

**Audited Financial Statements (IFRS) of SFC Smart Fuel Cell AG
as of and for the Year Ended December 31, 2006**

SFC Smart Fuel Cell AG

**Brunnthal, Munich
Financial statement**

In accordance with International Financial Reporting Standards

**For the financial year
January 1, 2006 to December 31, 2006**

Income Statement for the financial year 1 January 2006 to 31 December 2006

| | <u>See Note #</u> | <u>2006 (01.01.-31.12.) €</u> | <u>2005 (01.01.-31.12.) €</u> | <u>2004 (01.01.-31.12.) €</u> |
|--|---------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| 1. Sales | (1) | 7,024,271 | 3,295,370 | 1,316,224 |
| 2. Production costs | (2) | -6,494,589 | -2,827,244 | -1,530,176 |
| 3. Gross margin | | 529,682 | 468,126 | -213,952 |
| 4. Sales costs | (3) | -3,144,785 | -1,141,036 | -915,893 |
| 5. Research and development costs | (4) | -438,569 | -2,726,967 | -2,152,796 |
| 6. General administration costs | (5) | -1,098,745 | -1,038,562 | -286,943 |
| 7. Other operating income | (6) | 192,473 | 578,746 | 749,102 |
| 8. Other operating expenses | (7) | -75,590 | -97,408 | -34,075 |
| 9. Operating loss | | -4,035,534 | -3,957,101 | -2,854,557 |
| 10. Interest and similar income | (8) | 224,105 | 29,120 | 998,551 |
| 11. Interest and similar expenses | (9) | -501,966 | -1,095,426 | -566,068 |
| 12. Loss from ordinary operations | | -4,313,395 | -5,023,407 | -2,422,074 |
| 13. Income taxes | (10) | -111,111 | -70,000 | -36,738 |
| 14. Net loss | | -4,424,506 | -5,093,407 | -2,458,812 |
| 15. Accumulated losses brought forward from previous year | | -15,095,305 | -10,001,898 | -7,543,086 |
| 26. Net accumulated loss | | -19,519,811 | -15,095,305 | -10,001,898 |
| Undiluted earnings per share | (39) | -3.41 | -4.34 | -2.10 |
| Diluted earnings per share | (39) | -3.37 | -4.31 | -2.10 |

Balance sheet to 31 December 2006

| | See Note # | 31.12.2006 € | 31.12.2005 € | 31.12.2004 € |
|--|------------------|-------------------|-------------------|------------------|
| A. Current assets | | 12,310,149 | 1,169,376 | 3,420,191 |
| I. Inventories | (14) | 926,000 | 354,700 | 208,700 |
| II. Trade accounts receivable | (15) | 1,310,188 | 165,806 | 341,293 |
| III. Accounts due from shareholders | (16) | 341,414 | 5,065 | 1,686 |
| IV. Accounts due from tax authorities | (17) | 70,426 | 17,575 | 10,372 |
| V. Other short-term assets and receivables | (18) | 299,359 | 285,564 | 117,819 |
| VI. Securities | (36) | 2,999,550 | 0 | 680,965 |
| VII. Cash and cash equivalents | (19) | 6,248,783 | 213,843 | 2,002,436 |
| VIII. Cash and cash equivalents with limitation on disposal | (20) | 45,320 | 31,320 | 56,920 |
| IX. Deferred charges and pre-paid expenses | (21) | 69,109 | 95,503 | 0 |
| B. Non-current assets | | 2,676,173 | 1,353,237 | 905,774 |
| I. Intangible assets | (22) | 1,235,731 | 445,933 | 311,502 |
| II. Property, plant and equipment | (23) | 773,311 | 495,716 | 371,154 |
| III. Deferred tax assets | (10) | 667,131 | 411,588 | 223,118 |
| Assets | | 14,986,322 | 2,522,613 | 4,325,965 |
| A. Current liabilities | | 5,748,008 | 4,792,255 | 2,613,424 |
| I. Tax provisions | (24) | 0 | 0 | 36,738 |
| II. Other provisions | (25) | 406,138 | 194,811 | 156,000 |
| III. Liabilities to shareholders | (26) | 14,052 | 422,241 | 61,450 |
| IV. Payments in advance | (27) | 8,103 | 26,661 | 0 |
| V. Trade accounts payable | (28) | 1,395,022 | 991,751 | 547,915 |
| VI. Short-term liabilities from finance leases | (29) | 287,796 | 189,503 | 0 |
| VII. Liabilities from Percentage-of-Completion | (30) | 454,646 | 14,113 | 63,101 |
| VIII. Derivative financial instruments | (36) | 2,265,668 | 2,203,767 | 1,464,711 |
| IX. Other short-term liabilities | (31) | 724,650 | 670,755 | 283,509 |
| X. Deferred charges | (32) | 191,933 | 78,653 | 0 |
| B. Non-current liabilities | | 3,642,118 | 3,290,803 | 2,470,493 |
| I. Other long-term provisions and accrued liabilities | (25) | 147,621 | 77,113 | 72,115 |
| II. Liabilities from financial leasing | (29) | 341,258 | 375,676 | 0 |
| III. Other long-term liabilities | (31) | 2,486,108 | 2,426,426 | 2,175,260 |
| IV. Deferred charges | (10) | 667,131 | 411,588 | 223,118 |
| C. Equity | | 5,596,196 | -5,560,445 | -757,952 |
| I. Subscribed capital | (33) | 1,413,936 | 130,920 | 130,082 |
| II. Capital surplus | (33) | 23,702,071 | 9,403,940 | 9,113,864 |
| III. Accumulated losses brought forward from previous year | (33) | -15,095,305 | -10,001,898 | -7,543,086 |
| IV. Net loss | (33) | -4,424,506 | -5,093,407 | -2,458,812 |
| Liabilities and shareholder equity | | 14,986,322 | 2,522,613 | 4,325,965 |

Cash flow statement for the financial year 1 January to 31 December 2006

| | 2006 <u>(01.01.-31.12.)</u> € | 2005 <u>(01.01.-31.12.)</u> € | 2004 <u>(01.01.-31.12.)</u> € |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| Cash flow from ordinary operations | | | |
| Result before taxes | -4,313,395 | -5,023,407 | -2,422,074 |
| + Net interest income | 215,961 | 327,250 | 482,602 |
| + Depreciation of intangible assets, property, plant and equipment | 469,680 | 301,234 | 261,710 |
| + Expenses from share option programme | 616,586 | 290,075 | 142,589 |
| + Changes in allowances | 57,803 | 11,259 | 24,195 |
| - Proceeds from the sale of assets | -128 | -15,643 | -13 |
| -/+ Profits/ losses from market valuation of derivatives | 61,901 | 739,057 | -915,086 |
| +/- Other expenses/income not affecting cash, net | <u>-30,222</u> | <u>43,382</u> | <u>0</u> |
| Changes to operating result before working capital | <u>-2,921,814</u> | <u>-3,326,793</u> | <u>-2,426,077</u> |
| + Changes to short- and long-term provisions | 268,973 | 37,924 | 161,515 |
| -/+ Changes to trade accounts receivable | -1,118,187 | 192,228 | -277,195 |
| - Changes to inventories | -655,300 | -174,000 | -96,200 |
| -/+ Changes to other assets | -350,144 | -171,124 | -53,196 |
| -/+ Changes to deferred charges and prepaid expenses | 26,394 | -95,503 | 0 |
| + Changes to trade accounts payable | 403,271 | 443,836 | 34,498 |
| +/- Changes to liabilities to shareholders | -408,189 | 360,791 | 61,450 |
| + Changes to other liabilities | 370,147 | 476,055 | 16,384 |
| +/- Changes to deferred charges | <u>-70,020</u> | <u>0</u> | <u>0</u> |
| Cash flow from ordinary operations before income taxes | <u>-4,454,869</u> | <u>-2,256,586</u> | <u>-2,578,821</u> |
| - Income taxes paid | -163,963 | -113,941 | 26,258 |
| Cash flow from ordinary operations | <u>-4,618,832</u> | <u>-2,370,527</u> | <u>-2,552,563</u> |
| Cash flow from investment activity | | | |
| - Payments for property, plant and equipment and intangible assets | -1,237,651 | -326,561 | -430,298 |
| + Proceeds from the disposal of securities and pledged bank credits | 0 | 706,565 | 0 |
| - Payments for the acquisition of securities and pledged bank credits | -3,013,550 | 0 | -711,885 |
| + Proceeds from the sale of assets | <u>133</u> | <u>7,907</u> | <u>1,500</u> |
| Cash flow from investment activity | <u>-4,251,068</u> | <u>387,911</u> | <u>-1,140,683</u> |
| Cash flow from financial activity | | | |
| + Payments by shareholders | 16,046,864 | 0 | 0 |
| + Interest income | 224,105 | 29,120 | 83,466 |
| + Proceeds from sale and lease back | 183,300 | 369,513 | 0 |
| - Repayment of liabilities from financial leasing | -276,916 | -15,928 | 0 |
| - Costs of issuing equity | -1,082,303 | 0 | 0 |
| - Interest paid and other expenses | -190,210 | -189,520 | -189,515 |
| + Share option programme | <u>0</u> | <u>838</u> | <u>0</u> |
| Cash flow from financial activity | <u>14,904,840</u> | <u>194,023</u> | <u>-106,049</u> |
| Net increase/decrease in cash and cash equivalents | <u>6,034,940</u> | <u>-1,788,593</u> | <u>-3,799,295</u> |
| Net changes to cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of reporting period | 213,843 | 2,002,436 | 5,801,731 |
| Cash and cash equivalents at end of reporting period | <u>6,248,783</u> | <u>213,843</u> | <u>2,002,436</u> |
| Net changes to cash and cash equivalents | <u>6,034,940</u> | <u>-1,788,593</u> | <u>-3,799,295</u> |

Important transactions not affecting cash

Sale & Lease Back — Financial year 2005

Sale and Lease Back transactions in the financial year 2005 generated funds in the amount of € 369,513 and an increase in fixed assets of € 11,455. In accordance with International Financial Reporting Standards (IFRS), the resulting book profit in the amount of € 94,000 is deferred over the term of the lease. Under the subsequent financial leasing agreement, an additional € 28,443,35 of fixed assets included in the Sale and Lease Agreement Back had no relevance for the cash position. Furthermore, the term of the contract was extended, which increased the financial leasing obligations to an additional amount of € 43,382.

Sale & Lease Back — Financial year 2006

Under the financial leasing agreement, € 41,749 of fixed assets included in the Sale and Lease Back Agreement were purchased without affecting the cash position. Furthermore, lease rents were increased leading to an additional income of € 30,222. The resulting profit in the amount of € 183,300 is deferred over the term of the lease in accordance with IFRS.

Statement of changes in Equity for the financial year 1 January to 31 December 2006

| | <u>Subscribed capital</u> | <u>Capital surplus</u> | <u>Net Accumulated loss</u> | <u>TOTAL</u> |
|----------------------------------|---------------------------|------------------------|-----------------------------|-------------------|
| | € | € | € | € |
| POSITION 01.01.2004 | 130,082 | 8,971,275 | -7,543,086 | 1,558,271 |
| Net result | | | -2,458,812 | -2,458,812 |
| Allocation from option programme | | 142,589 | | 142,589 |
| POSITION 31.12.2004 | 130,082 | 9,113,864 | -10,001,898 | -757,952 |
| Net result | | | -5,093,407 | -5,093,407 |
| Allocation from option programme | | 290,075 | | 290,075 |
| Exercise of option rights | 838 | | | 838 |
| POSITION 31.12.2005 | 130,920 | 9,403,940 | -15,095,305 | -5,560,445 |
| Net result | | | -4,424,506 | -4,424,506 |
| Allocation from option programme | | 616,586 | | 616,586 |
| Capital increase on cash from 17 | | | | |
| January | 1,047,360 | | | 1,047,360 |
| Capital increase on cash from 04 | | | | |
| April | 235,656 | 14,763,848 | | 14,999,504 |
| Costs of capital issuance | | -1,082,303 | | -1,082,303 |
| POSITION 31.12.2006 | 1,413,936 | 23,702,071 | -19,519,811 | 5,596,196 |

