ANNUAL REPORT **2007**

ENERGY

WITH BIOGAS. TODAY. TOMORROW.

Schmack Biogas AG

The vision:

Schmack Biogas aims to become one of the world's leading full-service providers in the biogas market and the leading energy producer from biogas through the operation of its own plants.

Our guiding themes:

- Creation of an integrated biogas company
- Technological leadership
- Single-source solutions

This way we can support our customers from their initial idea to successful operation.

Energy with biogas. Today. Tomorrow.

CONTENT

THE SCHMACK GROUP AT A GLANCE

	2007 kEUR	2006 kEUR
EARNINGS POSITION		
Sales	135,167	90,008
Sales growth	50.2%	163.7%
EBIT	-9,620	4,431
Net income*	-6,579	1,399
EBIT margin	-7.1%	4.9%
Earnings per share (in EUR)	-1.23	0.36
ASSET AND CAPITAL STRUCTURE		
Non-current assets	53,702	30,106
Current assets	74,113	49,226
Equity	64,508	40,975
Equity ratio	50.5%	51.7%
Non-current liabilities	28,168	15,308
Current liabilities	35,139	23,049
Total assets	127,815	79,332
CASHFLOW / INVESTMENTS		
Cash flow from operating activities	-27,527	-1,557
Cash flow from investing activities	-10,205	-24,736
Free cash flow	-37,732	-26,293
Cash flow frim financial activities	39,431	41,343
Cash balance	20,335	18,636
EMPLOYEES AT BALANCE SHEET DATE	522	297

* After income minority shareholders

INSTALLED ELECTRICAL NOMINAL OUTPUT

12/31/2005	29 MW
12/31/2006	41 MW
12/31/2007	75 MW

SALES

2005*	EUR 34.1 million
2006	EUR 90.0 million
2007	EUR 135.2 million

EBIT

2005**	EUR 1.0 million
2006	EUR 4.4 million
2007	EUR -9.6 million

ORDERS ON HAND

12/31/2005	EUR 36.6 million
12/31/2006	EUR 78.4 million
12/31/2007	EUR 115.9 million

Figures for the business development of Schmack Biogas AG

- *Nominal output*
- *Sales*
- *EBIT*
- *Orders on hand*

* Data derives from unconsolidated financial statements of Schmack Biogas AG

** Adjusted for one time effects from write-offs

FOREWORD OF THE MANAGEMENT BOARD

Ladies and gentlemen,

2007 was a disappointing year. We, the members of the Management Board of Schmack Biogas AG, share our shareholders' dissatisfaction with the earnings performance in particular. The main reason for the poor performance, which is reflected in earnings before interest and tax of EUR -9.6 million at the end of the year, was the extreme increase in feedstock prices in mid-2007. This led to an immediate collapse in demand from the agricultural sector, which resulted in much slower sales growth and, most importantly, made us lose the projects that generate the highest margins.

While we had expected that farmers would slowly lose in importance as a customer group, this sudden collapse was not foreseeable. The good standing we especially enjoy among energy utilities has helped us to offset this drop in sales at least partially through the concentration on large-scale plants. As a result, we boosted our sales by approx. 50% to EUR 135.2 million in the fiscal year 2007, which was clearly above the market average. However, we had to undergo a technical learning process in the construction of large plants in 2007, which is why, in some cases, only low profit contributions were generated while the firmly planned high profit contributions from the smaller plants were lost completely.

Our strategic response to the rising feedstock prices is the use of catch crops. In a first step, however, the adjustments of plants to accomodate the processing of catch crops also entailed additional expenses, which are reflected in the result for 2007. Moreover, the recently acquired subsidiaries had to be integrated into the Group and the necessary structures be implemented in the past fiscal year. At the bottom line, all these factors forced us to significantly revise our original earnings projections. As a result, we are carrying a high loss in our books for the year 2007.

In the course of the past year and at the beginning of 2008, we took numerous strategic measures to improve the situation of Schmack Biogas AG in the short and medium term. The conversion of our plants to accomodate the processing of catch crops has reduced our exposure to the prices of grain and other energy crops. Moreover, undergoing a technical learning process has enabled us to push ahead the product and process standardisation for large plants. The improved processes will make the construction of our biogas plants more profitable.

We are also reducing our internal costs. The integration of our subsidiaries has progressed. We will make our structures more efficient with a view to reducing fixed personnel expenses and have implemented a new Group-wide purchasing programme to cut our procurement costs.

In spite of these comprehensive measures, we expect the situation to remain very difficult, at least in the first half of 2008. Feedstock prices will continue to affect our business activities, and some of the internal measures will make themselves felt only in the further course of the year. We therefore project a clearly negative result for the first six months. We expect the situation to improve in the second half of the year, as reflected in a more favourable cost situation and a pick-up in the market. We project stronger growth from early 2009 at the latest, which will primarily be supported by the Gas Grid Access Regulations adopted in March 2008. These regulations oblige grid operators to accept and transport biogas through their gas grids and shifts significant expenses from the biogas producers to the grid operators. This will give the whole biogas industry a strong boost. We assume that we will benefit particularly strongly, as we have the leading technology for feeding biogas into the grid. The majority of successful gas feed-in projects in Germany are based on our technology.

Ladies and gentlemen, we are well aware that the current situation is extremely unsatisfactory for all shareholders of our company. In the months ahead, we will work hard to successively improve the sales and earnings situation in the course of the year. Even though we continue to view the medium and long-term situation of our industry and our company very positively, we will now be challenged to master the year 2008, which will be a year of transition. This is what we will focus on in the months ahead.

The Management Board

Ulrich Schmack

Ulrich Schmack
Chief Executive Officer (CEO)

Dr. Alexander Götz
Chief Financial Officer (CFO)

REPORT OF THE SUPERVISORY BOARD

Ladies and gentlemen,

In the past fiscal year 2007, the Supervisory Board closely monitored the situation, the business development and the future prospects of Schmack Biogas AG. All tasks and duties of the Supervisory Board as defined by law, the statutes, the Corporate Governance Code and the Code of Procedure were performed with great care. The Management Board regularly informed the Supervisory Board in a comprehensive and timely manner about the general business development and about fundamental business policy matters in written and oral reports at meetings and in personal talks. An essential role was played by the monthly reports which compare the company's current financial figures with the budgeted and previous year's figures, backed up by comments and explanations. Outside the meetings, the Supervisory Board maintained a constant exchange with the Management Board throughout the fiscal year and was thus always kept abreast of the current business development, the performance of the company and the corporate planning. Deviations from the plans were explained in detail by the Management Board and reviewed thoroughly by the Supervisory Board. In accordance with legal requirements and the Code of Procedure, the Supervisory Board voted on the reports and resolution proposals of the Management Board following thorough examination and joint discussion.

Focus of consultation

Four ordinary and two extraordinary meetings were held in fiscal 2007. All these meetings were attended by all members of the Supervisory Board. For reasons of efficiency, no committees were formed. The Supervisory Board addressed fundamental issues of corporate planning, especially financial, investment and human resources planning. The Supervisory Board was involved in all decisions that were of fundamental importance to Schmack Biogas AG or the Schmack Group. In the context of the meetings, the following issues were discussed, in particular:

- Reports of the Management Board on the business development and the future corporate strategy
- Replacement of old shareholders and capital increase at Schmack Biogas AG
- Separate and consolidated financial statements for the fiscal year 2006
- Management Board report on transactions with related parties of the company's bodies and approval of these transactions by the Supervisory Board
- Agenda for the Annual General Meeting on June 22, 2007
- Management Board report on the Schmack Group's funding arrangements
- Acquisition of another 19.19% of the shares in Köhler & Ziegler Anlagentechnik GmbH
- Increase in the interest in Stelzenberger Biogas GmbH
- Business development in the USA and future US strategy

- Acquisition of an interest in IMB Verfahrenstechnik GmbH
- Annual planning for fiscal 2008
- Declaration of Conformity pursuant to section 161 of the German Stock Corporation Act (AktG)
- Report of the Supervisory Board Chairman about the work and the efficiency of the Supervisory Board in fiscal 2007

The Supervisory Board satisfied itself that business is conducted properly by the Management Board and that the latter has taken all necessary measures, especially with regard to risk provisioning and compliance.

Corporate Governance
The Supervisory Board continues to attach great importance to the ongoing optimisation of corporate governance. At our meeting dated November 15, 2007, we examined, together with the Management Board, if there are any additional recommendations for the company to comply with compared to the previous year. In this context, the amendments to the German Corporate Governance Code of June 14, 2007 were also taken into account. A survey conducted by the Management Board and the Supervisory Board showed that no conflicts of interest as defined by the German Corporate Governance Code occurred. The latest Declaration of Conformity pursuant to section 161 of the German Stock Corporation Act (AktG) is accessible to all shareholders at the company's website and has been published on page 35 of the Corporate Governance Report. In fiscal 2007 the Supervisory Board performed a self-evaluation to review its own work and efficiency.

The Supervisory Board also closely addressed and reviewed the instruments and contractual arrangements listed in section 289 para. 4 and section 315 para. 4 of the German Commercial Code (HGB) which may stand in the way of a possible takeover of the company. For more information, please refer to page 59 of the management report.

Annual audit
In accordance with the resolution of the Annual General Meeting of June 22, 2007, the Supervisory Board asked Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg, to audit the separate financial statements and the management report as well as the consolidated financial statements and the consolidated management report. The declaration of independence on business or financial relationships with the Schmack Group previously obtained from the auditors gave no cause for objection.

The auditors audited the financial statements of Schmack Biogas AG and the consolidated financial statements as well as the management reports prepared by the Management Report. This audit also covered the measures taken by the Management Board with a view to the early identification of risks that may jeopardise the performance and the continued existence of the company. The auditors raised no objections and issued unqualified audit opinions.

The Supervisory Board reviewed the separate financial statements, the consolidated financial statements, the management report, the consolidated management report and the related party disclosures prepared by the Management Board in accordance with section 312 para. 1 of the German Stock Corporation Act (AktG) and discussed them with the Management Board. The annual results meeting on April 18, 2007 was attended by the auditors, who explained the findings of their audit and answered the questions of the Supervisory Board in detail. All documents required pursuant to section 170 paras. 1 and 2 of the German Stock Corporation Act (AktG), especially the audit reports of the auditors, were made available to all members of the Supervisory Board in a timely manner. Following a thorough review, the Supervisory Board raised no objections and approved the separate financial statements and the management report as well as consolidated financial statements and the consolidated management report and agreed with the audit reports. The separate financial statements of Schmack Biogas AG prepared by the Management Board have thus been approved.

In accordance with section 317 para. 4 of the German Commercial Code (HGB), the appointed auditors, Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg, additionally audited the early risk identification system and the related party disclosures prepared by the Management Board in accordance with section 312 para. 1 of the German Stock Corporation Act (AktG). The audits led to no objections and the following unqualified audit opinion was issued:

„Following our dutiful audit and examination, we confirm that

a. the actual information in the report is correct,

b. the company's payments in connection with the legal transactions referred to in the report were not unduly high."

The Supervisory Board also examined the Management Board's related party disclosures and agrees with the audit result of the auditors. According to the final result of the Supervisory Board's examination, no objections were raised against the final declarations made by the Management Board in the related party disclosures.

Changes on the Management Board and Supervisory Board
The following changes on the Management Board of Schmack Biogas AG occurred in the fiscal year 2007:

With effect from May 1, 2007, Dr. Guido Zimmermann was appointed Chief Operations Officer (COO) by the Supervisory Board. In this capacity, he was also responsible for the commissioning and service departments at Schmack Biogas AG. Dr. Zimmermann resigned from office with effect from August 31, 2007 for personal reasons. The Management Board and the Supervisory Board accepted the resignation of Dr. Zimmermann with regret.

Mr. Herbert Abel resigned from the Management Board for personal reasons with effect from June 1, 2007. The Supervisory Board thanks Mr. Abel for his work.

With effect from July 1, 2007, the Supervisory Board appointed Dr. Karl Reinhard Kolmsee to the new position of Chief Sales Officer. After the end of the reporting period, Dr. Karl Reinhard Kolmsee asked the Supervisory Board to release him from office. The Supervisory Board complied with his request with effect from February 29, 2008. The Supervisory Board thanks Dr. Karl Reinhard Kolmsee for his services for the Schmack Biogas Group.

With effect from February 22, 2007, Dr. Philipp Hasler resigned from his office as a member of the Supersvisory Board. He was replaced by former substitute member, Horst Kuschetzki.

The Supervisory Board thanks the Management Board and all employees for their work in the fiscal year 2007. Their strong commitment made a major contribution to the development of Schmack Biogas AG.

Schwandorf, April 18, 2008

The Supervisory Board
Walter Gnauert
Chairman

CORPORATE GOVERNANCE REPORT

In the run-up to the IPO on May 24, 2006, the Management and Supervisory Boards of Schmack Biogas AG committed themselves to a transparent and responsible structure for the control and management of the company. To a large extent, they identify themselves with the objectives of the German Corporate Governance Code. The intention is to promote trust on the part of shareholders, employees, the general public, customers and partners in the management, hence achieving a sustained increase in enterprise value.

At a joint meeting on November 15, 2007, the Management Board and the Supervisory Board released an updated Declaration of Conformity on the recommendations of the German Corporate Governance Code Commission in line with Section 161 of the German Stock Corporation Act (AktG). In December 2007, this declaration was published on the website of Schmack Biogas AG, thus being publicly accessible on an ongoing basis, and on page 35 of this Annual Report. Even after the new version of the Code released on June 14, 2007, Schmack Biogas AG largely conforms to the recommendations of the German Corporate Governance Code Commission. There are only five justified points of deviation from the recommendations, due to size, structure and specific company conditions.

Shareholders and Annual General Meeting

The shareholders of Schmack Biogas AG exercise their voting and control rights at the Annual General Meeting. This resolves on all matters determined by law, regulation or jurisdiction with binding effect for all shareholders and the company. When voting, each share carries one vote. There are no shares with multiple voting rights, preferential voting rights or maximum voting rights.

The shareholders may exercise the rights themselves or via a proxy authorized in writing. In addition, Schmack Biogas facilitates the personal exercise of shareholders' voting rights by having the company arrange the appointment of a representative to exercise shareholders' voting rights in accordance with instructions.

The invitation to the Annual General Meeting, reports and information for the resolutions are published in line with stock market regulations and made available in due time on the website of Schmack Biogas AG.

Schmack Biogas AG waives the conveyance of the convening of the Annual General Meeting with the documents relating to convening of the meeting via electronic means to all domestic and foreign financial service providers, shareholders and shareholders' associations, although the approval requirements for this are met on the basis of the resolution of the Annual General Meeting on

June 22, 2007. In the view of the company, with the current number of shareholders and shareholder structure, implementing the recommendation of the Code has no relation to benefits to be gained for Schmack Biogas AG and its shareholders given the organizational and economic expense needed to fulfill requirements of Section 30b Article 3 No. 1 of the Securities Trading Act (WpHG). The recommendation in Clause 2.3.2 is thus not complied with.

Cooperation between Management Board and Supervisory Board
The Management Board and the Supervisory Board of Schmack Biogas AG work closely together and in a trusting manner for the good of the company and maintain a constant exchange of information and ideas. The Management Board informs the Supervisory Board regularly, promptly and comprehensively with regard to the business development, the risk situation, risk management, compliance, planning and potential deviations in business development. Further detailed information regarding the cooperation of the Management Board and the Supervisory Board is contained in the Report of the Supervisory Board.

Management Board
The Management Board of Schmack Biogas AG consisted of three members as of December 31, 2007. With effect from July 1, 2007, the Supervisory Board appointed Dr. Karl Reinhard Kolmsee to the newly created Management Board position responsible for Sales. The positions of Mr. Ulrich Schmack (CEO) as well as Dr. Alexander Götz (CFO) remained unchanged.

The Management Board of Schmack Biogas AG is committed to the interest of the company and the sustained increase in the enterprise value. In fiscal year 2007, there were no conflicts of interests which are to be immediately disclosed to the Supervisory Board. No member of the Management Board has a supervisory board mandate. In fiscal year 2007, Dr. Alexander Götz was a member of the Advisory Council of Fludicon GmbH, Darmstadt.

Supervisory Board
In fiscal year 2007, there was a change in the composition of the Supervisory Board of Schmack Biogas. With effect form February 22, 2007, Dr. Philipp Hasler resigned from his office as a member of the Supervisory Board. He was replaced by former substitute member, Horst Kuschetzki. Since then the control and advisory body continues to consist of three persons; Mr. Walter Gnauert, Chairman of the Supervisory Board, Mr. Michael Fehn, Deputy Chairman of the Supervisory Board, as well as Mr. Horst Kuschetzki, member of the Supervisory Board. The Board is of the opinion that it has a sufficient number of independent members who do not have any professional or personal relationship with the company or its Management Board. An overview of all Supervisory Board and similar mandates is printed on page 141.

In the past fiscal year, no conflict of interests arose amongst the members, which are to be disclosed to the Supervisory Board. The Supervisory Board conducts a self-examination of its efficiency once a year. The activities of the Supervisory Board are regulated in a code of procedures. Further elaboration regarding the activities of the Supervisory Board can be found in the Report of the Supervisory Board.

Due to its size, the Supervisory Board of Schmack Biogas AG waives the formation of an Audit Committee or a Nomination Committee in line with Clause 5.3 of the German Corporate Governance Code.

Compensation report for the Management Board and the Supervisory Board

The compensation of the Management Board is determined by the Supervisory Board and reviewed regularly. The compensation for the Management Board members consists of non-performance-related and performance-related components. The non-performance-related components comprise a fixed amount as well as non-monetary compensation. The performance-related component is based on the company's results. In particular, other criteria for the individual determination and appropriateness of the fixed and variable compensation of the Management Board include; the tasks and contributions of each member, their personal performance as well as the performance of the Management Board as a whole.

The fixed amount, which is non-performance-related basic compensation, is paid out as a monthly salary. A review takes place every year, partly on the basis of the general development of salaries in the Group, as well as the development of requirements and performance. In addition, the Management Board members receive non-monetary compensation, which essentially consists of a company car. Taxes on this non-monetary compensation are payable by each Management Board member. The variable compensation is paid out upon approval of the consolidated financial statements by the Supervisory Board. The performance-related compensation is based on the result of the past fiscal year. Components with a long-term incentive effect are reflected in the form of a so-called Matching Stock Program (MSP).

Schmack Biogas AG does not present the Management Board compensation in individualized form, after the respective opt-out regulation was adopted by the required three-quarters majority at the Annual General Meeting.

In fiscal year 2007, the fixed compensation of the Management Board (including non-monetary compensation) totals to kEUR 770 (previous year: kEUR 444). No amount has been accounted for the performance-related compensation of the Management Board (previous year: kEUR 186).

As of balance sheet date, Schmack Biogas AG has a stock option program in the form of a so-called Matching Stock Program. A selected group of managers in the Schmack Biogas Group is eligible for participation in the MSP. Detailed information is provided in the notes to the consolidated financial statements on page 114 et seq. and in the notes to the consolidated management report on page 43.

The compensation of the Supervisory Board members is defined in the Statutes. With regard to the Supervisory Board compensation, Schmack Biogas AG deviates from the recommendations of the German Corporate Governance Code in two respects. First, it does not report compensation in an individualized basis, in accordance with a resolution adopted by the Annual General Meeting. Next, in deviation to the Code, the deputy chairmanship is not considered in the compensation structure.

The members of the Supervisory Board receive an appropriate annual compensation. The total compensation of the Supervisory Board in the fiscal year 2007 of kEUR 58 (previous year: kEUR 67) is composed of a fixed compensation of kEUR 58 (previous year: kEUR 58) as well as a variable compensation totaling kEUR 0 (previous year: kEUR 9).

No pensions are paid to former members of the Management Board or the Supervisory Board or their families. No loans were granted to members of the Management Board and Supervisory Board in the reporting year.

Transparency
Schmack Biogas AG informs all shareholders immediately, regularly and simultaneously about the business situation of the company. Correspondingly, in fiscal year 2007, a total of eight ad-hoc releases were published in line with Section 15 of the Securities Trading Act (WpHG). Moreover, Schmack Biogas provides all information in German and English on the company's website.

