addition, the members of the Management Board receive variable compensation if pre-defined performance targets are met (performance-based bonus). In financial year 2012, the targets were for the Company to reach the amounts budgeted for sales, gross margin and EBITDA underlying, and each target was tied to 33.3 % of the bonus. Under a long-term incentive program (LTIP) of the Group, the members of the Management Board may additionally receive bonus payments for the period of the term of their service agreements, under certain circumstances and if certain performance targets are met. Dr Peter Podesser participates in the LTIP since 2009, Gerhard Inninger participates in the programme as of 2012. As equivalent compensation for financial year 2011 Gerhard Inninger had received a one-off payment of € 18,750.00, which was paid in January 2012. The LTIP is based on a so called phantom stock model and is divided into different performance periods of three years each: financial years 2009 to 2011, 2010 to 2012 and 2011 to 2013 (Dr Peter Podesser) or financial years 2012 to 2014 (Dr Peter Podesser and Gerhard Inninger). The cash 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.

In addition, 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, which provides for a retention of 10 % of the damage or one and a half times the fixed annual compensation.

Compensation of the Supervisory Board

The members of the Supervisory Board receive a fixed-only compensation in the amount of € 25,000.00 per member, with the Chairman of the Supervisory Board and his deputy respectively receiving twice and one and a half times this amount.

Moreover, 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.

Information that is to be included in the Notes to the financial statements in accordance with § 314(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 € 7,502,887.00 and is divided into 7,502,887 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 is not aware of any restrictions (including restrictions agreed between shareholders) concerning the exercise of voting rights or the disposition of shares.

The parties that directly and indirectly own capital exceeding 10 % of the voting rights are listed in the table below[11]:

	in %
Holland Private Equity B. V. (through HPE PRO Institutional Fund B. V.)	25.70
Havensight Capital, Ltd.	10.22
Conduit Ventures Limited (through Conduit Ventures General Partner II Limited and Conduit Ventures IIA LP)	10.15

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.

11 These are the holdings that had been reported to SFC pursuant to the German Securities Trading Act (WpHG) by the time this Group Management Report was prepared.

The Management Board, with the approval of the Supervisory Board, is authorized to increase the share capital of the Company by as much as € 3,218,121.00 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. However, under certain circumstances the preemptive subscription right of shareholders may be excluded with the Supervisory Board's consent. Pursuant to § 5(5) of the Articles of Association, the terms of the capital increase are specified by the Management Board, with approval by the Supervisory Board.

The Company has a conditional capital 2011 in the amount of € 3,576,443.00 for the issuance of no-par-value bearer shares to the holders or creditors of convertible bonds and/or warrant-linked bonds, participatory rights and/or participatory bonds (or combinations of these instruments). No such instruments had been issued as of the reporting date. As stated in § 5(4) of the Articles of Association, the Management Board will determine the remaining details of the execution of the conditional capital increase, with approval by the Supervisory Board.

The general meeting held on May 6, 2010 authorized the Management Board to acquire treasury shares on or before May 5, 2015 in an amount not to exceed ten percent of the Company's capital stock on May 6, 2010. No use had been made of this authorization as of 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. 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 primarily performed or monitored by the parent company, which ensures that accounting standards are applied uniformly throughout the Group.

Bookkeeping for the Dutch subsidiary P&E and its affiliates is performed by the bookkeeping department in the Netherlands. Uniform application of IFRS accounting standards throughout the Group is ensured by having appropriately qualified personnel on site.

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 2012. The effectiveness of the internal control system is monitored by 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 certainty that material misstatements in the financial statements will be avoided or discovered, regardless of how it is designed.

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, measurement, 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 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 segment (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. PBF has been integrated into this risk management system.

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.

As part of their operating activities, the Company and Group are exposed to various risks arising from financial instruments. This includes market risks, especially interest rate and foreign exchange risks, and liquidity risks. The financial instruments encompass assets and liabilities as well as contractual claims and obligations relating to exchanges and transfers of assets.

Primary financial instruments on the assets side of the balance sheet include trade accounts receivable, other financial assets and receivables, and cash and cash equivalents. If a default is likely, the credit risk associated with these instruments is addressed with impairments. The financial instruments carried on the liabilities side of the balance sheet are liabilities to banks, trade accounts payable and other liabilities.

We did not use any derivative financial instruments during the year to hedge currency or commodities risks.

7. REPORT ON RISKS AND REWARDS

Risks of future development

The material risks listed below result from the Group's business activity.

Market risks

Macroeconomic developments

The financial and debt crisis will continue to affect the world economic climate, but experts do expect a modest upswing in the global economy in 2013.

Consumer

The German caravanning industry association CIVD and European Caravan Federation ECF warn of declining demand and corresponding production cuts as well as ongoing efforts on the part of consumers throughout Europe to scale back spending. This presents a significant risk to sales of EFOY fuel cells in the consumer market.

Despite increases in RV sales and registration numbers over the past few years, the traditional market of RV buyers, generally wealthy retirees, is expected to shrink. Younger customers tend to prefer other, cheaper vehicle and travel options. On top of that, when economic times are difficult, consumers cut back on their leisure spending before anything else, which likewise contributes to the extreme cyclicality of this market.

The marine market, in spite of growth over the past few years, is also cyclical in this way, which affects the sale of accessories, the segment of this market which is important to SFC. Even though quality accessories improve comfort, convenience and safety, in addition to adding value, this is the first area where spending is cut in difficult economic situations.

Defense & Security

As discussed previously in this report, current budget cuts and structural changes are having an impact on planning and capital spending decisions at the major defense organizations in Europe and North America. For SFC Energy, this affects the development programs with defense partners and commercial orders. Although this risk should not be underestimated, the Company still expects this market to continue to perform well since SFC power generation solutions are so appealing in defense and security applications.

Industry

SFC: It is anticipated that the developing market of off-grid and mobile industrial systems will continue to grow in view of its increasing strategic importance. However, the degree to which many segments of the industrial market depend on the overall economy, government budgets and economic stimulus plans plays an important role here, as well.

PBF: Power electronic components and systems are needed anywhere power is used. As a rule, the electronics industry develops in sync with the overall economy. The provision, storage and distribution of power play a very important role in the emerging energy markets and markets of the future, such that there is constant and widespread demand for these parts. In this respect, we continue to rate the market risks in this segment as relatively low at this time.

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 2012 reporting period, we continued to generate additional cost savings without sacrificing quality. One example of this is stacks, a core component of fuel cell systems. 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 (currently 15 patents or decisions to grant received), which put us in a strong position relative to our competitors. However, is it entirely possible that we may incur legal expenses to defend these patents. Due to SFC's orientation as a provider of power supply solutions, there is a risk that integration solutions are covered by intellectual property rights that have already been granted. 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. During the second quarter of 2011, SFC entered into an agreement on the acquisition of a non-exclusive license for SFC Energy Inc. to a comprehensive portfolio of American fuel cell patents belonging to the University of Southern California and California Institute of Technology. The agreement is intended to provide extensive certainty under patent laws for the sale of SFC's products to end consumers in the United States. This agreement is based on the sale of minimum numbers of fuel cell units. We may be asked to pay damages for possible patent infringement in respect of a piece of equipment that is currently out of service. Based on the current state of negotiations, SFC presently believes that there is little risk that we will actually pay any damages, and that the amount would be insignificant even if we did.

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 market – have at least comparable access to the market, which primarily results in the risk of losing our leadership position and not getting orders. For example, ongoing monitoring of the competition in this connection brought to our attention the first deliveries by competitors in the defense business in the United States. And the first competing products are now appearing on the market in our consumer and remote power supply target markets. At the same time, 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.

Product risks

We strive to counter potential product risks like warranty claims by offering high-quality products and services. But ultimately we are unable to guarantee that our products will be free of unknown issues or defects that may negatively impact business, cost us money or generate bad publicity. This includes problems caused by suppliers who fail to meet our quality specifications. Hence, it is impossible to rule out the seeking of damages by our customers or business partners, especially since we also play a direct role in bringing our products to the market and distributing them. Additionally, there is a risk with large-scale projects that we will be unable to deliver at the corresponding level of quality within the allotted amount of time. In one case, one of PBF's customers has asserted claims for which we formed provisions as part of updating the purchase price allocation of the PBF Group.

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. Arrangements have been made with suitable second suppliers for some components. Supply chain 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. There is also the risk of the loss of a supplier.

Commodity price risks

In the middle of the fourth quarter of 2012, SFC responded to the volatility in platinum prices and secured its platinum needs for approximately 1.5 years (an additional 600 ounces). As in the previous year, we purchased the platinum from our supplier at the spot rate. The platinum is administered by the supplier in a separate account and used up as fuel cell components are delivered. Along with the platinum, we also purchased the corresponding quantity of ruthenium (210 ounces), which is used in the same product, but constitutes only about 2 % of the platinum's cost. Overall, € 742k was invested in these precious metals, which will be reported on the balance sheet as inventory until they are used up in SFC's products. Both precious metals are tradable at spot rates. A write-down of the precious metals would be in order only if the product manufactured from them could not be sold on the market at a price that covered its costs. The value of the platinum and ruthenium was € 1,215k on the balance sheet date.

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

Foreign exchange risks

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 offset by expenses and payments in U.S. dollars that are lower than these revenues. No longer-dated currency forwards were entered into in financial year 2012. There were no open currency forwards as of the reporting date. In this respect, foreign exchange risk exists for the unhedged portion of sales.

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

Financial and liquidity risks

SFC's strategic orientation requires continued capital expenditures, which must be financed to ensure future business success, particularly in the areas of product development and tapping additional market segments and new regions. The funds received by the Group from the public offering in May 2007 were raised for these capital expenditures. Cash is being deposited with various banks in low-risk investments (such as call 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.

Thanks to our customer structure (high percentage of military customers, industrial customers and wholesalers, low percentage of private end customers), there were no significant payment defaults in 2012 not addressed through impairment. As of the reporting date, individual allowances totaling € 67k had been recognized at SFC for at-risk receivables. At PBF, there were individual allowances of € 37k. There is a certain risk from the fact that our ten largest customers accounted for 56 % of sales in 2012.

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 expense of SFC is materially influenced by short-term interest rates. Since interest rates are low at present, this risk is very limited.

Personnel risks

SFC remains heavily dependent on committed, highly qualified and to a certain extent specialized employees. Given our growth plans, there is a risk that an inability to recruit key personnel could become a bottleneck for the Company'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 remained an attractive employer in 2012 and was able to recruit new employees with good qualifications. The access to the Romanian labor market for highly skilled technicians should compensate for any bottlenecks at other locations.

IT risks

We have continued to expand and improve important IT features like backup and archiving functions, restoring availability after outages, redundancy and reliability. Monitoring of the high-availability servers has also been adapted to growing needs. SFC ensures the availability and sustainability of its IT infrastructure by updating antivirus and other software and the server operating system on the file servers.

Regulatory risks

The business in which SFC 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, authorities in Germany and Austria have objected to product labeling and distribution channels. 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. To avoid negative effects on the sale of products, SFC started offering additional product and safety training to dealers in Germany during the third quarter of 2011 to ensure proper qualification of their personnel. This problem has been resolved in Austria by a corresponding legislative amendment.

Other risks

In August 2011, a former distributor in Canada filed suit against SFC for an alleged breach of a non-disclosure agreement. An amicable settlement has been reached, and the complaint was withdrawn in the second quarter of 2012.

Conclusion

Based on the information known to us today, we believe that there are no risks that could threaten the continued existence of the Group or its significant Group companies.

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 expanding our series business in the defense industry) and to use innovative technologies to reduce our costs. SFC has the opportunity to build on the current lead it enjoys thanks to its mature technology and marketing power and to be a global trendsetter in off-grid energy supply in the low and medium-power range. Additionally, new growth momentum as well as synergy and efficiency effects are expected from further acquisitions.