Statement of assets for the financial year 1 January 2006 to 31 December 2006

| | Acquisition or production cost (€) | | | | Accumulated depreciation (€) | | | | Book value (€) | |
|--|------------------------------------|----------------|----------------|------------------|------------------------------|--------------------------------|------------------------------|-----------------|------------------|----------------|
| | 01.01.2006 | Additions | Disposals | 31.12.2006 | 01.01.2006 | Depreciation financial year | Depreciation on disposals | 31.12.2006 | 31.12.2006 | 31.12.2005 |
| | | | | | | | | | | |
| A. Intangible assets | | | | | | | | | | |
| Software | 181,977 | 98,807 | -55,550 | 225,234 | -31,380 | -82,087 | 55,550 | -57,917 | 167,317 | 150,597 |
| Patents and Licences | 48,132 | 11,401 | — | 59,533 | -46,788 | -895 | — | -47,683 | 11,850 | 1,344 |
| Intangible assets from own production | 391,923 | 840,957 | — | 1,232,880 | -97,931 | -78,385 | — | -176,316 | 1,056,564 | 293,992 |
| Intangible assets | 622,032 | 951,165 | -55,550 | 1,517,647 | -176,099 | -161,367 | 55,550 | -281,916 | 1,235,731 | 445,933 |
| B. Property, plant and equipment | | | | | | | | | | |
| Technical equipment, plant and machinery | 44,232 | 18,670 | — | 62,902 | -31,039 | -5,376 | — | -36,415 | 26,487 | 13,193 |
| Other equipment, fixtures and fittings | 200,768 | 267,815 | -49,866 | 418,717 | -147,083 | -77,329 | 49,861 | -174,551 | 244,166 | 53,685 |
| Other equipment, fixtures and fittings from financial leasing | 516,790 | 299,427 | — | 816,217 | -87,952 | -225,607 | — | -313,559 | 502,658 | 428,838 |
| Property, plant and equipment | 761,790 | 585,912 | -49,866 | 1,297,836 | -266,074 | -308,312 | 49,861 | -524,525 | 773,311 | 495,716 |

Statement of assets for the financial year 1 January 2005 to 31 December 2005

| | Acquisition or production cost (€) | | | | | Accumulated depreciation (€) | | | | | Book value (€) | | |
|---|------------------------------------|----------------|-----------------|-----------|----------------|------------------------------|--------------------------------|------------------------------|------------------------------|-----------------|----------------|----------------|--|
| | 01.01.2005 | Additions | Disposals | Transfers | 31.12.2005 | 01.01.2005 | Depreciation financial year | Depreciation on disposals | Depreciation on transfers | 31.12.2005 | 31.12.2005 | 31.12.2004 | |
| | | | | | | | | | | | | | |
| A. Intangible assets | | | | | | | | | | | | | |
| Software | 30,820 | 118,168 | -384 | 33,373 | 181,977 | -12,023 | -19,741 | 384 | — | -31,380 | 150,597 | 18,797 | |
| Patents and licences | 48,132 | 0 | — | — | 48,132 | -44,439 | -2,349 | — | — | -46,788 | 1,344 | 3,693 | |
| Intangible assets from own production | 294,641 | 97,282 | — | — | 391,923 | -39,002 | -58,929 | — | — | -97,931 | 293,992 | 255,639 | |
| Payments on account | 33,373 | — | — | -33,373 | 0 | 0 | — | — | — | 0 | 0 | 33,373 | |
| Intangible assets | 406,966 | 215,450 | -384 | 0 | 622,032 | -95,464 | -81,019 | 384 | 0 | -176,099 | 445,933 | 311,502 | |
| B. Property, plant and equipment | | | | | | | | | | | | | |
| Technical equipment, plant and machinery | 385,388 | 17,463 | -358,619 | — | 44,232 | -197,768 | -36,407 | 203,136 | — | -31,039 | 13,193 | 187,620 | |
| Other equipment, fixtures and fittings | 394,278 | 93,648 | -287,158 | — | 200,768 | -210,744 | -95,856 | 159,517 | — | -147,083 | 53,685 | 183,534 | |
| Other equipment, fixtures and fittings from financial leasing | 0 | 516,790 | — | 0 | 516,790 | — | -87,952 | — | — | -87,952 | 428,838 | 0 | |
| Property, plant and equipment | 779,666 | 627,901 | -645,777 | 0 | 761,790 | -408,512 | -220,215 | 362,653 | 0 | -266,074 | 495,716 | 371,154 | |

Statement of assets for the financial year 1 January 2004 to 31 December 2004

| | Acquisition or production cost (€) | | | | Accumulated depreciation | | | Book value (€) | | |
|--|------------------------------------|----------------|-----------------|----------------|--------------------------|-----------------------------|---------------------------|-----------------|----------------|----------------|
| | 01.01.2004 | Additions | Disposals | 31.12.2004 | 01.01.2004 | Depreciation financial year | Depreciation on disposals | 31.12.2004 | 31.12.2004 | 31.12.2003 |
| A. Intangible assets | | | | | | | | | | |
| Software | 14,026 | 31,093 | -14,299 | 30,820 | -6,675 | -19,647 | 14,299 | -12,023 | 18,797 | 7,351 |
| Patents and licences | 48,132 | — | — | 48,132 | -34,813 | -9,626 | — | -44,439 | 3,693 | 13,319 |
| Intangible assets from own production | 195,012 | 99,629 | — | 294,641 | — | -39,002 | — | -39,002 | 255,639 | 195,012 |
| Payments on account | — | 33,373 | — | 33,373 | — | — | — | 0 | 33,373 | 0 |
| Intangible assets | 257,170 | 164,095 | -14,299 | 406,966 | -41,488 | -68,275 | 14,299 | -95,464 | 311,502 | 215,682 |
| B. Property, plant and equipment | | | | | | | | | | |
| Technical equipment, plant and machinery | 287,454 | 97,934 | — | 385,388 | -134,360 | -63,408 | — | -197,768 | 187,620 | 153,094 |
| Other equipment, fixtures and fittings | 413,436 | 168,269 | -187,427 | 394,278 | -266,659 | -130,027 | 185,942 | -210,744 | 183,534 | 146,777 |
| Property, plant and equipment | 700,890 | 266,203 | -187,427 | 779,666 | -401,019 | -193,435 | 185,942 | -408,512 | 371,154 | 299,871 |

Segment reporting for the financial year 1 January 2005 to 31 December 2006

| | A-Series (€) | | | C- Series (€) | | | JDA (€) | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 31.12.2006 | 31.12.2005 | 31.12.2004 | 31.12.2006 | 31.12.2005 | 31.12.2004 | 31.12.2006 | 31.12.2005 | 31.12.2004 |
| Assets | 1,221,670 | 353,767 | 255,550 | 223,025 | 80,059 | 54,780 | 516,904 | 444,865 | 362,555 |
| Inventories | 878,535 | 343,075 | 197,025 | 0 | 0 | 0 | 0 | 0 | 0 |
| Trade accounts receivable | 877,530 | 157,803 | 78,059 | 259,547 | 2,256 | 38,113 | 162,768 | 1,102 | 199,530 |
| Other segment assets | 124,431 | 167,414 | 0 | 22,716 | 37,886 | 0 | 341,414 | 0 | 0 |
| Securities, cash and cash equivalents | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Segment assets | 3,102,166 | 1,022,059 | 530,634 | 505,288 | 120,201 | 92,893 | 1,021,086 | 445,967 | 562,085 |
| | 01.01. - 31.12.2006 | 01.01. - 31.12.2005 | 01.01. - 31.12.2004 | 01.01. - 31.12.2006 | 01.01. - 31.12.2005 | 01.01. - 31.12.2004 | 01.01. - 31.12.2006 | 01.01. - 31.12.2005 | 01.01. - 31.12.2004 |
| Sales | 4,067,395 | 1,088,640 | 469,989 | 742,534 | 246,364 | 100,748 | 1,720,966 | 1,528,783 | 666,785 |
| Production costs | -5,200,507 | -1,778,807 | -1,018,451 | -227,234 | -79,677 | -126,778 | -641,417 | -606,504 | -275,930 |
| Gross margin | -1,133,112 | -690,167 | -548,462 | 515,300 | 166,687 | -26,030 | 1,079,549 | 922,279 | 390,855 |

| | Power Manager (€) | | | Other products (€) | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 31.12.2006 | 31.12.2005 | 31.12.2004 | 31.12.2006 | 31.12.2005 | 31.12.2004 |
| Assets | 21,770 | 0 | 0 | 25,673 | 62,958 | 9,771 |
| Inventories | 34,829 | 0 | 0 | 12,636 | 11,625 | 11,675 |
| Trade accounts receivable | 0 | 0 | 0 | 10,343 | 4,645 | 25,591 |
| Other segment assets | 0 | 0 | 0 | 0 | 5,065 | 1,686 |
| Securities, cash and cash equivalents | 0 | 0 | 0 | 0 | 0 | 0 |
| Segment assets | 56,599 | 0 | 0 | 48,652 | 84,293 | 48,723 |
| | 01.01. - 31.12.2006 | 01.01. - 31.12.2005 | 01.01. - 31.12.2004 | 01.01. - 31.12.2006 | 01.01. - 31.12.2005 | 01.01. - 31.12.2004 |
| Sales | 226,397 | 0 | 0 | 266,979 | 431,583 | 78,702 |
| Production costs | -81,551 | 0 | 0 | -343,880 | -362,256 | -109,017 |
| Gross margin | 144,846 | 0 | 0 | -76,901 | 69,327 | -30,315 |

| | Unallocated Items (€) | | | Annual Financial Statement (€) | | |
|--|-----------------------|---------------------|---------------------|--------------------------------|---------------------|---------------------|
| | 31.12.2006 | 31.12.2005 | 31.12.2004 | 31.12.2006 | 31.12.2005 | 31.12.2004 |
| Assets | 0 | 0 | 0 | 2,009,042 | 941,649 | 682,656 |
| Inventories | 0 | 0 | 0 | 926,000 | 354,700 | 208,700 |
| Trade accounts receivable | 0 | 0 | 0 | 1,310,188 | 165,806 | 341,293 |
| Other segment assets | 958,878 | 604,930 | 351,309 | 1,447,439 | 815,295 | 352,995 |
| Securities, cash and cash equivalents | 9,293,653 | 245,163 | 2,740,321 | 9,293,653 | 245,163 | 2,740,321 |
| Segment assets | 10,252,531 | 850,093 | 3,091,630 | 14,986,322 | 2,522,613 | 4,325,965 |
| | 01.01. - 31.12.2006 | 01.01. - 31.12.2005 | 01.01. - 31.12.2004 | 01.01. - 31.12.2006 | 01.01. - 31.12.2005 | 01.01. - 31.12.2004 |
| Sales | 0 | 0 | 0 | 7,024,271 | 3,295,370 | 1,316,224 |
| Production costs | 0 | 0 | 0 | -6,494,589 | -2,827,244 | -1,530,176 |
| Gross margin | 0 | 0 | 0 | 529,682 | 468,126 | -213,952 |
| Operating costs not attributable to products | -4,565,216 | -4,425,227 | -2,640,605 | -4,565,216 | -4,425,227 | -2,640,605 |
| Operating result | -4,565,216 | -4,425,227 | -2,640,605 | -4,035,534 | -3,957,101 | -2,854,557 |
| Financial result | -277,861 | -1,066,306 | 432,483 | -277,861 | -1,066,306 | 432,483 |
| Result from ordinary operations | -4,843,077 | -5,491,533 | -2,208,122 | -4,313,395 | -5,023,407 | -2,422,074 |
| Income taxes | -111,111 | -70,000 | -36,738 | -111,111 | -70,000 | -36,738 |
| Result after taxes | -4,954,188 | -5,561,533 | -2,244,860 | -4,424,506 | -5,093,407 | -2,458,812 |

Notes

For the financial year 1 January 2006 to 31 December 2006

1. General information

SFC Smart Fuel Cell AG¹ (henceforth “SFC” or “the Company”) was set up by Articles of Association dated 10 December 1999 under the name Gigantus Vermögensverwaltung GmbH, Hallbergmoos, Germany, and registered on 21 December 1999 in the Companies Register of the local court in Munich under the number B 128831.

The shareholder’s meeting on 28 February 2000 approved the restatement of the Articles of Association and the change of name to SFC Smart Fuel Cell GmbH. The purpose of the company was amended as follows: “The purpose of the company is the development and marketing of energy supply systems and their components for grid-independent machines on the basis of fuel cell technology. The company may form or buy, acts as agents for, invest in or set up branch companies of a similar nature.” The registered office of the company was transferred to Brunthal near Munich.

On 14 May 2002, the shareholders of SFC Smart Fuel Cell GmbH, Manfred Stefener, Jakob-Hinrich Leverkus, Michael Negel, PRICAP Venture Partners AG, 3i Group Investments L.P. and SOHO GmbH, resolved to transform the company into a public company (Aktiengesellschaft) to be called SFC Smart Fuel Cell AG.

Accounting principles

The annual financial statements to 31 December 2006 and for 2005 and 2004 were prepared in accordance with International Financial Reporting Standards (IFRS). The IFRS include the IFRS statement approved by the International Accounting Standards Board, the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

This is an individual financial statement of the company, since there are no subsidiaries. All valid Standards in force for the financial year 2006 and for the comparison years 2005 and 2004, were applied. The annual financial statement provides an accurate statement of the assets, financial and earnings of SFC. As described below, Standards were occasionally applied even before they had come into force.

The financial year for the company is equivalent to the calendar year (1 January to 31 December).

The annual financial statement is shown in Euros (€). The Notes in this appendix are also made in Euros (€) unless otherwise indicated. We would like to point out that differences can arise from the use of rounded amounts and percentages.

The income statement is prepared in accordance with the cost-of-sales method. The additional notes to material and personnel costs are shown separately in the Notes.

The annual financial statement will be published by the Board on 4 April 2007.