In fiscal year 2007, Schmack Biogas AG published the following information pursuant to Section 25 and Section 26 of the Securities Trading Act (WpHG) on changes in voting rights:

February 22, 2007
- Notification that Mr. Ulrich Schmack, Germany, dropped below the 5% and 3% voting rights thresholds on February 14, 2007.
- Notification that Abel Beteiligungs GmbH & Co. KG, Engelsberg, Germany, dropped below the 10% and 5% voting rights thresholds on February 14, 2007.
- Notification that Abel Verwaltungs GmbH, Engelsberg, Germany, dropped below the 10% and 5% voting rights thresholds on February 14, 2007.
- Notification that Mrs. Petra Abel, Germany, dropped below the 10% and 5% voting rights thresholds on February 14, 2007.
- Notification that BayBG Bayerische Beteiligungsgesellschaft mbH, Munich, Germany, dropped below the 3% voting rights threshold on February 19, 2007.
- Notification that Schroder Investment Management plc, London, United Kingdom, exceeded the 3% voting rights threshold on February 15, 2007.
- Notification that Schroder Administration Ltd., London, United Kingdom, exceeded the 3% voting rights threshold on February 15, 2007.
- Notification that Schroder plc, London, United Kingdom, exceeded the 3% voting rights threshold on February 15, 2007.

February 28, 2007
- Notification that S-Refit AG, Regensburg, Germany, dropped below the 5% and 3% voting rights thresholds on February 19, 2007.

- Notification that Natexis Asset Management, Paris, France, exceeded the 3% and 5% voting rights thresholds on February 15, 2007.
- Notification that SAM Equity Partners Ltd., St. Peter Port, Guernsey, dropped below the 5% and 3% voting rights thresholds on February 19, 2007.
- Notification that SAM Private Equity Energy Fund, St. Peter Port, Guernsey, dropped below the 5% and 3% voting rights thresholds on February 19, 2007.
- Notification that SAM Sustainable Asset Management AG, Zurich, Switzerland, dropped below the 5% and 3% voting rights thresholds on February 19, 2007.
- Notification that SAM Group Holding AG, Zurich, Switzerland, dropped below the 5% and 3% voting rights thresholds on February 19, 2007.
- Notification that Julius Baer Investment Funds Services Ltd., Zurich, Switzerland, exceeded the 3% voting rights threshold on February 15, 2007.
- Notification that Julius Bär Holding AG, Zurich, Switzerland, exceeded the 3% voting rights threshold on February 15, 2007.

March 12, 2007
- Notification that Mr. Ulrich Schmack, Germany, exceeded the 3% and 5% voting rights thresholds on March 5, 2007.
- Notification that Abel Beteiligungs GmbH & Co. KG, Engelsberg, Germany, exceeded the 5% voting rights threshold on March 5, 2007.
- Notification that Abel Verwaltungs GmbH, Engelsberg, Germany, exceeded the 5% voting rights threshold on March 5, 2007.
- Notification that Mr. Hermann Abel, Germany, exceeded the 5% voting rights threshold on March 5, 2007.

April 5, 2007
- Corrected notification that Mrs. Petra Abel, Germany, dropped below the 10% and 5% voting rights thresholds on January 3, 2007.
- Notification that Mr. Hermann Abel, Germany, exceeded the 5% and 10% voting rights thresholds on January 3, 2007.
- Notification that Mr. Hermann Abel, Germany, dropped below the 10% and 5% voting rights thresholds on February 14, 2007.
- Supplementary reference to the notification that Mr. Hermann Abel, Germany, exceeded the 5% voting rights threshold on March 5, 2007.

May 24, 2007
- Notification that Schroders plc, London, United Kingdom, dropped below the 3% voting rights threshold on May 17, 2007.
- Notification that Schroder Administration Ltd., London, United Kingdom, dropped below the 3% voting rights threshold on May 17, 2007.

- Notification that Schroder Investment Management Ltd., London, United Kingdom, dropped below the 3% voting rights threshold on May 17, 2007.

July 5, 2007
- Notification that Abel Beteiligungs GmbH & Co. KG, Engelsberg, Germany, dropped below the 5% and 3% voting rights thresholds on June 28, 2007.
- Notification that Abel Verwaltungs GmbH, Engelsberg, Germany, dropped below the 5% and 3% voting rights thresholds on June 28, 2007.
- Notification that Mr. Hermann Abel, Germany, dropped below the 5% and 3% voting rights thresholds on June 28, 2007.

August 3, 2007
- Notification that UBS Equity Fund Management Company S.A., Luxembourg, exceeded the 3% voting rights threshold on July 27, 2007.

August 8, 2007
- Corrected notification that UBS Equity Fund Management Company S.A., Luxembourg, Luxembourg, exceeded the 3% voting rights threshold on July 27, 2007.

August 14, 2007
- Notification that UBS AG, Zurich, Switzerland, exceeded the 3% voting rights threshold on August 8, 2007.

August 24, 2007
- Notification that Natexis Asset Management, Paris, France, (Natixis Asset Management as successor in title of Natexis Asset Management) dropped below the 5% voting rights threshold on June 1, 2007.
- Notification that Natixis Asset Management, Paris, France, exceeded the 3% voting rights threshold on July 1, 2007.

August 27, 2007
- Notification that UBS AG, Zurich, Switzerland, exceeded the 5% voting rights threshold on August 20, 2007.

In fiscal year 2007, the following directors' dealings pursuant to Section 15a of the Securities Trading Act were made:

DIRECTOR'S DEALINGS 2007

Name	Date Place	Function	Transaction type	Quantity	Price in €	Total amount in €
Ulrich Schmack	Feb. 14, 2007 Frankfurt	Executive body	Securities loan	246,978	0.00	0.00
Ulrich Schmack	March 5, 2007 Frankfurt	Executive body	Securities loan	246,978	0.00	0.00
Walter Gnauert	Feb. 2, 2007 XETRA	Administrative or supervisory body	Sale	2,500	58.88	147,209.70
Walter Gnauert	Feb. 27, 2007 XETRA	Administrative or supervisory body	Sale	2,338	59.06	138,084.55
Ulrich Schmack	May 31, 2007 off market	Executive body	Sale	31,326	60.00	1,879,560.00
Michael Fehn	June 14, 2007 XETRA	Administrative or supervisory body	Sale	4,838	56.00	270,928.00
Walter Gnauert	August 28, 2007 XETRA	Administrative or supervisory body	Purchase	1,000	23.175	23,175.00

Accounting and Annual Audit
Schmack Biogas AG prepares its consolidated financial statements as well as its quarterly reports in line with the regulations prescribed by the International Financial Reporting Standards (IFRS). These documents are published within the deadlines of the stock exchange rules and regulations for the Prime Standard. The financial statements of Schmack Biogas AG are prepared in line with the German Commercial Code (HGB).

In line with the resolution of the Annual General Meeting on June 22, 2007, the Supervisory Board appointed Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nürnberg, as auditors for the financial statements as well as the consolidated financial statements. The audits took place with adherence to the established principles of annual audit by the Institute of Auditors (IDW). The two statements did not lead to any objections and were each provided with an unqualified audit opinion. In addition to the audit of the consolidated financial statements, all quarterly reports of Schmack Biogas AG are reviewed by Rödl & Partner GmbH.

Declaration by the Management Board and Supervisory Board of Schmack Biogas AG regarding the recommendations of the Government Commission on the German Corporate Governance Code in the version as of June 14, 2007 in line with Section 161 of the German Stock Corporation Act (AktG)

In line with Section 161 of the German Stock Corporation Act (AktG), the Management Board and Supervisory Board of listed joint stock corporations are obliged to declare once a year that the company has complied with the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Justice Ministry in the official section of the electronic Federal Gazette and to disclose which recommendations have not been applied (so-called Declaration of Conformity). The Declaration is to be made accessible to the shareholders on an ongoing basis.

The Management Board and Supervisory Board of Schmack Biogas AG expressly welcome the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Justice Ministry in the official section of the electronic Federal Gazette on November 26, 2002 and declare that the recommendations and proposals are generally complied with and were complied with in the past. The Management Board and Supervisory Board of Schmack Biogas AG also intend to comply with these recommendations and proposals in future.

For the period between November 2006 to June 14, 2007, the subsequent Declaration refers to the Code in its version dated June 12, 2006. For the Corporate Governance implemented by Schmack Biogas AG as of June 15, 2007, the Declaration refers to the requirements of the Code in its version dated June 14, 2007.

The Management Board and Supervisory Board of Schmack Biogas AG declare:
Schmack Biogas AG has complied with and complies with the recommendations made by the German Corporate Governance Code Commission in the respective versions in force published by the Federal Justice Ministry in the official section of the electronic Federal Gazette on November 26, 2002 with the following exceptions:

1. In **Clause 2.3.2** the German Corporate Governance Code recommends conveying the convening of the Annual General Meeting together with documents relating to the convening of the meeting to all domestic and foreign financial services providers, shareholders and shareholders' associations by electronic means if the approval requirements are fulfilled. Currently, Schmack Biogas AG waives such electronic conveyance although the changed Statutes (based on the resolution of the Annual General Meeting on June 22, 2007) allows for electronic transmission in line with requirements of Section 30b Article 3 No. 1 of the Securities Trading Act (WpHG). With the current number of shareholders and shareholder structure, implementing the recommendation of the Code has no relation to benefits to be gained for Schmack Biogas AG and its shareholders given the organizational and economic expense needed to fulfill requirements of Section 30b Article 3 No. 1 of the Securities Trading Act.

2. In **Clause 4.2.4** the German Corporate Governance Code recommends that the compensation of the members of the Management Board be disclosed by name in the compensation report unless otherwise decided by the Annual General meeting by a three-quarters majority. Likewise, **Clause 5.4.7** of the German Corporate Governance Code recommends that the compensation of the members of the Supervisory Board be reported individually in the Corporate Governance Report. Schmack Biogas AG will not report the compensation of the Management Board and Supervisory Board members individually in the compensation report and the Corporate Governance Report for the fiscal year 2007, given that the shareholders of Schmack Biogas AG decided against an individualized presentation of the Management Board compensation at the Annual General Meeting on April 6, 2006 in line with Section 286 Article 5 of the German Commercial Code (HGB).

The compensation of the Management Board and the Supervisory Board for the fiscal year 2007 is reported by fixed and variable components as well as by components with long-term incentive effect. This information is relevant for assessing whether the amount and breakdown of the compensation into guaranteed and performance-related components is appropriate and whether the compensation structure has the desired incentive effect on the Management Board and the Supervisory Board. As the Management Board and the Supervisory Board of Schmack Biogas AG are collegial bodies, the company believes that the incentive effect on the Board as a whole and not on each individual member is relevant.

3. In **Clause 5.3** the German Corporate Governance Code recommends that in addition to the formation of expert committees subject to the specific situation of the company and the number

of the Supervisory Board members, it shall also establish an Audit Committee as well as a Nomination Committee composed exclusively of shareholder representatives, which proposes suitable candidates to the Supervisory Board for recommendation to the Annual General Meeting. As the Supervisory Board of Schmack Biogas AG consists only of three members, no committees will be established, neither an Audit Committee nor a Nomination Committee. Schmack Biogas AG is of the opinion that the formation of committees will not increase the efficiency of the Supervisory Board, so the formation of committees is neither useful nor appropriate.

4. In **Clause 5.4.7** the German Corporate Governance Code recommends that the chairmanship and deputy chairmanship in the Supervisory Board and the committees be taken into consideration in setting the compensation of the members of the Supervisory Board. Schmack Biogas AG only takes the chairmanship in the Supervisory Board into consideration in setting Supervisory Board compensation. Schmack Biogas AG does not believe that taking into consideration the deputy chairmanship on the Supervisory Board and the committees would further improve the commitment of the Supervisory Board members.

5. In **Clause 7.1.2** the German Corporate Governance Code recommends that the consolidated financial statements be publicly accessible within 90 days as of the end of the fiscal year and that the interim reports be publicly accessible within 45 days as of the end of the reporting periods. In deviation from these recommendations, Schmack Biogas AG will neither make the consolidated financial statements publicly accessible within 90 days as of the end of the fiscal year nor the interim reports available 45 days as of the end of the reporting periods. However, it will publish the consolidated financial statements and the interim reports as soon as possible within the statutory deadlines. In addition, Schmack Biogas AG complies voluntarily, with few exceptions, to the non-obligatory proposals of the German Corporate Governance Code.

Schwandorf, November 15, 2007

Schmack Biogas AG

Ulrich Schmack | W. Gnauert

On behalf of the
Management Board

Ulrich Schmack

On behalf of the
Supervisory Board

Walter Gnauert

CONSOLIDATED MANAGEMENT REPORT
SCHMACK BIOGAS AG, SCHWANDORF

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1. BUSINESS AND GENERAL CONDITIONS

1.1 Mission Statement

Schmack Biogas aims to become one of the world's leading full-service providers in the biogas market and the leading energy producer from biogas through the operation of its own plants.

1.2 Activity and business segments

Schmack Biogas is a full-service provider in the biogas sector for energy utilities, investors and farmers. In addition, the company produces biogas in its own plants and markets the energy generated.

The Schmack Biogas Group operates through three strategic divisions:

1. Planning and Construction of biogas plants
2. Plant Management and Operation
3. Sale of electricity and heat or biogas from Own Operations

The Planning and Construction division provides services such as planning, approval, construction, start-up and test run.

The second division, Plant Management and Operation, provides microbiological services, technical services, raw materials management or the complete operation of customer plants. These services give the company's customers the planning certainty they need for the smooth and efficient operation of their plants.

The Own Operations division markets electricity and heat or biogas from the company's own plants. These plants are either wholly owned by the Schmack Biogas Group or operated as joint ventures together with energy utilities. The joint venture partners are responsible for marketing the energy, while Schmack Biogas is in charge of constructing and operating the plants. The electricity generated is marketed primarily in accordance with the Renewable Energies Act (EEG), while the heat generated is sold at prevailing market prices. Direct marketing of biogas as a substitute for natural gas will clearly gain importance in the long term.

1.3 Strategy

Market strategy

The Schmack Biogas Group aims to offer its main customer groups – energy utilities, capital investors and farmers – products and services that are ideally matched to their specific requirements.

The company will continue to focus its activities on energy utilities and investors, as demand from these target groups is expected to grow disproportionately. Especially with regard to these two customer groups, Schmack Biogas believes that being largely able to cover the complete planning, construction and operation process with its own comprehensive range of services is of great strategic importance. This efficiency in the management of the complete process, the company's long-standing expertise and the specialist know-how of the individual stages of the value chain enable Schmack Biogas AG to meet the demands of these target groups and to clearly differentiate itself from its competitors.

Schmack Biogas believes that the marketing of electricity and heat or biogas produced in its own plants will offer high sales and earnings potential in the medium to long term, while at the same time having a stabilising effect on cash flows. Moreover, the operation of its own biogas plants allows the company to respond to potential market changes in the sale of customer plants with high flexibility. The expansion of the Own Operations division is therefore a key element of the company's strategy.

Besides the main sales market, Germany, Schmack Biogas is also active in the Netherlands, the USA and Poland as well as in Italy. Given that laws similar to the Renewable Energies Act (EEG) are to be introduced or amended in many European countries, the company plans to make further inroads into other European markets.

Technology strategy

Schmack Biogas AG aims to expand its technological leadership in plant technology and microbiology.

In the field of plant technology, selective acquisitions and investments in key technologies were an important strategic measure. Examples include the gas purification technology of CarboTech Engineering, the know-how of Köhler & Ziegler in the area of cogeneration plants, as well as the specialisation of Stelzenberger Biogas in stirring devices for fermenters. Going forward, the activities of Schmack Biogas AG will focus, in particular, on the refinement of the biogas feed-in technology and the standardisation of large-scale plants.

Besides the plant technology, the company's internal R&D activities in the field of microbiology form the basis for a higher energy yield, stable processes and the resulting increased efficiency of biogas plants. Through its in-house microbiological research centre, the company aims to protect its competitive advantage in this field in the long term.

Procurement strategy

The acquisitions made to date have not only integrated the company's technological expertise along the value chain in the Group, but also secured the procurement of the main plant components in the long term. As a result, the company is well positioned to benefit from the expected future growth of the market.

With regard to the strategically important procurement of energy crops as feedstock materials for biogas plants, Schmack Biogas successfully developed and implemented a new concept, which is based on the cultivation and use of catch crops. These cultures grow in the times between the actual main crops such as maize or grain, which means there is hardly any competition with food production. This alternative reduces the exposure to global agricultural prices and cuts the purchase cost of the raw materials used in the company's own plants.

1.4 Legal Group structure

Established in 1995, Schmack Biogas AG adopted the legal status of a joint stock corporation in 2001.

The subsidiaries and strategic investments of Schmack Biogas fall into three segments, which reflect the Group's strategic positioning:

1. Domestic investments and subsidiaries, which primarily engage in key technologies of the biogas market.
   The most important ones are CarboTech Engineering GmbH (biogas purification), Stelzenberger Biogas GmbH (stirring devices for fermenters) and Köhler & Ziegler Anlagentechnik GmbH (cogeneration plants). In addition, there is Hese Biogas GmbH, which plans and constructs biogas plants. Hese specialises in the construction of cofermentation plants which operate with organic residual materials and waste as well as liquid manure and sludges.

2. Subsidiaries and other interests in foreign markets, namely in Italy, the Netherlands and the USA.
   These companies primarily market and sell the products and services in their respective markets.

3. Joint ventures with energy and gas utilities.
   The purpose of the joint ventures is to invest jointly in biogas plants and to market electricity and heat or processed biogas produced in the company's own plants.

For a list of the subsidiaries and investments, refer to point A. (2) Recognition and Measurement Principles (Basis of consolidation) in the notes to the consolidated financial statements.

1.5 Management and control

The Management Board which consisted of three persons as of December 31, 2007 is responsible for managing the Schmack Biogas Group. It is controlled and monitored by the Supervisory Board which also has three members.

Incentive systems

In the interest of promoting long-term manager retention and motivation, Schmack Biogas has implemented a Matching Stock Program (MSP) entitling executives to shares of phantom stock. Mr. Ulrich Schmack, CEO, has waived his right to participate in the program to date.

MSP participants are eligible to subscribe to Company MSP shares up to a specific maximum set by the Company. MSP shares are deposited to a trust account for the benefit of the respective MSP participants for the duration of their enrollment in the program. The Company granted all MSP plan participants five virtual so-called phantom shares per MSP share in the first two tranches issued. These may be exercised two years from the allocation date subject specific conditions linked to the share price performance. Phantom shares not exercised within two years of the issuance of the relevant tranche expire without value.

If the phantom shares are exercised, the difference between the stock exchange price of the company's share at the time of exercise of the respective phantom shares (average stock exchange price of the last 60 trading days) and the stock exchange price of the company's share at the time of their allocation (issue price or average stock exchange price of the last 60 trading days, in each case plus a surcharge of 12 percentage points) is determined and – after withholding wage tax and other charges – paid out to the MSP participant. The MSP participants are obliged to use the amount paid by the company to purchase company shares if the payment is not funded in shares of Schmack Biogas AG. One year after these shares have been booked into the respective MSP participant's blocked securities account, the participant may freely dispose of the shares. For more information, refer to point C. (26) Equity (share-based payment) in the notes to the consolidated financial statements.

For information on the compensation of the Management Board, please refer to the compensation report contained in the Corporate Governance Report (page 14) and point C. (43) Disclosures on Corporate Officers in the notes to the consolidated financial statements.

Information on the Corporate Governance Code

The Corporate Governance Report is provided on page 12 of the present Annual Report. With regard to the Declaration of Conformity pursuant to section 161 of the German Stock Corporation Act (AktG), please refer to point C. (40) Corporate Governance Code Declaration in the notes to the consolidated financial statements as well as to the company's respective web page.