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

8. DECLARATION ON CORPORATE GOVERNANCE

The Management Board will issue the Declaration on Corporate Governance pursuant to § 289a of the German Commercial Code on March 26, 2013. This declaration will be available on the Internet at www.sfc.com/en/investors/corporate-governance#header.

9. FORECAST REPORT

SFC anticipates revenue growth of around 10 % and an associated further improvement of its earnings figures for the full year 2013. Due to the difficult market climate in the consumer market, the Management Board presumes total sales in this segment on previous year's level. Significant growth is expected in the industrial market and is to be achieved through regional business expansion, strategic partnerships and a greater focus on complete solutions. There are no large-scale projects scheduled for the defense & security market, as there were in 2012. Accordingly, this segment's sales are expected to drop by 15 % to 20 %. In this environment, further acquisition steps are possible in 2013. Current plans for the SFC Group anticipate achievement of break-even on an EBIT underlying basis during the fourth quarter of 2013 as a result of the revenue growth.

We aim for further revenue growth of 10 % to 15 % and an associated further improvement of the earnings figures for 2014, with the individual segments posting growth in the range mentioned above.

10. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date.

Brunnthal, March 22, 2013

The Management Board

Dr Peter Podesser
CEO

Gerhard Inninger
CFO

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

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2012

			in €
	Notes	2012	2011
Sales	(1)	31,259,726	15,425,974
Production costs of work performed to generate sales	(2)	−18,497,113	−10,056,012
Gross margin		**12,762,613**	**5,369,962**
Sales costs	(3)	−5,861,523	−4,895,763
Research and development costs	(4)	−4,257,185	−2,537,471
General administration costs	(5)	−3,554,938	−2,676,857
Other operating income	(6)	748,742	196,767
Other operating expenses	(7)	−362,155	−1,597,538
Restructuring expenses	(8)	0	−473,970
Operating loss		**−524,446**	**−6,614,870**
Interest and similar income	(9)	213,804	427,360
Interest and similar expenses	(9)	−134,277	−37,380
Loss from ordinary operations		**−444,919**	**−6,224,890**
Income taxes	(10)	19,330	7,143
Consolidated net loss		**−425,589**	**−6,217,747**
NET LOSS PER SHARE	(34)		
undiluted		−0,06	−0,87
diluted		−0,06	−0,87

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2012

			in €
	Notes	2012	2011
Consolidated net loss		**−425,589**	**−6,217,747**
Result from currency translations		31,104	−64,563
Total results recognized directly in equity	(28)	**31,104**	**−64,563**
Total comprehensive income		**−394,485**	**−6,282,310**

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.

SFC ENERGY AG, BRUNNTHAL CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2012

in €

	Notes	12/31/2012	12/31/2011
Current Assets		**33,597,825**	**33,930,987**
Inventories	(14)	5,814,778	4,906,928
Trade accounts receivable	(15)	3,696,497	4,474,260
Receivables from Percentage-of-Completion	(16)	0	541,137
Income tax receivables	(17)	57,805	112,559
Other short-term assets and receivables[1]	(18)	1,118,230	1,167,962
Cash and cash equivalents	(19)	22,625,515	22,443,141
Cash and cash equivalents with limitation on disposal	(20)	285,000	285,000
Non-current assets		**14,019,617**	**15,606,741**
Intangible assets[1]	(21)	11,000,118	11,034,655
Property, plant and equipment	(22)	2,400,291	2,746,578
Other long-term assets and receivables	(18)	0	54,286
Deferred tax assets[1]	(10)	619,208	1,771,222
Assets		**47,617,442**	**49,537,728**

1 The prior-year figures for these items have been restated due to adjustments made within the measurement period to the acquisition-date fair values of the acquired assets and assumed liabilities of PBF. See notes on the purchase price allocation of the PBF Group.

SFC ENERGY AG, BRUNNTHAL CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2012

in €

	Notes	12/31/2012	12/31/2011
Current liabilities		**7,661,752**	**7,487,407**
Provisions for taxes	(23)	52,383	97,019
Other provisions[1]	(23)	946,934	1,480,981
Liabilities to banks	(24)	371,656	559,390
Liabilities from prepayments	(25)	14,088	202,136
Trade accounts payable	(26)	3,033,123	3,171,240
Liabilities from percentage-of-completion	(16)	68,009	43,792
Other short-term liabilities	(27)	3,175,559	1,932,849
Non-current liabilities		**3,561,896**	**5,262,042**
Other long-term provisions	(23)	1,386,527	1,413,160
Liabilities to banks	(24)	0	200,000
Other long-term liabilities	(27)	1,041,206	1,457,617
Deferred tax liabilities[1]	(10)	1,134,163	2,191,265
Equity		**36,393,794**	**36,788,279**
Subscribed capital	(28)	7,502,887	7,502,887
Capital surplus	(28)	67,878,818	67,878,818
Other changes in equity not affecting profit or loss	(28)	–37,087	–68,191
Accumulated loss brought forward from previous year	(28)	–38,525,235	–32,307,488
Consolidated net loss	(28)	–425,589	–6,217,747
Liabilities and shareholders' equity		**47,617,442**	**49,537,728**

1 The prior-year figures for these items have been restated due to adjustments made within the measurement period to the acquisition-date fair values of the acquired assets and assumed liabilities of PBF. See notes on the purchase price allocation of the PBF Group.

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2012

in €

		Notes	2012	2011
	Cash flow from ordinary operations			
	Result before taxes		**–444,919**	**–6,224,890**
–	Net interest income	(9)	–79,527	–389,980
+	Depreciation/amortization of intangible assets and property, plant and equipment	(12), (21), (22)	1,254,507	1,971,230
+	Expenses from Long Term Incentive Plan	(32)	226,524	53,949
+	Changes in allowances	(14), (15)	35,158	270,879
+	Losses from disposal of property, plant and equipment	(21), (22)	504	48
+/–	Other non-cash expenses and income		188,243	–73,119
	Changes to operating result before working capital		**1,180,490**	**–4,391,883**
–/+	Changes to short and long-term provisions	(23)	–640,662	874,279
+/–	Changes to trade accounts receivable	(15)	840,570	–283,651
–	Changes to inventories	(14)	–1,023,587	–1,047,272
+	Changes to other receivables and assets	(16), (17), (18)	637,241	343,157
–/+	Changes to trade accounts payable	(26)	–137,490	290,377
+/–	Changes to other liabilities	(25), (27)	409,271	–69,504
	Cash flow from ordinary operations before taxes		**1,265,833**	**–4,284,497**
–	Income tax payments	(35)	–8,140	–32,712
	Cash flow from ordinary operations		**1,257,693**	**–4,317,209**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2012

in €

		Notes	2012	2011
	Cash flow from investment activity			
–	Investments in intangible assets from development projects	(21)	–380,317	–326,468
–	Investments in other intangible assets	(21)	–180,215	–356,338
–	Investments in property, plant and equipment	(22)	–317,746	–447,841
–	Cash outflows for the acquisition of subsidiaries, less acquired cash	(35)	0	–5,999,750
+	Bank balances released	(20)	0	285,000
+	Interest and similar income	(9)	221,250	429,059
+	Proceeds from disposal of property, plant and equipment	(20)	30	4,152
	Cash flow from investment activity		**–656,998**	**–6,412,186**
	Cash flow from financial activity			
–	Cash outflows for the issuance of shares	(28)	0	–50,820
–	Repayment of financial debt	(24)	–387,734	–349,854
–	Interest paid and other expenses	(9)	–28,487	–1,307
	Cash flow from financial activity		**–416,221**	**–401,981**
	Net change in cash and cash equivalents		**184,474**	**–11,131,376**
	Currency effects on cash and cash equivalents		–2,100	14,346
	Net change in cash and cash equivalents			
	Cash and cash equivalents at beginning of period	(19)	22,443,141	33,560,171
	Cash and cash equivalents at end of period	(19)	22,625,515	22,443,141
	Net change in cash and cash equivalents		**184,474**	**–11,131,376**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2012

in €

	Notes	Subscribed capital	Capital surplus	Other changes in equity not effecting profit or loss	Net accumulated loss	Total
Balance 01/01/2011		**7,152,887**	**66,879,638**	**–3,628**	**–32,307,488**	**41,721,409**
Total comprehensive income						
Consolidated net loss					–6,217,747	–6,217,747
Result from currency translation recognized in equity	(28)			–64,563		–64,563
Capital increase						
Issuance of shares for the acquisition of PBF	(28)	350,000	1,050,000			1,400,000
Less costs of the capital increase	(28)		–50,820			–50,820
Balance 12/31/2011		**7,502,887**	**67,878,818**	**–68,191**	**–38,525,235**	**36,788,279**
Total comprehensive income						
Consolidated net loss					–425,589	–425,589
Result from currency translation recognized in equity	(28)			31,104		31,104
Balance 12/31/2012		**7,502,887**	**67,878,818**	**–37,087**	**–38,950,824**	**36,393,794**

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED SEGMENT REPORTING
FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2012

in €

	Defense & Security		Industry		Consumer		Consolidated financial statements	
	2012	2011	2012	2011	2012	2011	2012	2011
Sales	8,922,094	4,407,461	17,499,451	4,573,212	4,838,181	6,445,301	31,259,726	15,425,974
Production costs of work performed to generate sales	–4,525,846	–2,518,702	–10,920,746	–2,835,438	–3,050,521	–4,701,872	–18,497,113	–10,056,012
Gross margin	**4,396,248**	**1,888,759**	**6,578,705**	**1,737,774**	**1,787,660**	**1,743,429**	**12,762,613**	**5,369,962**
Sales costs	–1,448,610	–1,531,909	–2,902,338	–1,565,557	–1,510,575	–1,798,297	–5,861,523	–4,895,763
Research and development costs	–1,053,593	–1,161,360	–2,798,866	–817,333	–404,726	–558,778	–4,257,185	–2,537,471
General administration costs	–1,045,455	–889,998	–1,850,263	–1,034,879	–659,220	–751,980	–3,554,938	–2,676,857
Others	469,242	–298,651	–41,865	–1,037,438	–40,790	–538,653	386,587	–1,874,742
Operating loss (EBIT)	**1,317,832**	**–1,993,159**	**–1,014,627**	**–2,717,433**	**–827,651**	**–1,904,279**	**–524,446**	**–6,614,870**
Adjustments EBIT	–489,340	937,862	8,451	1,054,698	44,213	537,316	–436,677	2,529,876
EBIT underlying	**828,492**	**–1,055,297**	**–1,006,176**	**–1,662,735**	**–783,438**	**–1,366,963**	**–961,123**	**–4,084,994**
Depreciation/amortization	–17,606	–1,084,924	–889,156	–335,431	–347,745	–550,875	–1,254,507	–1,971,230
EBITDA	**1,335,438**	**–908,235**	**–125,471**	**–2,382,002**	**–479,906**	**–1,353,404**	**730,061**	**–4,643,640**
Adjustments EBITDA	46,218	360,219	8,456	1,054,694	44,213	537,325	98,887	1,952,237
EBITDA underlying	**1,381,656**	**–548,016**	**–117,015**	**–1,327,309**	**–435,693**	**–816,078**	**828,948**	**–2,691,403**
Financial result							79,527	389,980
Result from ordinary operations							**–444,919**	**–6,224,890**
Income taxes							19,330	7,143
Result after taxes							**–425,589**	**–6,217,747**

Please refer to Note (36) "Disclosures on consolidated segment reporting".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2012

1. GENERAL ACCOUNTING POLICIES AND SCOPE OF CONSOLIDATION

SFC Energy AG (the "Company" or "SFC") is a stock corporation domiciled in Germany. The Company's headquarters is located at Eugen-Sänger-Ring 7, 85649 Brunnthal. The Company is registered in the Commercial Register of the Local Court of Munich under number HRB 144296. The principal activities of the Company and its subsidiaries (the Group) are the development, production and distribution of power generation systems and their components based on fuel cell and other technologies, as well as investment in the equipment and facilities required for these activities and transaction of all other related business. As a supplier of off-grid and grid-based power supply solutions, the Group serves the core markets "Industry", "Defense & Security" and "Consumer", in particular.