Accounting standards applied

For the financial year 2006 and the comparative financial years 2005 and 2004, all relevant accounting standards were applied which are compulsory for all financial years beginning on or after 1 January 2006. This includes, in addition to the actual IAS, the following in particular:

- IFRS 1 “First-time adoption of IFRS”
- IFRS 2 “Share-based payment”

(1) The company’s registered office is Eugen-Sänger-Ring 4, 85649 Brunthal, Germany.

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

- IFRS 8 “Operating Segments”

The following standards and interpretations have already been published but are not yet obligatory and were not applied in advance:

- Amendments to IAS 1 “Presentation of Financial Statements”: The additional disclosure requirements outlined in IAS 1 “Presentation of Financial Statements” were not used in these accounts. The changes are for financial years beginning on or after 1 January 2007.
- IFRS 7 “Financial Instruments: Disclosures” (obligatory for financial years beginning on or after 1 January 2007): IFRS 7 strengthens and extends disclosure obligations for financial instruments. No substantial effects on the presentation of the assets, financial and earnings situation is expected when this is applied for the first time.
- IFRIC 7 “Applying the Restatement Approach under IAS 29” “Financial Reporting in Hyperinflationary Economies”: This interpretation is not obligatory until financial statements beginning on or after 1 January 2007. No substantial effects on the presentation of the assets, financial and earnings situation is expected when this is applied for the first time.
- IFRIC 8 “Scope of IFRS 2”: This interpretation is not obligatory until financial statements beginning on or after 1 May 2006. No substantial effects on the presentation of the assets, financial and earnings situation is expected when this is applied for the first time.
- IFRIC 9 “Reassessment of Embedded Derivatives”: This interpretation is not obligatory until financial statement beginning on or after 1 June 2006. No substantial effects on the presentation of the assets, financial and earnings situation is expected when this is applied for the first time.
- IFRIC 10 “Interim Financial Reporting and Impairment”: This interpretation is not obligatory until financial statement beginning on or after 1 November 2006. No substantial effects on the presentation of the assets, financial and earnings situation is expected when this is applied for the first time.
- IFRIC 11 “Group and Treasury Share Transactions”: This interpretation is not obligatory until financial statement beginning on or after 1 March 2007. No substantial effects on the presentation of the assets, financial and earnings situation is expected when this is applied for the first time.

The following standards were not applied as they are not relevant for the company:

- IFRS 3 “Business Combinations”
- IFRS 4 “Insurance Contracts”
- IFRS 5 “Non-current assets held for sale and discontinued operations”
- IFRS 6 “Exploration for and evaluation of mineral resources”
- IAS 26 “Accounting and reporting by retirement benefit plans”
- IAS 27 “Consolidated and separate financial statements”
- IAS 28 “Investments in Associates”
- IAS 29 “Financial Reporting in hyperinflationary economies”
- IAS 30 “Disclosures in the financial statements of banks and similar financial institutions”
- IAS 34 “Interim financial reporting”
- IAS 40 “Investment property”
- IAS 41 “Agriculture”

If these Standards had been applicable, they would have been used.

First-time application of IFRS

The annual financial statement of SFC to 31 December 2006 is the first IFRS financial statement in the sense of IFRS 1 “First time adoption of International Financial Reporting Standard”. Until this point, financial statements had been issued in accordance with the requirements of the German Commercial Code (HGB).

The financial statement includes two full financial years for comparison, the financial years 2004 and 2005.

The transition date to the sense of IFRS 1 “First time adoption of International Financial Reporting Standard” is 1 January 2004.

In accordance with IFRS 1 “First time adoption of International Financial Reporting Standard”, the transition of accounting and valuation to the IFRS Standards to 1 January 2004 is to be carried out as if IFRS Standards had always been applied. As an exemption to this fully retrospective application of IFRS Standards applicable at reporting date IFRS 1 “First time adoption of International Financial Reporting Standard” avails an option to take advantage of exemptions available during the transition period (“IFRS first-time balance sheet”). SFC has applied this to IFRS 2 “Share-based payment” and we draw attention to the Notes on share-based payments under Note 37.

The effects of transition from existing accounting methods under HGB to those under IFRS with respect to the assets, financial and earnings position of the company is shown below:

Reconciliation of equity

| | <u>01.01.2004</u> | <u>31.12.2006</u> |
|--------------------------------------|-------------------------|-------------------------|
| | in € | |
| Equity under HGB | 4,466,862 | 8,294,143 |
| Silent partnership | -1,671,353 | -2,237,462 |
| Setting off of set-up expenses | -1,434,000 | -969,500 |
| Development costs | 0 | 766,523 |
| Development of orders | 0 | -454,646 |
| Activation of patents | 195,012 | 290,041 |
| Sale and Lease Back | 0 | -318,329 |
| Other | 1,750 | 225,427 |
| Deferred taxes | <u>0</u> | <u>0</u> |
| Equity under IFRS | <u>1,558,271</u> | <u>5,596,196</u> |

Reconciliation of accrued result

| | <u>01.01.2006-</u> <u>31.12.2006</u> |
|-----------------------------------|---|
| | in € |
| Result under HGB | -5,569,044 |
| Development costs | 766,523 |
| Setting-off of set-up costs | 664,000 |
| Capital procurement costs | 986,800 |
| Share options | -616,586 |
| Development of orders | -440,533 |
| Silent partnership | -227,305 |
| Sale and Lease Back | -103,335 |
| Activation of patents | -3,951 |
| Other | 118,925 |
| Deferred taxes | <u>0</u> |
| Result under IFRS | <u>-4,424,506</u> |

SFC did not prepare a cash flow statement under the HGB-preparation method and a transition of the cash flow statement is not necessary.

As can be seen in the tables above, the following important effects of the IFRS transition should be noted:

- **Silent partnership:** A detailed description of the contractual conditions can be found under Note 35 “Financial instruments”. In essence, the liability recorded under HGB as a silent partnership needs to be split into two components in accordance with IAS 39 “Financial instruments: recognition and measurement”: the silent partnership itself, which is valued under the effective rate of return method, and the profit-related payment which is classified under IAS 39 “Financial instruments: recognition and measurement” as an embedded separable derivative and is valued at market rate. The effect on equity is demonstrated by this market valuation;

- **Setting-up costs:** The accounting item “Expenses for setting-up and expansion of a business” recognised by the HGB does not meet the definition of an asset under IFRS and is therefore to be eliminated under IFRS;
- **Development costs:** under IAS 38 “Intangible assets”, expenses for internal development can be capitalised and amortised over the length of the expected useful life of the asset. Capitalisation requirements were met for part of the expenses in 2006 and capitalisation took place. Compare also the explanations to “Intangible assets” in Note 2, “Accounting and valuation methods”;
- **Project development:** Under the Joint Development Agreements (“JDA”), SFC carries out project development services. Sales resulting from these contracts are made in accordance with IAS 11 under the partial profits realisation method. See also “Realisation of sales” under Note 2 “Accounting and valuation methods”;
- **Patents:** External fees and costs in connection with the registration of internally developed patents are shown under IAS 38 “Intangible assets” as directly attributable production costs from patents and depreciated over the length of their estimated useful life of five years. Internal costs were not allocated to these patents as they are not directly attributable to the patents;
- **Sale and Lease back:** In the financial year 2005, SFC sold a part of its assets to Comprendium Leasing Beteiligungs GmbH and then leased them back. The leasing contract is classified as financial lease under the criteria of IAS 17 “Leases”. The assets continue to be recorded by SFC in the balance sheet under assets;
- **Costs of capital issuance:** The costs arising in the financial year 2006 from the third round of financing are set off from equity and against capital reserves according to IAS 32 “Financial instruments: Presentation”;
- **Share options:** An extensive description of the share option programme is included in Note 36 “Share-based remuneration”;
- **Deferred taxes:** We refer here to the notes to “Deferred taxes” under Note 2 “Accounting and Valuation principles” and Note 10 “Income taxes”. Due to the value adjustment of deferred taxes up to the amount of the deferred charges, there is a transition effect on equity as of 1 January 2004.
- **Other:** This refers mainly to the effect on provisions, such as the discounting of long-term provisions or the elimination of provisions for expenses;

Assumptions and estimations

The preparation of the annual financial statements in accordance with IFRS requires management to make certain assumptions which have an effect on valuation of assets and liabilities, statement of eventual receivables and liabilities at balance sheet date and the earnings and expenses disclosed.

Assumptions and estimations refer mainly to:

- Valuation of **provisions**, mainly warranty provisions: estimations by management are used in valuing provisions and careful provision is made for uncertainties by increasing provisions where necessary. In order to value provisions for warranties, it is assumed that the warranty costs will be divided equally over the warranty period of 24 months. Discounting amounts to 4%. For further information, see under Note 24 “Other provisions”.
- **Capitalisation obligation for self-produced intangible assets:** Based on management’s planning and estimation, development costs are capitalised from the financial year 2006. The long-term direction of SFC was secured in the financial year 2006 by the capital increase, which was necessary to generate uses for the results of our development activity. For further information, see “Intangible assets” under Note 2, “Accounting and valuation methods”.
- The use of **deferred taxes**, particularly for losses carried forwards: Tax losses carried forwards do not generate deferred tax credits, since the existence of future taxable burdens to offset tax losses carried forwards cannot be predicted with sufficient certainty.
- Valuation of **embedded derivatives** in investment contracts by silent investors: for more information about embedded derivatives and the assumptions arising therefrom, see the extensive explanations about silent investments under Note 35 “Financial Instruments”.

- Valuation of **share options**: The Company has several share option programmes. For further information about these programmes, their basis and the resulting expenses, see Note 36 “Share-based remuneration”.
- **Partial realisation of profits**: SFC carries out development contracts under the Joint Development Agreements (JDA). With respect to income disclosure, we refer to Note 2 “Accounting and Valuation methods” and with regard to book value to Note 29 “Liabilities from Percentage-of-Completion”.

Actual amounts arising in other periods can vary from estimations. Changes are reflected in financial statements as soon as this becomes apparent.

Currency conversion

Foreign currency transactions arising from the company’s business activities are converted by SFC into Euros for the purposes of the company’s annual financial statement. Currency conversion is made on the basis of IAS 21 “The effects of changes in foreign exchange rates” and the daily applicable exchange rate. Profits or losses arising from currency conversion are included in the accounts

2. Accounting and Valuation principles

Realisation of sales

The company’s sales comes mainly from the sale of products in the A-series and Joint Development Agreements (JDA). The so-called A-series and the follow-up product EFOY are series-produced goods used in the leisure sector, primarily for caravans and boats. The Joint Development Agreements are product development contracts carried out by the company together with different public and private clients. SFC develops fuel cells customised to the needs of the client.

Sales are also generated from the sale of prototypes, the so-called C-series, fuel cartridges and other products.

Long-term development contracts are recognised using the Percentage-of-Completion Method (PoC method). The percentage of a contract completed is calculated per order by setting the ratio of costs incurred against the estimated total cost (Cost-to-Cost method). Where the result from a production order is not able to be calculated with certainty, income is calculated in the amount of production (Zero-Profit method). Accounting of orders is made for receivables or liabilities by Percentage-of-Completion. Where accumulated performance (production costs incurred plus profits shown) exceeds individual advance payments, this amount is included under production orders by Percentage-of-Completion method. If there is a negative result after deduction of advance payments, this amount is included under liabilities by Percentage-of-Completion method.

Other turnover is shown at point of transfer to customer or to the person responsible for transport i.e. at the time when the transfer of the economic value is made to the customer, so long as the amount of income can be reliably calculated, an economic value will flow and the costs involved in selling the item can be reliably calculated. Turnover is shown at the value of contribution for the sale and the delivery of the product to the customer.

Realisation of expenses

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

Intangible assets

Intangible assets acquired for money are shown at acquisition cost less linear depreciation on a scheduled basis over the estimated useful life of the asset.

Depreciation periods are as follows:

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

There are no intangible assets with an indefinite useful life.

Development costs are shown in accordance with IAS 38 “Intangible assets”, if a newly developed asset value can be clearly defined, is technically possible and intended either for own use or is to be marketed. Inclusion in the balance sheet presumes that it is likely that the development costs will be covered by future financial profits and the development expenses can be reliably valued. Development costs included in the accounts are depreciated as scheduled over the useful life of the asset. Where requirements for inclusion are not met, they are included as expenses in the year in which they arise. Research costs are expensed as incurred under IAS 38 “Intangible assets”.

Customising costs for ERP-Software are allocated to development costs under intangible assets. Depreciation is made on a straight line basis over the expected useful life of the ERP-Software.

Property, plant and equipment

Property, plant and equipment is shown at cost, less depreciation in accordance with its estimated useful life. Acquisition costs include individual costs and an appropriate proportion of general costs.

Depreciation of property, plant and equipment is made on a linear basis. Depreciation periods are:

- Technical plant and machinery 3-8 Years
- Other equipment, fixtures and fittings 3-13 Years

For information about accounting of assets from leasing, see under “Leasing”.

Cost of borrowing

In accordance with IAS 23 borrowing costs were not capitalised.