1.6 Products and services

Schmack Biogas offers products and services along the entire value chain. On a divisional basis, these fall into the following categories:

1. Planning and Construction of biogas plants

Planning

- Planning of the plant
- Support in the approval process
- Assistance in the search for suitable sites
- Provision of documents required for financing

Construction

- Integration of the plant into the existing infrastructure
- Construction supervision
- Coordination of the connection of the plant to the electricity or gas grid with the responsible energy utility

Start-up of the biogas plant

- Build-up of the bacteria flora
- Controlled start-up and finetuning in a test run

2. Plant Management and Operation

Plant Management

- Microbiological process management services and optimisation
- Laboratory analysis
- Laboratory-supported long-term monitoring

Technical services
- Technical inspections
- Servicing
- Maintenance
- Fault management

Operation and overall plant management
- Raw materials purchasing
- Raw materials logistics
- Independent operation of the plant
- Remote monitoring

3. Own Operations
- Generation of biogas in own plants
- Marketing of electricity and heat or purified biogas

1.7 Competitive position

While the competitive environment in the biogas market is characterised by a large number of suppliers, there are fewer than five professional suppliers with meaningful own capacities and a similar range of services.

Schmack Biogas holds a leading position among the German suppliers of biogas plants. As a full-service provider, the company has significant competitive advantages, especially with regard to the required microbiological expertise, the gas feed-in technology and the professional management of raw materials and has created market entry barriers for potential new competitors in these fields. Competitors would probably be able to overcome these barriers only after many years of trial and test runs and at high costs.

Competition from energy utilities is unlikely as these do not provide plant construction and operation services but usually purchase these services. Their core competence normally lies in the marketing of energy and not in the generation.

1.8 Regulatory environment

The first binding targets for the time after the expiry of the Kyoto Protocol were defined at the EU Summit on March 8/9, 2007. By the year 2020, carbon dioxide emissions are to be reduced by 20 percent as compared to 1990. The EU has also set itself the target of increasing the share of renewable energies in energy consumption to 20 percent by the year 2020. In case a new global climate agreement is signed, the EU would be ready to reduce greenhouse gas emissions by up to 30 percent as compared to 1990.

The most important statutory regulation for the German biogas industry is the Renewable Energies Act (EEG), which was amended by the government in April 2004. It governs the promotion of electricity generation from renewable energies. In particular, the EEG guarantees that operators of renewable energy plants receive a fixed feed-in remuneration during a 20-year period starting from the initial operation of their plant. In the context of the planned amendment of the EEG, the feed-in remuneration is expected to be raised in the course of 2008.

The amendment of the Gas Grid Access Regulations is of major importance for the entire biogas industry. The amendment greatly facilitates the feeding-in of biogas into the gas grid, as grid operators are obligated to accept biogas for transportation through their grids. Also, biogas producers no longer have to pay the conditioning and compression costs which instead have to be borne by the grid operators. Furthermore, the direct feed-in of biogas into local grids results in the avoidance of grid expenses, which, under grid fee regulations, are granted to feed-in suppliers.

2. BUSINESS DEVELOPMENT IN 2007

2.1 Macroeconomic development in 2007

The dynamic growth in the world economy seen in 2006 was not fully repeated in 2007. At 5.1 percent, real GDP growth was down by only 0.3 percentage points on the previous year, but the economic climate deteriorated noticeably at the end of 2007. This was mainly due to the real estate crisis in the USA. The resulting crisis in the international financial markets also affected the emerging countries, albeit to a much lesser extent than the industrialised countries. Of the latter, the USA was hit hardest, as reflected in a growth rate of 2.2 percent, which was the lowest rate in five years.

In the euro-zone, the dynamic growth of the previous year continued at a slower pace, as the financial market crisis put a damper on optimism from mid-year. According to the ifo-Institut, euro-zone GDP increased by 2.6 percent, compared to 2.8 percent in the previous year. This downward trend is reflected in nearly all sectors. Spending on plant and equipment was down by 0.4 percentage points on the previous year, while exports growth declined by as much as 1.4 percentage points.

Following the very positive development in 2006, the German economy again expanded strongly in the past year. According to initial computations by the Federal Statistical Office, Germany's real GDP was 2.5 percent higher than in the previous year. Growth was primarily driven by exports, which increased by 8.3 percent – i.e. again at a higher rate than imports (+5.7 percent) – as well as by government consumption, which rose by 2.0 percent in price-adjusted terms. By contrast, consumer spending declined by a strong 0.3 percent despite the 1.6 percent increase in disposable incomes. In 2006, consumer spending had risen by 1.0 percent. This development is primarily attributable to the VAT hike, in anticipation of which purchases had been brought forward to 2006.

2.2 Market and industry development in 2007

In 2007, the main factor influencing the biogas market was the strong increase in the prices of agricultural commodities used in biogas plants. While the market price of a ton of wheat remained relatively constant at EUR 150 between January and the end of June 2007, it rose by over 30 percent to approx. EUR 200 in July 2007. As a result, demand for biogas plants, especially from the agricultural sector, collapsed. Although large investors and energy utilities showed growing interest in the course of the year, the market volume for the construction of biogas plants contracted noticeably in 2007: While roughly 800 plants with a capacity of approx. 450 MW were built in 2006, this number declined to approx. 210 plants with a capacity of 170 MW in 2007. Against this background, Schmack Biogas assumes that the future market development will increasingly be driven by the desire to realise efficiency gains. In this context, the company believes that the plant size, the efficient processing and feeding-in of biogas into the gas grid and an efficient agricultural commodities strategy will be the critical competitive factors.

The development of Schmack Biogas AG is influenced not only by the development of agricultural commodity prices but also by the development of energy prices. The worldwide rise in oil prices in 2007 should therefore be mentioned. While the price of a barrel of crude oil peaked at approx. USD 80 in 2006, it rose to just under USD 96 in 2007, which was almost 20 percent above the previous year's high. The rising energy prices make biogas increasingly competitive as a substitute for natural gas.

2.3 Development of the Schmack Biogas Group and the divisions in 2007

In fiscal 2007, the Schmack Biogas Group increased its sales revenues by 50.2 percent to EUR 135.2 million (2006: EUR 90.0 million). Over 90 percent of the revenues were generated by the Planning and Construction division. The company completed a total of 57 plants in 2007. This means that Schmack Biogas installed an electrical nominal output of approx. 75 MW between its foundation and the balance sheet date.

As of the end of 2007, the Plant Management and Operation division provided microbiological process management services to 72 plants, technical services to 21 plants, microbiological and technical services to 49 plants and assumed full operational responsibility for 26 plants.

At the beginning of the year, Schmack's Own Operations division established the RENION joint venture together with Stadtwerke Regensburg (REWAG). The declared objective is the joint construction of biogas plants and the marketing of the energy generated. Schmack Biogas is primarily responsible for construction and operation, while the energy utilities are mainly in charge of marketing the electricity and heat, or biogas. As of the end of the fiscal year, the Own Operations division had 7 own plants.

Further, Schmack Biogas AG signed a EUR 130 million framework agreement with the private equity investor HgCapital at the end of the reporting year for constructing biogas plants and developing the respective project sites. In 2007, project development services were reflected in sales and earnings as receivables under long-term construction to the amount of kEUR 8,015.

From a geographical point of view, Germany clearly remained the company's main sales market in the fiscal year, although foreign demand for biogas plants increased noticeably as compared to the previous year. Accordingly, international sales rose to EUR 8.1 million (2006: EUR 1.8 million).

2.4 Acquisitions and investments in the fiscal year 2007

In fiscal 2007, Schmack Biogas made further acquisitions and investments to strengthen its market position and expand its technological leadership. With effect from February 1, 2007, the company acquired the biogas division of Hese Umwelt GmbH, Gelsenkirchen, which now operates under the name of Hese Biogas GmbH. As a result of this acquisition, the company's order backlog increased by approx. EUR 30 million. One of Hese's biogas customers is RWE AG, resulting in broadened access to energy utilities and investment companies.

With effect from April 1, 2007, Schmack Biogas AG increased its stake in Köhler & Ziegler Anlagentechnik GmbH, Lollar, from 31.0 percent to 50.2 percent. This investment gives the company access to cogeneration plants in the long term.

Under a notarial act dated September 13, 2007, Schmack Biogas AG acquired a 30 percent interest in IMB Verfahrenstechnik GmbH in Frechen. IMB specialises in the processing of fermentation residues. This technology enables a reduction of the logistics costs associated with the disposal of the fermentation residue on fields.

With effect from October 18, 2007, Schmack Biogas AG exercised the option to increase its share in Stelzenberger Biogas GmbH by 18.91 percent to 69.05 percent. Subsequently, Schmack Biogas AG raised its share in Stelzenberger Biogas GmbH by another 10.25 percent to 79.30 percent in the context of a kEUR 18 capital increase decided on November 30, 2007. The company is the leading supplier of technologically advanced stirring devices for biogas plants and of other metal components.

2.5 General statement on the business development

As reflected in the key financial figures, business clearly fell short of the company's expectations in 2007 due to the slump in demand from agricultural businesses, which was attributable to the surprisingly sharp increase in commodity prices. In addition, projects and project development services that had been expected to become effective in 2007 will partly be booked in sales and earnings only in the course of 2008. At the same time, the company developed a new raw materials strategy in response to the increased prices of energy crops which is largely based on the cultivation and utilisation of catch crops. The integration of the subsidiaries was also pushed ahead. These measures have set the course for a consolidation in fiscal 2008.

2.6 Comparison of the actual and the projected business development

The Management Board initially projected Group sales of EUR 150 million to EUR 170 million as well as a continued strong improvement of earnings in 2007 – both in absolute and margin terms. EBIT were expected to more than double to approx. EUR 10 million. In early summer 2007, the prices of grain and other renewable resources increased surprisingly strongly, which means that the use of these raw materials, especially in smaller agricultural plants, was no longer efficient. As a result, demand from the agricultural sector virtually collapsed, putting an end to what had so far been the projects generating the highest margins. This external shock led to a noticeable decline in business. Against this background, the Management Board was forced to downgrade its full-year sales and EBIT projections to EUR 140 million to EUR 150 million and approx. EUR -6 million, respectively. The final figures show that Schmack generated EUR 135.2 million in consolidated sales revenues and EUR -9.6 million in EBIT. The EBIT deviation is attributable to the weak demand from the agricultural sector as well as to the fact that projects and project development services that had been expected to become effective in 2007 will partly be reflected in sales and earnings only in the course of 2008. Moreover, we first had to undergo a learning curve in 2007, especially with regard to the large-scale plants. This led to numerous modifications to the plants as well as to quality improvements, which had an adverse impact on the profit margin and were not included in our original planning. Costs were primarily caused by technical upgrades, which were implemented in view of the sharp increase in raw materials prices to enable the use of different feedstock materials such as catch crops, etc. Finally, the recently acquired subsidiaries needed to be integrated into the Group and the requisite structures had to be put in place during the past financial year. These structures as well as the Group's existing resources were geared to the originally planned, i.e. significantly higher, volume of sales.

Besides pushing ahead the product and process standardisation, which has already been initiated, further cost-cutting measures will help improve the earnings position of the Group in 2008. Savings will be achieved with regard to both procurement costs and fixed costs.

3. THE SHARE

3.1 Share price performance

The first Xetra price of the Schmack Biogas share in fiscal 2007 was EUR 53.30. The price declined noticeably in the further course of the year to EUR 27.93 at year-end. The share thus lost 47.6 percent. The highest price was reached on April 25, 2007 at EUR 74.10, the lowest price was EUR 17.50 on September 28, 2007.

In contrast, the DAX 30 gained 20.7 percent in fiscal 2007. The TecDax technology index gained 28.3 percent in the same period, while the Renewable Energies increased by 75.3 percent.

3.2 Market capitalisation

On December 28, 2007, the market capitalisation stood at EUR 154.3 million. The free float as defined by Deutsche Börse AG was 94.2 percent at year-end 2007. This means that the free float had a market capitalisation of EUR 145.3 million.

3.3 Liquidity

In fiscal 2007, Schmack Biogas AG shares with a total value of EUR 746 million were traded at all German stock exchanges. The most important exchange was the electronic trading system Xetra, which accounted for approx. 80 percent. 16.6 million shares were traded on this system in the reporting period. This is equivalent to an average trading volume of 65,820 shares per day, compared to 19,631 in the previous year.

3.4 Shareholder structure

In the context of the capital increase in February 2007, nearly all financial investors who had held shares in Schmack Biogas prior to the IPO sold these shares. Another pre-IPO financial investor disposed of their shares at the end of June. As a result, the free float, as defined by Deutsche Börse AG increased to 94.2 percent. The remaining 5.8 percent of the shares are held by Ulrich Schmack, CEO of Schmack Biogas AG.

4. EARNINGS POSITION

4.1 Sales performance

In fiscal 2007, the Schmack Biogas Group generated sales revenues in an amount of EUR 135.2 million, which represented a 50.2 percent increase as compared to the previous year's EUR 90.0 million. About 59 percent of the total annual sales were generated in the third and fourth quarter.

Compared to the previous year, foreign demand for biogas plants was much higher. Accordingly, foreign sales increased from EUR 1.8 million in fiscal year 2006 to EUR 8.1 million in fiscal year 2007.

4.2 Earnings performance

The gross profit decreased from EUR 12.4 million in the previous year to EUR 9.5 million in 2007. This was primarily due to the slump in demand from the agricultural sector as well as to a lower average margin of large-scale projects. As a result, the gross profit margin also declined noticeably from the previous year's 13.8 percent to 7.0 percent.

Earnings before interest and taxes (EBIT) dropped from EUR 4.4 million in 2006 to EUR -9.6 million. This decline primarily reflects the loss of the high-margin business with standardised agricultural plants. At the same time, distribution costs and general administrative expenses increased sharply as compared to 2006, which is attributable to the expansion of the European distribution structure, the strong increase in the head-count as well as the charges incurred in the context of the acquisitions, especially for the integration of the subsidiaries. In addition, necessary technical changes and quality improvements in large-scale plants led to a reduction of the profit margin. Additional costs were incurred here primarily for technical retrofitting to enable the utilisation of different feedstocks, amongst others catch crops, which became necessary in the face of increased commodity prices.

Consolidated earnings after taxes before minority interests amounted to EUR -7.4 million in 2007 after EUR 1.4 million in the previous year.

4.3 Order situation

As at 31 December 2007, the Schmack Biogas Group's orders on hand totalled EUR 115.9 million, which clearly exceeded the previous year's EUR 78.4 million.

4.4 Development of the costs of the functional areas in relation to sales revenues

Key P&L items in relation to sales revenues (in %)

	2007	2006
Sales revenues	100	100
Cost of sales	-93.0	-86.2
Distribution costs	-5.0	-4.6
General administrative expenses	-7.3	-3.9
Research and development costs	-1.5	-1.0

The cost of sales rose to 93.0 percent in the fiscal year. The cost of materials in relation to sales continue to represent the biggest portion of the cost of sales. The strong increase in the cost of sales is mainly attributable to start-up expenses for the first-time realisation of non-standardised plants of 1 MW or more as well as additional expenses caused by technical adaptations and related touch-up work. The realisation of projects abroad also had an adverse impact on the cost of sales, especially in the field of purchased services.

Due to additional expenses for the ongoing expansion of the national and international sales structure, distribution costs as a percentage of sales increased by a moderate 0.4 percentage points as compared to the previous year. Personnel expenses account for approximately half the distribution costs.

General administrative expenses as a percentage of sales climbed from 3.9 percent in 2006 to 7.3 percent in 2007. This is primarily attributable to the large number of acquisitions in fiscal 2007 and the resulting expenses for the integration of the subsidiaries, in particular for legal and consultancy services. Personnel expenses represent approximately 53 percent of general administrative expenses in 2007.

The rise in R&D expenses is attributable to the Schmack Biogas Group's commitment to further expanding its technological leadership.

4.5 Earnings figures

For an overview of key earnings figures, please refer to page 3 of this Annual Report.

5. FINANCIAL SITUATION

5.1 Principles of financial management

Schmack Biogas' financial management activities comprise capital structure management, cash management as well as the management of market price risks, especially interest rate risks and potential exchange rate risks. Financial management is organisationally separate from financial controlling, settlement and accounting.

5.2 Financing analysis

Selected balance sheet items in relation to total assets (in %)

	2007	2006
Equity capital	50.5	51.7
Non-current liabilities	22.0	19.3
Current liabilities	27.5	29.0
Total assets	**100**	**100**

Total assets of the Schmack Biogas Group increased from EUR 79.3 million on December 31, 2006 to EUR 127.8 million on December 31, 2007.

Equity capital climbed noticeably to EUR 64.5 million as of December 31, 2007 (December 31, 2006: EUR 41.0 million). This growth is mainly attributable to the successful capital increase in February 2007 in a net amount of EUR 26.6 million. This resulted in an equity ratio of 50.5 percent on the balance sheet date. 22.0 percent of the total assets is funded with non-current liabilities, while current liabilities accounted for 27.5 percent.

5.3 Other financial obligations

Other financial obligations are described in point D. (37) Contingent Liabilities and Other Financial Obligations in the notes to the consolidated financial statements.

5.4 Investment analysis

At EUR 10.2 million, capital expenditure of the Schmack Biogas Group were clearly below the previous year's EUR 24.7 million. This was mainly due to the lower volume of acquisitions and equity investments as compared to the year 2006. Instead, Schmack Biogas focused on selected strategic investments in 2007. For instance, the company acquired the biogas division of insolvent Hese Umwelt GmbH, Gelsenkirchen. This investment enabled Schmack Biogas to win additional market share from one of the most important direct competitors and acquire additional technological expertise. Moreover, the investment in Köhler & Ziegler Anlagentechnik GmbH, Lollar, was raised from 31.0 percent to 50.2 percent. In addition, Schmack continued to expand its Own Operations division, which is also reflected in the increase in spending on property, plant and investment to EUR 6.1 million (2006: EUR 4.7 million). The rise in spending on intangible assets to EUR 1.9 million (2006: EUR 1.2 million) is mainly the result of investments in development projects with the aim of expanding the company's technological market leadership.

5.5 Cash analysis

Compared to fiscal 2006, the cash position of the Schmack Biogas Group improved moderately – not least due to the net issue proceeds of EUR 26.6 million from the capital increase in February 2007. Liquid funds increased from EUR 18.6 million at the beginning of the year to EUR 20.3 million on December 31, 2007. Liquid funds and the available credit lines will enable the company to fund the planned investments and to achieve continued sales growth.

5.6 Cash flow analysis

The negative operating cash flow in an amount of EUR -27.5 million (previous year: EUR -1.6 million) is mainly attributable to the negative after-tax result of EUR -7.4 million, the EUR 9.1 million increase in receivables under long-term construction contracts and the rise in trade receivables by EUR 5.3 million, as well as the decline in advance payments received by EUR 6.7 million.

At EUR -10.2 million, the cash flow from financing activities was clearly below the previous year's level (EUR -24.7 million) in absolute terms, as company acquisitions were reduced noticeably as planned. The free cash flow, which is the balance of the cash flow from operating activities and the cash flow from investing activities amounted to EUR -37.7 million in 2007 (2006: EUR -26.3 million.).

The cash flow from financing activities amounted to EUR 39.4 million in 2007 (2006: EUR 41.3 million), and is primarily the result of the cash capital increase of February 2007.

For a detailed consolidated cash flow statement refer to page 62 of this Annual Report.

6. NET WORTH POSITION

6.1 Asset structure analysis

Selected balance sheet items in relation to total assets (in %)

	2007	2006
Non-current assets	42.0	37.9
Current assets	58.0	62.1
Total assets	**100**	**100**

Non-current assets rose to EUR 53.7 million in 2007 (2006: EUR 30.1 million), which represented 42.0 percent of total assets (2006: 37.9 percent). The absolute change is mainly due to the increased basis of consolidation and the rise in property, plant and equipment as a result of the continued expansion of the Own Operations division. Current assets, especially inventories, trade receivables and receivables under long-term construction contracts, increased noticeably. At EUR 74.1 million (2006: EUR 49.2 million), current assets represented 58.0 percent (2006: 62.1 percent) of total assets.

6.2 Acquisitions

As a result of the increased investment in Köhler & Ziegler Anlagentechnik GmbH of 50.2 percent, intangible assets climbed by EUR 1.8 million, while property, plant and equipment rose by EUR 0.3 million. Current assets increased by EUR 11.3 million.