Accounting principles

The consolidated financial statements for 2012 were prepared in accordance with the International Financial Reporting Standards (IFRSs) 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. As of December 31, 2012, there were no standards or interpretations to apply that were effective, but had not yet been endorsed by the E.U. and had an impact on the consolidated financial statements. Accordingly, the consolidated financial statements are also in conformity with the IFRSs as published by the IASB.

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

The consolidated financial statements are prepared in euros (€). The Notes are also stated in euros (€) unless otherwise indicated. The consolidated income statement was prepared using the cost-of-sales method. The additional disclosures of cost of materials and personnel costs are shown separately in the Notes. The Notes also contain the disclosures required under § 315a para. 1 of the German Commercial Code, or HGB ("Consolidated Financial Statements under International Accounting Standards").

The Management Board of SFC Energy AG approved the consolidated financial statements for release to the Supervisory Board on March 22, 2013. The Supervisory Board is tasked with reviewing the consolidated financial statements and deciding whether to adopt them.

New accounting standards applied

This section describes the standards and interpretations published by the IASB and endorsed by the European Commission that entered into force on January 1, 2012 and were applied to the consolidated financial statements for the first time in the 2012 financial year:

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. The amendments are effective for annual periods beginning on or after July 1, 2011. The E.U. endorsed the amendments in November 2011.

Amendment 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. Entities are required to apply the amendments for annual periods beginning on or after January 1, 2012. The E.U. endorsed them in December 2012.

New accounting standards not yet applied

Below is a summary of the new and revised standards, some of which have been endorsed by the European Commission, that were released by the IASB prior to this report's publication, but which the SFC Group did not early adopt for 2012:

Amendments to IAS 1 "Presentation of Financial Statements": In June 2011, the IASB published amendments to IAS 1 entitled "Presentation of Items of Other Comprehensive Income". In the future, changes in value recognized directly in equity must be grouped on the basis of whether or not the items will be "recycled" into profit or loss in subsequent periods. Entities are required to apply the amendments retrospectively for annual periods beginning on or after July 1, 2012. The E.U. endorsed them in June 2012.

Amendments to IAS 19 "Employee Benefits": In June 2011, the IASB published amendments to IAS 19. These will have effects on the recognition and measurement of expense for defined benefit plans, in particular. Among other things, the current option of recognizing actuarial gains and losses immediately in profit or loss, in other comprehensive income or deferring such recognition using the "corridor method" has been eliminated. In the future, they will have to be recognized immediately in other comprehensive income. In addition, past service cost that arises in connection with a change of the plan will need to be recognized as it occurs, and, when determining the net interest component, the net defined benefit asset and net defined benefit liability will both be discounted at a uniform rate that is linked to the yields on high-quality corporate bonds. Entities are required to apply the amendments retrospectively for annual periods beginning on or after January 1, 2013. The E.U. endorsed them in June 2012.

Revised IAS 27 "Separate Financial Statements": As part of the May 2011 release of the new standard IFRS 10, the title of IAS 27 "Consolidated and Separate Financial Statements" was changed to "Separate Financial Statements". In the future, IAS 27 will only contain rules on separate financial statements. The existing guidelines and explanatory notes for separate financial statements remained unchanged. The other parts of IAS 27 are being replaced by IFRS 10 "Consolidated Financial Statements". Entities are required to apply the new version for annual periods beginning on or after January 1, 2014. The E.U. endorsed it in December 2012.

Revised IAS 28 "Investments in Associates and Joint Ventures": As part of the May 2011 release of the new standard IFRS 11, IAS 28 "Investments in Associates" was also renamed and revised. Joint ventures that fall under the definition of the new standard IFRS 11 "Joint Arrangements" are to be accounted for using the equity method, in accordance with the revised IAS 28. The basic procedure for assessing the presence of significant influence and rules for applying the equity method did not change. Entities are required to apply the revised standard for annual periods beginning on or after January 1, 2014. The E.U. endorsed it in December 2012.

Amendments to IAS 32 "Financial Instruments: Presentation": In December 2011, the IASB issued amendments to IAS 32 entitled "Offsetting Financial Assets and Financial Liabilities". The amendments did not change the offsetting requirements of IAS 32 per se, but did formalize the offsetting rules by clarifying the meaning of a legally enforceable right of set-off and providing examples where a gross settlement mechanism may still be considered equivalent to net settlement. Entities are required to apply the amendments retrospectively for annual periods beginning on or after January 1, 2014. The E.U. endorsed the amendments in December 2012.

Amendments to IFRS 7 "Financial Instruments: Disclosures": In December 2011, the IASB issued amendments to IFRS 7 entitled "Disclosures – Offsetting Financial Assets and Financial Liabilities". The amendments stipulate new qualitative and quantitative disclosure requirements for certain netting arrangements. The amendments are effective on a retrospective basis for annual periods beginning on or after January 1, 2013. The E.U. endorsed the amendments in December 2012.

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. Taking into account the amendments of December 2011, IFRS 9 goes into effect for annual periods beginning on or after January 1, 2015. Thus far, the E.U. 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 an entity elects the fair value option for a financial liability, the amount of change in the fair value that is attributable to changes in the entity's own credit risk shall be presented in other comprehensive income and not in profit or loss. Taking into account the amendments of December 2011, entities are required to apply the additions for annual periods beginning on or after January 1, 2015. Thus far, the E.U. has not endorsed the standard.

Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures": In December 2011, the IASB published amendments to IFRS 9 and IFRS 7 entitled "Mandatory Effective Date and Transition Disclosures". The amendments move the mandatory effective date of IFRS 9 from annual periods beginning on or after January 1, 2013 to annual periods beginning on or after January 1, 2015. They also introduce exceptions to the requirement of restating prior periods that allow entities to make modified disclosures in the Notes upon transition to IFRS 9. The modified Notes disclosures required by IFRS 9 were added as an amendment to IFRS 7. Thus far, the E.U. has not endorsed the amendments to either standard.

IFRS 10 "Consolidated Financial Statements": In May 2011, the IASB published the new standard IFRS 10. The standard replaces the guidelines on control and consolidation in IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities". The definition of "control" is amended by the new IFRS 10 so that the same criteria are applied to all companies to determine a control relationship. The new standard is effective for annual periods beginning on or after January 1, 2014. The E.U. endorsed it in December 2012.

IFRS 11 "Joint Arrangements": In May 2011, the IASB published the new standard IFRS 11. Under IFRS 11, two joint arrangement situations will be distinguished in the future: joint operations and joint ventures. The current option to choose the proportionate consolidation method of accounting for jointly controlled entities was eliminated. In the future, the equity method must be used. If a joint operation is involved, the assets, liabilities, income and expenses directly attributable to the participating company are recognized directly in the consolidated financial statements of that company. The new standard replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers" and is applicable to annual periods beginning on or after January 1, 2014. The E.U. endorsed the standard in December 2012.

IFRS 12 "Disclosure of Interests in Other Entities": IFRS 12, which was issued by the IASB in May 2011, establishes the required explanatory notes for companies that prepare their financial statements in accordance with the two new standards IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements". The standard replaces the disclosure requirements currently contained in IAS 28 "Investments in Associates". Explanatory notes regarding subsidiaries, associates, joint arrangements and non-consolidated structured entities (special purpose entities) are now governed by IFRS 12. The new standard is effective for annual periods beginning on or after January 1, 2014. The E.U. endorsed it in December 2012.

IFRS 13 "Fair Value Measurement": In May 2011, the IASB published the new standard IFRS 13. IFRS 13 describes how fair value is to be determined and expands the fair value disclosures required. The new standard does not contain any rules regarding the cases in which fair value is to be used. Through IFRS 13 the existing guidelines on fair value measurement in the individual IFRSs are replaced by a single standard. IFRS 13 applies to reporting periods beginning on or after January 1, 2013, and was endorsed by the E.U. in December 2012.

Various: "Improvements of International Financial Reporting Standards 2011": On May 3, 2012, the IASB published its "Annual Improvements of International Financial Reporting Standards 2011". The Annual Improvements process allows the IASB to make necessary, but non-urgent, amendments to IFRSs. The proposed effective date of most of the amendments is for annual periods beginning on or after January 1, 2014. However, the amendments to IFRS 3 Business Combinations and resulting amendments to IFRS 9 Financial Instruments would take effect for annual periods beginning on or after January 1, 2015. Thus far, the E.U. has not yet endorsed the amendments. The IASB has issued additional statements. The Company currently projects that use of the new and revised standards will have no impact at all or no material impact on the consolidated financial statements.

Uncertainty of estimates and discretionary judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make certain assumptions that 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. Actual future amounts may vary from estimates. Variances are recognized in profit or loss at the time more knowledge is gained.

Assumptions and estimates relate mainly to:

Measurement of provisions: Management estimates are used to measure provisions. The carrying amount of warranty provisions, for example, is based on the historical development of warranties and on an assessment of all future, potential warranty cases, weighted by probability of occurrence. The long-term provisions determined on the basis of these assumptions are discounted. The discount rates that had been used previously were adjusted in the year under review to reflect current market developments. Note 23 contains information about the discount rates used, the change in the net present value, and the impact of the rate adjustments. In addition, in forming contingent loss provisions for rent expenses (see Note 23), estimates concerning the likelihood of drawing on the provisions are made.

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. In the context of the PBF acquisition, the useful life of the customer relationships was determined using statistical analyses and management estimates, while that of the acquired technology was determined using empirical values for the industry's average product life cycle (see "Intangible assets" under Section 2 "Accounting Principles").

Mandatory capitalization of self-produced intangible assets: Based on management's planning and estimates, development costs are capitalized to the extent IFRS criteria are fulfilled. Please see Note 21 "Intangible assets" for additional information about the development costs capitalized in the year under review.

Recognition of deferred tax assets, particularly for losses carried forward: The recognition of deferred tax assets on tax loss carryforwards of the Company and its U.S. subsidiary is based on profit forecasts for tax purposes. Please see Note 10 "Income taxes" for additional information.

Measurement of share-based payment: The Company has set up a Long Term Incentive Plan for members of the Management Board and selected executives. Note 32 "Share-based payment" contains information about the measurement model and inputs used to determine the resulting expenses.

Recognition of sales from development assignments: SFC performs development assignments under Joint Development Agreements (JDA). Applying the percentage-of-completion method requires estimates for, among other items, the total cost of the contract, the remaining costs to be incurred up to the contract's completion, as well as the total revenues that will be generated from the contract. Any changes the customer makes to a contract can cause the estimated revenues and costs to increase or decrease. For information about the adjustments that became necessary last year, please see Note 16 "Receivables and liabilities from percentage-of-completion".

Impairment of non-financial assets: The Group evaluates all non-financial assets at each balance sheet date to determine whether there are indications of impairment. Goodwill is tested at least annually, even without an indication of impairment. The determination of the recoverable amount of the assets and of the cash generating units requires estimates from management.

Impairment of receivables: Management estimates allowances for receivables expected to be uncollectible based on past experience and the current economic environment. Please see Note 31 "Financial instruments" for additional information.

Acquisition: Estimates were required in conjunction with establishing the acquisition-date fair value of items relating to the purchase of the PBF Group in 2011, especially the value to be assigned in the purchase price allocation to acquired intangible assets and possible warranty obligations as well as the earn-out-component of the consideration.

Scope of consolidation

The consolidated financial statements include SFC and all companies directly or indirectly controlled by SFC. SFC controls a company when it has over half of the entity's voting rights or otherwise has the power to govern its financial and operating policies so that it can derive a benefit from the entity's business activities. Thus, the consolidated financial statements cover SFC as the ultimate parent company, SFC's U.S. subsidiary, and the PBF Group, which was acquired in 2011. Subsidiaries are consolidated as of the date on which control is acquired and deconsolidated as of the date on which control is lost.