Impairment of assets

The value retention of book values of intangible assets and fixed assets is checked on the basis of future payments expected from the use of the asset (discounted by a risk-adjusted interest rate) and of the net sale price by means of an impairment test, if events or market developments suggest a correction of the estimated useful life or a reduction in value. Furthermore, an annual check for value reduction must be made for intangible assets not yet able to be used. Should the net book value of an asset be higher than the realisable amount (higher value from value from use of asset or net sale value), an impairment charge will be made. In calculating expected future payments, account is taken of actual and predicted income levels, and sector-specific, technological, economic and general developments. Should the basis of a previous impairment no longer be valid, an appreciation on historical costs should be made.

In the financial years 2004, 2005 and 2006, no impairment charge were made for intangible assets or for property, plant and equipment.

Leasing

Leasing contracts are classified as finance leases, when the lease transfers all important risks and rewards of ownership to the lessee. All other leasing contracts where economic ownership remains with the lessor classified as Operate Leases.

The company concluded a Sale and Lease Back Agreement which is a finance lease. At contract date, asset value is set at the amount of the cash value of the minimum leasing payments and included as a liability in the accounts at that amount. Normally, asset values are depreciated on a scheduled basis over the shorter of useful life or length of contract. Leasing payments are divided into interest and repayment. Income from the sale is limited and amortised on a straight-line basis along the expected useful life of the asset.

Changes to the leasing agreement are treated as changes to estimates in the sense of IAS 8 “Accounting policies, changes in accounting, estimates and errors”, unless they lead to another classification.

The rental and leasing payments from the SFC Operating Leases were shown in the accounts on a straight-line basis for the term of the contract. The leasing assets are shown in the balance sheet of the lessor.

Inventories

Raw materials, and supplies are stated at the time of acquisition at acquisition price plus supplementary acquisition costs less acquisition cost adjustments. Finished goods and work in progress are shown at production price, including directly attributable costs and general production and materials costs.

Generally, inventories are valued in consideration of the expected net sale value at balance sheet date. The depreciation method of weighted average was used.

Receivables and other assets

Receivables and other assets are stated at amortised cost. Allowances are made for identifiable individual risks by appropriate value adjustments.

Public grants

Public subsidies are granted for research and development activities by SFC.

Grants for assets are shown as a reduction in acquisition or production costs of the asset involved. In this case, the grants are shown as a reduction in research and development costs and in general administration costs.

Income from grants, which does not apply to the development costs shown in the accounts, is included as other operating income directly in the accounts in the periods for which the expenses for which the grant was made arose.

Deferred taxes

Deferred taxes are shown under the balance-sheet oriented liability method in accordance with IAS 12 “Income taxes” for all temporary differences between tax accounting values and IFRS accounting values. In accordance with IAS 12.34, deferred taxes recognised for losses carried forwards are only set aside in the amount for which it is anticipated that there will be sufficient future taxable profits for the losses carried forwards to be set off.

Deferred taxes on the liabilities side are determined on the basis of tax rates applicable at the time of realisation.

Provisions

Provisions are recorded in accordance with IAS 37 “Provisions, contingent liabilities and contingent assets” if there is a current obligation to a third party from a past event which will probably lead to a future outflow of resources and can be reliably determined. This means that the future outflow is more likely than not. Provisions are recorded for recognisable and unknown liabilities in the amount they are likely to cost and are not set off against claims for recourse. Other long-term provisions are discounted. The settlement amount includes cost increases to be taken into consideration at balance sheet date.

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

Debts and liabilities

In accordance with IAS 39 “Financial instruments: recognition and measurement”, financial liabilities are included in the accounts at market value at the time they arise, normally at acquisition price and on the basis of the effective rate of return method. The effective rate of return is the interest that these payments discount the liability from acquisition cost. Debts result from two silent investments in the company.

Separable embedded derivatives are capitalised at Fair Value and shown as “derivatives with negative market value” in the balance sheet.

Trade accounts payable and other liabilities are capitalised at repayment amount.

Securities

Corporate bonds and mortgage bonds held by the company were voluntarily allocated to the category Fair Value through profit and loss, whereby the securities are valued at each balance sheet date at their current rate as shown on bank statements. Value variations are included in the result for the period. Regular purchases and sales are valued at the date of trade.

3. Income Statement

(1) Sales

Sales is shown as follows:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|------------------------|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Sales | 7,024,271 | 3,295,370 | 1,316,224 |
| thereof from PoC | 1,720,966 | 1,528,783 | 666,785 |

For division of turnover between the products, see the segment reporting and the explanations under Note 40 “Segment reporting” in this appendix

(2) Production costs

Production costs are as follows:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|-------------------------|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Cost of materials | 4,535,945 | 1,461,202 | 577,316 |
| Personnel costs | 1,145,749 | 701,435 | 450,196 |
| Warranties | 228,578 | 73,035 | 158,515 |
| Depreciation | 175,346 | 123,117 | 59,057 |
| Transport costs | 142,815 | 83,291 | 56,741 |
| Cost of premises | 104,961 | 87,038 | 62,857 |
| Consultancy | 43,208 | 114,002 | 97,304 |
| Other | 117,987 | 184,124 | 68,190 |
| Total | <u>6,494,589</u> | <u>2,827,244</u> | <u>1,530,176</u> |

(3) Sales Costs

Sales costs are made up as follows:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|------------------------------------|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Personnel costs | 1,326,642 | 680,620 | 271,156 |
| Advertising and travel costs | 1,185,400 | 227,282 | 261,352 |
| Consultancy/commissions | 358,368 | 100,067 | 237,127 |
| Other | 274,375 | 133,067 | 146,258 |
| Total | <u>3,144,785</u> | <u>1,141,036</u> | <u>915,893</u> |

(4) Research and development costs

Research and development costs are made up as follows:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|--|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Personnel costs | 1,269,326 | 1,544,252 | 1,166,291 |
| Cost of materials | 536,637 | 810,722 | 571,336 |
| Depreciation | 101,331 | 139,604 | 161,678 |
| Cost of premises | 65,911 | 60,596 | 73,282 |
| Consultancy and patents | 63,578 | 17,115 | 75,304 |
| Office supplies | 32,292 | 50,474 | 41,123 |
| Other | 59,703 | 104,204 | 63,782 |
| Capitalisation of self-produced assets | -766,523 | 0 | 0 |
| Set-off of grants | -923,686 | 0 | 0 |
| Total | <u>438,569</u> | <u>2,726,967</u> | <u>2,152,796</u> |

(5) General administration costs

General administration costs can be broken down as follows:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|--------------------------------------|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Personnel costs | 659,056 | 559,223 | 195,477 |
| Audit and consultancy costs | 171,311 | 180,768 | 56,309 |
| Depreciation | 81,101 | 24,506 | 32,901 |
| Supervisory Board remuneration | 76,250 | 70,349 | 46,270 |
| Travel costs | 21,377 | 45,848 | 18,135 |
| Office supplies | 21,177 | 23,161 | 30,421 |
| Other | 205,719 | 134,707 | -92,570 |
| Set-off against grants | <u>-137,246</u> | <u>0</u> | <u>0</u> |
| Total | <u>1,098,745</u> | <u>1,038,562</u> | <u>286,943</u> |

(6) Other operating income

Other operating income is made up as follows:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|---------------------------------------|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Income from Sale and Lease Back | 105,294 | 15,643 | 0 |
| Income from other periods | 48,349 | 0 | 21,990 |
| Public grants | 0 | 520,552 | 646,290 |
| Change in value of securities | 0 | 7,725 | 31,178 |
| Other | <u>38,830</u> | <u>34,826</u> | <u>49,644</u> |
| Total | <u>192,473</u> | <u>578,746</u> | <u>749,102</u> |

The capitalisation of development costs from the financial year 2006 means that from this point public grants for these development costs are to be set off against the production costs of these capitalised development costs and are no longer to be shown in the income statement as other operating income. Income from Sale and Lease Back refers to the discharge of profits allocated by IFRS from the sale of facilities.

(7) Other operating expenses

Other operating expenses are made up as follows:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|---|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Foreign exchange transaction losses | 59,451 | 31,556 | 33,035 |
| Expenses from other periods | 16,134 | 58,893 | 0 |
| Other | <u>5</u> | <u>6,959</u> | <u>1,040</u> |
| Total | <u>75,590</u> | <u>97,408</u> | <u>34,075</u> |

(8) Interest and similar income

Interest and similar income can be seen in the following table:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|---------------------------------------|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Profit from sale of securities | 156,446 | 13,368 | 56,018 |
| Fixed interest income | 54,525 | 12,431 | 9,729 |
| Changes in value of derivatives | 0 | 0 | 915,086 |
| Other | <u>13,134</u> | <u>3,321</u> | <u>17,718</u> |
| Total | <u>224,105</u> | <u>29,120</u> | <u>998,551</u> |

(9) Interest and similar expenses

Interest and similar expenses can be seen in the following table:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|---------------------------------------|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Interest-like expenses | 252,562 | 169,557 | 379,260 |
| Changes in value to derivatives | 61,900 | 739,057 | 0 |
| Interest on silent partnership | 186,803 | 186,802 | 186,803 |
| Other | 700 | 10 | 5 |
| Total | <u>501,966</u> | <u>1,095,426</u> | <u>566,068</u> |

(10) Income taxes

Income taxes are as follows:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|----------------------|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Current taxes | 111,111 | 70,000 | 36,738 |
| Deferred taxes | 0 | 0 | 0 |
| Total | <u>111,111</u> | <u>70,000</u> | <u>36,738</u> |

Current taxes refer exclusively to foreign taxes from a Joint Development Agreement with LG Chemicals Ltd.

The assessment rate for trade tax (GewSt) for the Brunnthal district is 330. In consideration of the deductibility of trade tax, a trade tax rate of 14.2% results and a total corporate tax rate including corporation tax and solidarity tax for SFC of 36.8%.

The amount of deferred tax assets and deferred tax liabilities side is as follows:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|-----------------------|-----------------------|-----------------------|
| | | in T€ | |
| Tax rate | 36.80% | 36.80% | 36.80% |
| Deferred taxes on the assets side | | | |
| for receivables from contract development | 167,310 | 5,194 | 111,908 |
| for liabilities from finance leasing | 281,651 | 236,930 | 0 |
| for liabilities from derivatives | 833,766 | 810,986 | 539,013 |
| value adjustment for deferred tax assets | -615,595 | -641,522 | -427,804 |
| Total | <u>667,131</u> | <u>411,588</u> | <u>223,118</u> |
| Deferred taxes on the liabilities side | | | |
| for intangible assets | 418,504 | 142,648 | 98,172 |
| for fixed assets from finance leasing | 184,978 | 157,812 | 0 |
| for other assets | 20,132 | 35,145 | 0 |
| for silent shareholdings | 10,380 | 71,249 | 122,780 |
| for provisions | 33,137 | 4,734 | 2,166 |
| Total | <u>667,131</u> | <u>411,588</u> | <u>223,118</u> |

At balance sheet date there were tax losses carried forward in the amount ca. € 18,194,000 (2005: € 13,304,196 and 2004: € 9,148,355) for corporation tax and ca. € 17,215,000 (2005: € 12,511,333 and 2004: € 8,542,294) for trade tax. No deferred taxes were set aside on the assets side for tax losses carried forwards as it could not be proven with sufficient certainty that such tax losses carried forward would be able to be set off against future profits. We draw attention to the explanations to assumptions and estimations in these Notes. The tax losses carried forward refer exclusively to losses carried forwards in Germany, which in principle can be carried over indefinitely.

The tax charge for the year can be reconciled to the loss per income statement as follows:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|----------------|---------------|---------------|
| | in T€ | | |
| Tax rate | 36.80% | 36.80% | 36.80% |
| Net loss | -4,313,395 | -5,023,407 | -2,422,074 |
| Expected tax benefit | -1,587,329 | -1,848,614 | -891,323 |
| Deviations | | | |
| 1. Non-appropriation of deferred taxes on losses carried over on assets side | 1,750,760 | 1,724,621 | 816,628 |
| 2. Taxes for permanent differences — non-deductible expenses .. | 39,396 | 39,396 | 34,965 |
| 3. Taxes for permanent differences — IPO costs | -363,142 | 0 | 0 |
| 4. Non-deductible expense from share options | 226,904 | 106,748 | 52,473 |
| 5. Foreign taxes | 70,222 | 44,240 | 23,218 |
| 6. Other | -25,699 | 3,609 | 776 |
| Tax charge according to income statement | 111,111 | 70,000 | 36,737 |

(11) Cost of materials

The cost of materials is as follows:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|--|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Raw materials and supplies and related goods | 4,893,800 | 2,107,474 | 1,050,994 |
| Related services | 283,685 | 242,384 | 137,996 |
| Set-off against grants | -463,828 | 0 | 0 |
| Total | <u>4,713,657</u> | <u>2,349,858</u> | <u>1,188,990</u> |

(12) Depreciation

Depreciation of assets is detailed in the statement of assets.

The income statement was prepared in accordance with the cost-of-sales method and includes pro rata depreciation for production cost of turnover, cost of sales, research and development costs and general costs of administration.