The 100 percent takeover of Hese Biogas GmbH had an effect of EUR 7.9 million on non-current assets recognised in the balance sheet.

Due to the 94 percent investment of Köhler & Ziegler Anlagentechnik GmbH in VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG, property, plant and equipment rose by EUR 5.2 million.

6.3 Other intangible assets

Customer relations

As one of Germany's leading suppliers to energy companies and utilities, Schmack Biogas has close relations with multinational companies such as E.ON and EDF/Veolia as well as with many renowned municipal utilities. As a result of the early 2007 acquisition of the biogas activities of Hese Umwelt GmbH, RWE is now also among the customers of the Schmack Biogas Group.

Organisational and process advantages

The microbiological expertise of Schmack Biogas clearly distinguishes the company from its competitors and gives it a clear advantage. This expertise is based on the collection and analysis of data over a period of many years. All relevant data is stored in a central database, which currently contains more than 30,000 fermenter analyses.

Supplier relations

Schmack Biogas maintains very close relations with suppliers of key technologies and components in the biogas market. In addition, the company holds shares in the capital of selected, technologically leading suppliers such as Köhler & Ziegler, Stelzenberger, CarboTech and IMB.

Reputation of the Management Board

Thanks to his long-standing, proven expertise, the company's CEO, Mr Ulrich Schmack, holds a special position in the market. As one of the most high-profile representatives of the biogas industry he gives the company direct and fast access to political and business decision-makers.

7. GENERAL STATEMENT ON THE DEVELOPMENT OF THE NET WORTH, FINANCIAL AND EARNINGS POSITION

The earnings position of the Schmack Biogas Group is not satisfactory in the eyes of the management. Due to the unexpected slump in demand from farmers, caused by an extreme rise in commodity prices, the relevant key figures failed to develop as projected. In addition, projects and project development services that had been expected to become effective in 2007 will partly be reflected in sales and earnings only in the course of 2008. Furthermore, the learning process, which was above all necessary in connection with the construction of large-scale plants in 2007, had a negative effect on the profit margin as, in part, only low profit contributions could be generated. At the same time, the calculated high profit contributions from small plants were lost. The adjustments made to plants to accomodate the processing of catch crops also resulted in additional costs in the first stages. Finally, subsidiaries bought in the past fiscal year also had to be integrated into the group and the necessary structures created.

Against the background of the successful capital increases in February 2007 and in April 2008, the Management Board regards the present financial position as satisfactory.

8. R&D REPORT

Schmack Biogas is one of the leading German suppliers of biogas plants. The Group's research and development activities are focused accordingly. Schmack aims to protect and expand its technological leadership through ongoing quality enhancements of all products and services. This applies especially to plants with a capacity of 1 MW and more.

Schmack Biogas' microbiological expertise is an important competitive advantage and is therefore at the heart of the company's R&D activities. This key success factor is based on many years' of collecting and analysing data, which is stored in the company's in-house database. This way, Schmack Biogas has been able to gain a critical knowledge advantage. To maintain and expand this competitive lead, the company will continue to extend and update the database and intensify its respective R&D activities.

8.1 R&D results

In fiscal 2007, Schmack Biogas AG was able to further increase the number of documented fermenter analyses. The company's database now contains some 30,000 different fermenter analyses, up from 20,000 in fiscal 2006.

It should also be mentioned that the majority of biogas plants feeding biogas into the German gas grid were based on the technology of the company's subsidiary, CarboTech Engineering GmbH, as of the end of 2007.

8.2 R&D spending

The company's R&D spending increased from EUR 2.0 million to EUR 2.9 million in the fiscal year. At 2.2 percent, R&D expenses as a percentage of Group sales remained largely unchanged from the previous year.

9. POST-BALANCE SHEET EVENTS

In February, a financial investor exercised a put option, which increased the shareholding of Schmack Biogas AG, Schwandorf, in Stelzenberger Biogas GmbH, Kirchweidach, by 0.66 percent to 79.96 percent. The purchase price was kEUR 200.

In response to the earnings performance in fiscal 2007 and customers' wait-and-see attitude in view of the upcoming statutory amendments, the Management Board decided, in February 2008, to initiate cost-cutting measures in addition to the product and process standardisation. This is expected to result in savings with regard to both procurement costs and the total block of fixed costs. The reduction of fixed costs is to result from savings in material costs as well as from reduction in staff. To this end, first concrete steps have already been realised by the beginning of April.

After the end of the fiscal year, Dr. Karl Reinhard Kolmsee, member of the Management Board of Schmack Biogas AG, Schwandorf, asked the Supervisory Board to be released from office. The Supervisory Board complied with his request with effect from February 29, 2008.

In March 2008, the company decided to dissolve Energiefeld Bayern GmbH & Co. KG and Energiefeld Bayern Verwaltungs GmbH, two joint ventures that had been established in the previous year by Erdgas Südbayern GmbH and Schmack Energie Holding GmbH.

On April 1, 2008, Schmack Biogas AG placed 453,350 registered shares in a capital increase from its authorised capital against a cash contribution, ex rights. Following entry of the capital increase in the Commercial Register, which is expected by the end of April / beginning of May, the company's share capital will increase by EUR 453,350 from EUR 5,523,514 to EUR 5,976,864. The capital increase was resolved with the consent of the Supervisory Board on April 1, 2008. The issue price lay at EUR 15.67 per share which corresponds to issue proceeds of around EUR 7.1 million which will primarily be used for the further development of project sites for gas feed-in plants.

10. MANAGEMENT BOARD COMPENSATION

For information on the compensation of the Management Board, please refer to the Corporate Governance Report (page 14) as well as to point D. (43) Disclosures on Corporate Officers in the notes to the consolidated financial statements.

11. REPORT ON THE DISCLOSURE OF POTENTIAL TAKEOVER OBSTACLES PURSUANT TO SECTION 315 PARA. 4 OF THE GERMAN COMMERCIAL CODE (HGB)

Schmack Biogas AG is the parent company of the Schmack Biogas Group. The company's shares are listed in an organised market as defined in section 2 para. 7 of the German Securities Acquisition and Takeover Act (WpÜG), more precisely the Prime Standard of Deutsche Börse AG.

11.1 Composition of the share capital

As of December 31, 2007, the share capital of Schmack Biogas AG amounted to EUR 5,523,514.00, divided into 5,523,514 registered shares.

11.2 Transfer or voting right restrictions

As of the balance sheet date, no transfer or voting right restrictions existed under the company's statutes. All 5,523,514 registered shares of Schmack Biogas issued as at December 31, 2007 represent one vote at the Annual General Meeting.

11.3 Capital interests and voting control

No direct or indirect shareholdings in Schmack Biogas AG exceeding 10 percent of the voting rights were reported to the company. The company is not aware of a voting control in the case that employees have a share in the capital and do not directly exercise their controlling rights.

11.4 Special rights

Shareholders do not benefit from any special rights granting them controlling powers.

11.5 Provisions in the statutes on the appointment and replacement of Management Board members and amendments of the statutes

With regard to the appointment and dismissal of Management Board members and amendments to the statutes, Schmack Biogas AG complies with the provisions in sections 84 and 85 of the German Stock Corporation Act (AktG) as well as sections 133 and 179 of the German Stock Corporation Act (AktG). No other regulations exist.

11.6 Powers of the Management Board regarding the issue of shares

The Management Board is authorised, for a period of five years from the entry of the amendment of the statutes in the Commercial Register and with the consent of the Supervisory Board, to increase the share capital by issuing new registered shares against contributions in cash or kind, once or several times by not more than a total of EUR 2,716,757.00 (authorised capital).

Subject to what follows below, shareholders have a subscription right. The Management Board may exclude shareholders' statutory subscription rights with the consent of the Supervisory Board:

a) to grant shares against contributions in kind, especially in the context of mergers or acquisitions or equity investments as well as in the context of the contribution of a loan granted to the company,

b) if and when the capital increase is made against cash contributions and the new shares for which the subscription rights are excluded and the own shares that are sold at the same time ex rights in accordance with section 186 para. 3 sentence 4 of the German Stock Corporation Act (AktG) do not account for more than 10 percent of the share capital at the time the capital increase is decided, and the issuing amount is not materially lower than the stock market price of the already listed shares of the same type at the time the issuing amount is fixed,

c) to issue employee shares.
If the Management Board does not exercise the above powers to exclude the subscription right, it may exclude shareholders' subscription rights, with the consent of the Supervisory Board, only to the extent necessary to compensate for fractional amounts. The Management Board is authorised to define the contents of the respective stock rights, the other conditions of the share issue as well as the other details of capital increases from the authorised capital with the consent of the Supervisory Board.

11.7 Authorisation to repurchase own shares

a) The company is authorised to acquire own shares with a view to

aa) offering them for purchase to the members of the Management Board, to members of the managements of affiliated companies as defined in sections 15 et seq of the German Stock Corporation Act (AktG) as well as to other executives and employees of the company and of its affiliated companies to meet the company's obligations under the Matching Stock Programme (MSP);

bb) offering them to third parties in the context of mergers or acquisitions and equity investments.

b) The authorisation is restricted to the acquisition of own shares representing EUR 543,351.00 of the company's share capital. The company may make use of this authorisation once or several times in full or in partial amounts. The acquired shares, together with other own shares held by the company or counted towards the company pursuant to sections 71a et seq of the German Stock Corporation Act (AktG) may, at no time, represent more than 10 percent of the share capital.

c) The authorisation became effective on June 23, 2007 and expires on December 22, 2008.

d) The shares must be acquired via the stock exchange or in the context of a public offering to all shareholders of the company. If the shares are acquired via the stock exchange, the amount paid by the company per share (excl. incidental acquisition costs) must not exceed or fall below the price determined by the opening auction on the Xetra system (or a functionally comparable system replacing Xetra) at the Frankfurt Stock Exchange on the trading day by more than 5 percent. If the shares are acquired in the context of a public offering to all shareholders of the company, the purchase price offered or the upper and lower limits of the purchase price range per share (excl. incidental acquisition costs) must not exceed or fall below the closing auction price on the Xetra system (or a functionally comparable system replacing Xetra) at the Frankfurt Stock Exchange by more than 20% on the third trading day before the publication of the offering. The volume of the offering may be limited. If the total subscription exceeds this volume, subscriptions have to be accepted on a pro-rata basis. Management may provide for a preferential acceptance of small share lots of up to 100 shares per shareholder.

e) The Management Board is authorised to offer shares in the company acquired as a result of the above authorisation for purchase to the members of the Management Boards, to members of the managements of affiliated companies as defined in sections 15 et seq of the German Stock Corporation Act (AktG) as well as to other executives and employees of the company and of its affiliated companies to meet the company's obligations under the Matching Stock Programme (MSP). If own shares are to be transferred to members of the company's Management Board, this decision is at the discretion of the company's Supervisory Board.

f) The Management Board is authorised to offer shares in the company acquired as a result of the above authorisation to third parties in the context of mergers or acquisitions and equity investments. The price at which the shares may be sold to third parties must not be more than 5 percent (excl. incidental expenses) below the price determined by the opening auction on the Xetra system (or a functionally comparable system replacing Xetra) at the Frankfurt Stock Exchange on the day on which a binding agreement with the third party is reached.

g) Shareholders' subscription right to own shares may be excluded to the extent that such shares are used as described in e) and f) above.

11.8 Agreements regarding a change of control

At present, Schmack Biogas has not entered into any agreements that are subject to a change of control as a result of a takeover bid.

11.9 Compensation agreements

Schmack Biogas has not entered into any agreements with Management Board members or executives regarding financial compensations in the case of a change of control or a takeover of the company.

12. RISK REPORT

Pursuant to section 91 para. 2 of the German Stock Corporation Act (AktG), Schmack Biogas AG is obliged to install a risk management and early identification system. In addition, the German Commercial Code requires the company to regularly report on the future development and the related risks and opportunities. In compliance with these requirements, Schmack Biogas has introduced a risk management system which not only helps to minimise risks but also to identify and exploit opportunities.

In the context of the audit of the financial statements, the auditors reviewed the early risk identification system and confirmed its appropriateness and proper functioning.

12.1 Risk management system

The risk management system has been integrated into the company's organisational, process and communication structure. As such it is an integral element of the planning, controlling and reporting process. In the context of long-term corporate planning and the annual and interim reports, the risks and opportunities of all business activities are assessed. The business processes are managed based on budgets and plans which are subject to constant updating. This allows undesirable developments to be identified and reported to the decision-makers so that counter-measures can be initiated.

The central elements of the system include:

- Systematic identification, analysis, evaluation and monitoring of relevant material risks by the organisational units.
- Definition of measures and controlling of their implementation and assessment of their effectiveness.
- Documentation of relevant risks in a risk report for regular information of the management (if required, also on an ad-hoc basis).

With a view to increasing transparency, the probability of occurrence and the potential size of the relevant risks are shown in a risk map.

The appropriateness and the efficiency of the risk management system are reviewed in annual internal audits. Potential improvements identified in this context are then implemented in the system.

Derivative financial instruments are taken into account in the risk management system and are generally used to hedge existing or planned transactions which are subject to foreign exchange or interest rate risks. With regard to original and derivative financial instruments, please refer to point D. (34) Financial Instruments in the notes to the consolidated financial statements.

12.2 General statement on the risk situation of Schmack Biogas

In summary, the Management Board states that the risk situation of the Schmack Biogas Group has changed as compared to the previous year, mainly because of potential risks resulting from increased prices of the feedstock materials for biogas plants and from shifts in the customer structure. The latter has led to a dependancy on a small number of large projects and their clients.

These changes were the main reasons for the deterioration in the earnings position. Besides this, no other risks can be identified which may jeopardise the company's continued existence or have a material and sustainable impact on its net worth, financial and earnings position.

No external rating has been issued for Schmack Biogas AG or its subsidiaries so far.

12.3 Individual risks

Risks resulting from the customer structure

Due to the sharp drop in demand from the agricultural sector and the fact that plants up to 500 kW account for a reduced share of total sales as a result, the large plants clearly gained in weight in the order and sales structure of Schmack Biogas AG. The strategy of focusing on large plants for energy utilities and capital investors, which has been pursued since the IPO, entails the risk of high dependence on a few customers and large-scale projects in the initial phase. As a result, postponements or cancellations of orders may have a much stronger impact on the company's net worth, financial and earnings position. As the number of orders from different customers increases, this effect will subside and clearly reduce this dependence.

Risks from the framework agreement with HgCapital

Towards the end of the fiscal year, Schmack Biogas AG signed a framework agreement with British financial investor HgCapital. Under the EUR 130 million contract, Schmack Biogas will develop, plan and build biogas plants with an electrical output of approx. 30 MW. In fiscal 2007, services for the development of project sites were recognised in profit or loss as receivables under long-term construction contracts. The recognition in profit or loss requires that the underlying projects will be realised with great probability. As soon as it is no longer highly probable that these projects will be realised, the project development services recognised would have to be cancelled and appropriately reflected in profit or loss. At present, there is nothing to suggest that this will happen.

Regulatory risks

Government promotion of renewable energies is currently a major economic success factor for the products and services offered by Schmack Biogas. Should the national or European promotion parameters be eliminated completely or be adversely affected, e.g. by a reduction in the feed-in remuneration or an increase in the fees payable to the grid operators for the use of their supply grids, this would have significant implications for the net worth, financial and earnings position of Schmack Biogas.

The regulatory risks are however considered to be minor. Rather, there are signs that the political environment for biogas will improve significantly. To identify these risks at an early stage and counteract them as much as possible, representatives of Schmack Biogas sit on various committees and associations. Ulrich Schmack, the company's CEO, for instance, attended the Energy Summit organised by the German Chancellor.

Procurement risks

Procurement risks may occur primarily in two areas:

1. Price development of the raw materials needed for the operation of own plants: Raw material supply shortage may arise in case of environmental disasters, unfavourable weather conditions over a large area or crop failures. They may also occur when the land is used for other purposes and crop types for financial reasons. Besides the general increase in commodity prices, the prices of these raw materials may therefore continue to rise so that the operators of biogas plants may be forced to use other less energy-rich materials, so that the biogas plants can no longer be operated as economically as before.

   Apart from signing long-term supply contracts with regional agricultural businesses, Schmack Biogas counteracts this risk with the help of a new raw materials strategy, which is based on the use of catch crops. Thanks to optimised crop rotation using such catch crops, i.e. crops that grow in the times between the actual main crops such as maize and grain, the yield per hectare can be increased significantly and the fertility of the soil be improved in the long term. This extended crop rotation and the cultivation of catch crops create alternatives that reduce the company's exposure to the development of global agricultural prices. This new raw materials strategy helps Schmack Biogas to achieve cost savings in the procurement of raw materials.

2. Possible dependence on suppliers and supply bottlenecks: Schmack Biogas AG expects to benefit disproportionately from the market growth and to return to the growth track once the statutory regulations are amended. Such a development may cause supply bottlenecks at some suppliers as they may not have the capacities required to be able to cover the full demand. With a view to avoiding

supplier dependencies and supply bottlenecks, Schmack Biogas focuses on providing key technologies and components through its own subsidiaries or equity investments. This way, the company can minimise its dependency on certain suppliers. In addition, the company makes sure that its supplier mix is well-balanced and reliable.

Risks relating to the feed-in of biogas

From today's point of view, it is impossible to make a definite assessment as to if and when refined biogas can be fed into the network economically. This uncertainty may entail risks. However, the feeding-in of biogas will greatly increase the efficiency of biogas plants and will be in increasingly high demand from energy companies in particular going forward. Schmack Biogas has secured a strategic competitive advantage in this area and attained a unique standing in the market. Both is shown not only by the takeover and integration of CarboTech Engineering GmbH, the technological leader in biogas refinement, but also by the pilot projects involving the feed-in of biogas into the natural gas grid. Examples include the 10 MW biogas plant that is being built at the company's headquarters in Schwandorf in cooperation with the E.ON Group as well as the gas feed-in plants in Pliening and in Mühlacker. Going forward, the knowledge acquired will increasingly be used for the operation of the company's own plants. The company's market leadership in the feed-in of biogas is of key importance for its future viability.

Competitive risks

Entry barriers to the biogas market can be overcome with certain financial expenses. Accordingly, new competitors could enter the market and win market share primarily through aggressive pricing. However, the Management Board expects a consolidation in the industry and a concentration on a few major players that have the necessary critical size to satisfy the demand for large plants and manage the related complex processes.

The long-standing technological leadership is a major success factor of Schmack Biogas AG. Thanks to its in-house lab, the company has great microbiological expertise. This gives Schmack Biogas a key competitive advantage, which is based on the collection and analysis of fermenter data over a period of many years. This allows Schmack Biogas to lay the foundation for higher energy yields and stable processes and, hence, to improve the efficiency of biogas plants, which will strengthen its competitive position.

Organisational risks resulting from strong growth

Managing the dynamic growth of the Schmack Biogas Group remains one of the main challenges. The ongoing refinement of appropriate internal organisational structures and management processes that keep pace with the recent and planned future growth of the company ties up a substantial amount of the management resources.

The management pays great attention to this aspect in order to reduce risks that arise within the organisational structures. Examples include the optimisation of internal communications, the increased involvement of the middle management and the implementation of quality audits. These measures are primarily designed to reduce interfaces, accelerate and stabilise processes and keep employee motivation at a high level.

Risks from acquisitions, equity investments and joint ventures

There are risks in conjunction with the integration of the subsidiaries which Schmack Biogas has acquired and will acquire in future as well as with regard to the company's past and future equity investments. First, there is the risk that write-downs will be required if the acquired intangible assets are not sustainable. There is also a risk that the expected synergies fail to materialise despite thorough due diligence. Finally, there is the risk that the integration into the Group takes longer than planned. Schmack mitigates these risks with the help of a strict investment controlling system, projects aimed at improving the internal exchange of information and by giving the top managers of its subsidiaries a share in the capital of their respective companies.

The joint ventures established together with partners primarily serve to build up and expand own plant operation activities. This joint venture approach has a much lower risk profile compared to a completely stand-alone approach.

IT risks

Information technology risks may result from the breakdown of computer systems and networks, unauthorised access or data misuse. The IT systems are protected and optimised through the deployment of qualified internal and external experts as well as various technological security measures such as firewalls and virus scanners. In addition, employees must follow clear instructions and regulations as to how information should be handled.