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 uniform accounting and measurement methods. The financial year of the consolidated companies is the same as the calendar year (January 1 through December 31).

The table below shows the stake the Company had in each of its consolidated subsidiaries as of December 31, 2012, and indicates whether the stake was held directly or indirectly.

FULLY CONSOLIDATED SUBSIDIARIES in %

Name of company	Registered office	Share directly (indirectly)
SFC Energy, Inc.	Rockville (USA)	100
P&E Interholding B.V.	Almelo (Netherlands)	100
PBF-Group B.V.	Almelo (Netherlands)	(100)
PBF Power Srl	Cluj-Napoca (Romania)	(100)
Power Concepts B.V.	Almelo (Netherlands)	(100)

In addition, P&E Interholding B.V. still holds a 100% stake in PBF Hong Kong Limited, China. The non-operating subsidiary had an acquisition-date fair value of €0 and was not included in the consolidated financial statements due to a lack of material significance.

Purchase price allocation of the PBF Group

Since the acquisition took place shortly before the end of the 2011 financial year, measurement of the acquired assets and assumed liabilities of the PBF Group was not yet finished on December 31, 2011. Once the purchase price allocation was completed in the second quarter of 2012, the amounts previously disclosed in the 2011 annual report under the heading "Changes in the scope of consolidation" were adjusted pursuant to IFRS 3 in order to reflect the final acquisition-date values.

The following table shows the final acquisition-date value of the transferred contribution after being updated as of June 30, 2012, in relation to the amounts at which the acquired assets and assumed liabilities were originally carried: By and large, the amounts are the same as the amounts used at December 1, 2011. The adjustments relate to acquired assets and assumed liabilities, the original fair value of which was corrected. The corrections are based on facts and circumstances that were already present on the acquisition date, not on subsequent events. In particular, they are based on updated information concerning expected cash inflows and cash outflows.

AS AT AQUISITION DATE 1ST DECEMBER 2011 in €

	Indicative amounts[1]	Adjustments within the measurement period	Updated amounts
Payments for the acquisition of subsidiaries			
Cash and cash equivalents	6,000,000	0	6,000,000
Deduction for payments under existing warranty obligations	0	–281,000	–281,000
Equity instruments (350,000 ordinary shares by SFC)	1,400,000	0	1,400,000
Contingent consideration arrangement	1,287,849	0	1,287,849
Total transferred contribution	**8,687,849**	**–281,000**	**8,406,849**
Amounts recognized for the identifiable assets acquired and liabilities assumed			
Inventories	2,016,560	0	2,016,560
Trade accounts receivable	1,657,393	0	1,657,393
Other assets and receivables	296,795	180,000	476,795
Cash and cash equivalents	250	0	250
Identifiable intangibles assets	2,711,101	0	2,711,101
Property, plant and equipment	476,313	0	476,313
Deferred tax assets	98,103	177,500	275,603
Liabilities	–3,588,157	0	–3,588,157
Provisions	–340,472	–710,000	–1,050,472
Deferred tax liabilities	–663,506	–45,000	–708,506
Total identifiable net assets	**2,664,380**	**–397,500**	**2,266,880**
Goodwill	**6,023,469**	**116,500**	**6,139,969**

The adjustments to provisions and related adjustments to the transferred contribution as well as other short-term assets and receivables concerned completion of the measurement of the warranty provisions formed plus related claims against PBF's previous shareholders and insurance claims.

The purchase price for the shares acquired in the PBF Group in 2011 includes a contingent consideration that is tied to the achievement of certain targets. This contingent consideration consists of two earn-out components (2012 EBITDA forecast, revenues from cross-selling effects and distribution of jointly developed products in 2012/2013) with an original expiration date of March 31, 2013. As of the reporting date, the expiration of the earn-out period for one of the components was extended by one year. The potential amount of all future payments the Company may be required to make because of this contingent consideration continues to be between € 0 and € 1,350,000 on an undiscounted basis. The Management Board still expects full payment of the contingent

1 These are the provisional amounts presented in the Notes of SFC AG's 2011 annual report under the heading "Changes in the scope of consolidation".

consideration. The fair value of € 1,313,581 was calculated by applying the discounted cash flow method with an assumed interest rate of 3.84% and 3.72%, respectively. The liability from the earn-out agreements is carried at € 644,914 under other long-term liabilities and at € 668,667 under other short-term liabilities. The interest cost of € 25,732 on the liability was captured in the financial result.

2. ACCOUNTING PRINCIPLES

Revenue recognition

SFC generates the predominant portion of its revenues from the sale of EFOY fuel cell systems. The EFOY product is commonly used in the consumer sector, primarily for caravans and boats. The new product generation, EFOY COMFORT, was successfully launched in the previous year. The industrial version, EFOY Pro, is being sold for off-grid industrial applications. The Company also generates revenues from the sale of fuel cell systems specifically developed for the defense & security segment (EMILY) and from the sale of portable fuel cells (JENNY). 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. Revenues are also generated from the sale of fuel cartridges and other products for network solutions.

PBF develops, manufactures and markets customized high-tech power solutions, from power supply units to complete power systems for producers of professional machines and equipment. PBF translates these solutions into actual products, integrating electrical engineering, electronics, mechanical constructions and software.

These 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, provided 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.

In the area of Joint Development Agreements (JDA) SFC develops fuel cells and Power Managers customized to the needs of the client. The Joint Development Agreements are development contracts carried out by the Company together with various public-sector clients.

These long-term contracts are accounted for using the percentage-of-completion method (PoC method). The percentage of contract completion is determined using the ratio of costs incurred to the estimated total cost (cost-to-cost method). Contracts are shown under receivables or liabilities from percentage-of-completion. Where accumulated performance (production costs incurred plus profits shown) exceeds individual advance payments, production orders are carried under receivables from percentage-of-completion. If there is a negative result after deduction of advance payments, orders are carried under liabilities from percentage-of-completion.

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 5 – 8 years
- Software 3 – 5 years
- Patents 5 – 14 years
- Licenses 2 – 5 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 at SFC and 6 years at PBF. 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.

Goodwill is carried at cost and tested for impairment at least annually.

The cost at which the other intangible assets identified in the PBF Group acquisition are carried corresponds to their acquisition-date fair value. They will be amortized on a straight-line basis over their expected useful life.

- PBF customer relationships 8 years
- PBF technology 6 years
- PBF order book 1 year

The useful life of the customer relationships was determined using statistical analyses and management estimates, while that of the acquired technology was determined using empirical values for the industry's average product life cycle.

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 as well as all direct costs associated with bringing an asset to the site where it will be used and getting it ready for operation.

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

Amortization periods are as follows:

- Technical plant and machinery 3 – 10 years
- Other equipment, fixtures and fittings 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 2012.

Impairment of non-financial assets

Intangible assets and non-current assets are tested for impairment on the basis of the cash flows expected from the use of the asset (which are discounted at a rate that reflects the relative risk and timing of those cash flows) and on the basis 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, intangible assets not yet able to be used must be tested for impairment annually. If the net carrying value of an asset is higher than the recoverable 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 it is not possible to determine a recoverable amount for an asset, the recoverable amount of the cash generating unit to which that asset can be allocated is determined.

If the reasons for impairment cease to apply, the impairment loss is reversed and the carrying value of the asset (or cash generating unit) is written back up to the new estimate of the asset's recoverable amount. The asset's recovery is limited to the carrying amount that would have been reported for the asset (or cash generating unit) had no impairment loss been expensed in previous years. Impairment reversals are recognized in profit or loss immediately.

Goodwill is allocated to identifiable groups of assets (cash generating units) or groups of cash generating units that create synergies from the respective acquisition. An impairment loss is recognized if the carrying amount of the cash generating unit to which goodwill is allocated (including the carrying amount of the goodwill itself) is higher than the recoverable amount of the group of assets. The impairment loss is first allocated to the goodwill, then to the other assets in proportion to their carrying amounts. Under IAS 36, impairment losses cannot be reversed in the case of goodwill.

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 2012.

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 their 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 financial 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".

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.

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset to a third party in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are also transferred.

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. Objective evidence for our purposes essentially means significant financial difficulties on the part of customers or a breach of contract, such as payment default.

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 indications that such other financial assets are impaired, write-downs are applied on a case-by-case basis.

Government grants

Government grants consist of sponsorship for development activities by SFC and PBF, and were received for the development of new fuel cell systems and power generation solutions as well as for studying product field quality.

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 recognized directly in income as a reduction of research and development costs 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 and quasi-permanent 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 to offset with the loss carryforwards. Deferred tax assets on loss carryforwards are recognized only to the extent that they can be offset with 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 that 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 with reimbursements. Other long-term provisions are discounted. The settlement amount also 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.

A provision for restructuring is formed only if a detailed, formal restructuring plan is in place and the affected parties have a valid expectation that the restructuring measures will be implemented.

If it appears that the Company will take a loss on a contract, it recognizes a provision for contingent losses for the present obligation from the contract. The amount of the provision equals the amount by which the expected cost of performing the contract or of not performing it, as the case may be, exceeds the anticipated economic benefit from the contract.

Financial liabilities

Financial liabilities are classified, 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.

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.

The earn-out component (contingent consideration) that is part of the PBF acquisition was classified as a financial liability fair valued through profit or loss and reported under other short-term and other long-term liabilities. Gains or losses from remeasurement of this component to fair value will be recognized in profit or loss and presented in the consolidated income statement.

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

Consolidation

Acquisition accounting is done in compliance with IAS 27 "Consolidated and Separate Financial Statements" by netting the carrying amount of the equity interest and the subsidiary's equity as of the date of initial consolidation.

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.

Results on the supply of goods within the Group, which are captured in the carrying amount of inventories, are eliminated. Deferred taxes are recognized on the differences resulting from the elimination of intra-Group results.

Foreign currency translation

In the single-entity financial statements of the consolidated companies, which are prepared in the local currency, foreign currency transactions arising from business activities are measured 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 subsidiaries generally do 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	Average rate	Rate on reporting date	Rate on reporting date
	2012	2011	12/31/2012	12/31/2011
US-Dollar (USD)	0.77773	0.71824	0.75844	0.77298

3. NOTES ON THE CONSOLIDATED INCOME STATEMENT

(1) Sales

Sales are shown in the following table:

		in €
	2012	2011
Sales	**31,259,726**	**15,425,974**
thereof from POC	501,116	1,859,020

The increase in sales compared to the previous year is largely due to the PBF Group, which was fully consolidated effective December 1, 2011. Please see the explanations in Note 36 "Disclosures on consolidated segment reporting" and Note 16 "Receivables and liabilities from percentage-of-completion" for additional information.

(2) Production costs of work performed to generate sales

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

		in €
	2012	2011
Cost of materials	13,926,477	6,081,433
Personnel costs	2,426,224	1,891,890
Cost of premises	734,891	656,166
Depreciation and amortization	470,000	374,847
Transport costs	385,402	394,401
Warranties	227,186	300,596
Consultancy	82,647	95,391
Other	244,286	261,288
Total	**18,497,113**	**10,056,012**

(3) Sales costs

Sales costs were as follows:

		in €
	2012	2011
Personnel costs	2,796,931	2,427,898
Advertising and travel costs	1,322,973	1,086,746
Consultancy/commissions	615,203	418,991
Depreciation and amortization	229,928	56,310
Cost of materials	86,246	127,141
Additions to allowances for receivables	79,096	170,610
Other	731,146	608,067
Total	**5,861,523**	**4,895,763**

(4) Research and development costs

Research and development costs were as follows:

		in €
	2012	2011
Personnel costs	3,253,408	1,471,857
Consultancy and patents	586,623	177,857
Depreciation and amortization of self produced intangible assets	584,329	1,324,391
Cost of materials	488,694	532,748
Cost of premises	369,099	305,488
Other depreciation and amortization	335,195	71,321
Other	134,608	105,859
Capitalization of self-produced assets	–383,250	–335,405
Set-off against grants	–1,111,521	–1,116,645
Total	**4,257,185**	**2,537,471**

The figure for amortization of self-produced intangible assets for the previous year includes € 577,638 in impairment losses on capitalized development costs.