(13) Personnel expenses

Personnel expenses are as follows:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|---|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Wages and salaries | 2,852,027 | 2,592,167 | 1,571,800 |
| Expenses from share options | 616,586 | 290,075 | 142,589 |
| Legal social security expenses | 514,668 | 386,899 | 266,992 |
| Variables/bonuses | 317,942 | 180,238 | 26,700 |
| Other social security deductions/pensions | 90,127 | 82,003 | 55,079 |
| Other | 9,423 | 26,149 | 19,961 |
| Capitalisation of development costs | -424,404 | 0 | 0 |
| Setting-off of grants | -573,781 | 0 | 0 |
| Capitalisation of software costs | 0 | -72,000 | 0 |
| Total | <u>3,402,587</u> | <u>3,485,530</u> | <u>2,083,120</u> |

The average number of employees was as follows:

| | <u>01.01.-31.12.2006</u> | <u>01.01.-31.12.2005</u> | <u>01.01.-31.12.2004</u> |
|---------------------------|--------------------------|--------------------------|--------------------------|
| Full-time employees | 59 | 47 | 32 |
| Part-time employees | 5 | 1 | 1 |
| Trainees/Graduands | <u>11</u> | <u>20</u> | <u>20</u> |
| Total | <u>75</u> | <u>68</u> | <u>53</u> |

4. Commentary to balance sheet

(14) Inventories

Inventories are made up as follows:

| | <u>31.12.2006</u> | <u>31.12.2005</u> | <u>31.12.2004</u> |
|----------------------------------|-----------------------|-----------------------|-----------------------|
| | in € | in € | in € |
| Raw materials and supplies | 493,500 | 214,600 | 151,500 |
| Unfinished goods | 54,100 | 37,100 | 24,800 |
| Finished goods | <u>378,400</u> | <u>103,000</u> | <u>32,400</u> |
| Total | <u>926,000</u> | <u>354,700</u> | <u>208,700</u> |

In consideration of the achievable net proceeds on disposal, the following impairments were made to assets:

| | <u>31.12.2006</u> | <u>31.12.2005</u> | <u>31.12.2004</u> |
|---|-----------------------|-----------------------|-----------------------|
| | in € | in € | in € |
| Raw materials | 556,386 | 218,497 | 151,500 |
| Impairment | <u>62,886</u> | <u>3,897</u> | <u>0</u> |
| Net book value | <u>493,500</u> | <u>214,600</u> | <u>151,500</u> |
| | <u>31.12.2006</u> | <u>31.12.2005</u> | <u>31.12.2004</u> |
| | in € | in € | in € |
| Unfinished and finished goods — before depreciation | 467,434 | 179,892 | 57,200 |
| Impairment | <u>34,934</u> | <u>39,792</u> | <u>0</u> |
| Net book value | <u>432,500</u> | <u>140,100</u> | <u>57,200</u> |

(15) Trade accounts receivable

Net receivables and allowances for the risk of default are as follows:

| | <u>31.12.2006</u> | <u>31.12.2005</u> | <u>31.12.2004</u> |
|--|-------------------------|-----------------------|-----------------------|
| | in € | in € | in € |
| Trade accounts receivable — gross | 1,310,188 | 175,261 | 367,489 |
| Valuation allowance | <u>0</u> | <u>9,455</u> | <u>26,196</u> |
| Trade accounts receivable — net | <u>1,310,188</u> | <u>165,806</u> | <u>341,293</u> |

No value adjustments were made in the financial year 2006, as there were no bad debt losses either shown or expected.

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

(16) Accounts due from shareholders

Accounts due from shareholders refers to receivables from DuPont Chemical and Energy Operations, Inc. are due in less than one year.

(17) Accounts due from tax authorities

The receivables from tax authorities refer to corporate tax refunds.

(18) Other short-term assets and receivables

Other short-term assets and receivables were made up as follows:

| | <u>31.12.2006</u> | <u>31.12.2005</u> | <u>31.12.2004</u> |
|-------------------------------|-----------------------|-----------------------|-----------------------|
| | in € | in € | in € |
| Receivables from grants | 147,146 | 205,000 | 0 |
| Receivables from VAT | 80,641 | 80,265 | 90,966 |
| Other | <u>71,571</u> | <u>298</u> | <u>26,853</u> |
| Total | <u>299,359</u> | <u>285,564</u> | <u>117,819</u> |

The other assets and receivables have a remaining term of less than one year.

(19) Cash and cash equivalents

Cash and cash equivalents are made up of cash in hand and credits, money market accounts and similar money funds at banks which are due within three months and are not subject to risks of changes in value. It also includes money market accounts and similar money which can be transformed into cash at any time and are subject to only minimal value changes.

(20) Cash and cash equivalents with limitation on disposal

Cash and cash equivalents with limitation on disposal are fixed-term deposits with an original remaining term of more than three months in the amount of € 45,320 (31.12.2005: € 31,320; 31.12.2004: € 56,920), which were pledged for credits by way of bank guarantees.

(21) Deferred charges and prepaid expenses

The deferred charges and prepaid expenses in the financial years 2005 and 2006 refer mainly to deferred costs from expected capital increases. If the capital increase is carried out, these costs are deducted from equity.

(22) Intangible assets

For a statement of intangible assets, please consult the Statement of Assets.

In 2006 development costs were capitalised and public grants for development were set off against the costs. Costs of € 1,827,454 were identified and capitalised after setting-off of the applicable grants in the amount of € 1,060,931, resulting in capitalised costs of € 766,523. From 2007, these will be written-off as scheduled over their term of their expected useful life.

(23) Property, plant and equipment

The statement of property, plant and equipment is included in the Statement of Assets.

(24) Tax provisions

Tax provisions as of 31 December 2004 refer to foreign income taxes from a Joint Development Agreement with LG Chemicals Ltd.

(25) Other provisions

Other provisions are shown in the table below:

| | <u>01.01.2006</u> | <u>Allocation</u> | <u>Accumulation</u> | <u>Use</u> | <u>Dissolution</u> | <u>31.12.2006</u> | thereof with a remaining term > 1 Jahr |
|----------------------------|-------------------|-------------------|---------------------|------------|--------------------|-----------------------|--|
| Warranties | 243,925 | 399,837 | 6,292 | 183,100 | | 466,954 | 147,621 |
| Impending losses | 28,000 | 2,100 | | 28,000 | | 2,100 | |
| Promotions | 0 | 84,705 | | | | 84,705 | |
| Total | | | | | | <u>553,759</u> | <u>147,621</u> |
| | <u>01.01.2005</u> | <u>Allocation</u> | <u>Accumulation</u> | <u>Use</u> | <u>Dissolution</u> | <u>31.12.2005</u> | thereof with a remaining term > 1 Jahr |
| Warranties | 228,115 | 151,725 | 5,885 | 141,800 | | 243,925 | 77,113 |
| Impending losses | 0 | 28,000 | | | | 28,000 | |
| Total | | | | | | <u>271,925</u> | <u>77,113</u> |
| | <u>01.01.2004</u> | <u>Allocation</u> | <u>Accumulation</u> | <u>Use</u> | <u>Dissolution</u> | <u>31.12.2004</u> | thereof with a remaining term > 1 Jahr |
| Warranties | 67,850 | 213,715 | 1,750 | 55,200 | | 228,115 | 72,115 |

Part of the provision for warranties applies to long-term obligations (31.12.2006: € 147,621, 31.12.2005: € 77,113 und 31.12.2004: € 72,115) and is shown as other provisions under long-term liabilities. Provision is

made in the amount of cash value of the expected expenditure. An interest rate of 4% was established for discounting.

The provision for impending losses recorded in the financial years 2005 and 2006 is not discounted, as the interest effect is insignificant. The same applies to the existing provision for promotions to 31 December 2006. This also refers to a provision for unexpired risk, as the orders and order documentation were completed before balance sheet date.

(26) Liabilities to shareholders

The liabilities to shareholders refer to a liability to DuPont Chemical and Energy Operations, Inc. with a remaining term of under one year.

(27) Liabilities from prepayments

The liabilities from prepayments concern payments received in advance for orders and are due in less than one year.

(28) Trade accounts payable

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

(29) Liabilities from finance leases

The details of minimum leasing payments in the relevant Sale and Lease Back Agreement are as follows:

| | <u>31.12.2006</u> | <u>31.12.2005</u> | <u>31.12.2004</u> |
|---|-------------------|-------------------|-------------------|
| | in € | in € | in € |
| Future minimum leasing payments | | | |
| < 1 year | 313,122 | 206,179 | 0 |
| 1 to 5 years | 407,712 | 453,411 | 0 |
| Interest portion of future minimum leasing payments | | | |
| < 1 year | 25,326 | 16,676 | 0 |
| 1 to 5 years | 66,453 | 77,735 | 0 |
| Cash value of future minimum leasing payments | | | |
| < 1 year | 287,796 | 189,503 | 0 |
| 1 to 5 years | 341,258 | 375,676 | 0 |

The following expenses result from financial leasing:

| | <u>31.12.2006</u> | <u>31.12.2005</u> | <u>31.12.2004</u> |
|------------------------|-----------------------|-----------------------|-------------------|
| | in € | in € | in € |
| Interest | 71,589 | 20,935 | 0 |
| Depreciation | <u>225,607</u> | <u>87,952</u> | <u>0</u> |
| Total | <u>297,196</u> | <u>108,887</u> | <u>0</u> |

The Sale and Lease Back Agreement concerns all SFC's IT equipment. There is no purchase option at the end of the contract term.

The company has the possibility to acquire additional assets during the course of the contract and for these to be included in the contract and so-called reinvestment periods each of six months were defined for this purpose. The utilisation of such a reinvestment volume will lead each time to an extension of the contract by a further six months.

The monthly leasing rates are dependent on the finance volume and have been the same 3.02% since 1 June 2006. An amendment to the leasing rate can be made at the beginning of each reinvestment period.

Changes to terms resulting from extensions to the investment agreement are treated as changes to estimations in accordance with IAS 8 "Accounting policies: changes in accounting estimates and errors". The resulting effect on assets and debt is shown under this balance sheet item. The release of the remaining deferred profit is adjusted for the new term. The same applies for approximate amendments to monthly interest rates.

Due to the company exceeding the contractually agreed reinvestment volume by investments in January 2006, there has been a new leasing agreement for these investments since 1 June 2006 which is also classified as financial leasing. The calculation basis of the monthly leasing rate was set accordingly.

Since 1 June 2006 there have been no further additions to assets from the agreement, and there have been no further changes. It is intended to continue the agreement until it runs out on 31 May 2009.

(30) Liabilities from Percentage-of-Completion

The liabilities from Percentage-of-Completion are production costs incurred including result amounts set off against advance payments received. Where in the financial year the payments received exceed the turnover due, the excess amounts are shown as liabilities Percentage-of-Completion.

| | <u>31.12.2006</u> | <u>31.12.2005</u> | <u>31.12.2004</u> |
|--|-----------------------|----------------------|----------------------|
| | in € | in € | in € |
| Advance payments received | 2,175,612 | 1,542,895 | 729,686 |
| Proceeds received | <u>1,720,966</u> | <u>1,528,782</u> | <u>666,585</u> |
| Liabilities from Percentage-of-Completion | <u>454,646</u> | <u>14,113</u> | <u>63,101</u> |
| thereof production costs incurred | 641,417 | 606,504 | 275,930 |

(31) Other liabilities

Other liabilities consist of short-term and long-term liabilities.

Other short-term liabilities are made up as follows:

| | <u>31.12.2006</u> | <u>31.12.2005</u> | <u>31.12.2004</u> |
|---|-----------------------|-----------------------|-----------------------|
| | in € | in € | in € |
| Variables/bonuses | 204,800 | 146,200 | 26,700 |
| Ex gratia payments | 115,000 | 115,000 | 0 |
| Remaining holiday entitlements | 95,110 | 75,500 | 44,400 |
| Wage tax, VAT, capital gains tax | 81,309 | 95,078 | 40,960 |
| Remuneration of Supervisory Board | 62,083 | 40,833 | 31,270 |
| Social Security payments | 40,139 | 62,790 | 50,975 |
| Overtime | 38,274 | 39,500 | 15,200 |
| Employee invention gratification | 23,510 | 35,450 | 35,450 |
| Trade association fees | 22,000 | 18,000 | 12,000 |
| Other | <u>42,425</u> | <u>42,404</u> | <u>26,554</u> |
| Total | <u>724,650</u> | <u>670,755</u> | <u>283,509</u> |

Other long-term liabilities include liabilities for silent partnerships in the amount of € 2,486,108 (31.12.2005: € 2,317,996; 31.12.2004: € 2,175,260). In the financial year 2005, the long-term liabilities in the amount of € 108,430 consisted mainly of liabilities for ex gratia payments.

(32) Deferred charges

The deferred charges refer to deferred proceeds from the Sale and Lease Back transaction.

(33) Equity

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

Subscribed capital

The subscribed capital amounted at balance sheet date to € 1,413,936 (31.12.2005: € 130,920, 31.12.2004: € 130,082). In the financial year 2005, there was an increase in capital by exercising of share options in the amount of € 838.