Financial risks

Financial risks include the risks of default of financial assets, interest rate risks, foreign exchange risks, liquidity risks and general legal risks. For detailed information on these risks, refer to point D (34) Financial Instruments in the notes to the consolidated financial statements.

13. OPPORTUNITY MANAGEMENT

The task of the installed opportunity management system is to create a decision-making basis that allows Schmack Biogas to leverage existing opportunities even more quickly. Examples include the further liberalisation of the energy markets and the growing public awareness of climate and environment protection.

14. FORECAST REPORT

14.1 Accuracy of forecasts

A precise forecast is not possible at the time of the preparation of the consolidated financial statements, as the statutory amendments, which have not been finally adopted – especially the amendments to the Gas Grid Access Regulations and the Renewable Energies Act (EEG) – will have a material impact on the earnings and cost position of Schmack Biogas. Moreover, the prices of agricultural raw materials have been characterised by extremely high volatility, which may continue in the coming years. These are the main reasons why the company failed to meet the projections for 2007 as well as most analyst estimates.

14.2 Industry situation in 2008 and 2009

The Management Board of Schmack Biogas AG expects the statutory amendments to the Gas Grid Access Regulations and the Renewable Energies Act (EEG) to have a positive effect on the cost and earnings position of the company. Most of these positive effects are projected for the fiscal year 2009. The Management Board expects at least for the first half of 2008 a continuing difficult situation as feedstock prices will continue to be a burden. The market is expected to pick up in the second half of the year.

14.3 Company outlook on 2008 and 2009

Following a still very difficult first half year and a clearly negative result, the company expects a more positive development in the second half of 2008 and then a clear upward trend in 2009.

Investors and energy utilities are the customer groups which are expected to make the biggest contribution to growing sales. Important framework agreements were signed in the past fiscal year with investor groups agri.capital and HgCapital. Certain projects that were under development in 2007 are planned to be sold to these investors.

14.4 Strategy

The overall performance will be supported by growth in all divisions, with the Planning and Construction division again gaining the highest percentage of sales revenues. Aside from the Plant Management and Operation division, the Own Operations division will also generate sales in the next two years.

14.5 Future investments

The company's investment activity will focus on the expansion of its technological leadership and of its own operations and on its international activities.

14.6 Planned financing measures

On April 1, 2008, Schmack Biogas AG placed 453,350 registered shares in a capital increase from its authorised capital against a cash contribution, ex rights. Following entry of the capital increase in the Commercial Register, which is expected by the end of April / beginning of May, the company's share capital will increase by EUR 453,350 from EUR 5,523,514 to EUR 5,976,864. The capital increase was resolved with the consent of the Supervisory Board on April 1, 2008. The issue price lay at EUR 15.67 per share which corresponds to issue proceeds of around EUR 7.1 million which will primarily be used for the further development of project sites for gas feed-in plants.

Additional equity and debt capital will be raised in accordance with the company's speed of growth and the opportunities for investments in own plants that arise.

14.7 Future processes and opportunities

The direct feed-in of biogas will be a main business field of the future. Schmack Biogas will further develop the technology of its subsidiary, CarboTech Engineering, and initiate additional projects for feeding biogas into the gas grid. The current market trends and legislative developments confirm that it was the right strategic decision to expand the company's gas feed-in expertise.

14.8 General statement on the future development of the Schmack Biogas Group

Market growth will continue to be stimulated by diverse factors such as the discussion about supply security and climate protection, rising import prices of natural gas, growing energy and gas requirements, the ongoing discussion about the exit from nuclear energy and the growing attractiveness of biogas for energy companies and municipal utilities. Being one of the most energy-efficient and most sustainable forms of bioenergy, biogas will play a key role in the global energy mix of the future alongside wind power and photovoltaics. As a full-service provider, Schmack Biogas feels it is excellently positioned for the future growth in the biogas market.

CONSOLIDATED FINANCIAL STATEMENTS
SCHMACK BIOGAS AG, SCHWANDORF

CONSOLIDATED INCOME STATEMENT (IFRS)

	Group Notes	01/01/2007-12/31/2007 kEUR	01/01/2006-12/31/2006 kEUR
Sales	(5)	135,167	90,008
Cost of sales	(6)	-125,666	-77,596
Gross profit		**9,501**	**12,412**
Distribution expenses	(7)	-6,789	-4,115
General administrative expenses	(8)	-9,829	-3,492
Research and development expenses	(9)	-1,998	-935
Other operating income	(11)	1,296	526
Other operating expenses	(12)	-1,512	-141
Operating income		**-9,331**	**4,255**
Income from financial assets carried at equity	(13)	-289	176
EBIT		**-9,620**	**4,431**
Interest income	(13)	950	484
Interest expense	(13)	-1,875	-443*
Pre-tax income		**-10,545**	**4,472**
Income tax expense	(14)	3,113	-3,102
Net income		**-7,432**	**1,370**
Income imputable to minority interests	(15)	853	29
Result imputable to equity holders		**-6,579**	**1,399**
Profit/loss carried forward		1,654	335
Balance sheet profit		**-4,925**	**1,734**
Earnings per share in EUR			
Earnings per share basic (EUR)	(16)	-1.23	0.36
Earnings per share diluted (EUR)	(16)	-1.23	0.36
Weighted average shares outstanding			
Basic	(16)	5,369,909	3,922,823
Diluted	(16)	5,369,909	3,922,823

* Change pursuant to IFRS 3

CONSOLIDATED BALANCE SHEET (IFRS)

ASSETS	Group Notes	12/31/2007 kEUR	12/31/2006 kEUR
NON-CURRENT ASSETS			
Intangible assets	(17)	26,298	17,752*
Property, plant and equipment	(18)	21,112	9,949
At-equity investments	(19)	2,495	1,435
Other financial assets	(19)	1,216	512
Deferred taxes	(14)	2,581	458
		53,702	**30,106**
CURRENT ASSETS			
Inventories	(20)	10,842	3,029
Trade receivables	(21)	14,124	7,855
Receivables from long-term construction contracts	(22)	25,508	16,427
Other short-term financial assets	(23)	2,989	3,254*
Tax receivables	(24)	315	25
Cash and cash equivalents	(25)	20,335	18,636
		74,113	**49,226**
TOTAL ASSETS		**127,815**	**79,332**

* Change pursuant to IFRS 3

EQUITY AND LIABILITIES	Group Notes	12/31/2007 kEUR	12/31/2006 kEUR
EQUITY			
Subscribed capital	(26)	5,524	4,940
Capital reserves	(26)	60,943	32,613
Currency translation reserves	(26)	-43	-14
Revaluation reserve	(26)	10	0
Cash flow hedge reserve	(26)	-41	0
Other retained earnings	(26)	118	118
Balance sheet profit	(26)	-4,925	1,734 *
Minority interests	(26)	2,922	1,584
		64,508	**40,975**
NON-CURRENT LIABILITIES			
Long-term debt	(27)	22,715	10,613
Other long-term financial liabilities	(31)	1,979	0
Long-term provisions	(28), (29)	2,963	1,866
Deferred taxes	(14)	511	2,829
		28,168	**15,308**
CURRENT LIABILITIES			
Trade payables	(30)	11,779	13,067
Short-term debt	(27)	6,633	790
Other short-term financial liabilities	(31)	8,406	5,905 *
Advances received	(32)	2,088	1,843
Short-term provisions	(28)	5,934	853
Tax liabilities	(33)	299	591
		35,139	**23,049**
TOTAL EQUITY AND LIABILITIES		**127,815**	**79,332**

* Change pursuant to IFRS 3

CHANGE IN GROUP EQUITY (IFRS)

	Group Notes	Common shares outstanding kEUR	Subscribed capital kEUR	Capital-reserve kEUR	Currency translation reserves kEUR
Balance January 1, 2006	(26)	220,362	220	2,765	0
Net profit/loss for the period	(26)	0	0	0	0
Adjustments taken to equity: Difference from currency translation	(26)	0	0	0	-14
Net profit/loss for the period factoring in adjustments taken to equity	(26)	220,362	220	2,765	-14
Change in basis of consolidation	(26)	0	0	0	0
Expenses of raising equity capital	(26)	0	0	-3,622	0
Stock options (MSP)	(26)	0	0	84	0
Withdrawal from capital reserves	(26)	2,613,605	2,614	-2,614	0
Capital increase	(26)	2,105,592	2,106	36,000	0
Balance December 31, 2006	(26)	**4,939,559**	**4,940**	**32,613**	**-14**

		Common shares outstanding kEUR	Subscribed capital kEUR	Capital-reserve kEUR	Currency translation reserves kEUR
Balance January 1, 2007	(26)	4,939,559	4,940	32,613	-14
Net profit/loss for the period	(26)	0	0	0	0
Adjustments taken to equity: Cash flow hedges	(26)	0	0	0	0
Deferred tax on cash flow hedge	(26)	0	0	0	0
Difference from currency translation	(26)	0	0	0	-29
Net profit/loss for the period factoring in adjustments taken to equity	(26)	4,939,559	4,940	32,613	-43
Change in basis of consolidation	(26)	0	0	0	0
Expenses of raising equity capital	(26)	0	0	-500	0
Stock options (MSP)	(26)	0	0	406	0
Capital increase	(26)	583,955	584	28,424	0
Balance December 31, 2007		**5,523,514**	**5,524**	**60,943**	**-43**

Revaluation reserve	Cash flow hedge reserve	Other retained earnings	Net profit/loss for the year	Minority interests	Total
kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
0	0	118	335	0	3,438
0	0	0	1,399	-29	1,370 *
0	0	0	0	0	-14
0	0	118	1,734	-29	4,794
0	0	0	0	1,613	1,613
0	0	0	0	0	-3,622
0	0	0	0	0	84
0	0	0	0	0	0
0	0	0	0	0	38,106
0	**0**	**118**	**1,734**	**1,584**	**40,975**

Revaluation reserve	Cash flow hedge reserve	Other retained earnings	Net profit/loss for the year	Minority interests	Total
kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
0	0	118	1,734	1,584	40,975
0	0	0	-6,579	-853	-7,432
0	-56	0	0	0	-56
0	15	0	0	0	15
0	0	0	0	0	-29
0	-41	118	-4,845	731	33,473
10	0	0	-80	2,191	2,121
0	0	0	0	0	-500
0	0	0	0	0	406
0	0	0	0	0	29,008
10	**-41**	**118**	**-4,925**	**2,922**	**64,508**

* Change pursuant to IFRS 3

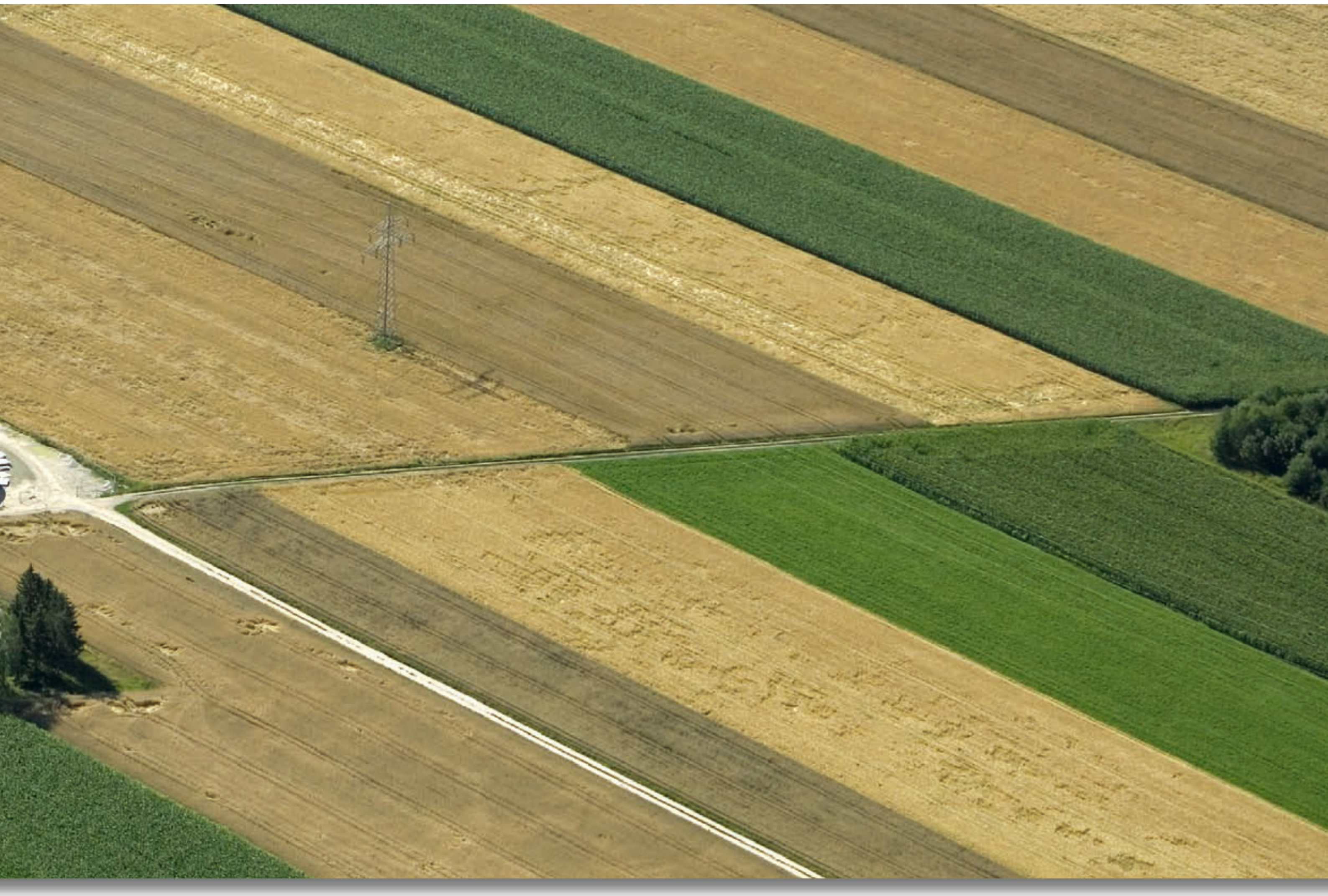
CONSOLIDATED CASH FLOW STATEMENT (IFRS)

			01/01/2007-12/31/2007	01/01/2006-12/31/2006
			kEUR	kEUR
		CASH FLOW FROM OPERATING ACTIVITIES		
1.		After-tax result before minority interests	-7,432	1,370*
2.	+/-	Income tax expense	-3,113	3,102
3.	+	Interest expense	1,875	443*
4.	-	Interest income	-950	-484
		ADJUSTMENTS TO NON-CASH EXPENSES AND INCOME		
5.	+	Stock option plan expenses	406	84
6.	+/-	Write-downs/-ups on property, plant and equipment	1,462	631
7.	+/-	Write-downs/-ups on intangible assets	747	216
8.	+/-	Write-downs/-ups on financial assets	0	44
9.	-/+	Gains/losses on at-equity holdings	289	-176
10.	-/+	Gains/losses on the sale of property, plant and equipment	4	0
11.	-/+	Gains/losses on the sale of financial assets	4	-35
12.	-/+	Other non-cash income/expenses	-70	100
		CHANGE IN NET CURRENT ASSETS (WORKING CAPITAL)		
13.	-/+	Increase/decrease in inventories	2,235	-717
14.	-/+	Increase/decrease in trade receivables	-5,292	-978
15.	-/+	Increase/decrease in receivables from long-term construction contracts (asset balance)	-9,081	-11,719
16.	-/+	Increase/decrease in other short-term financial assets	840	-86
17.	-/+	Increase/decrease in tax receivables	1,307	-8
18.	+/-	Increase/decrease in trade payables	-2,647	6,283
19.	+/-	Increase/decrease in other short-term financial liabilities	1,340	915
20.	+/-	Increase/decrease in advances received	-6,651	561
21.	+/-	Increase/decrease in provisions	299	-1,005
22.	+/-	Increase/decrease in tax liabilities	-1,886	500
23.	=	**CASH GENERATED FROM OPERATING ACTIVITIES**	**-26,314**	**-959**
24.	-	Income tax remitted	-203	-695
25.	-	Interest paid	-1,682	-385
26.	+	Interest received	672	482
27.	=	**CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES**	**-27,527**	**-1,557**
		CASH FLOW FROM INVESTING ACTIVITIES		
28.	-	Payments for investments in non-current intangible assets	-1,849	-1,249
29.	+	Proceeds from disposals of property, plant and equipment	13	46
30.	-	Payments for investments in property, plant and equipment	-6,080	-4,694
31.	+	Proceeds from disposals of financial assets	188	35
32.	-	Payments for investment in financial assets	-982	-1,317
33.	-	Payments for the acquisition of consolidated companies and business units	-1,495	-17,557
34.	=	**CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES**	**-10,205**	**-24,736**
		CASH FLOW FROM FINANCING ACTIVITIES		
35.	+	Proceeds from equity financing	29,008	38,106
36.	-	Payments for equity financing	-500	-3,622
37.	-	Payments for finance leasing	-201	-47
38.	+	Proceeds from the incurrence of long-term financial liabilities	9,141	7,420
39.	-	Payments for the redemption of long-term financial liabilities	0	-289
40.	+	Proceeds from the incurrence of short-term financial liabilities	3,463	111
41.	-	Payments for the redemption of short-term financial liabilities	-2,205	-336
42.	+	Proceeds from the incurrence of other long-term financial liabilities	725	0
43.	=	**CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES**	**39,431**	**41,343**
44.	=	**CHANGE IN CASH AND CASH EQUIVALENTS (TOTAL FROM LINES 27, 34, 43)**	**1,699**	**15,050**
45.	+	Cash balance on January 1	18,636	3,586
46.	=	**CASH BALANCE ON DECEMBER 31**	**20,335**	**18,636**

* Change pursuant to IFRS 3

GROUP NOTES
SCHMACK BIOGAS AG, SCHWANDORF

Aerial photography of the bio-methane plant Pliening



A. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Company information

Schmack Biogas AG is a listed corporation with headquarters in Schwandorf, Germany. The initial public offering of Schmack Biogas AG shares took place on May 24, 2006, trading on the regulated market of the Frankfurt Stock Exchange and listed on the Deutsche Börse AG 'Prime Standard' index.

These consolidated financial statements were approved for release on April 4, 2008.

(1) LEGAL REPORTING BASIS

Schmack Biogas AG together with its group subsidiaries (hereinafter referred to as 'Schmack' or 'the company') is a full-service provider of biogas systems. The operations of the company are divided into the business units "Planning and Construction", "Plant Management and Operation" and "Own Operations".

Schmack Biogas AG is a parent company per section 290 of the German Commercial Code (HGB). Pursuant to section 315a para. 1 of the German Commercial Code (HGB) in connection with article 4 of Directive No. 1606/2002 issued by the European Parliament and Council dated July 19, 2002, as an issuer of publicly traded securities the company is required to produce consolidated financial statements in accordance with the IFRS as adopted by the EU for fiscal year 2007. Accordingly, these consolidated financial statements, dated December 31, 2007, were produced in conformance with applicable IFRS accounting rules. All standards effective and mandatory as of December 31, 2007 have been applied. No modifications of the applied accounting and measurement methods were necessary.

The following amendments and interpretations to published standards are effective for the first time for fiscal year 2007:

• IAS 1 "Presentation of Financial Statements – Capital Disclosures":
The revised IAS 1 is to be applied for annual periods beginning on or after January 1, 2007. The entity must disclose information regarding the objectives, methods and processes of equity management. For the additional disclosures in the notes, please refer to point C. (26) Equity.

• IFRS 7 "Financial Instruments: Disclosures":
IFRS 7 is to be applied for annual periods beginning on or after January 1, 2007. This standard leads to comprehensive disclosures in the notes; please refer to point D. (34) Financial Instruments. The first-time application of this standard has no impact on the net worth, financial and earnings position.