(5) General administration costs

General administration costs were as follows:

		in €
	2012	2011
Personnel costs	1,718,017	1,427,129
Audit and consultancy costs	569,416	408,018
Investor relations/annual meeting	184,067	182,490
Depreciation and amortization	170,617	144,361
Insurance	144,311	103,446
Travel costs	121,239	97,595
Supervisory Board compensation	112,500	108,795
Car-operating costs	78,839	63,428
Costs of hardware and software support	59,743	40,680
Recruiting costs	20,335	9,873
Other	603,490	356,012
Set-off against grants	–227,636	–264,970
Total	**3,554,938**	**2,676,857**

(6) Other operating income

Other operating income was as follows:

		in €
	2012	2011
Reversal of impairment charges on capitalized development costs	535,563	0
Income from the reversal of provisions	123,752	0
Foreign exchange transaction gains	68,468	189,223
Other income from other periods	2,571	2,190
Other	18,388	5,354
Total	**748,742**	**196,767**

(7) Other operating expenses

Other operating expenses were as follows:

		in €
	2012	2011
Foreign exchange transaction losses	139,320	100,833
Costs attributable to potential acquisitions	132,638	0
Expenses from other periods	2,009	18,092
Acquisition-related costs	0	510,566
Expenses from contract terminations	0	323,300
Contingent losses for premises	0	597,124
Other	88,188	47,623
Total	**362,155**	**1,597,538**

(8) Restructuring expenses

There were no restructuring expenses in 2012. In the previous year, there were one-time expenses of € 473,970 in conjunction with a restructuring program aimed at boosting the Company's efficiency and earnings.

(9) Financial result

Interest and similar income were as follows:

		in €
	2012	2011
Interest income from liquid funds	210,504	420,993
Other	3,300	6,367
Total	**213,804**	**427,360**

The breakdown of interest and similar expense is shown in the following table:

		in €
	2012	2011
Interest cost on other provisions	80,058	36,073
Other	54,219	1,307
Total	**134,277**	**37,380**

(10) Income taxes

The breakdown of income taxes is shown in the following table:

		in €
	2012	2011
Actual income taxes on the result for the current year	18,258	5,717
Deferred tax income (-)/expense (+) from:		
Reversal of deferred tax liabilities on other intangible assets	–98,293	–8,545
Recognition of deferred tax liabilities on capitalized development costs	24,243	3,374
Recognition of deferred tax assets on inventories	36,462	–7,689
Balance income (–) / expenses (+) from income taxes	**–19,330**	**–7,143**

The multiplier for trade tax (Gewerbesteuer) in the District of Brunnthal is 330 %, applied on a tax rate of 3.5 %. This yields a trade tax rate of 11.55 % and a total tax rate for SFC (including corporate income tax of 15 % and the solidarity surcharge of 5.5 % levied thereon) of 27.38 % (previous year: 27.38 %).

Income taxes for the subsidiaries in the United States, Netherlands and Romania are calculated using the applicable tax rate for the specific country. For the year under review, tax rates of 18 % to 25 % (previous year: 18 % to 25 %) were applied.

Deferred tax assets and liabilities were as follows:

		in €
	12/31/2012	12/31/2011
Deferred tax assets		
Loss carryforwards	8,931,125	9,796,372
Provisions	130,981	351,126
Inventories	86,279	122,740
Other liabilities	35,822	45,574
Write-down of deferred tax assets	–8,564,999	–8,570,776
Other	0	26,186
Total	**619,208**	**1,771,222**
Deferred tax liabilities		
Other assets	27,533	1,041,186
Other intangible assets	556,668	654,961
Self-generated intangible assets	549,962	495,118
Total	**1,134,163**	**2,191,265**

At the reporting date, there were tax losses carried forward in the amount of € 34,578,940 (previous year: € 40,362,626) for corporate income tax purposes and € 29,157,085 (previous year: € 32,849,824) for trade tax purposes. These amounts are subject to change based on the results of the tax audit. Deferred tax assets of € 387,115 have been recognized on these tax loss carryforwards of the Company and its U.S. subsidiary. In Germany, tax losses can be carried forward indefinitely in principle, whereas in the United States they expire after 20 years.

There are no deferred tax liabilities related to outside basis differences.

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

		in €
	2012	2011
Tax rate	**27.38 %**	**27.38 %**
Loss from ordinary operations	**–444,919**	**–6,224,890**
Expected tax charge	**–121,819**	**–1,704,375**
Reconciliation to the tax charge		
Loss carryforwards not available for tax purposes	0	2,577,493
Change in write-down of deferred tax assets	411	–1,455,055
Differences in the tax rate	52,375	420,925
Taxes from permanent differences – non-deductible expenses	–12,088	163,848
Differences arising from the currency translation	13,075	–13,830
Other	48,716	3,851
Tax charge pursuant to consolidated income statement	**–19,330**	**–7,143**

(11) Cost of materials

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

		in €
	2012	2011
Raw materials and supplies and related goods	10,696,906	5,976,134
Related services	3,804,703	768,772
Total	**14,501,609**	**6,744,906**

(12) Depreciation and amortization

Please see Note 21 "Intangible assets" and Note 22 "Property, plant and equipment" for information about depreciation and amortization expenses.

The consolidated income statement was prepared in accordance with the cost-of-sales method and includes pro rata depreciation and amortization of 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 €
	2012	2011
Wages and salaries	7,387,744	5,165,958
Social security expenses required by law	1,124,836	877,352
Variables/bonuses	976,471	895,482
Other social security expenses/pensions	319,462	168,860
Expenses from Long Term Incentive Plan	226,523	53,949
Restructuring expenses	0	468,519
Other	159,543	57,174
Total	**10,194,579**	**7,687,294**

The social security expenses required by law include the Company's share of € 586,530 in contributions to the public pension insurance system (previous year: € 476,383).

The average number of permanent employees was as follows:

	2012	2011
Full-time employees (incl. Management Board)	159	98
Part-time employees	27	8
Total	**186**	**106**

There was also an average of 10 (previous year: 8) trainees, graduates and student trainees during the year.

4. NOTES ON THE CONSOLIDATED BALANCE SHEET

(14) Inventories

Inventories have an expected turnover rate of less than one year and consist of the following:

in €	12/31/2012	12/31/2011
Raw materials and supplies	3,670,781	3,342,253
Finished goods	1,753,744	1,253,464
Unfinished goods	390,253	311,211
Total	**5,814,778**	**4,906,928**

Taking into account the achievable net proceeds on disposal, inventories were written down as follows:

in €	12/31/2012	12/31/2011
Raw materials and supplies – before impairment	3,804,237	3,436,529
Impairment	–133,456	–94,276
Net book value	**3,670,781**	**3,342,253**

in €	12/31/2012	12/31/2011
Unfinished and finished goods – before impairment	2,268,953	1,618,974
Impairment	–124,956	–54,299
Net book value	**2,143,997**	**1,564,675**

A total of € 148,521 for the impairment of inventories (previous year: € 136,278) was expensed to the consolidated income statement. Inventories with a remaining book value of € 1,931,396 were pledged as collateral for liabilities (previous year: € 1,904,414).

(15) Trade accounts receivable

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

in €	12/31/2012	12/31/2011
Trade accounts receivable – gross	3,800,421	4,652,874
Allowances for risk of default	–103,924	–178,614
Total	**3,696,497**	**4,474,260**

All trade accounts receivable are due in less than one year. For information about the individual allowances, please see the section on "credit risk" in Note 31 "Financial instruments".

Trade accounts receivable with a remaining book value before write-downs of € 1,643,368 (previous year: € 1,819,989) were pledged as collateral for an as yet unused credit line (original interest rate of 5.6 %) in the amount of € 1,643,368.

(16) Receivables and liabilities from percentage-of-completion

If the production costs (including earnings contributions) incurred during the year under review for contracts that are not yet completed exceed the amounts already invoiced (installment payments received), the difference is reported as receivables from percentage-of-completion. Conversely, the difference is reported as liabilities from percentage-of-completion if the prepayments exceed the production costs.

in €	12/31/2012	12/31/2011
Proceeds shown	501,116	1,859,020
Costs incurred and gains recognized under contracts on or before the reporting date	504,949	1,862,853
Partial settlements	572,958	1,365,508
Production contracts with a positive balance due from the customer (reported as receivables from percentage-of-completion)	**0**	**541,137**
Production contracts with a negative balance due from the customer (reported as liabilities from percentage-of-completion)	**–68,009**	**–43,792**

Changes the customer makes to a contract's scope of work during the project life cycle by adjusting, say, the specifications or the length of time to completion, can increase or decrease the revenues and costs associated with the contract. The resulting impact for the current period and any foreign currency effects are recognized in profit or loss.

In financial year 2012, project volumes increased by € 813,638 (previous year: € 331,487) because of these kinds of changes and because of exchange rate differences, with total estimated projects costs rising by € 502,775 from the prior year (previous year: € 206,837). Consequently, sales increased € 252,463 in 2012 (previous year: € 195,059), and the gross margin increased € 140,568 (previous year: € 20,010). The change in total project costs will cause contract costs to increase by € 390,879 in subsequent years (previous year: € 31,788).

In the previous year, the receivables from percentage-of-completion had remaining terms of less than one year.

(17) Income tax receivables

The income tax receivables relate to refunds of tax (including the solidarity surcharge) withheld on investment income and have a remaining term of less than one year.

(18) Other assets and receivables

The other long-term assets and receivables in the previous year pertained to prepayments made for the purchase of components for circuit boards and their assembly.

The other short-term assets and receivables are due in less than one year and consist of the following:

in €	12/31/2012	12/31/2011
Receivables from grants	379,389	144,018
Receivables from previous shareholders PBF	350,000	281,000
Prepayments made	82,878	134,220
Deferred income	58,722	126,595
VAT receivables	42,168	165,440
Interest receivables on time depostit	10,405	21,150
Receivables from insurance refunds	0	180,000
Other	194,668	115,539
Total	**1,118,230**	**1,167,962**

The other assets and receivables include financial assets in the amount of € 739,794 (previous year: € 626,168).

(19) Cash and cash equivalents

Cash and cash equivalents consist of cash and credit balances and of time and call deposit accounts at banks that mature within three months.

(20) Cash and cash equivalents with limitations on disposal

There is a bank guarantee in the amount of € 285,000 (previous year: € 285,000) in connection with the lease for the Company's building at Eugen-Sänger-Ring 7. Time deposits in the amount of € 285,000 (previous year: € 285,000) were pledged to secure these lease guarantees.