At the annual general meeting held on 17 January 2006 it was resolved to increase cash capital by € 1,047,360 to € 1,178,280 by issuing 1,047,360 ordinary shares at par value with a calculated par value of € 1.00. The new shares could be subscribed by existing preferential and ordinary shareholders at a ratio of 8:1.

By resolution of the annual general meeting of 15 March 2006 the company's shares were changed from registered shares to bearer shares.

In April 2006 as part of the third round of financing, the subscribed capital was increased by € 235,656. At the same time the existing preference shares were converted into ordinary shares. The liquidation preference attached to the preference shares was lifted.

After completion of the third round of financing, the ordinary capital is divided into 1,413,936 ordinary shares.

Capital surplus

During the third round of financing, the new shareholders provided an additional € 14,763,848 for the capital surplus. The capital surplus was also raised by the issue of share options for € 616,586 (2005: € 290,075, 2004: € 142,589). The costs for equity issuance in 2006 of € 1,082,303 were deducted from the capital surplus.

Authorised capital

SFC has authorised capital in the amount of € 5,376.00. The authorised capital is for the issuance of a share option programme for members of the Board and company employees, which guarantees up to 5,376 options for the purchase of ordinary bearer shares at par value in the company with a calculated share of capital of € 1.00 up until 31 December 2009.

By resolution of the annual general meeting of 1 July 2005, the Board is authorised with the agreement of the Supervisory Board to raise the share capital of the company in one or more stages up to a maximum of € 1,186.00 by issuing for cash up to 1,186 new ordinary bearer shares at par value between 1 July 2005 and 30 June 2010 (authorised capital I). The issue price is € 1.00 per share and shareholder subscription rights are excluded. The only person permitted to apply for the 1,186 new ordinary shares was Dr. Jens Müller.

By resolution of the annual general meeting of 17 January 2006, the Board is authorised with the agreement of the Supervisory Board to raise the share capital of the company in one or more stages up to a maximum of € 9,488.00 by issuing for cash up to 9,488 new ordinary bearer shares at par value between 1 February 2006 and 30 June 2010 (authorised capital II). The issue price is € 1.00 per share and shareholder subscription rights are excluded. The only person permitted to apply for the 9,488 new ordinary shares was Dr. Jens Müller.

Furthermore, due to the capital increase authorised on 17 January 2006 an authorised capital II in the amount of eight times the existing share capital was created. The conditions of authorised capital II in the amount of € 43,008.00 are the same as conditions for existing authorised capital.

By resolution of the annual general meeting of 31 August 2006, the Board is authorised with the agreement of the Supervisory Board to raise the share capital of the company in one or more stages up to a maximum of € 4,032.00 by issuing for cash up to 4,032 new ordinary bearer shares at par value between 1 September 2006 and 31 August 2011 (authorised capital III). The issue price is € 1.00 per share and shareholder subscription rights are excluded. The only person permitted to apply for the 4,032 new ordinary shares was Oliver Freitag.

At the same time the authorised capital II was reduced from € 43,008.00 to € 38,976.00.

5. Miscellaneous

(34) Contingent liabilities

Contingent liabilities are possible liabilities based on past events whose existence depends on the fruition of one or more uncertain future events which lie outside the control of SFC. Furthermore, current liabilities can also be contingent liabilities if it is uncertain if they will be claimed and/or if the amount of the liability cannot be ascertained with certainty.

In the financial years 2005 and 2006, in the course of public project sponsorship, SFC received grants for specific purposes which are subject to securing financing for the whole project. Until the projects are successfully completed, the grants received so far amount to an eventual of € 1,406,441 (31.12.2005: € 288,742, 31.12.2004: € 113,790).

A guarantee in the amount of € 31,320, (31.12.2005: € 31,320, 31.12.2004: € 31,320) exists in connection with the rental agreement for the company's office space in Brunnthal (StartPoint) since 23 November 2004.

A further guarantee has been made to Woltering GmbH since 14 July 2006 in connection with the rental agreement for the office space and parking spaces at Eugen-Sänger-Ring 17, Brunnthal in the amount of € 14,000 (31.12.2005: € 0, 31.12.2004: € 0).

(35) Other financial liabilities and receivables

The other financial liabilities result from rental and leasing agreements.

Obligation under Operating Lease

The company has financial obligations from Operating Leases, particularly for the rental agreements for business and office space and automobile leasing agreements.

In the current financial year, expenses arose from these contracts in the amount of € 255,828 (2005: € 195,826, 2004: € 171,164).

The total minimum leasing payments from the Operating Leases are made up as follows:

| | € |
|---|---------|
| Operate Lease | |
| Rental payments within one year | 298,083 |
| Rental payments between 1 and 5 years | 374,894 |
| Rental payments > 5 years | 0 |

(36) Financial instruments

In accordance with IAS 32 “Financial instruments: Presentation”, financial instruments are contracts which are a financial asset for one company and a financial liability or equity instrument for another.

Financial risks such as foreign exchange risks, risk of default or liquidity risks can arise in connection with financial instruments.

Foreign exchange risk

SFC buys some components in US Dollars and the company seeks to restrict foreign exchange risk by including a reservation clause for recalculations in its contracts with its customers. If the Euro is strong, this reduces the attractiveness of SFC products in countries with a weak currency, although this is partly compensated by lower purchase prices. There are no other foreign currency risks. SFC has been able to compete effectively in Asia with Euro-based prices.

Risk of default

Default risks apply mainly to trade accounts receivable. The amounts shown in the accounts are shown net of allowances for receivables likely to be defaulted as calculated by management on the basis of past experience and current economic conditions. Allowances are made as soon as there are indications that a debt is to be defaulted. Indications are based on discussions with the trade receivables management.

Interest rate risk

Risk for interest rate changes could result from the two silent partnerships in the company. As the expected remaining term of the investments are determined until 30 September 2007, and SFC has a cancellation option with a three month period of notice, there is no actual material risk.

Liquidity risk

No liquidity risks are expected in connection with debts. The silent partnerships have a fixed interest rate, and variations are unlikely. The repayment of debts is to be settled in consequence of the planned stock market flotation of SFC in the financial year 2007.

Silent partnerships

Technologie Beteiligungsfonds Bayern GmbH & Co KG

On 22 November 2000, SFC secured a contract with Technologie Beteiligungsfonds Bayern GmbH & Co KG (“BayKap”) for a silent partnership in the amount of € 1,022,584.

The silent partnership has a fixed interest rate of 8% p.a. BayKap also receives 12% of the net profits of SFC — with a minimum of 4% of the company’s nominal capital to a maximum of 10% of the nominal capital.

At the end of the investment period, BayKap has the right to receive a one-time payment in the amount of 30% of the nominal amount plus 9% of the investment amount for each full year over the fifth year after the investment began. Calculation of this final payment is to include profit shares paid up to that date. Should the profit shares paid up to that date exceed this amount, BayKap has no obligation to referred SFC. BayKap has no obligation to participate in losses.

In claiming the right to final payment, BayKap is restricted in only being able to exercise the option when it deems it appropriate based on the total economic condition of SFC, but particularly on the basis of the profits earned in the last three years before the investment was ended and on the basis of hidden reserves.

SFC can terminate the silent partnership with a notice of three months to interest payment dates.

In the case of stock market flotation, BayKap has the right to exchange the final payment for shares in SFC and the issue price amounts to 80% of the minimum price of the bookbuilding range.

The following separable embedded derivatives are part of the silent investment:

- Sold calls on 12% of profit with an striking price of € 40,903.35 (amount of the minimum profit sharing, which is already included in the loan)
- Purchased caps with a striking price of € 102,258.38 (10% of the nominal amount)
- Sold puts on the profit with a striking price of 30% of nominal volume plus 9% per year from the fifth year of investment
- Purchased put on the effective rate of return of the loan (termination option by SFC at each interest payment date)

tbg Technologie-Beteiligungs-Gesellschaft mbH

On 9 May 2000, SFC secured two essentially identical contracts with Technologie-Beteiligungsgesellschaft mbH of Deutschen Ausgleichsbank (“tbg”) each for a silent partnership in the amount of € 750,000.

The silent partnership had a fixed rate of interest in the amount of 7% p.a. Interest payments are due biannually ex post on 31 March and 30 September and tbg receives 15% of the net profits of SFC.

At the end of the investment period, tbg has the right to a one-time final payment in the amount of 30% of the nominal amount of the investment plus 6% of the investment amount for each full year in excess of five full years of investment. In calculating this final payment, profit shares paid to that date are included. If the profit shares already paid exceed this amount, tbg has no obligation for repayment and there is no obligation on tbg to participate in losses in accordance with § 8 (5).

In claiming the right to final payment, tgb is restricted in only being able to exercise the option when it deems it appropriate based on the total economic condition of SFC, but particularly on the basis of the profits earned in the last three years before the investment was ended and on the basis of hidden reserves.

SFC can terminate the silent partnership with three months notice to interest payment dates.

The following separable embedded derivatives are part of the silent investment:

- Sold calls on 15% of the profits with a striking price € 0.
- Sold put on the profits with a striking price of 30% of the nominal volume plus 6% per year from the fifth year of investment
- Termination option by SFC to each interest payment date

Valuation

The identified derivatives were valued using the Black-Scholes option price model. The market value of the derivatives was shown at each balance sheet date as a liability from derivatives. Value variations were included in the period in which they occurred.

The actual silent investment is valued under the effective rate of return method as a financial liability with amortised acquisition costs. The cash flows from the investment — adjusted by cash flows from the derivatives and including the relevant transactions costs — are discounted at each balance sheet date with the original

effective rate of interest. The original effective rate of return is the interest rate where the sum of the cash value of all cash flows is zero.

The difference between the amortised acquisition costs of two periods is disclosed as amortisation profit affecting the result and corrects the contractual interest expense. Accrued interest or prorated interest are not shown separately as a deferred charge but as liability.

As it was already expected on 31 December 2004 that the company stock market flotation would take place in September 2007, the cash flow expectations to 31 December 2004 were set accordingly. This led to an increased amortisation.

The market value of the embedded derivatives is equal to their book value. The market value of the actual silent investments can be seen in the table below:

| | <u>31.12.2006</u> | <u>31.12.2005</u> | <u>31.12.2004</u> |
|---|--------------------------|--------------------------|--------------------------|
| | in € | in € | in € |
| Market value of silent investments | <u>-2,419,553</u> | <u>-2,253,592</u> | <u>-2,103,706</u> |

Securities

31 December 2004

The amount shown for securities on 31 December 2004 in the amount of € 680,965 includes the following industrial loans from DaimlerChrysler and Deutsche Telekom:

| | <u>Time of acquisition</u> | <u>End of term</u> | <u>Nominal value</u> | <u>Nominal interest rate</u> | <u>Acquisition rate</u> | <u>Rate at balance sheet date</u> |
|-------------------------------|----------------------------|--------------------|----------------------|------------------------------|-------------------------|-----------------------------------|
| DaimlerChrysler AG | 26.05.2004 | 23.06.2005 | 350,000 | 5.75% | 103.43 | 101.30 |
| Deutsche Telekom AG | 26.05.2004 | 30.09.2005 | 350,000 | 5.50% | 103.86 | 102.15 |

The industrial loan from DaimlerChrysler AG was held until expiry on 23 June 2005. The disposal of the industrial loan of Deutsche Telekom AG was made on 25 April 2005 at a nominal value of € 130,000 and on 13 May 2005 to a nominal value of € 100,000. The remaining investments were held until term on 30 September 2005.

The securities were voluntarily included in the category “Fair Value Through Profit and Loss” and were valued at fair value.

31 December 2006

The amount shown to 31 December 2006 for securities in the amount of € 2,999,550.00 consists of the following mortgage bonds:

| | <u>Date of Acquisition</u> | <u>End of term</u> | <u>Nominal value</u> | <u>Coupon</u> | <u>Acquisition rate</u> | <u>Rate at balance sheet date</u> |
|---------------------------------|----------------------------|--------------------|----------------------|---------------|-------------------------|-----------------------------------|
| Landesbank Hessen Thüringen . . | 18.07.2006 | 03.08.2007 | 750,000 | 4.750 | 101.40 | 100.42 |
| Hypothekebank Essen | 18.07.2006 | 25.07.2007 | 750,000 | 2.750 | 99.44 | 99.33 |
| Düsseldorfer Hypothekenbank . . | 18.07.2006 | 04.07.2007 | 750,000 | 3.750 | 100.34 | 99.81 |
| DEPFA Bank plc | 18.07.2006 | 16.07.2007 | 750,000 | 4.750 | 101.35 | 100.38 |

The mortgage bonds were also voluntarily included in the category “Fair Value Through Profit and Loss”. In accordance with the requirements of IAS 39 “Financial instruments: recognition and measurement” at first capitalisation they were valued at fair value less transaction costs. At balance sheet date the mortgage bonds were also valued at fair value in the amount of € 2,999,550. The liquidation of the premium in the amount of € 12,150 was capitalised in the relevant period.

(37) Share-based remuneration

The agreement for share-based remuneration refers to members of the Board and other SFC employees.