• IFRIC 9 "Reassessment of Embedded Derivates":
IFRIC 9 is to be applied for annual periods beginning on or after June 1, 2006. This interpretation explains whether an embedded derivative is to be separated from the host contract and accounted for as a derivative. The first-time application of this interpretation has no impact on the consolidated financial statements.

• IFRIC 10 "Interim Financial Reporting and Impairment":
IFRIC 10 is to be applied for annual periods beginning on or after November 1, 2006. This interpretation states that an impairment loss recognised during a fiscal year may not be reversed at the end of the year. This exclusively relates to

impairment losses for goodwill, for equity instruments classified as available for sale and for financial assets carried at cost. The first-time application of this interpretation has no impact on the consolidated financial statements.

The company did not voluntarily observe the IASB standards and interpretations below, mandatory only after December 31, 2007:

• IAS 1 "Presentation of Financial Statements (2007)":
IAS 1 (revised 2007) is to be applied for annual periods beginning on or after January 1, 2009. The purpose of the revision is to facilitate a comparison of the financial statements. IAS 1 requires a statement of comprehensive income and, in certain cases, an opening balance sheet as at the beginning of the earliest comparative period disclosed in financial statements. The first-time application of this standard would have no material impact on the consolidated financial statements.

• IAS 23 "Borrowing Costs (2007)":
IAS 23 (revised 2007) is to be applied for annual periods beginning on or after January 1, 2009. The main amendment refers to the elimination of the option to recognise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as an expense. The company currently examines what impact the first-time application of this standard will have on the consolidated financial statements.

• IAS 27 "Consolidated and Separate Financial Statements (2008)":
IAS 27 (revised 2008) is to be applied for annual periods beginning on or after July 1, 2009. The main amendments relate to the partial disposal of an investment in a subsidiary while control is retained. This must be accounted for as an equity transaction. If significant influence is lost, the consolidated assets and liabilities must be derecognised. It is a new rule that a retained equity interest in the former subsidiary is measured at the fair value upon initial recognition and that the resulting difference is recognised in profit of loss. Where losses applicable to the minority exceed the minority interest in the equity of the relevant subsidiary, the excess is charged to the minority interest although this results in a negative balance. The first-time application of this standard would have no material impact on the consolidated financial statements.

• IFRS 2 "Share-based Payment (2008)":
IFRS 2 (revised 2008) is to be applied for annual periods beginning on or after January 1, 2009. The main amendments relate to the fact that all vesting conditions are market-related service conditions and performance conditions and that all early cancellations, whether by the entity or by the employee, should receive the same accounting treatment. The first-time application of this standard would have no material impact on the consolidated financial statements.

• IFRS 3 "Business Combinations (2008)":
IFRS 3 (revised 2008) is to be applied for annual periods beginning on or after July 1, 2009. The main amendments can be summarised as follows: The revised standard gives an entity the option to measure non-controlling interests at their fair value or based on the the pro-rated identifiable net assets. This option may be exercised separately for each business combination. In the case of step acquisitions, existing interests in the acquired company are remeasured in profit or loss

on the date that control is obtained. Goodwill is subsequently determined as the difference between the remeasured carrying amount of the investment plus the purchase price for the acquisition of the new shares less the acquired net assets. Costs associated with the acquisition must be expensed. No subsequent adjustment to goodwill is possible for possible adjustments to the cost of a business combination contingent on future events, which are recognised as a liability at the time of acquisition. Under the new standard, effects from the settlement of pre-existing business relationships are not included in the calculation of the consideration for the business combination. The measurement of rights that were granted to another entity prior to the business combination and are now reacquired has changed. The first-time application of this standard would have no impact on the consolidated financial statements.

- IFRS 8 "Operating Segments":
  IFRS 8 is to be applied for annual periods beginning on or after January 1, 2009. IFRS 8 defines what financial information an entity must report about its operating segments. IFRS 8 replaces IAS 14 and takes the so-called „management approach" to segment reporting. Under this approach, information on the operating segments is disclosed on the basis of internal reports. The first-time application of this standard would have no impact on the consolidated financial statements.

- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions":
  IFRIC 11 is to be applied for annual periods beginning on or after March 1, 2007. This interpretation specifies whether group-wide share-based payments should be accounted for as equity-settled or cash-settled. The first-time application of this standard would have no impact on the consolidated financial statements.

- IFRIC 12 "Service Concession Arrangements":
  IFRIC 12 is to be applied for annual periods beginning on or after January 1, 2008. This interpretation refers to the recognition of contractual arrangements (concessions) for the provision of public services. The first-time application of this standard would have no impact on the consolidated financial statements.

- IFRIC 13 "Customer Loyalty Programmes":
  IFRIC 13 is to be applied for annual periods beginning on or after July 1, 2008. This interpretation governs the recognition of customer bonus programmes operated by the manufacturers or service providers or by third parties. The first-time application of this standard would have no impact on the consolidated financial statements.

- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction":
  IFRIC 14 is to be applied for annual periods beginning on or after January 1, 2008. IFRIC 14 contains general guidelines to determine the upper limit of the surplus amount of a pension fund that may be recognised as an asset under IAS 19 "Employee Benefits". The first-time application of this standard would have no impact on the consolidated financial statements.

The consolidated financial statements are produced in euro. All amounts reported in the consolidated financial statements are quoted in euro thousands (kEUR) unless specified otherwise.

(2) RECOGNITION AND MEASUREMENT PRINCIPLES

The same accounting and measurement methods were applied in producing the consolidated financial statements for the year ending December 31, 2007 as were used to determine the relevant figures for the annual financial statements for the period ending December 31, 2006. Consistent, uniform accounting and measurement principles are applied in the production of the separate financial statements for Schmack Biogas AG and its domestic and international group subsidiaries. The balance sheet is organised by maturity in line with IAS 1 "Presentation of Financial Statements", and the income statement was produced using the cost of sales method. If financial statement line items were aggregated to improve the clarity of presentation, these items are disclosed separately in the notes to the financial statements.

Principles of consolidation

In addition to the parent company Schmack Biogas AG, the consolidated financial statements include all subsidiaries in which the company directly or indirectly holds a majority of voting rights, to the extent such have a material influence on Group assets, finances and earnings.

Capital consolidation is performed using the purchase method in which equity holdings acquired are charged against the revalued pro rata equity carried by the parent company. Assets and liabilities of acquired subsidiaries are carried at their respective fair values. Any positive difference in amount is recognised as an asset and subject to annual impairment testing; negative differences in amounts are immediately charged against earnings upon subsequent review. Receivables, liabilities, provisions, intercompany profit and losses, income and expenses between consolidated companies are eliminated in consolidation.

The equity method is applied for measuring investments in associates on the consolidated financial statements. Initial valuation is at cost; thereafter, carrying value reflects any percentage changes in the equity held in the associate firm. Goodwill reflected within the carrying value is not subject to scheduled amortisation. The carrying value of investments is subject to impairment testing in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 36 "Impairment of Assets".

Interests in joint ventures may either be consolidated using proportionate consolidation on the consolidated financial statements or applying the equity method. If proportionate consolidation is employed uniformly for the consolidated financial statements, assets, liabilities, expenses and income of the joint ventures are included in the consolidated financial statements in the applicable percentages. Investment carrying value is charged against percentage of equity held; intercompany transactions and balances are proportionately offset in line with IAS 27 "Consolidated and Separate Financial Statements".

Basis of consolidation

As of December 31, 2007, the basis of consolidation included the 17 domestic and 4 international subsidiaries listed below in addition to Schmack Biogas AG:

German companies:

Name and headquarters	% Equity held	Consolidation type	IFRS equity in kEUR	IFRS net profit/loss in kEUR
1. Schmack Biogas AG, Schwandorf			64,770	-3,192
2. Schmack Energie Betriebs GmbH, Schwandorf		100.00	full	22
-2 3. Schmack Energie Holding GmbH, Schwandorf		100.00	full	888
-170 4. CarboTech Engineering Holding GmbH, Schwandorf	90.00	full	6,949	-175
5. CarboTech Engineering GmbH, Essen	100.00	full	1,602	-31
6. Hese Biogas GmbH, Gelsenkirchen	100.00	full	5,275	-134 1)
7. Feldgaszentrum Neutraubling GmbH & Co KG, Neutraubling	100.00	full	-23	-28 1)
8. BION Energie Verwaltungs GmbH, Regensburg	100.00	full	23	-2 1)
9. VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG , Eschborn	94.00	full	21	14 1)
10. Stelzenberger Biogas GmbH, Kirchweidach	79.30	full	5,630	-877
11. Köhler & Ziegler Anlagentechnik GmbH, Lollar	50.19	full	1,300	175 1)
12. Energiefeld Bayern GmbH & Co. KG, Munich	50.00	proportionate	29	-61 2)
13. Energiefeld Bayern Verwaltungs GmbH, Munich	50.00	proportionate	41	16 2)
14. RENION Biogas Verwaltungs GmbH, Regensburg	50.00	proportionate	25	0 1,2)
15. RENION Biogas GmbH & Co. KG, Regensburg	50.00	proportionate	-109	-109 1,2)
16. Biogas Steyerberg GmbH, Steyerberg	49.00	proportionate	1,359	-136 2)
17. Bioerdgas Schwandorf GmbH, Schwandorf	33.33	at equity	4,367	-134 1)
18. IMB Verfahrenstechnik GmbH, Frechen	30.07	at equity	97	-102 1)

1) IFRS net profit/loss from date of initial consolidation.
2) IFRS net profit/loss flows into consolidated net profit/loss on pro rata basis.

International companies:

Name and headquarters	% Equity held	Consolidation type	IFRS Equity in kEUR	IFRS net profit/loss in kEUR
1. Schmack Biogas S.r.l., Bolzano, Italy	66.00	full	1,203	-1,892
2. Fri-El Biogas Holding S.r.l., Bolzano, Italy	30.00	at equity	107	-63 [1)]
3. Certified Energy BV, Wanroij, Netherlands	33.33	at equity	400	-121
4. Schmack Bio-Energy LLC, Independence (Ohio), USA	30.00	at equity	2,896 [2)]	-630 [3)]

1) IFRS net profit/loss from date of initial consolidation.
2) Schmack Bio-Energy LLC: applying exchange rate on December 31, 2007.
3) Schmack Bio-Energy LLC: applying average exchange rate for the period January 1, 2007 through December 31, 2007.

Additional disclosures per IAS 28.37 for group consolidation applying the equity method:

	2007 kEUR	2006 kEUR
Assets	18,367	14,670
Liabilities	10,500	11,827
Sales	7,699	18,592
Net income	-1,050	717

Additional disclosures per IAS 31.56 for consolidation using the proportionate consolidation method:

	2007 kEUR	2006 kEUR
Current assets	2,144	248
Non-current assets	5,341	7
Current liabilities	2,119	17
Non-current liabilities	4,020	0
Revenues	63	0
Expenses	353	8

Apart from the 18 domestic and 4 foreign subsidiaries mentioned above, no further subsidiaries, joint ventures or associated companies that were not included in the basis of consolidation due to a lack of materiality existed as at the balance sheet date.

Currency Translation

The default currency of Schmack Biogas AG is euro. Financial statements data for consolidated group companies denominated in foreign currencies are translated into the functional currency using the modified closing rate method in line with IAS 21 "The Effects of Changes in Foreign Exchange Rates". The functional currency of consolidated group companies is generally that of the country of residence, as these companies primarily operate autonomously within their respective business environments. Asset and liability values are thus translated at balance sheet date spot rates, while expenses and income are converted at the annual average exchange rate on the consolidated financial statements.

		Balance sheet date spot rate		Weighted average exchange rate	
Currency:		**12/31/2007** EUR	12/31/2006 EUR	**2007** EUR	2006 EUR
USA	1 USD	0.67942	0.75742	0.72953	0.79703

Currency translation differences arising from different exchange rates used on the balance sheet and income statement are taken to equity, as are differences from translation of equity valuation using historic exchange rates.

On the individual financial statements of Schmack Biogas AG and its subsidiaries, foreign currency receivables and payables are translated at the exchange rate for the transaction date and currency translation differences as at the balance sheet date taken to income. Non-monetary items in foreign currency are carried at historical cost.

Intangible Assets

Intangible assets primarily represent development costs, patents, software and similar rights and goodwill.

Intangible assets purchased and internally produced are carried at cost and depreciated using the straight-line method when future benefit to the company will probably result and cost can be reliably measured, in line with IAS 38 "Intangible Assets (2004)". Intangible assets are amortised over their contractual or estimated useful life.

Research and development expenses not eligible for capitalisation are recorded as expense in the period incurred.

Development expenses are capitalised at cost if the expenses can reliably be accrued and the technological feasibility as well as the capability to be sold or used internally are assured. The development activity also has to lead to corresponding future cash inflows or cost savings with sufficient probability. Only those costs can be capitalised that are directly and indirectly attributable to the development process. Once the intangible asset is ready to be put into operation or ready for sale, its capitalised development expenses are amortised using the straight-line method over an estimated useful life of generally five years.

Goodwill from corporate acquisitions is not subject to scheduled amortisation in line with IFRS 3 "Business Combinations" in conjunction with IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets (2004)". Instead, goodwill is subject to annual impairment testing, in which projected cash flows are discounted and compared against the carrying value of goodwill. Negative differences are to be immediately charged against earnings upon follow-up review.

We refer to the disclosures on the accounting of leases for the accounting of intangible assets from leasing business.

Property, Plant and Equipment

Property, plant and equipment are carried at cost and subject to scheduled straight-line depreciation over their projected useful life in line with IAS 16 "Property, Plant and Equipment". Production costs of internally produced assets include all direct costs attributable to the production process and a reasonable portion of the production-related overheads. Included therein is depreciation related to production and a share of attributable general and administrative expenses. Loan interest is expensed in the period incurred. The option to include interest in the calculation of the acquisition or production cost in accordance with IAS 23 "Borrowing Costs" for assets whose acquisition or production process extends over longer periods (qualifying assets) was not utilised.

Property, plant and equipment are depreciated over the following useful lives:

	Useful life
Buildings	33 years
Technical equipment	3 to 15 years
Other technical, operating and office equipment	3 to 15 years

Research and Development Subsidies and Investment Grants

Corporations receive grants and subsidies as compensation for past or future services commissioned to be performed as part of their business operations. Such items must be reported if there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received. IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" distinguishes between funding directly and not directly connected with the acquisition or production of specific assets.

Funding received in direct connection with the acquisition or production of specific assets reduces the cost basis of such assets. Funding received in connection with expenses or losses previously incurred are immediately recognised as offsetting income. If these grants are related to the future then they are deferred over the respective period.

Impairment of Assets

Intangible assets and property, plant and equipment are reviewed for potential impairment as at the balance sheet date in line with IAS 36 "Impairment of Assets". Impairment testing is mandatory given any such trigger event. An impairment is evidenced when the carrying value exceeds the recoverable amount, which is determined as the higher of fair value less costs to sell and value in use. Value in use is determined on the basis of discounted cash flows. Any impairment found to be in evidence is to be expensed immediately. Follow-up testing is to be performed in subsequent periods to determine whether an impairment still exists. If not, non-goodwill assets are to be written up again. If an asset does not generate cash flows itself, impairment testing is to be performed for a cash generating unit.

Inventories

Inventories are carried at acquisition or production cost in line with IAS 2 "Inventories". Production costs include, in addition to the direct costs, a reasonable share of the indirect material and indirect labour as well as production-related depreciation and a share of the general and administrative expenses that can be directly allocated to the production process. Financing costs are not factored into the cost basis. Subsequent valuation is at the lower of cost or net realisable value. Risks to inventory due to extended storage or obsolescence, for example, are accounted for through valuation allowances. If the reasons for the write-down no longer exist, the write-down is reversed.

Long-Term Construction Contracts

Long-term contract orders executed over the course of multiple reporting periods are measured using the percentage of completion method in line with IAS 11 "Construction Contracts". The percentage of completion per contract is determined as the percentage of contract-related costs incurred to total projected cost as at the balance sheet date. If the outcome of the construction contract cannot be estimated reliably, revenue is only recognised in an amount of the contract costs incurred. If accrued contract costs including reported profits exceed advance payment received for a specific contract, an asset is to be recognised under gross amounts due from long-term construction contracts. If there is a credit balance after deducting the advances received, the item is reported under advances received. If a loss results from a contract order, impairment is to be taken on the contract order. Provisions are to be created for any excess amounts.

Accounts Receivable and other Assets

Accounts receivable and other assets are carried at nominal value or at cost. Any recognisable individual risks are accounted for by recording value allowances. There are no interest-free or low-interest receivables with maturities of over one year. Foreign exchange receivables are – if any – recorded at the middle rate on the balance sheet date.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, checks and bank balances available on demand with original maturities of up to three months. Cash and cash equivalents are carried at nominal value.

Deferred Taxes

Deferred tax assets and liabilities are carried in an amount of payments due from or to tax authorities in line with IAS 12 "Income Taxes".

Deferred taxes are recorded for all temporary differences between the carrying amounts of the tax base and the IFRS balance sheet. Upon realisation/fulfilment of such assets/liabilities temporary differences result in taxable or tax-deductible amounts. Deferred tax liabilities are to be recognised for taxable temporary differences, and deferred tax assets for tax-deductible temporary differences. Deferred tax assets are to be reported from loss carryforwards once it is probable that they can be offset against future net income. The deferrals are recorded in an amount of the predicted tax expense or benefit in future years based on the tax rate when they are realised.

Deferred tax assets and liabilities are calculated based on the expected tax rates on taxable income in the years when these temporary differences reverse. When tax rates change the respective impacts on the latent tax assets and liabilities are recognised in the income statement in the period for which the new tax rate is effective.

Deferred tax assets and liabilities are shown on a net basis after offsetting to the extent permissible vis-à-vis a specific tax authority. Otherwise they are reported separately. Deferred tax assets and liabilities are not discounted in line with IAS 12.

Financial Instruments

Financial instruments include financial assets and liabilities as well as contractual claims and obligations on the exchange or transfer of financial assets. There are two types of financial instruments: original and derivative.

Original financial instruments that are assets mainly consist of cash and cash equivalents, trade receivables and financial assets. Financial instruments that are liabilities mainly consist of financial liabilities, trade payables and other financial liabilities.

Besides the original financial instruments the Group also uses a derivative financial instrument (interest rate swap).
The company generally uses derivative financial instruments to hedge existing or planned transactions, especially against foreign exchange and interest rate risks.

Pension Provisions
Pension provisions are measured using the "projected unit credit method" pursuant to IAS 19 "Employee Benefits". The "projected unit credit method" determines the defined benefit obligation (DBO) taking dynamic aspects into account. The DBO is the present value of the pension entitlements realistically measured as at the balance sheet date. For this purpose, actuarial opinions are prepared on an annual basis. The calculation of the obligations is based on certain trend assumptions. Actuarial gains and losses resulting from changes in actuarial assumptions or experience-based assumptions are immediately recognised in profit or loss in the year in which they arise.

Other Provisions
Provisions are created for current legal or factual obligations arising from past events involving a probable outflow of resources, the amount of which can be reliably estimated in line with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Provisions are to be recognised as a liability in an amount of the best estimate of expenses which are necessary to be incurred for the fulfilment of current obligations as at the balance sheet date. Provisions that will not yet lead to an outflow of resources in the following year are recorded with the settlement amount discounted to the balance sheet date under consideration of expected cost increases. Market interest rates are used to calculate the present value. Provisions are not offset with recourse claims. The provisions for warranty expenses are recorded based on past experience after the customer's final acceptance. For contracts in progress, warranty risks are calculated as a reduction on the contractual volume.

Liabilities
Current liabilities are recorded at their repayment or fulfilment amount, non-current liabilities at cost. Differences between historical cost and the repayment amount are accounted for in accordance with the effective interest method. Foreign exchange payables are recorded at the middle rate on the balance sheet date.

Accounting for Lease Contracts
Accounting for lease contracts is governed by IAS 17 "Leases", which distinguishes between finance and operating lease contracts.

A lease is classified as a finance lease when the beneficial ownership and thus the material risks and rewards from use of the leased asset are attributed to the lessee. Such assets are carried at the lower of fair value or the present value of minimum lease payments, a liability in the same amount being simultaneously recognised. Leased assets are depreciated over the shorter of the term of the lease and projected useful life. One portion of regular lease payments reduces the amount of the corresponding liability as a principal payment while the other portion represents interest expense.