(21) Intangible assets

Below is a statement of the Group's intangible assets:

in €

	Software	Patents and licences	Capitalised patents	Development costs	Goodwill PBF Group	Other intangible assets	Total
Acquisition costs as at 01/01/2011	**404,261**	**59,533**	**559,617**	**3,774,823**	**0**	**0**	**4,798,234**
Changes in the scope of consolidation	28,410	28,669	0	0	6,139,969	2,654,022	8,851,070
Additions	122,975	224,426	8,937	326,468	0	0	682,806
Differences arising from the currency translation	1,296	17,105	0	0	0	0	18,401
as at 12/31/2011	**556,942**	**329,733**	**568,554**	**4,101,291**	**6,139,969**	**2,654,022**	**14,350,511**
Additions	134,838	42,444	2,933	380,317	0	0	560,532
Disposals	–5,551	0	0	0	0	0	–5,551
Reclassifications	–202	0	0	0	0	0	–202
Differences arising from the currency translation	–708	–4,543	0	0	0	0	–5,251
as at 12/31/2012	**685,319**	**367,634**	**571,487**	**4,481,608**	**6,139,969**	**2,654,022**	**14,900,039**
Depreciation and impairment losses as at 01/01/2011	**–267,285**	**–48,129**	**–425,902**	**–1,110,220**	**0**	**0**	**–1,851,536**
Scheduled depreciation	–86,924	–16,613	–48,659	–698,094	0	–34,176	–884,466
Impairment losses	0	0	0	–577,638	0	0	–577,638
Differences arising from the currency translation	–994	–1,222	0	0	0	0	–2,216
as at 12/31/2011	**–355,203**	**–65,964**	**–474,561**	**–2,385,952**	**0**	**–34,176**	**–3,315,856**
Scheduled depreciation	–123,970	–25,062	–39,674	–544,655	0	–393,176	–1,126,537
Additions	0	0	0	535,563	0	0	535,563
Disposals	5,546	0	0	0	0	0	5,546
Differences arising from the currency translation	609	754	0	0	0	0	1,363
as at 12/31/2012	**–473,018**	**–90,272**	**–514,235**	**–2,395,044**	**0**	**–427,352**	**–3,899,921**
Carrying amounts							
as at 01/01/2011	136,976	11,404	133,715	2,664,603	0	0	2,946,698
as at 12/31/2011	**201,739**	**263,769**	**93,993**	**1,715,339**	**6,139,969**	**2,619,846**	**11,034,655**
as at 12/31/2012	**212,301**	**277,362**	**57,252**	**2,086,564**	**6,139,969**	**2,226,670**	**11,000,118**

An adjustment of € 116,500 was made to goodwill in connection with the final allocation of the purchase price for the PBF Group. The previous year's figure for changes to the scope of the consolidation was restated accordingly.

Development costs

Grants of € 1,339,157 (previous year: € 1,381,615) were received in connection with development activities and were shown as a reduction of research and development costs (€ 1,111,521) and of general administration costs (€ 227,636).

Impairment losses of € 577,638 were recognized on capitalized development costs in the previous year because of indications that projects for the German Bundeswehr had lost value due to uncertainties surrounding both the budget situation and the military's procurement priorities if faced with budget cuts. The impairment charges were determined on the basis of the corresponding assets' value in use. The estimates regarding future cash flows from these assets changed in the reporting year, since the placement of a large-scale order by the Bundeswehr provided new insight into the sales and gross margin relating to the capitalized development costs. The reversal came to € 535,563 and was based on the amortized cost at which the corresponding assets would have been carried had they never been impaired in the first place. The full amount of the reversal was recognized in profit and loss under other operating income.

Goodwill of the PBF Group

The € 6,139,969 in goodwill resulting from the acquisition of the PBF Group was allocated to the cash generating unit "PBF Group". To figure the recoverable amount when testing for impairment, we measured the fair value less costs to sell by discounting the projected cash flows given in the three-year budget (2013 to 2015) approved by management. A growth rate of 0.5 % was used to extrapolate cash flows in the last budget year. The total cost of capital used for discounting was based on the risk-free interest rate of 2.5 % and a market risk premium of 6.25 %. From there, the beta factor, tax rate and capital structure of the peer group was used to arrive at a weighted average cost of capital (WACC) of 8.44 %. Determining the fair value less costs to sell for the cash generating units required the use of historical data, forecasts about market performance, and market research. Where the Company's budget is concerned, the principal underlying assumptions included market growth rates and the rate of growth in selling prices and purchase prices, as taken from external market studies and current price developments with due consideration for changes in macroeconomic indicators.

For details concerning the adjustment of the goodwill of the PBF Group, see the notes under the heading "Purchase price allocation of the PBF Group".

Other intangible assets of the PBF Group

As part of the PBF Group acquisition, customer relationships, technology and an order book were identified. Below is a statement of these other intangible assets:

in €

	Customer relationships	Technology	Order book	Total
Acquisition costs as at 01/01/2012	**1,408,354**	**1,231,359**	**14,309**	**2,654,022**
Changes in the scope of consolidation	0	0	0	0
as at 12/31/2012	**1,408,354**	**1,231,359**	**14,309**	**2,654,022**
Depreciation and impairment losses as at 01/01/2012	**−14,670**	**−17,102**	**−2,404**	**−34,176**
Scheduled depreciation	−176,044	−205,227	−11,905	−393,176
as at 12/31/2012	**−190,714**	**−222,329**	**−14,309**	**−427,352**
Carrying amounts as at 01/01/2012	**1,393,684**	**1,214,257**	**11,905**	**2,619,846**
as at 12/31/2012	**1,217,640**	**1,009,030**	**0**	**2,226,670**
Remaining term of depreciation and amortization (in years)	7	5	0	

(22) Property, plant and equipment

Below is a statement of the Group's property, plant and equipment:

in €

	Technical equipment and machinery	Other equipment, fixtures and fittings	Total
Acquisition costs as at 01/01/2011	**684,309**	**2,858,811**	**3,543,120**
Changes in the scope of consolidation	355,824	120,489	476,313
Additions	11,420	436,421	447,841
Disposals	–1,952	–104,524	–106,476
Reclassifications	84,877	–84,877	0
Differences arising from the currency translation	0	803	803
as at 12/31/2011	**1,134,478**	**3,227,123**	**4,361,601**
Additions	39,656	278,090	317,746
Disposals	0	–71,948	–71,948
Reclassifications	–3,475	3,677	202
Differences arising from the currency translation	0	–429	–429
as at 12/31/2012	**1,170,659**	**3,436,513**	**4,607,172**
Depreciation and impairment losses as at 01/01/2011	**–265,289**	**–942,468**	**–1,207,757**
Scheduled depreciation	–120,354	–388,772	–509,126
Disposals	0	102,276	102,276
Differences arising from the currency translation	0	–416	–416
as at 12/31/2011	**–385,643**	**–1,229,380**	**–1,615,023**
Scheduled depreciation	–202,363	–461,170	–663,533
Disposals	0	71,419	71,419
Differences arising from the currency translation	0	256	256
as at 12/31/2012	**–588,006**	**–1,618,875**	**–2,206,881**
Carrying amounts			
as at 01/01/2011	419,020	1,916,343	2,335,363
as at 12/31/2011	**748,835**	**1,997,743**	**2,746,578**
as at 12/31/2012	**582,653**	**1,817,638**	**2,400,291**

Fixtures and fittings with a remaining book value of €303,491 have been pledged as collateral for liabilities (previous year: €342,704).

(23) Other provisions and tax provisions

The change in other provisions is shown in the following table:

in €

	Warranty provisions	Provisions for contingent losses	Total other provisions	Tax provisions
as at 01/01/2012	**2,297,017**	**597,124**	**2,894,141**	**97,019**
Differences arising from the currency translation	–76	0	–76	0
Additions	679,388	0	679,388	3,100
Interest cost	59,001	21,057	80,058	0
Disposals	–1,115,519	–204,531	–1,320,050	–47,736
as at 12/31/2012	**1,919,811**	**413,650**	**2,333,461**	**52,383**
of which with a remaining term of between one and five years	1,184,480	202,047	**1,386,527**	0

Warranty provisions

Warranty provisions are reported at the present value of the net amount required to satisfy the obligations. The discount rate used is 3.79 % (previous year: 3.94 %) for those obligations that would first be due after two years, 3.93 % (previous year: 4.09 %) for those due after three years, 4.08 % (previous year: 4.24 %) for those due after four years and 4.22 % (previous year: 4.37 %) for those due after five years. The beginning balance was adjusted by € 710,000 due to subsequent changes in the purchase price allocation.

Provisions for contingent losses

The provisions for contingent losses relate to contingent losses from rent expenses. A draw on the long-term portion of the provisions is not likely until 2014 at the earliest. The amount to set aside in each case was based on current lease agreements. The discount factor was set at 3.79 %.

Tax provisions

The tax provisions are for corporate income taxes in the Netherlands and have a remaining term of less than one year.

(24) Liabilities to banks

The short-term portion of liabilities to banks consists of overdraft facilities. In the previous year, this item also included a loan that was fully repaid in 2012.

(25) Liabilities from prepayments

Liabilities from prepayments relate to prepayments received on orders and have a remaining term of less than one year.

(26) Trade accounts payable

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

(27) Other liabilities

Other short-term liabilities were as follows:

in €	12/31/2012	12/31/2011
Variables/bonuses	867,922	623,400
Liabilities from acquisitions	668,667	0
VAT	618,585	1,508
Wage tax	262,083	265,197
Outstanding vacation	210,696	214,787
Accruals for invoices	188,205	171,158
Christmas bonus	132,211	147,096
Trade association contributions	55,600	58,200
Overtime	36,085	9,886
Social security	33,580	16,739
Supervisory board compensation	32,240	0
Retention of business records	30,000	0
Compensatory tax for the severely disabled	5,760	8,290
Severance and release of duties	3,400	0
Restructuring expenses	0	221,820
Expenses from contract terminations	0	171,601
Other	30,525	23,167
Total	**3,175,559**	**1,932,849**

Other long-term liabilities include the accrued liability from the Long Term Incentive Plan for members of the Management Board and selected executives. Please see Note 32 "Share-based payment" for the details of that agreement. The earn-out component from the purchase price agreement for PBF is also reported under other liabilities. The following table shows a breakdown of the other long-term liabilities:

in €	12/31/2012	12/31/2011
Contingent consideration from the acquisition	644,914	1,287,849
Long Term Incentive Plan	396,292	169,768
Total	**1,041,206**	**1,457,617**

Other liabilities include financial liabilities of € 1,401,421 (previous year: € 1,346,049).

(28) Equity

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

Subscribed capital

At the balance sheet date, subscribed capital amounted to € 7,502,887 (previous year: € 7,502,887) and was divided into 7,502,887 (previous year: 7,502,887) bearer shares without par value, with a notional amount in the capital stock of € 1.00 per no-par-value share. The subscribed capital has been fully paid in. Each share confers one vote. Shareholders have no special rights that confer control.

In reliance on the authorization granted by the general meeting held on May 8, 2008 (authorized capital 2008), the Company had increased its registered capital stock in 2011 by € 350,000, from € 7,152,887 to € 7,502,887, through the issuance of 350,000 new bearer shares of common stock without par value (no-par-value shares) with a notional amount in the capital stock of € 1.00 each and full dividend rights starting January 1, 2011, against a (mixed) contribution in kind with the preemptive subscription right of existing shareholders excluded. The execution of the capital increase was recorded in the Commercial Register of the Local Court of Munich on December 20, 2011.

Capital surplus

The capital surplus came to € 67,878,818 at the reporting date (previous year: € 67,878,818).

Conditional capital

The Company has a conditional capital 2011 in the amount of € 3,576,443 for the issuance of no-par-value bearer shares to the holders or creditors of convertible bonds and/or warrant-linked bonds, participatory rights and/or participatory bonds (or combinations of these instruments). No such instruments had been issued as of the reporting date. As stated in § 5 para. 4 of the Articles of Association, the Management Board will determine the remaining details of the execution of the conditional capital increase, with approval by the Supervisory Board.

Authorized capital

The Management Board is authorized to increase the Company's subscribed capital by up to € 3,218,121 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 a preemptive right to subscribe for these shares. However, under certain circumstances the preemptive subscription right of shareholders may be excluded with the Supervisory Board's consent.

Authorization to acquire own shares

The general meeting held on May 6, 2010 authorized the Management Board to acquire treasury shares on or before May 5, 2015 in an amount not to exceed ten percent of the Company's capital stock on May 6, 2010. No use had been made of this authorization as of the balance sheet date.

Other changes in equity without effect on profit or loss

The other changes in equity not affecting profit or loss relate to changes not recognized in profit or loss from foreign subsidiaries' currency translation.