The number of options detailed in the table below in Blocks 1, 2, 3, 4 and 6 amounts to nine times the options originally issued. This adjustment results from an increase in share capital authorised by the company’s annual general meeting on 17 January 2006 which made the relevant increase in authorised capital in order to

make possible the relevant increase in guarantees for share options. The options in block 3 had already been exercised before the capital increase and therefore were not adjusted for the capital increase. The options in block 7 were not issued until after the capital increase.

| | <u>Block 1</u> | <u>Block 2</u> | <u>Block 3</u> | <u>Block 4</u> | <u>Block 5</u> | <u>Block 6</u> | <u>Block 7</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Day of grant of option | 22.07.2003 | 19.10.2004 | 08.06.2005 | 13.06.2005 | 01.07.2005 | 17.07.2006 | 30.09.2006 |
| Original option issue | 950 | 376 | 866 | 1,165 | 1,186 | 5,640 | 4,032 |
| Strike price (€) | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Outstanding options at start of financial year 2004 (1 January 2004) | 950 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options granted in financial year 2004 | 0 | 376 | 0 | 0 | 0 | 0 | 0 |
| Exercisable options to 31 December 2004 | 0 |
| Outstanding options at the start of financial year 2005 (1 January 2005) | 950 | 376 | 0 | 0 | 0 | 0 | 0 |
| Options granted in financial year 2005 | 0 | 0 | 866 | 1,165 | 1,186 | 0 | 0 |
| Options forfeited in financial year 2005 | 0 | 56 | 0 | 414 | 0 | 0 | 0 |
| Options exercised in financial year 2005 | 838 | 0 | 750 | 0 | 0 | 0 | 0 |
| Exercisable options to 31 December 2005 | 112 | 0 | 116 | 0 | 1,186 | 0 | 0 |
| Outstanding options at the start of financial year 2006 (1 January 2006) | 112 | 320 | 116 | 751 | 1,186 | 0 | 0 |
| Remaining options (after capital increase) | 1,008 | 2,880 | 116 | 6,759 | 10,674 | 0 | 0 |
| Options granted in the financial year 2006 | 0 | 0 | 0 | 0 | 0 | 5,640 | 4,032 |
| Options forfeited in the financial year 2006 | 0 | 396 | 0 | 729 | 0 | 723 | 0 |
| Options exercised in the financial year 2006 | 0 | 0 | 116 | 0 | 0 | 0 | 0 |
| Outstanding options at the end of financial year 2006 (1 January 2006) | 1,008 | 2,484 | 0 | 6,030 | 10,674 | 4,917 | 4,032 |
| Exercisable options to 31 December 2006 | 1,008 | 2,484 | 0 | 0 | 10,674 | 0 | 4,032 |
| Maximum term | 6.45 years | 5.20 years | 10.57 years | 4.55 years | 5.00 years | 3.46 years | 4.92 years |

The share options show the following maximum contractual terms at balance sheet date 31 December 2006:

| | <u>Issue date</u> | <u>Expiry</u> | <u>Remaining term (in years)</u> |
|-------------------|-------------------|---------------|----------------------------------|
| Block 1 | 22.07.2003 | 31.12.2009 | 3.00 |
| Block 2 | 19.10.2004 | 31.12.2009 | 3.00 |
| Block 3 | 08.06.2005 | 31.12.2015 | 9.01 |
| Block 4 | 13.06.2005 | 31.12.2009 | 3.00 |
| Block 5 | 01.07.2005 | 30.06.2010 | 3.50 |
| Block 6 | 17.07.2006 | 31.12.2009 | 3.00 |
| Block 7 | 30.09.2006 | 31.08.2011 | 4.67 |

General contract terms

Blocks 1, 2, 4 and 6

- The exercise of option rights is first possible after the expiry of two years lock up period after issuance.
- After expiry of the lock up period, it is only possible to exercise the options within 10 bank working days after approval of the annual financial statement, on the first 10 bank working days of December and

additionally, if there is a stock market flotation, within 10 bank working days after publication of the quarterly results.

- The option rights cannot be exercised within ten bank working days of an annual general meeting or in the ten stock market trading days before the results press conference or the quarterly report dates.
- On termination of an employment or service contract, any options rights exercisable upon termination of employment may be exercised in the next possible vesting window. Any options not then exercised will expire without compensation.
- Should the company be reorganised or restructured so that the company no longer exists, option rights expire completely and without compensation, unless the Board decides in conjunction with the Supervisory Board to pay compensation.
- Should a majority holding of shares in the company be sold to one or more third parties, before authorised trading of the shares on a stock market have been authorised (Trade Sale), the following applies: for the part of option rights which were already exercisable at the time of the trade sale, the beneficiary will receive compensation. Those option rights which were not yet exercisable at the time of the trade sale expire completely without any compensation, unless the Board agreed another solution in agreement with the Supervisory Board.
- The beneficiaries are entitled to sell 50% of shares received 12 months after exercising the option (“lock up period”). Should the beneficiaries wish to sell their shares after expiry of the lock up period to coincide with the first trading day of the shares on the stock market after flotation, this requires the approval of the company which is entitled to deny this permission if it is in its best interests. The beneficiaries are also required, at the request of the company, to provide obligation statements regarding the sale ban to the regulatory authorities of the stock market on which the shares are to be listed.

Blocks 3 and 5

- The exercise of the option rights has no time limitations and an immediate exercise is possible.
- When the Board contracts end on 31 October 2007, the company can demand transfer of the shares to the company or a person nominated by the company. The number of shares affected amounts to 24 shares (Block 3) and 24 shares plus 264 shares (adjustment after capital increase) and 33 shares (Block 5) per month between the ending of the service contract and 31 December 2007 (Block 3) and 31 October 2007 (Block 5). This clause does not apply to ending of service agreements after a Trade Sale or IPO.
- The above regulations were derived on the basis that the vesting period would be from the day of granting of the relevant share block until 31 October 2007 (Block 3) or 30 September 2007 (Block 5), as no further shares could be demanded from the company after this dates.

Block 7

- The exercise of these option rights has no lock up period and they may be exercised immediately.
- The beneficiary agrees in this agreement to forego all share options already granted to him under other programmes and also to forego the grant of any further share options in the existing option programme.

All shareholders and share option holders of SFC AG are subject since 29 March 2006 to a further lock up period of 18 months which prevents the sale of shares on the Open Market of Deutsche Börse AG. The lock up ends automatically on stock market flotation or a trade sale.

The expected fair values for the share options of Blocks 1 to 7 are as follows:

| <u>Block</u> | <u>Date of issue</u> | <u>Lock up</u> | <u>Option value</u> in € (rounded) |
|---------------|----------------------|----------------|--|
| Block 1 | 22.07.2003 | – | 269.97 |
| Block 1 | 22.07.2003 | 1 year | 269.94 |
| Block 2 | 19.10.2004 | – | 269.25 |
| Block 2 | 19.10.2004 | 1 year | 269.21 |
| Block 3 | 08.06.2005 | – | 267.43 |
| Block 4 | 13.06.2005 | – | 265.09 |
| Block 4 | 13.06.2005 | 1 year | 265.07 |
| Block 5 | 01.07.2005 | – | 262.74 |
| Block 6 | 17.07.2006 | – | 61.51 |
| Block 6 | 17.07.2006 | 1 year | 61.48 |
| Block 7 | 30.09.2006 | – | 61.32 |

The total value of the share options valued and issued in accordance with IFRS amounts on 31 December 2006 to € 1,804 thousand (31.12.2005: € 1,210 thousand; 31.12.2004: € 358 thousand).

Calculations based on the modified Black-Scholes-Merton model used the following model parameters and anticipated fluctuation values:

| | <u>Block 1⁽¹⁾</u> | <u>Block 1⁽²⁾</u> | <u>Block 2⁽¹⁾</u> | <u>Block 2⁽²⁾</u> | <u>Block 3</u> | <u>Block 4⁽¹⁾</u> | <u>Block 4⁽²⁾</u> | <u>Block 5</u> | <u>Block 6⁽¹⁾</u> | <u>Block 6⁽²⁾</u> | <u>Block 7</u> |
|---|------------------------------|------------------------------|------------------------------|------------------------------|----------------|------------------------------|------------------------------|----------------|------------------------------|------------------------------|----------------|
| Share price on valuation date | 270.92 | 270.92 | 270.15 | 270.15 | 268.38 | 266.03 | 266.03 | 263.69 | 62.44 | 62.44 | 62.27 |
| Maximum term at date of issue | 6.45 | 6.45 | 5.2 | 5.2 | 10.57 | 4.55 | 4.55 | 5.00 | 3.46 | 3.46 | 4.92 |
| Expected term of option | 2.04 | 2.04 | 3.62 | 3.62 | 2.27 | 2.97 | 2.97 | 2.21 | 2.13 | 2.13 | 1.45 |
| Lock out period | — | 1.00 | — | 1.00 | — | — | 1.00 | — | — | 1.00 | — |
| Refinancing interest rate | — | 3.35% | — | 4.00% | — | — | 2.93% | — | — | 3.80% | — |
| Strike price at expected exercise date (€) | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Expected dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Risk-free interest rate for term | 2.39% | 2.39% | 2.91% | 2.91% | 2.09% | 2.22% | 2.22% | 2.09% | 3.55% | 3.55% | 3.56% |
| Expected volatility for term | 79.72% | 79.72% | 79.97% | 79.97% | 58.49% | 67.93% | 67.93% | 58.96% | 61.46% | 61.46% | 61.46% |
| Expected fluctuation of option holder for term 31,12,2006 | 0.00% | 0.00% | 41.49% | 41.49% | 0.00% | 50.28% | 50.28% | 0.00% | 31.26% | 31.26% | 0.00% |

In the absence of reliable shares indices, the share price at valuation date was calculated on the basis of the last available company valuation.

In the absence of relevant historical data, the expected term was determined on the basis of estimation by management. Several criteria with apparent influence on the expected term of the relevant share block were taken into account but the management estimation was particularly influenced by development of company value, general tax conditions and the fungibility of shares.

As the lack of stock market listing meant that no company share price was available for the estimation, future volatility was derived in accordance with IFRS 2 BC 139 over the expected term of the share options on the basis of term-comparable historical volatility of a comparable peer group company from the fuel cell sector.

The fluctuation calculation is based on weighted historical data for past months of the vesting period on the basis of management's expected fluctuation for the outstanding months after the relevant date until the end of the vesting period.

As share blocks 3, 5 and 7 were each issued to only one single employee, no fluctuation is expected for these blocks.

Determination of risk-free interest rates is made on the basis of the yield curve for listed securities of the German Central Bank which is determined by the Svensson method.

Share-blocks 1, 2, 4 and 6 have a lock up period of 1 year. This was included by using a modified strike price under the Black-Scholes model.

The following expenses were incurred by SFC from the share option programme to balance sheet date:

| | <u>31.12.2006</u> | <u>31.12.2005</u> | <u>31.12.2004</u> |
|---|-------------------|-------------------|-------------------|
| | in € | in € | in € |
| | thousands | thousands | thousands |
| Total expenses from equity-based remuneration transactions | 1,096 | 479 | 189 |
| Thereof for share-based remuneration transactions set off by equity instruments | 1,096 | 479 | 189 |
| Expenses from equity-based remuneration transactions in the period . . | 617 | 290 | 143 |

In addition to the share option programme, there were other transactions which also fall within the scope of IFRS 2 “Share based payment”. As the equity instruments used in this connection were issued after 7 November 2002 and were thus already exercisable before the time of transfer to IFRS standards, advantage was made of the relaxation of requirements for share-based payments under IFRS 1 “First-time application of IFRS” for companies using IFRS standards for the first time (IFRS 1.B25). In consequence, the equity instruments were not valued on the basis of IFRS 2 “Share-based payment”.

This concerns the following payments:

- Transfer of 765 ordinary shares between two shareholders on 1 July 2003
- Issue of 550 ordinary shares without par value to a Board member on 8 May 2003

(38) Transactions with related companies and persons

Related companies and persons in the sense of IAS 24 “Related party disclosures” are companies and persons when one of the parties directly or indirectly controls or exercises significant influence over the other party.

With respect to SFC, identifiable related companies and persons are the shareholders Dr. Manfred Stefener (equity share 36.70% on 31 December 2004, 35.89% on 31 December 2005 and 28.24% after the capital increase in April 2006) and Pricap Venture Partners AG (equity share 25.88% on 31 December 2004, 25.71% on 31 December 2005 and 21.43% after the capital increase in April 2006).

Furthermore, Pricap Venture Partners AG, 3i Group Investments LP and DuPont Chemical and Energy Operations Inc. can exercise significant influence over the company as shareholders.