Other leases, where the beneficial ownership of the leased object remains with the lessor, are classified as operating leases. Payments from operating lease contracts are taken to income using the straight-line method over the term of the respective lease contract.

Revenue Recognition

Revenue from long-term plant construction is recognisable according to IAS 18 "Revenue" and IAS 11 "Construction Contracts". Earnings are only recognised when the profits from a construction contract can be reliably measured and deriving economic benefit from the sale of goods is sufficiently probable. Revenue from long-term service contracts is recognized on a percentage-of-completion basis, in principle. If the outcome of a service contract is not reliably estimable, revenue can only be recognised in the amount that the expenses incurred can be recovered.

Cost of Sales

The cost of sales includes the costs of the sold products and services. They include, in addition to the direct material and labour costs, attributable overheads including the production-related depreciation on production equipment and certain intangible assets and valuation allowances on inventories.

The cost of sales also includes additions to accrued warranty expenses and provisions for losses from contracts. Warranty accruals are recorded in an amount of the estimated costs when final acceptance of the respective item has occurred. Provisions for losses from contracts are recorded in full in the reporting period, in which the total costs from the respective contract, estimated on a timely basis, exceed the expected revenues.

(3) ESTIMATES IN THE PREPARTION OF CONSOLIDATED FINANCIAL STATEMENTS

The preparation of financial statements in accordance with IFRS requires that assumptions and estimates be made which influence the recorded assets and liabilities, the disclosure of contingent liabilities and other financial obligations at the balance sheet date and the reporting of expenses and income during the reporting period. The assumptions and estimates mostly concern determining the useful life, the percentage of completion for long-term construction contracts as well as recognition and measurement principles of intangible assets, receivables, provisions and payables.

The assumptions and estimates also concern in particular the ability to realise future tax benefits. The estimates concerning deferred tax assets on loss carryforwards are to a great extent dependent on the implementation of planned restructuring measures as well as the earnings trends of the respective tax subjects.

The actual amounts in future periods could deviate from the estimates as a result. Changes are recognised in profit or loss whenever better knowledge is acquired. In particular, assumptions regarding the future business development are based on the circumstances which apply at the time of the preparation of the financial statements as well as on the development of the global and industry-specific environment anticipated by Schmack.

(4) ACQUISITIONS

Acquisitions primarily concern the following corporate transactions:

Subsidiaries

As of December 31, 2007, the company's basis of consolidation included Schmack Biogas AG as well as the 10 domestic and 3 international subsidiaries listed on page 71 of the 2006 Annual Report. In the reporting period, the following companies were added and the following amendments made to the basis of consolidation as at December 31, 2006:

With effect from February 1, 2007, Schmack Biogas AG took over the biogas activities from insolvent Hese Umwelt GmbH, Gelsenkirchen, thereby securing considerable market share from one of its most important direct competitors and gaining additional technological expertise. Within the Schmack Group, the acquired business will be continued under the name of Hese Biogas GmbH, so that the well-established biogas brand will be maintained. The cash purchase price including acquisition expenses totalled kEUR 2,722. Given that the purchase price of the acquisition was equivalent to the bank liabilities taken over and that Hese had no liquid funds at the time of the acquisition, item "Payments for the acquisition of consolidated companies and business units" in the cash flow statement remained unaffected. The acquisition has resulted in goodwill of kEUR 5,114. This reflects the positive future prospects of the company. Since the date of acquisition, the company has generated sales of kEUR 25,957 with third parties. Due to acquisition of assets from insolvency further statements cannot be made. The amount of the generated loss by Hese Biogas GmbH since the time of the acquisition which is included in the Group results as of December 31, 2007 amounts to kEUR -134.

The table below shows the assets and liabilities of Hese Biogas GmbH broken down by classification at their carrying values as of the acquisition date in line with IFRS 3.67:

	Carrying value at acquisition date kEUR
Intangible assets	466
Property, plant and equipment	998
Deferred tax assets	1,739
Deferred tax liabilities	141
Current liabilities	5,454

With effect from April 1, 2007, Schmack Biogas AG increased its stake in Köhler & Ziegler Anlagentechnik GmbH, Lollar, to 50.19%. The company, whose main business purpose is the development and construction of cogeneration plants, will thus be fully consolidated from the second quarter 2007. Under the purchase, assignment and option contract dated March 17, 2006, Schmack Biogas AG had acquired 31.00% of the shares in Köhler & Ziegler Anlagentechnik GmbH in April 2006 at a cash purchase price plus acquisition expenses in an amount of kEUR 777. This contract granted Schmack Biogas AG a call option on another 19.19% of the company shares. The call option, which was originally scheduled to be exercised only in 2008, was exercised on April 12, 2007. The parties agreed that the shares were to be deemed to have been transferred with effect from April 1, 2007, with the purchase price amounting to kEUR 1,536. The total acquisition costs incurred by Schmack Biogas AG for the 50.19% interest in Köhler & Ziegler Anlagentechnik GmbH, Lollar, thus amount to EUR 2,313k plus incidental acquisition costs in an amount of kEUR 8, which adds up to kEUR 2,321. Given that cash in an amount of kEUR 826 was taken over together with the company, net payments for the acquisition of Köhler & Ziegler Anlagentechnik GmbH amounted to kEUR 1,495 (see cash flow statement item "Payments for the acquisition of consolidated companies and business units"). Based on a pro-rated equity capital of kEUR 743, adjusted by a revaluation reserve of kEUR 10, at-equity results of kEUR 34 accrued up to the time of first consolidation and the adjustment of the write-down of the hidden reserves from the first acquisition in an amount of kEUR 97, goodwill of kEUR 1,719 was created. This reflects the positive future prospects of the company. Since the acquisition of the majority investment, the company has generated sales of kEUR 3,163 with third parties. The profit contributed by Köhler & Ziegler Anlagentechnik GmbH since the time of full consolidation amounts to kEUR 175 and is included in the consolidated result as of December 31, 2007.

Applying an acquisition date at the beginning of the reporting period per IFRS 3.70, sales revenues total kEUR 4,316 and earnings kEUR 298. Accumulated earnings pro-rata as of the start of the reporting period (50.19%) would thus be kEUR 149.

With effect from August 15, 2006, Köhler & Ziegler Anlagentechnik GmbH, Lollar, in the capacity of a limited partner, established VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG, Eschborn, together with limited partner DG LEASING GmbH, Eschborn, and the personally liable partner VR-LEASING SOLIDUS Achtzehnte GmbH, Eschborn. The purpose of the company is the acquisition of land by way of real estate leasing. Capital contributions were made exclusively by the limited partners, DG LEASING GmbH, Eschborn, (EUR 150) and Köhler & Ziegler Anlagentechnik GmbH, Lollar (EUR 2,350). As a result, Köhler & Ziegler holds 94.0% of the company.

VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG has therefore been fully consolidated in the consolidated financial statements of Köhler & Ziegler and therefore also in the consolidated financial statements of Schmack Biogas from April 1, 2007. The result generated by VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG included in the consolidated result as of December 31, 2007 amounted to kEUR 14.

The table below shows the assets and liabilities of Köhler & Ziegler Anlagentechnik GmbH broken down by classification at their carrying values as of the acquisition date, and immediately prior to the transaction in line with IFRS 3.67:

	Carrying value at acquisition date total kEUR	Minority status kEUR	Carrying value at acquisition date Group share kEUR	Carrying value prior to acquisition date total kEUR	Minority status kEUR	Carrying value prior to acquisition date Group share kEUR
Intangible assets	517	258	259	39	19	20
Property, plant and equipment	5,591	2,785	2,806	5,591	2,785	2,806
Financial assets	14	7	7	14	7	7
Deferred tax assets	79	39	40	0	0	0
Inventories	10,048	5,005	5,043	9,755	4,859	4,896
Accounts receivable and other assets	2,417	1,204	1,213	2,417	1,204	1,213
Non-current liabilities	6,349	3,162	3,187	6,052	3,015	3,037
Current liabilities	10,835	5,397	5,438	10,630	5,295	5,335

In addition, Feldgaszentrum Neutraubling GmbH & Co KG, Neutraubling, established on March 4, 2007, was included in the consolidated financial statements for the period ended June 30, 2007 for the first time. The capital account of the company amounts to kEUR 5 and results in full from the limited partner's contribution of Schmack Energie Holding GmbH, Schwandorf. The personally liable partner of Feldgaszentrum Neutraubling GmbH & Co KG, Neutraubling, is Schmack Energie Betriebs GmbH, Schwandorf, a wholly owned subsidiary of Schmack Biogas AG, with a share capital of kEUR 25. So far, the company has generated sales of kEUR 0 and earnings of kEUR -28.

With effect from October 31, 2007, one third of the shares in Feldgasenergiezentrum GmbH, Schwandorf, was sold to E.ON Bioerdgas GmbH and one third to E.ON Bayern AG and the company was renamed Bioerdgas Schwandorf GmbH, Schwandorf. The deconsolidation resulted in a deconsolidation gain of kEUR 17. From November 1, 2007, Bioerdgas Schwandorf GmbH, Schwandorf, has been included in the consolidated financial statements of Schmack Biogas as an associated company.

With effect from October 18, 2007, Schmack Biogas AG exercised its option towards MF Bay to increase its shareholding in Stelzenberger Biogas GmbH by 18.91% to 69.05%. In the context of a capital increase by kEUR 18, the company raised its shareholding in Stelzenberger Biogas GmbH by another 10.25% to 79.30%.

Joint Ventures

On January 30, 2007, Schmack Energie Holding GmbH, Schwandorf, and REWAG, a Regensburg-based energy company, jointly established RENION Biogas GmbH & Co. KG, Regensburg, and RENION Biogas Verwaltungs GmbH, Regensburg. The fixed capital account of RENION Biogas GmbH & Co. KG amounts to kEUR 50 and consists of the limited partner's contributions of the two shareholders in an amount of kEUR 25 each. The share capital of RENION Biogas Verwaltungs GmbH amounts to kEUR 25. REWAG and Schmack hold equal shares in both companies. The joint venture plans to invest up to EUR 50 million in the construction of plants for the generation of electricity and heat from biogas in the next five years. Schmack will be responsible for the construction and operation of the plants, while REWAG will be in charge of marketing the energy in the region. The joint venture is another important step in the expansion of the Own Operations division.

Associated Companies

On June 26, 2007, Schmack Biogas S.r.l., Bolzano, Italy, a 66% subsidiary of Schmack Biogas AG established an associated company together with an Italian partner. The fully paid up capital of the company amounts to kEUR 100, to which Schmack Biogas S.r.l. contributed 30% or kEUR 30.

On September 13, 2007, Schmack Biogas AG acquired a 30.07% interest in IMB Verfahrenstechnik GmbH in Frechen. IMB specialises in the processing of fermentation residues, a process that enables the efficient use of residues in the production of biogas. In the area of large-scale industrial plants, the processing of fermentation residues makes an important contribution to improving the cost-efficiency of biogas plants. The interest in the associated company was acquired at a price of kEUR 414. In addition, Schmack has the option to acquire a majority shareholding in IMB in 2009. The remaining IMB shares are held by the management.

Since November 1, 2007, Bioerdgas Schwandorf GmbH, Schwandorf, whose predecessor, Feldgasenergiezentrum GmbH, Schwandorf, had been consolidated in full until October 31, 2007, has been included in the consolidated financial statements as an associated company. Schmack Energie Holding GmbH, E.ON Bioerdgas GmbH and E.ON Bayern AG each hold one third of this company. The purpose of this company is the construction and operation of a 10 MWGas plant that will generate approx. 16 million cubic metres of biogas per year from 2008. This amount is sufficient to supply some 5,000 households with energy.

B. CONSOLIDATED INCOME STATEMENT DISCLOSURES

(5) SALES

Fees charged to customers for products and services – less any trade discounts and rebates – are recognised as sales revenue. Total sales revenues of kEUR 135,167 (2006: kEUR 90,008) include invoiced sales of kEUR 114,912 (2006: kEUR 33,565) and sales revenues from long-term construction contracts totalling kEUR 20,255 (2006: kEUR 56,443). A breakdown of revenues by market is provided under item D. (35) Segment Reporting Disclosures.

(6) COST OF SALES

The cost of sales includes the costs of the products and services sold. In addition to the direct material and labour costs, it includes attributable overheads including the production-related depreciation on production equipment and certain intangible assets and valuation allowances on inventories.

In fiscal 2007, the cost of sales accounted for 93.0% (2006: 86.2%) of sales revenue. The percentage increase is attributable, among other things, to additional expenses caused by technical adjustments and related touch-up work.

The line item is composed of the following:

	2007 kEUR	2006 kEUR
Cost of materials (incl. purchased services)	99,237	66,799
Personnel expenses	16,837	6,417
Amortisation and depreciation	1,566	563
Other costs of goods sold	8,026	3,817
Total	**125,666**	**77,596**

(7) DISTRIBUTION EXPENSES

An amount of kEUR 3,470 (2006: kEUR 2,158) of distribution expenses totalling kEUR 6,789 (2006: kEUR 4,115) for fiscal year 2007 were related to personnel expenses. Other distribution expenses in an amount of kEUR 3,143 (2006: kEUR 1,874) primarily represent sales commissions and travel, marketing, fleet and legal/advisory-related costs. This line item also includes depreciation in an amount of kEUR 176 (2006: kEUR 83).

(8) GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses in an amount of kEUR 9,829 (2006: kEUR 3,492) include personnel expenses in an amount of kEUR 5,233 (2006: kEUR 1,458), depreciation of kEUR 278 (2006: kEUR 101) and other administrative costs totalling kEUR 4,318 (2006: kEUR 1,933). These primarily represent legal and advisory fees, travel expenses, stock quotation costs as well as vehicle fleet and IT-related expenses.

(9) RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses which may not be capitalised in line with IAS 38 and depreciation on capitalised development expenses were expensed in an amount of kEUR 1,998 (2006: kEUR 935). Personnel expenses of kEUR 936 (2006: kEUR 640), depreciation of kEUR 189 (2006: kEUR 100) and other research and development expenses of kEUR 873 (2006: kEUR 195) were included in total costs for the fiscal year. Other research and development expenses mainly include the cost of purchased services as well as legal and advisory fees.

(10) MATERIAL AND PERSONNEL EXPENSES, DEPRECIATION/AMORTISATION

Material and personnel expenses and depreciation/amortisation applying the cost of production method are presented below:

	2007 kEUR	2006 kEUR
Cost of materials	53,310	42,299
Cost of purchased services	46,669	26,396
Personnel expenses	26,579	10,678
Amortisation and depreciation	2,209	847
Total	**128,767**	**80,220**

The increase in inventories by kEUR 7,813 (2006: kEUR 2,464) included kEUR -2,235 recognised in profit or loss (2006: kEUR 717). The changes in inventories not recognised in profit or loss in an amount of kEUR 10,048 relate to the first-time consolidation of Köhler & Ziegler Anlagentechnik GmbH, Lollar.

(11) OTHER OPERATING INCOME

Other operating income for fiscal year 2007 in an amount of kEUR 1,296 (2006: kEUR 526) include revenues from vehicle benefits, government grants and subsidies and insurance benefits.

(12) OTHER OPERATING EXPENSES

This item shows all expenses unrelated to the core business of the enterprise and only indirectly related to operating income. In fiscal 2007, they totalled kEUR 1,512 (2006: kEUR 141). Significant expense items include specific valuation allowances recognised for receivables, losses on receivables, expenses for damages and money transfer costs.

(13) FINANCIAL RESULT

Financial income for fiscal year 2007 in an amount of kEUR 950 (2006: kEUR 484) consists of interest for short-term bank balances, income from exchange rate differences as well as miscellaneous financial income.

Financial expenses for fiscal year 2007 totalling kEUR 1,875 (2006: kEUR 443) include interest expense for current liabilities in an amount of kEUR 224 (2006: kEUR 51) and interest for non-current liabilities in an amount of kEUR 1,282 (2006: kEUR 292). The non-current interest expenses of the previous year were adjusted retroactively by kEUR 68 in accordance with IFRS 3 due to the exercise of a put option in conjunction with the fully consolidated Stelzenberger Biogas GmbH, Kirchweidach. Financial expenses also include interest expenses for guaranteed credits in an amount of kEUR 190 (2006: kEUR 56), interest expenses for finance leases in an amount of kEUR 94 (2006: kEUR 0) as well as miscellaneous financial expenses in an amount of kEUR 85 (2006: kEUR 44). Income from at-equity investments was kEUR -289 (2006: kEUR 176).

(14) INCOME TAX

Income tax expenses (gains) include both current and deferred items. The latter result from temporary differences and tax loss carryforwards. Income tax expenses for the fiscal years ending December 31, 2007 and December 31, 2006 were as shown below:

	12/31/2007 kEUR	12/31/2006 kEUR
German corporate income tax for the fiscal year	71	438
German corporate income tax for prior years	-370	0
German solidarity surcharge for the fiscal year	4	24
German solidarity surcharge for prior years	-21	0
German trade tax for the fiscal year	51	324
German trade tax for prior years	8	0
Current tax income (-)/expense (+)	**-257**	**786**
Source:		
Germany	-257	786
International	0	0
Deferred tax income(-)/expense (+)	**-2,856**	**2,316**
Source:		
Germany	-2,269	2,131
International	-587	185
Total	**-3,113**	**3,102**

The income tax gains reported for fiscal year 2007 in an amount of kEUR 3,113 (2006: kEUR 3,102) were kEUR 884 lower (2006: kEUR 1,460 higher) than the projected figure of kEUR 3,997 (2006: expense of kEUR 1,642), which would have resulted when applying the domestic German income tax rate of 37.91% (2006: 37.29%) on pre-tax profits. This is a composite rate consisting of the flat 25% corporate income tax plus a 5.5% solidarity surcharge and a modified effective trade tax rate of 11.53% (2006: 10.92%) compared with the prior year due to expansion of the basis of consolidation.

Under the 2008 Corporate Income Tax Reform Act, the statutory corporate income tax rate for domestic entities will change to 15% from fiscal 2008, while the average trade tax burden will climb to up to 14% based on a municipal factor of 400%. This is why the deferred taxes of domestic companies were measured at a total tax rate (including solidarity surcharge) of 29.83% as at December 31, 2007. In 2007, the reduction in the domestic tax rate resulted in reduced deferred tax gains of kEUR 762, which are mainly attributable to the decline in deferred tax assets from losses in the fiscal year.

The difference between the expected and reported income tax expense or benefit has the following causes:

	12/31/2007 kEUR	12/31/2006 kEUR
Earnings before income taxes	-10,545	4,472
Combined income tax rate	37,91 %	37,29 %
Expected income tax benefit (-)/expense (+)	**-3,997**	**1,668**
Change in tax rate	474	0
Questionable pre-IPO loss carryforwards and results from the initial consolidation	40	1,181
Non-tax deductible expenses	69	49
Tax effects unrelated to the accounting period	288	0
Changes in other permanent differences	153	257
Other international taxes	352	24
Tax credits and tax refunds from prior years	-383	-11
At-equity consolidation	-109	-66
Tax benefit (-)/expenses (+) reported	**-3,113**	**3,102**

Deferred tax assets and liabilities broke down as follows as of December 31, 2007 and December 31, 2006:

	12/31/2007 kEUR	12/31/2006 kEUR
Property, plant and equipment	0	1
Inventories	61	0
Pension provisions	147	218
Other provisions	101	6
Financial liabilities	207	0
Cash flow hedge	15	0
Accumulated loss carryforwards	6,109	323
Netting	-4,059	-90
Deferred tax assets	**2,581**	**458**
Intangible assets	991	398
Property, plant and equipment	62	121
Trade receivables	34	9
Construction contracts	3,454	2,367
Other provisions	0	14
Financial liabilities	29	10
Netting	-4,059	-90
Deferred tax liabilities	**511**	**2,829**
Net deferred tax assets (+)/ liabilities (-)	**2,070**	**-2,371**

Tax receivables and payables are reportable as non-current items pursuant to IFRS, a portion of which may be current to the extent realisable within 12 months of the reporting date. Below is a breakdown of tax receivables and payables according to current/non-current status:

	2007		2006	
	Deferred tax receivables kEUR	Deferred tax liabilities kEUR	Deferred tax receivables kEUR	Deferred tax liabilities kEUR
Realisable within 12 months	369	63	233	2,410
Realisable beyond 12 months	2,212	448	225	419
Total	**2,581**	**511**	**458**	**2,829**

The sum of temporary differences in connection with holdings in subsidiaries, associates and joint ventures for which no deferred tax items are recognised is net kEUR 81, representing the contingent liability arising from MF Bay's put option with regard to shares of Stelzenberger Biogas GmbH. The 5% additional income pursuant to section 8b para. 5 of the German Corporate Income Tax Act (KStG) was ignored as immaterial.