5. OTHER DISCLOSURES

(29) 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.

(30) 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.

Expenses of € 1,368,502 were recognized from operating leases last year (previous year: € 1,187,879).

The total minimum rent payments under such non-terminable operating leases that 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:

in €

	12/31/2012	12/31/2011
Operate Leases		
within 1 year	1,313,581	1,323,622
between 1 and 5 years	5,002,159	5,062,370
> 5 years	2,396,646	3,814,480
Total	**8,712,386**	**10,200,472**

The agreement for the Company's production, development and administration building is also an operating lease. The agreement automatically terminates after the end of ten years. There is an option to renew the lease on a one-time basis for an additional five years. A provision for contingent losses was formed in connection with vacant space under this lease agreement (see Note 23 "Other provisions and tax provisions").

Order commitments

The Group had purchasing commitments of € 7,374,837 (previous year: € 7,947,298) as of the reporting date. These relate primarily to blanket orders for componewnts for fuel cell systems and power generation solutions as well as for other raw materials and supplies that are needed.

(31) Financial instruments

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

CARRYING AMOUNTS PURSUANT TO THE BALANCE SHEET in €	12/31/2012	12/31/2011
Financial assets		
Loans and receivables		
Trade accounts receivable	3,696,497	4,474,260
Other assets and receivables- short term	739,794	626,168
Cash and cash equivalents	22,625,515	22,443,141
Cash and cash equivalents with limitation on disposal	285,000	285,000
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks	371,656	759,390
Trade accounts payable	3,033,123	3,171,240
Other liabilities – short term	87,840	58,200
Liabilities measured as at fair value through profit or loss		
Other liabilities – long term	644,914	1,287,849
Other liabilities – short term	668,667	0

The book values of the financial assets and financial liabilities carried at amortized cost are close to the fair values because, with the exception of the long-term portion of the earn-out component, they are short-term. Financial assets and liabilities measured at fair value are assigned to one of the following three hierarchy levels: Financial assets and financial liabilities are assigned to Level 1 if there are quoted prices in active markets for identical assets and liabilities. They are assigned to Level 2 if the inputs on which the fair value measurement is based are observable either directly as prices or indirectly from prices. Financial assets and liabilities are assigned to Level 3 if the fair value measurement is not based on observable inputs. The portion of the earn-out component of the PBF acquisition that was reported under other long-term liabilities in 2012 is a Level 3 liability.

Below is a reconciliation of the financial instruments assigned to Level 3:

RECONCILIATION OF THE FINANCIAL INSTRUMENTS in €	2012
Carrying amounts as at 01/01/2012	**1,287,849**
Interest cost on liabilities reported under interest and similar expenses	25,732
Carrying amounts as at 12/31/2012	**1,313,581**

The breakdown by measurement category of income and expense from the financial instruments was as follows:

EXPENSES AND INCOME FROM THE FINANCIAL INSTRUMENTS		in €
	2012	2011
Financial assets		
Loans and receivables		
Trade accounts receivable		
Income from write-downs of trade accounts receivable	7,556	1,314
Expense from write-downs of trade accounts receivable	–49,713	–170,610
Income from currency translation of trade accounts receivable	65,218	186,512
Expense from currency translation of trade accounts receivable	–102,636	–75,317
Cash and cash equivalents		
Interest income	210,504	420,993
Net result of loans and receivables	**130,929**	**362,892**
Financial liabilities		
Liabilities carried at amortized cost		
Liabilities to banks		
Interest expense	–21,835	–1,307
Trade accounts payable		
Income from currency translation of trade accounts payable	3,249	2,711
Expense from currency translation of trade accounts payable	–36,684	–25,516
Net result of liabilities carried at amortized cost	**–55,270**	**–24,112**

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 investments that will have to be financed to ensure future business success – particularly in product development, the tapping of further market segments and new regions, and expanding the business in existing market segments. 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., call and time deposits).

SFC's articles of association do not define any capital requirements. SFC is authorized to acquire its own shares on or before May 5, 2015 in an amount not to exceed ten percent of its capital stock.

The Group's capital management focuses on cash and cash equivalents (see Note 19), equity (see Note 28) and liabilities to banks (see Note 24).

The table below shows the Company's equity and total equity and liabilities as of the respective reporting dates:

COMPANY'S EQUITY RATIO		in €
	12/31/2012	12/31/2011
Equity	**36,393,794**	**36,788,279**
As a percentage of total capital	76,4	74,3
Long-term liabilities	3,561,896	5,262,042
Short-term liabilities	7,661,752	7,487,407
Liabilities	**11,223,648**	**12,749,449**
As a percentage of total capital	23,6	25,7
Total capital	**47,617,442**	**49,537,728**

Thanks to its good level of capital resources and an equity ratio of 76.4 % (previous year: 74.3 %), SFC is well positioned for the planned growth of the Group.

One of the instruments employed by the Company for internal steering in financial year 2012 was the "underlying operating result", i. e., earnings before interest and income taxes. The following table shows the reconciliation of the operating result (EBIT) reported in SFC's consolidated income statement to the underlying operating result:

RECONCILIATION TO UNDERLYING OPERATING RESULT (EBIT)		in €
	2012	2011
EBIT (earnings before interest and taxes)	**–524,446**	**–6,614,870**
Restructuring Expenses	0	473,970
Reported as research and development costs		
Impairment losses capitalized development	0	577,638
Reported as other operating expenses		
Contingent losses for premises	0	597,124
Expenses from contract terminations	0	323,300
Acquisition-related costs	132,638	510,566
Expenses from contract terminations	90,000	0
Other effects	0	47,278
Reported as other operating income		
Reversal of impairment charges on capitalized development costs	–535,563	0
Income from the reversal of provisions from contract terminations	–123,752	0
EBIT underlying	**–961,123**	**–4,084,994**

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 rates 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.

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 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. In addition, all past-due receivables are discussed weekly as part of receivables management, and steps are taken with the responsible sales employees. In terms of credit risk prevention practices at the subsidiary PBF, which has a transparent clientele and can readily identify delinquencies, past-due accounts are first handled by employees in the accounting department and then turned over to the responsible sales employee for discussion with the customer.

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. Individual allowances are made as soon as there is an indication that receivables are not collectible. The indications are based on close contact with the respective customers 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 for SFC through a reservation of ownership.

Of the € 3,696,497 in trade accounts receivable (previous year: € 4,474,260), the largest customers account for € 404,056, € 403,435, € 268,860, € 263,891 and € 252,094 (previous year: € 602,610, € 393,822, € 328,540 and € 283,252 attributable to the largest customers). There are no other material risk concentrations.

The following table shows the changes in the write-downs of trade accounts receivable over the course of the year:

WRITE-DOWNS in €

	2012	2011
Write-downs at 1/1	**178,614**	**1,314**
Changes in the scope of consolidation	0	8,004
Additions	79,096	170,610
Use	–146,229	0
Release	–7,556	–1,314
Write-downs at 12/31	**103,924**	**178,614**

There are also past-due trade accounts receivable that have thus far not been written down in the amount of € 1,202,816 (previous year: € 1,304,687). These can be broken down by maturity range as follows:

		in €
	2012	2011
Gross book value of the impaired receivables	103,924	183,720
Specific write-downs	–103,924	–178,614
Net book value of the impaired receivables	**0**	**5,106**
Not past due or impaired	2,493,682	3,164,467
Past due and not impaired		
Up to one month past due and not impaired	1,045,991	1,026,237
One to three months past due and not impaired	17,057	195,739
Three to six months past due and not impaired	135,622	44,101
Over six months past due and not impaired	4,147	38,610
Receivables per balance sheet	**3,696,497**	**4,474,260**

The outstanding receivables that are neither past due nor impaired are of high credit quality because of the current client base. There was no indication as of the balance sheet date that any defaults were to be expected on 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 presented undiscounted in the table below on the basis of their earliest possible maturity. By analogy, the cash flows from financial instruments are shown as short-term and long-term assets. The remaining net liquidity outflow is covered by existing cash.

in €

	2012			2011		
	Total	1 year	> 1 year	Total	1 year	> 1 year
Original financial liabilities						
Liabilities to banks	–371,656	–371,656	0	–759,390	–559,390	–200,000
Trade accounts payable	–3,033,123	–3,033,123	0	–3,171,240	–3,171,240	0
Other financial liabilities	–1,401,421	–756,507	–644,914	–1,346,049	–58,200	–1,287,849
Total cash outflow	**–4,806,200**	**–4,161,286**	**–644,914**	**–5,276,679**	**–3,788,830**	**–1,487,849**
Original financial assets						
Cash and cash equivalents	22,910,515	22,910,515	0	22,728,141	22,728,141	0
Trade accounts receivable	3,696,497	3,696,497	0	4,474,260	4,474,260	0
Other financial assets	739,794	739,794	0	626,168	626,168	0
Total cash inflow	**27,346,806**	**27,346,806**	**0**	**27,828,569**	**27,828,569**	**0**
Net liquidity from financial instruments	**22,540,606**	**23,185,520**	**–644,914**	**22,551,890**	**24,039,739**	**–1,487,849**

With respect to those financial liabilities having a residual maturity of more than one year, the Group expects to make interest payments of € 30,086 through the end of the liabilities' term, assuming an interest rate of 3.72 %.

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 expense of SFC is materially influenced by short-term interest rates. An increase or decrease of 50 basis points in the interest rate level would have increased the net interest income or expense by € 103,676 (previous year: € 126,411). The Group is not subject to any material interest rate risk from variable-interest instruments.

SFC has not defined any risk management objectives or actions based on the aforementioned restrictions. 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 offset by expenses and payments in U.S. dollars that are lower than these revenues. No longer-dated currency forwards were entered into in financial year 2012.

There would have been a positive effect of € 137,008 on the Group's equity if, when translating the assets and obligations of SFC Energy Inc. as of December 31, 2012, the exchange rate had fluctuated by –5 % and a negative effect of € 137,008 if the rate had fluctuated by +5 %. There were no material effects from foreign currency translation of the business of the Romanian subsidiary and its transactions in Romanian leu.

Measurement of SFC's and PBF's foreign currency receivables and liabilities as of December 31, 2012 would have led to an increase of € 12,544 in the foreign currency result if the rate had fluctuated by –5 % and a decrease of € 12,544 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 the forecast and market expectations indicate significant deviations from the budgeted assumptions. There were no open currency forwards as of the reporting date. In this respect, foreign exchange risk exists for the unhedged portion of sales.

(32) Share-based payment

The Supervisory Board adopted a long-term incentive plan in March 2009. This plan is intended to reward the contribution by members of the Management Board and selected executives to increasing the Company's value. 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 entitles its holder to a cash payment equal to the then-current share price plus any dividend per share. The phantom shares of Tranches 1 and 3 were issued to members of the Management Board of SFC Energy AG, while the rights of Tranche 2 were awarded to executives.

The plan is divided into various sub-tranches with different performance periods of three calendar years each. At the beginning of each performance period, a preliminary value is assigned to the allotment by taking the volume allotted and dividing it by the weighted average market price of a share of SFC stock for the first three months of the respective performance period.

Payouts under the plan will be made after the end of the respective performance period and will correspond to the final number of phantom shares of that performance period multiplied by the average price of a share of SFC stock for the first three months after the respective performance period. The final number of phantom shares depends on the achievement of predefined EVA (economic value added) targets. If a participant's employment with the Company ends, there will be no allotment for any performance periods not yet begun. Unless a participant is terminated for cause, payouts under Tranche 1 and Tranche 3 of the plan for any performance period already commenced as of the respective participant's departure will be made on the basis of the number of phantom shares initially allotted at the beginning of the respective performance period and will reflect the portion of the performance period served. Pro rata payouts will be made under Tranche 2 unless SFC terminates the employment relationship without notice for cause or does so with notice for conduct-related reasons. Pro rata payouts are also excluded if the respective executive quits with notice.