Persons occupying key positions at SFC are members of the Board and the Supervisory Board and their close family members. The Board and Supervisory Board were composed as follows in the financial years from 2004 to 2006:

Members of the Board

- Dr. Jens Müller, Munich (since 15 November 2004)
- Dr. Peter Podesser, Simbach (since 1 November 2006)
- Dr. Manfred Stefener, Munich (until 30 September 2005)
- Pieter Bots, Munch (from 17 May 2005 until 15 August 2006)

Members of the Supervisory Board

- Rüdiger Olschowy, Schliersee, Businessman (Chairman)
- Jakob-Hinrich Leverkus, Hamburg, Businessman (Deputy Chairman)
- Wolfgang Biedermann, Hamburg, Businessman
- Achim M. Lederle, Munich, Businessman
- Dr. Manfred Stefener, Munich, Engineer (since 1 November 2005)
- Thomas J. Faughnan, Financial Director, Kenneth Square, Pennsylvania, USA (since 31 August 2006)
- Andrew M. Weber, Wilmington, Delaware, USA (from 17 June 2004 until 31 August 2006)
- Manfred B. Exner (from 23 September 2004 until 31 October 2005)
- Michael Negel (until 23 March 2004)
- David L. Peet (until 23 March 2004)

Companies directly or indirectly controlled by members of management holding key positions or subject to their significant influence are also classified as related persons under IAS 24 “Related party disclosures”. At SFC this applies to Pricap Venture Partners AG, IAB Industriefaufbaugesellschaft and 2. IAB Industriefaufbaugesellschaft, Ludwigslust.

The following table shows transactions with related companies or persons.

Transactions 2006

| | <u>Receivables</u> in € | <u>Liabilities</u> in € | <u>Liabilities from PoC</u> in € | <u>Income</u> in € | <u>Expenses</u> in € |
|--|----------------------------|----------------------------|---|-----------------------|-------------------------|
| Persons in key positions | 0 | 276,889 | 0 | 0 | 533,848 |
| Companies with significant influence | 341,414 | 14,052 | 454,646 | 227,841 | 743,064 |
| Other related companies and persons | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>975</u> |
| Total | <u>341,414</u> | <u>290,941</u> | <u>454,646</u> | <u>227,841</u> | <u>1,277,886</u> |

Transactions 2005

| | <u>Receivables</u> in € | <u>Liabilities</u> in € | <u>Income</u> in € | <u>Expenses</u> in € |
|--|----------------------------|----------------------------|-----------------------|-------------------------|
| Persons in key positions | 0 | 364,913 | 1,500 | 732,682 |
| Companies with significant influence | 5,065 | 422,241 | 16,631 | 629,014 |
| Other related companies or persons | <u>0</u> | <u>0</u> | <u>0</u> | <u>1,275</u> |
| Total | <u>5,065</u> | <u>787,154</u> | <u>18,131</u> | <u>1,362,971</u> |

Transactions 2004

| | <u>Receivables</u> in € | <u>Liabilities</u> in € | <u>Income</u> in € | <u>Expenses</u> in € |
|--|----------------------------|----------------------------|-----------------------|-------------------------|
| Persons in key positions | 0 | 30,185 | 0 | 310,618 |
| Companies with significant influence | 1,686 | 61,450 | 48,285 | 341,019 |
| Other related companies or persons | <u>0</u> | <u>0</u> | <u>0</u> | <u>2,850</u> |
| Total | <u>1,686</u> | <u>91,635</u> | <u>48,285</u> | <u>654,487</u> |

Income and Expenses under companies with significant influence apply mainly to transactions with DuPont Chemical and Energy Operations, Inc. DuPont supplies key components of the fuel cells. From 2004 to 2006, SFC sold fuel cell systems and test equipment to DuPont, and since 2006 has been a JDA contract partner of DuPont and generates sales from this contract.

Remuneration for persons in key positions is as follows:

| | <u>2006</u> | | <u>2005</u> | | <u>2004</u> | |
|-----------------------------|-----------------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|--------------------------------|
| | <u>Fixed amount</u> in € | <u>Variable amount</u> in € | <u>Fixed amount</u> in € | <u>Variable amount</u> in € | <u>Fixed amount</u> in € | <u>Variable amount</u> in € |
| Board | 347,041 | 122,367 | 572,765 | 92,406 | 217,282 | |
| Supervisory Board | <u>76,250</u> | | <u>70,349</u> | | <u>46,270</u> | - |
| Total | <u>423,291</u> | <u>122,367</u> | <u>643,114</u> | <u>92,406</u> | <u>263,552</u> | <u>0</u> |

Fixed remuneration for the Board 2005 includes an ex gratia payment for a departing member of the Board.

On 8 June 2005, one person holding a key position in the company received rights to proceeds from 866 shares by transfer from another shareholder. This right is valid until 31 December 2015 and expires at this date if it has not been taken up by then. The strike price for the shares is € 866.00.

Furthermore, a person in a key position received the right on 1 July 2005 to demand transfer of 1,186 shares from the company. The issue cannot be requested after 30 June 2010 or after ending of the contract of employment to 31 October 2007. The strike price is € 1,186.

Total expenses arising from the option valuations are as follows:

| <u>Block</u> | <u>Date of issue</u> | <u>Lock up period</u> | <u>Option value</u> in € (rounded) | <u>Number of options issued</u> | <u>Total value</u> in € |
|---------------|----------------------|-----------------------|--|---------------------------------|----------------------------|
| Block 3 | 08.06.2005 | — | 267.43 | 866 | 231,591.21 |
| Block 5 | 01.07.2005 | — | 262.74 | 1,186 | 311,603.87 |

Of the total expenses, € 235,139.40 were for 2006 and € 123,979.35 for 2005.

For Block 5, the number of options was multiplied by a factor of nine as part of the capital increase in January 2006, so that there are 10,674 options. This has no effect of the valuation of the options.

A member of the Board has an option to buy 56,000 shares granted by a shareholder outside the share option programme.

(39) Earnings per share

The number of issued shares was as follows during the relevant financial years:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|------------------|---------------|---------------|
| issued ordinary shares 01.01 | 56,173 | 55,335 | 55,335 |
| exercise of employee options | | 838 | |
| capital increase for cash 17 January 2006 | 1,047,360 | | |
| transformation of preference shares | 74,747 | | |
| capital increase for cash 4 April 2006 | 235,656 | | |
| issued ordinary shares 31.12 | 1,413,936 | 56,173 | 55,335 |
| undiluted number of issued ordinary shares | 735,055 | 55,754 | 55,335 |
| exercisable options 01.01 | 1,414 | 0 | |
| exercisable options 31.12 | 18,198 | 1,414 | |
| dilution effect | 9,806 | 707 | 0 |
| diluted number of issued ordinary shares | 744,861 | 56,461 | 55,335 |

In accordance with IAS 33 “Earnings per share” the effect of potential shares must be taken into account in determining the diluted result whereby the effect of all exercisable options is calculated as if they had actually been exercised.

There are no dilution effects on the result of SFC.

In calculating earnings per share, the increase in shares issued during the 2006 capital increase is applied retrospectively to the years 2004 and 2005 for purposes of comparison. The number of shares is calculated as if 8 additional ordinary shares had been issued in 2004 for every existing ordinary and preference share. Similarly, the number of exercisable options was calculated as if 8 further options had already been granted in 2004 for every existing option. The increase in the company's share capital by the issue of 235,656 ordinary shares in the financial year 2006 was bound with an inflow of resources in the form of payment into capital surplus and does not have to be applied to previous years.

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|-------------------------|-------------------------|-------------------------|
| | <u>adjusted</u> | <u>adjusted</u> | <u>adjusted</u> |
| Ordinary shares 01.01 | 1,178,280 | 1,170,738 | 1,170,738 |
| Exercise of employee options | | 7,542 | |
| Capital increase for cash 17 January 2006 | | | |
| Transformation preference shares | | | |
| Capital increase for cash 4 April 2006 | <u>235,656</u> | | |
| Ordinary shares 31.12 | <u>1,413,936</u> | <u>1,178,280</u> | <u>1,170,738</u> |
| Undiluted number of ordinary shares | <u>1,296,108</u> | <u>1,174,509</u> | <u>1,170,738</u> |
| Exercisable options 01.01. | 12,726 | | |
| Exercisable options 31.12. | 18,198 | 12,726 | |
| Dilution effect | <u>15,462</u> | <u>6,363</u> | |
| Diluted number of ordinary shares | <u>1,311,570</u> | <u>1,180,872</u> | <u>1,170,738</u> |

(40) Information about cash flow statement

The cash flow statement shows source and utilisation of cash flows. In accordance with IAS 7 "Cash flow statements" cash flows are to be differentiated from normal operational business and investment and financial activities.

Interest payments and receipts have been treated as financial activity.

Financial funds are to be included under item 18 cash and cash equivalents of the cash flow statement.

(41) Information about segment reporting

In accordance with IFRS 8 "Operating Segments" classification of segments is made in accordance with internal reporting. At SFC this is made in accordance with product and by regions. Business and resource planning is made on the basis of product or service.

Obligatory reporting segments under IFRS 8.5 arise for the following company products or services:

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

The A-series is the mass production of fuel cells, used particularly in the leisure sector.

The C-series is miniaturised prototypes of fuel cells emerging from the development activity under the Joint Development Agreements.

The Joint Development Agreements are contractual agreements with strategic partners for the further development of fuel cells for customisation to customer-specific specifications.

The Power Manager is an electronic universally usable transformer which enables loading and operation of different machines and batteries with different electrical sources.

Turnover under "other products" refers mainly to the sale of test equipment for qualifying products for fuel cell systems components and fuel cartridges with methanol for filling fuel cells.

Internal reporting is made to the Board, the Supervisory Board and the shareholders showing turnover and sales figures per product and region. The segment result is the gross margin of the company.

There are no intersegment sales.

Turnover according to regions was as follows:

| | | <u>31.12.2006</u> | <u>31.12.2005</u> | <u>31.12.2004</u> |
|---|--------------------------|-------------------------|-------------------------|-------------------|
| | | in € | in € | in € |
| Germany | A-Series | 1,769,926 | 524,848 | 183,004 |
| | C-Series | 245,281 | 55,223 | 0 |
| | JDA | 0 | 423,296 | 0 |
| | Power Manager | 5,793 | 0 | 0 |
| | Other products | <u>55,094</u> | <u>155,328</u> | <u>25,767</u> |
| Total Germany | 2,076,094 | 1,158,694 | 208,772 | |
| Europe | A-Series | 2,088,463 | 386,110 | 129,389 |
| | C-Series | 265,512 | 0 | 0 |
| | Other products | <u>63,665</u> | <u>11,918</u> | <u>11,293</u> |
| Total Europe (without Germany) | 2,417,640 | 398,027 | 140,682 | |
| Asia | A-Series | 21,927 | 46,730 | 52,944 |
| | JDA | 1,141,881 | 1,089,369 | 372,788 |
| | Other products | <u>121,603</u> | <u>239,025</u> | <u>7,898</u> |
| Total Asia | 1,285,411 | 1,375,124 | 433,630 | |
| North America | A-Series | 130,051 | 123,962 | 104,652 |
| | C-Series | 201,841 | 191,141 | 100,748 |
| | JDA | 579,085 | 16,400 | 293,997 |
| | Power Manager | 220,604 | 0 | 0 |
| | Other products | <u>23,926</u> | <u>24,783</u> | <u>33,744</u> |
| Total North America | 1,155,507 | 356,285 | 533,141 | |
| Rest of World | A-Series | 57,029 | 6,991 | 0 |
| | C-Series | 29,900 | 0 | 0 |
| | Other products | <u>2,690</u> | <u>249</u> | <u>0</u> |
| Total Rest of the World | 89,619 | 7,240 | 0 | |
| Total | <u>7,024,271</u> | <u>3,295,370</u> | <u>1,316,224</u> | |

Turnover for key customers (turnover of more than 10%) is as follows:

| | <u>Turnover</u> | <u>As percentage</u> |
|---|-----------------|----------------------|
| | in € | of total turnover |
| LG Chemical Ltd. | 1,260,931 | 17.95% |
| Trigano Service | 1,147,117 | 16.33% |
| LG Chemical Ltd. | 1,306,375 | 39.64% |
| German Army technical department for cars and tanks | 483,368 | 14.67% |
| Sony | 300,000 | 22.79% |
| General Technical Services | 293,997 | 22.34% |

(42) Important events after balance sheet date

SFC is currently preparing for its stock market flotation which will result in an increase of subscribed capital, capital surplus and cash and cash equivalents.

Brunnthal, 16 March 2007

The Board

Dr. Peter Podesser

Dr. Jens Müller

The following independent auditor's report ("Bestätigungsvermerk") was issued in accordance with § 332 HGB (German Commercial Code) on the IFRS Financial Statements 2006, which were prepared in the German language. The translation of the auditor's report ("Bestätigungsvermerk") is as follows:

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements prepared by the SFC Smart Fuel Cell AG, Brunthal — comprising the income statement, the balance sheet, cash flow statement, statement of changes in equity, segment reporting and the notes to the financial statements — for the business year from 1 January to 31 December 2006. The preparation of the financial statements in accordance with IFRS is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit of the 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 financial statements in accordance with the applicable financial reporting framework are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 financial statements are examined primarily on a test basis within the framework of the audit. The audit includes the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 financial statements of the SFC Smart Fuel Cell AG comply with IFRS and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with these requirements."

Munich, 16 March 2007

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Voit
Wirtschaftsprüfer
[German Public Auditor]

Signed: p.p. Papadatos
Wirtschaftsprüfer
[German Public Auditor]