The status of the phantom shares in 2012 is shown in the following table:

	Tranche 1	Tranche 2	Tranche 3
Number of phantom shares	121,629	74,336	37,015
Maximum term (years)	3.0 – 5.0	3	3.0 – 5.0
Contractual remaining term on 12/31/2012 (years)	1.0 – 3.0	1.0 – 2.0	2.0 – 4.0
Outstanding number of phantom shares at the beginning of the 2012 reporting period (1/1/2012)	121,629	44,267	37,015
during the 2012 reporting period			
Phantom shares awarded	0	30,069	0
Phantom shares forfeited	45,053	28,439	8,743
Phantom shares exercised	0	0	0
Phantom shares expired	0	0	0
Phantom shares outstanding at the end of the 2012 reporting period (12/31/2012)	**76,576**	**45,897**	**28,272**
Exercisable phantom shares at the end of the 2012 reporting period (12/31/2012)	**0**	**0**	**0**

All of the Tranche 2 phantom shares awarded in 2012 (sub-tranche 2.4) were allocated to the executives on June 27, 2012. The preliminary value assigned to the allotment was € 130,000.

The estimated number of provisionally allotted phantom shares in Tranches 1.5, 3.2 and 3.3 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 status of the phantom shares in 2011 is shown in this table:

	Tranche 1	Tranche 2	Tranche 3
Number of phantom shares	135,628	82,546	37,015
Maximum term (years)	3.0 – 5.0	3	3.0 – 5.0
Contractual remaining term on 12/31/2011 (years)	1.0 – 4.0	1.0 – 2.0	3.0 – 5.0
Outstanding number of phantom shares at the beginning of the 2011 reporting period (1/1/2011)	63,485	50,179	0
during the 2011 reporting period			
Phantom shares awarded	72,143	32,367	37,015
Phantom shares forfeited	13,999	38,279	0
Phantom shares exercised	0	0	0
Phantom shares expired	0	0	0
Phantom shares outstanding at the end of the 2011 reporting period (12/31/2011)	**121,629**	**44,267**	**37,015**
Exercisable phantom shares at the end of the 2011 reporting period (12/31/2011)	**0**	**0**	**0**

The phantom shares awarded were classified and measured as cash-settled share-based payment transactions. The fair market value of the phantom shares is remeasured on each balance sheet date using a Monte Carlo simulation, taking into account the terms on which the phantom shares were awarded. The measurement of the options that were still outstanding at December 31, 2012 and December 31, 2011 was based on the following inputs:

Measurement date	12/31/2012	12/31/2011
Remaining term (years)	1.0 – 4.0	1.0 – 5.0
Share price on the measurement date	€ 6.05	€ 4.00
Strike price	€ 0.00	€ 0.00
Expected volatility	34.65 % – 39.87 %	37.02 % – 70.71 %
Risk-free interest rate	0.02 % – 0.17 %	0.04 % – 0.91 %
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 the historical volatility seen for matching maturities on a weekly basis is indicative of future trends. Therefore, the actual volatility which occurs may differ from the assumptions.

The weighted average of the fair market value of the phantom shares issued during the reporting period was € 5.61 as of the reporting date (previous year: € 3.67).

For the year ended December 31, 2012, SFC AG expensed the following amount for cash-settled share-based payment arrangements under the LTIP:

		in €
	2012	2011
Expenses for cash-settled share-based payment transactions	226,523	53,949

At December 31, 2012, a liability of € 396,292 was recognized under other long-term liabilities (December 31, 2011: € 169,768).

(33) Related party transactions

IAS 24 "Related Party Disclosures" defines related parties as companies and persons that have the ability to directly or indirectly control or exercise significant influence over the reporting entity or that participate in the joint management of the reporting entity. At SFC, shareholder Dr Manfred Stefener, who held a seat on the Supervisory Board until January 31, 2011, was 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 members of the Management Board and the Supervisory Board were as follows in financial years 2011 and 2012:

Management Board members

Dr Peter Podesser, Simbach am Inn, a businessman (Chairman)
Gerhard Inninger, Munich, who holds a degree in finance (from August 16, 2011)

Supervisory Board members

Dr Rolf Bartke, Berlin, a business engineer (Chairman until May 9, 2012)
Tim van Delden, Düsseldorf, who holds a degree in engineering (Chairman from May 9, 2012)
David William Morgan, Rolvenden (United Kingdom), MA ACA, a businessman (Deputy Chairman)
Dr Jens Müller, Munich, who holds a degree in chemistry (from May 5, 2011)
Rüdiger Olschowy, Schliersee, a businessman (until May 5, 2011)
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 entities.

TRANSACTIONS WITH COMPANIES WITH SIGNIFICANT INFLUENCE (in €)

	2012	2011
Income	0	2,113

Through the end of January 2011, revenues of € 2,113 were realized under a supply relationship for individual components and test 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.

There were no related party transactions with individuals last year or in the previous year.

The compensation of persons in key positions was as follows:

in €

	2012		2011	
	Fixed portion	Variable portion	Fixed portion	Variable portion
Management Board	572,274	397,249	431,168	456,607
Supervisory Board	112,500	0	108,795	0
Total	**684,774**	**397,249**	**539,963**	**456,607**

We had € 684,066 in liabilities to persons in key positions as of the reporting date (previous year: € 477,701).

The variable portion includes the expense for the Long Term Incentive Program for members of the Management Board.

FINANCIAL YEAR 2012 in €

	Fixed compensation	Short-term performance based compensation	Long-term performance based compensation	Retention bonus	Total
Dr Peter Podesser	370,648	187,939	114,201	0	672,788
Gerhard Inninger	201,626	51,005	44,104	0	296,735
Total	**572,274**	**238,944**	**158,305**	**0**	**969,523**

FINANCIAL YEAR 2011 in €

	Fixed compensation	Short-term performance based compensation	Long-term performance based compensation	Retention bonus	Total
Dr Peter Podesser	355,980	162,630	39,241	200,000	757,851
Gerhard Inninger	75,188	37,500	17,236	0	129,924
Total	**431,168**	**200,130**	**56,477**	**200,000**	**887,775**

(34) Earnings per share

Earnings per share are calculated by dividing the consolidated net income for the year that is attributable to shareholders of the parent by the average number of shares in circulation. As during the prior year, there were no dilutive effects to be taken into account in determining the number of outstanding shares or any dilutive effects on SFC's earnings. The following table breaks down the calculation of earnings per share:

CALCULATION OF BASIC AND DILUTED EARNINGS PER SHARE

	2012	2011
Number of shares in circulation at the beginning of the period	7,502,887	7,152,887
Number of shares in circulation at the end of the period	7,502,887	7,502,887
Weighted average number of shares in circulation	**7,502,887**	**7,162,609**
Number of potentially dilutive shares of common stock	0	0
Weighted average number of shares used to calculate the diluted earnings per share	**7,502,887**	**7,162,609**
Consolidated net loss (€)	**–425,589**	**–6,217,747**
Net loss per share diluted (€)	–0.06	–0.87
Net loss per share undiluted (€)	–0.06	–0.87

(35) 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 flow statements break down cash flows into cash flow from ordinary operations, cash flow from investment activities and cash flow from financial activities. The "cash and cash equivalents" item in the cash flow statement corresponds to the "cash and cash equivalents" item in the balance sheet. Cash and cash equivalents consist of cash and credit balances (€ 915,943; previous year: € 1,256,763) as well as time and call deposit accounts (€ 21,709,572; previous year: € 21,186,378).

Income tax payments and refunds pertain mostly to the investment income tax and solidarity surcharge withheld from credited interest when call and time deposits matured as well as income tax payments for the Dutch and Romanian subsidiaries.

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

(36) 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 the internal reporting to the Management Board and Supervisory Board that forms the basis for corporate planning and accounting for resources. Internally, the Management Board uses sales, gross margin and EBITDA when steering the Group and implementing the realignment of its business with the core markets "Industry", "Consumer" and "Defense and Security". The segment reporting for 2012 and prior-year figures were adjusted to fit the new internal reporting structure. The "Industry" market is highly diversified and could include any area of industry where professional users run electrical equipment away from the grid and use SFC's EFOY Pro fuel cell. Right now, the Company's technology enables applications in security and surveillance, traffic management, wind power and environmental technology, as well as in the oil and gas sector. Additionally, PBF sells nearly all of its high-performance electronic components for integration into precision defense equipment as well as testing and metering systems in this segment. In the "Consumer" market, SFC's EFOY COMFORT fuel cells are used to supply power to RVs, vacation cottages and sailboats. The "Defense & Security" segment covers defense and security applications for defense organizations and governments. SFC's product portfolio for this market includes the JENNY 600S, the vehicle-based EMILY 2200, the EMILY Cube 2500, the SFC Power Manager and network solutions.

There is no offsetting between the segments. The net result from interest income and interest expenses is shown in the financial result.

Below is a breakdown of sales and non-current segment assets by region:

	Sales from transactions with external customers		Long-term Assets	in €
	2012	2011	12/31/2012	12/31/2011
Europe (not including Germany)	12,798,835	5,867,499	9,103,235	9,319,551
Germany	12,583,093	4,757,792	4,074,354	4,254,553
North America	3,315,764	3,468,522	222,820	261,415
Asia	2,315,620	590,250	0	0
Rest of the world	246,414	741,911	0	0
Total	**31,259,726**	**15,425,974**	**13,400,409**	**13,835,519**

The prior-year figures for these items were restated due to adjustments made within the measurement period to the acquisition-date fair values of the acquired assets and assumed liabilities of PBF. See notes on the purchase price allocation of the PBF Group.

Sales were broken down by region on the basis of each customer's registered office. Sales of € 12,583,093 (previous year: € 4,757,792) were generated in the Group's home market of Germany.

Below is a break-down by segment of the sales generated with customers accounting for more than 10 % of sales:

				in €	in %
	Industry	Defense & Security	Consumer	Revenues	Total revenues
2012					
Customer A	0	6,361,996	0	6,361,996	20.35

All of these sales were made in Germany. In the previous year, no single customer accounted for more than 10 % of sales.

The depreciation of fixed assets included in production costs can be broken down by segment as follows:

		in €
	2012	2011
Industry	174,976	88,598
Defense & Security	179,141	102,368
Consumer	115,884	183,880
Total	**470,000**	**374,847**

(37) Auditor's fees

The auditor's fees were:

	2012	2011
		in €
Financial statements	110,000	104,000
Other consultancy	0	61,004
Tax consultancy	4,197	6,335
Total	**114,197**	**171,338**

(38) Statement of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board have issued a statement of compliance with the German Corporate Governance Code in accordance with § 161 of the German Stock Corporation Act (AktG). It will be published on the website of SFC Energy AG on March 26, 2013. This compliance statement will remain available on the Internet for the next five years and thus be accessible to the public on a long-term basis. It is also published in the Annual Report as part of the Corporate Governance Report.

(39) Material events after the balance sheet date

There were no material events after the balance sheet date.

Brunnthal, March 22, 2013

The Management Board

Dr Peter Podesser
CEO

Gerhard Inninger
CFO

SFC ENERGY AG, BRUNNTHAL
CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2012
RESPONSIBILITY STATEMENT

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

Brunnthal, March 22, 2013

Management Board

Dr Peter Podesser
CEO

Gerhard Inninger
CFO

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by 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 financial year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the Parent Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of 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, 22 March 2013

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Götz
Wirtschaftsprüfer
(German public auditor)

Becker
Wirtschaftsprüfer
(German public auditor)

FINANCIAL CALENDAR 2013

May 2, 2013	Publication of quarterly report
May 6, 2013	Annual general meeting
July 30, 2013	Publication half year report
October 24, 2013	Publication nine months report

SHARE INFORMATION

Bloomberg Symbol	F3C
Reuters Symbol	CXPNX
WKN	756857
ISIN	DE0007568578
Number of shares	7,502,887
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