Valuation allowances were recorded for deferred tax assets if the future realisation of the corresponding tax benefits seem unlikely. As loss of continuity as a business entity in connection with the public offering conducted for fiscal year 2006 could not be ruled out with sufficient assurance, realisation of the corresponding tax benefits is not sufficiently probable in view of the non-deductibility clause under section 8 para. 4 of the German Corporate Income Tax Act (2007).

The unused tax loss carryforwards, for which no deferred tax asset was capitalised on balance, are composed of the following:

	12/31/2007 kEUR	12/31/2006 kEUR
Unused corporate income tax loss carryforwards	10,104	10,104
Unused trade tax loss carryforwards	9,833	9,833

Tax loss carryforwards can be carried forward indefinitely. However, carrying forward corporate and trade tax losses is limited due to minimum taxation.

(15) INCOME ATTRIBUTABLE TO MINORITY INTERESTS

Minority interests in consolidated net income relate to Schmack Biogas S.r.l., Bolzano, Italy (34%), Stelzenberger Biogas GmbH, Kirchweidach (20.7%), Köhler & Ziegler Anlagentechnik GmbH, Lollar (49.81%), VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG, Eschborn (6%), CarboTech Engineering Holding GmbH, Schwandorf, and CarboTech Engineering GmbH, Essen (10% each).

(16) EARNINGS PER SHARE

Earnings per share were calculated in accordance with IAS 33 by dividing the net income attributable to the shareholders of Schmack Biogas AG by the average number of shares outstanding during the year. Shares which are issued or repurchased during a period are recognised on a pro rata temporis basis.

	2007 kEUR	2006 kEUR
Result imputable to equity holders	-6,579,006	1,399,239
Basic weighted average shares outstanding	5,369,909	3,922,823
Diluted weighted average shares outstanding	5,369,909	3,922,823
Basic earnings per share	-1.23	0.36
Diluted earnings per share	-1.23	0.36

The result for the year 2006 was retroactively adjusted from kEUR 1,331 to kEUR 1,399 in accordance with IFRS 3.62 due to the correction of a put option in conjunction with the fully consolidated Stelzenberger Biogas GmbH, Kirchweidach.

C. DISCLOSURES ON THE CONSOLIDATED BALANCE SHEET

(17) INTANGIBLE ASSETS

The table below shows the change in intangible assets for fiscal year 2007 and the previous year:

	Acquired intangible assets kEUR	Development projects in process kEUR	Completed development projects kEUR	Goodwill kEUR	Advances kEUR	Total kEUR
Cost						
January 1, 2006	784	48	69	0	0	901
Change in basis of consolidation	52	0	0	15,861	0	15,913
Additions	603	969	0	0	39	1,611
Disposals	4	0	0	0	0	4
December 31, 2006	**1,435**	**1,017**	**69**	**15,861**	**39**	**18,421**
Change in basis of consolidation	521	0	0	6,872	0	7,393
Additions	1,048	891	0	0	0	1,939
Reclassifications	0	-1,068	1,068	0	0	0
Disposals	0	0	0	0	39	39
December 31, 2007	**3,004**	**840**	**1,137**	**22,733**	**0**	**27,714**
Accum. amortisation and impairment losses						
January 1, 2006	449	0	8	0	0	457
Additions	203	0	13	0	0	216
Disposals	4	0	0	0	0	4
December 31, 2006	**648**	**0**	**21**	**0**	**0**	**669**
Additions	689	0	58	0	0	747
Disposals	0	0	0	0	0	0
December 31, 2007	**1,337**	**0**	**79**	**0**	**0**	**1,416**
Net balances December 31, 2007	**1,667**	**840**	**1,058**	**22,733**	**0**	**26,298**
Net balances December 31, 2006	**787**	**1,017**	**48**	**15,861**	**39**	**17,752**

Intangible assets primarily represent goodwill in an amount of kEUR 22,733 (2006: originally kEUR 22,724, adjusted acc. to IFRS 3 kEUR 15,861) recognised upon initial consolidation of subsidiaries acquired, capitalised development costs in an amount of kEUR 1,898 (2006: kEUR 1,065) and intangible assets purchased in an amount of kEUR 1,667 (2006: kEUR 787).

The table below shows the goodwill attributed to the Group's identifiable cash generating units (CGUs) as of December 31, 2007:

	12/31/2007 kEUR	12/31/2006 kEUR
Stelzenberger Biogas GmbH, Kirchweidach/ Schmack Biogas AG, Schwandorf	8,867	8,842
CarboTech Engineering Holding GmbH, Schwandorf	7,033	7,019
Hese Biogas GmbH, Gelsenkirchen	5,114	0
Köhler & Ziegler Anlagentechnik GmbH, Lollar	1,719	0
Total	**22,733**	**15,861**

Goodwill from corporate acquisitions was not amortised in accordance with IFRS 3 "Business Combinations" in conjunction with IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets (2004)", being instead subject to impairment testing upon initial recognition. As at the balance sheet date, the impairment test provided no indication of a potential impairment being recognisable for goodwill. Thus no correction of the original carrying value was required. In the context of the impairment tests, the values in use were determined using a three-phase valuation model. The calculation until the year 2010 was based on the detailed planning of the respective companies. These take into account, in particular, the expected cash flows from the framework agreements signed in 2007 with HgCapital and agri.capital. In the years from 2011 to 2015, the cash flows are projected to grow by 15% p.a. An annual growth rate of 3% has been assumed from 2016. For reasons of simplicity, the cost of capital rates were calculated based on the assumption that they apply to all fully consolidated companies of the Schmack Group. The cost of equity, which was derived using the capital asset pricing model (CAPM), is 8.7%. The assumed cost of debt is 6.0%. Based on the assumed balanced capital structure, this results in a weighted average cost of capital (WACC) of 6.5% after tax and 9.2% before tax.

Of the development expenses incurred in 2007 kEUR 891 (2006: kEUR 969) fulfilled the capitalisation criteria as per IFRS. Capitalised development costs, except concerning works under construction, are subject to scheduled straight-line amortisation over a standard 5-year period less grants/subsidies received in an amount of kEUR 102 (2006: kEUR 141).

Development costs capitalised during the fiscal year primarily related to expenses for the development of the gas feed-in (MEA scrubbing), expenses for the development of the structural specifications of various types of the EUCO/COCCUS with the aim of cutting construction costs, expenses for the development of a new biogas purification technique to achieve natural gas quality, expenses for the development of the EUCO plug-flow test fermenter and expenses for the development of a test plant to increase the efficiency of biogas production using solar energy.

The useful life of purchased intangible assets is a standard 3 years, the rate of depreciation for straight-line depreciation is 33.3%. The net carrying amount of finance leases included in this line item was kEUR 190 as at the balance sheet date (2006: kEUR 316).

Accumulated amortisation of kEUR 747 (2006: kEUR 216) is included under cost of sales in an amount of kEUR 514 (2006: kEUR 135), distribution expenses in an amount of kEUR 53 (2006: kEUR 22), general administrative expenses in an amount of kEUR 104 (2006: kEUR 28) and research and development expenses in an amount of kEUR 76 (2006: kEUR 31).

(18) PROPERTY, PLANT AND EQUIPMENT

The table below shows the change in property, plant and equipment in fiscal year 2007 and in the previous year:

	Land, land rights and buildings incl. buildings on leased land kEUR	Equipment/ machinery kEUR	Other technical, operating and office equipment kEUR	Advances and assets under construction kEUR	Total kEUR
Cost					
January 1, 2006	764	184	1,125	69	2,142
Change in basis of consolidation	1,073	305	210	0	1,588
Additions	1,093	3,122	1,465	2,045	7,725
Reclassifications	69	0	0	-69	0
Disposals	0	1	453	0	454
December 31, 2006	**2,999**	**3,610**	**2,347**	**2,045**	**11,001**
Change in basis of consolidation	6,142	53	388	0	6,583
Additions	596	3,355	1,698	667	6,316
Reclassifications	-2,002	1,959	43	0	0
Disposals	19	2	253	0	274
December 31, 2007	**7,716**	**8,975**	**4,223**	**2,712**	**23,626**
Accumulated depreciation					
January 1, 2006	23	92	714	0	829
Additions	38	144	449	0	631
Disposals	0	0	408	0	408
December 31, 2006	**61**	**236**	**755**	**0**	**1,052**
Additions	205	345	912	0	1,462
Disposals	0	0	0	0	0
December 31, 2007	**266**	**581**	**1,667**	**0**	**2,514**
Net balances December 31, 2007	**7,450**	**8,394**	**2,556**	**2,712**	**21,112**
Net balances December 31, 2006	**2,938**	**3,374**	**1,592**	**2,045**	**9,949**

Property, plant and equipment are carried at cost and subject to scheduled depreciation. Depreciation is recorded in accordance with the estimated useful life, which is 33 years for buildings and ranges between 3 and 15 years for other types of property, plant and equipment. As at the balance sheet date, the net carrying amount of finance leases included in property plant and equipment was kEUR 479 (2006: kEUR 0).

Total depreciation in an amount of kEUR 1,462 (2006: kEUR 631) is included under cost of sales in an amount of kEUR 1,053 (2006: kEUR 428), distribution expenses in an amount of kEUR 123 (2006: kEUR 61), general administrative expenses in an amount of kEUR 174 (2006: kEUR 73) and research and development expenses in an amount of kEUR 112 (2006: kEUR 69).

(19) FINANCIAL ASSETS

The change in financial assets for fiscal year 2007 and the previous year is shown in the table below:

	Shares in subsidiaries kEUR	Shares in joint ventures kEUR	At-equity investments kEUR	Other financial assets kEUR	Total kEUR
Cost					
January 1, 2006	356	49	0	0	405
Additions	0	0	1,273	512	1,785
Disposals	356	49	0	0	405
December 31, 2006	**0**	**0**	**1,273**	**512**	**1,785**
Additions	0	0	2,661	1,247	3,908
Disposals	0	0	806	543	1,349
December 31, 2007	**0**	**0**	**3,128**	**1,216**	**4,344**
Accum. write-ups					
January 1, 2006	0	0	0	0	0
Additions	0	0	162	0	162
Disposals	0	0	0	0	0
December 31, 2006	**0**	**0**	**162**	**0**	**162**
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
December 31, 2007	**0**	**0**	**162**	**0**	**162**
Accum. amortisation and impairment losses					
January 1, 2006	15	49	0	0	64
Additions	44	0	0	0	44
Disposals	59	49	0	0	108
December 31, 2006	**0**	**0**	**0**	**0**	**0**
Additions	0	0	795	0	795
Disposals	0	0	0	0	0
December 31, 2007	**0**	**0**	**795**	**0**	**795**
Net balances December 31, 2007	**0**	**0**	**2,495**	**1,216**	**3,711**
Net balances December 31, 2006	**0**	**0**	**1,435**	**512**	**1,947**

The change in the valuation of associated companies is comprised of the additions to the acquisition costs of at-equity investments in an amount of kEUR 2,661, the disposal of acquisition costs in an amount of kEUR 806 resulting from the status change of Köhler & Ziegler Anlagentechnik GmbH, which has become a subsidiary, and pro-rata reductions in the equity capital of associated companies totalling kEUR 795 for the fiscal year, consisting of attributable net incomes of kEUR 289, the elimination of an intermediate result in an amount of kEUR 477 and a currency adjustment difference in an amount of kEUR 29.

Other financial assets include primarily the non-current portion of loans granted. These loans are carried at amortised cost.

The disposal of a 10% interest in a subsidiary, CarboTech Engineering Holding GmbH, Schwandorf, resulted in a loss of kEUR 4 in the fiscal year.

(20) INVENTORIES

Inventories broke down as follows as of December 31, 2007 and December 31, 2006:

	12/31/2007 kEUR	12/31/2006 kEUR
Raw materials and supplies	6,044	2,303
Work in progress	2,705	710
Finished products	2,093	16
Total	**10,842**	**3,029**

Of the kEUR 10,842 total inventories reported on the balance sheet (2006: kEUR 3,029) kEUR 0 (2006: kEUR 951) are recorded at net realisable value. No unscheduled impairment losses were recognised in the fiscal year and the previous year.

(21) TRADE RECEIVABLES

Trade receivables broke down as follows as of December 31, 2007 and December 31, 2006:

	12/31/2007 kEUR	12/31/2006 kEUR
Germany	11,790	7,405
EU	2,248	402
Non EU	86	48
Total	**14,124**	**7,855**

Reasonable specific allowances were made for all receivables with inherent risk. The expenses incurred were reported under other operating expenses. The valuation allowances amount to kEUR 1,113 (2006: kEUR 51).

All trade receivables shown here have durations of one year or less.

(22) RECEIVABLES FROM LONG-TERM CONSTRUCTION CONTRACTS

In the line item receivables from long-term construction contracts, accrued contract costs factoring in income are offset against any respective advances received.

For long-term construction contracts, the incurred contract costs including recognised revenues in an amount of kEUR 84,042 (2006: kEUR 59,344) were offset against payments received on account in an amount of kEUR 58,534 (2006: kEUR 42,917). This results in a balance of kEUR 25,508 (2006: kEUR 16,427) gross amount due from customers for contract work.

	12/31/2007 kEUR	12/31/2006 kEUR
Contract costs including realised profits	84,042	59,344
Advances received	-58,534	-42,917
Total	**25,508**	**16,427**

Total cost shown as assets under receivables from long-term construction contracts and as liabilities under advances received including profits attributable to construction contracts per IAS 11.40 (a) was kEUR 139,464 (2006: kEUR 67,217). Retentions pursuant to IAS 11.40 (c) amounted to kEUR 424 in the fiscal year 2007 (2006: kEUR 100).

At the end of the fiscal year, Schmack Biogas AG signed a framework agreement for the construction of biogas plants and the development of the related project sites with private equity investor HgCapital. The contract has a volume of approx. EUR 130 million. In 2007, services for the development of project sites in an amount of kEUR 8,015 were recognised in sales and profit or loss as receivables under long-term construction contracts. The recognition in profit or loss requires that the underlying projects will be realised with great probability, which is expected to be the case based on today's knowledge.

(23) OTHER SHORT-TERM FINANCIAL ASSETS

Other short-term financial assets broke down as follows as of December 31, 2007 and December 31, 2006:

	12/31/2007 kEUR	12/31/2006 kEUR
Receivables from companies in which an interest is held	607	0
Guaranties	500	0
Value-added tax	464	272
Advance payments made	331	0
Prepaid expenses	308	64
Insurance	252	6
Receivables from minority interests	215	100
Security deposits	106	22
Current portion of loans extended	100	60
Cash adjustment withholding amount	0	2,700
Creditors with debit balances	60	1
Personnel	32	17
Bonuses	7	1
Others	7	11
Total	**2,989**	**3,254**

The previous year's figure under "Cash adjustment withholding amount" was increased by kEUR 2,700 and relates to the retroactive change pursuant to IFRS 3 in the context of the purchase price adjustment at Stelzenberger Biogas GmbH.

(24) TAX RECEIVABLES

Tax receivables totalled kEUR 315 for the fiscal year (2006: kEUR 25) representing corporate income tax and solidarity surcharge totalling kEUR 297 as well as trade tax in an amount of kEUR 18.

(25) CASH AND CASH EQUIVALENTS

Cash and cash equivalents totalled kEUR 20,335 on the balance sheet date (2006: kEUR 18,636), representing exclusively cash on hand and current bank balances.

The change in cash and cash equivalents is presented in the cash flow statement in line with IAS 7 "Cash Flow Statements (2004)".

(26) EQUITY

A detailed overview of Group equity and its constituent individual elements is provided in the statement of changes in Group equity.

Subscribed capital

Fully paid-in share capital totalled kEUR 5,524 on the balance sheet date, consisting of 5,523,514 no-par value registered ordinary shares. The company held no treasury shares as at the balance sheet date. Share capital increased over the last two fiscal years as shown below:

	kEUR
Balance January 1, 2006	**220**
Share capital increase pursuant to March 2, 2006 resolution of Extraordinary General Meeting (cash capital increase)	6
Share capital increase pursuant to March 16, 2006 resolution of Extraordinary General Meeting (cash capital increase)	900
Share capital increase pursuant to April 6, 2006 shareholder resolution (partially from capital reserves per December 31, 2005 balance sheet)	2,614
Share capital increase pursuant to May 5, 2006 resolution of Extraordinary General Meeting (cash capital increase)	1,200
Balance December 31, 2006	**4,940**
Share capital increase from authorised capital (based on Management Board resolution dated February 14, 2007 and Supervisory Board approval – cash capital increase)	494
Share capital increase from authorised capital (based on Management Board resolution dated August 22, 2007 and Supervisory Board approval – non-cash capital increase)	90
Balance December 31, 2007	**5,524**

Authorised capital

In a June 22, 2007 resolution company shareholders voted to amend the Articles of Association, authorising the Management Board to increase share capital by way of one or more capital increases of registered ordinary shares against cash or non-cash contributions over a five year period up to a maximum kEUR 2,717, subject to Supervisory Board approval. Following partial utilisation, the authorised capital of June 22, 2007 amounted to kEUR 2,627 as of December 31, 2007.

Capital reserves

Capital reserves primarily represent the premium on the shares issued in the company's initial public offering recorded in the commercial registry on May 19, 2006, less IPO-related expenses and the premium from the two capital increases in 2007 less the equity financing-related costs.

Capital reserves also include the carrying value of obligations in connection with the Schmack Biogas AG Matching Stock Programme (MSP – see Equity-based incentives).

The change in capital reserves for fiscal years 2006 and 2007 is shown below:

	kEUR
Balance January 1, 2006	**2,765**
Conversion of capital reserves into share capital	-2,614
Premium from initial public offering	36,000
Equity financing-related costs	-3,622
Stock options	84
Balance December 31, 2006	**32,613**
Premium from capital increases	28,424
Equity financing-related costs	-500
Stock options	406
Balance December 31, 2007	**60,943**

Equity financing-related costs were offset against deferred taxes in an amount of kEUR 195k.

Equity-based incentives

In the interest of promoting long-term manager retention and motivation, Schmack Biogas has implemented a Matching Stock Programme (MSP) entitling executives to shares of "phantom stock". MSP participants are eligible to subscribe to company MSP shares up to a specific maximum set by the company. MSP shares are deposited to a trust account for the benefit of the respective MSP participants for the duration of their enrolment in the program.

The company grants all MSP plan participants 5 ‚virtual', phantom shares per MSP share in the initial tranche issued. These may be exercised two years from the issue date subject to specific conditions linked to the share price performance of the company since the issue date. Phantom stocks not exercised within two years of the issuance of the relevant tranche expire without value. Phantom stocks exercised pursuant to the attainment of the relevant targets generate gross MSP profits equal to the difference between the price of company shares upon exercise (average share price for the prior 60 days) against the issue date price (issue price/ average share price for the prior 60 days plus a 12% premium). The company then distributes company shares to MSP programme participants in an amount of MSP profits net of payroll and other taxes/ contributions. The MSP participants are obliged to use the amount paid by the company to purchase company shares if the payment is not funded in shares of Schmack Biogas AG.

The MSP programme is classified as 'equity-based' in terms of accounting treatment in line with IFRS 2, as benefits are exclusively payable in the form of shares. Stock-based compensation involving actual equity securities is always measurable at the fair value of goods/ services received (direct measurement). This cannot be reliably measured, as the compensation under the MSP represents an additional remuneration aimed at increasing employee retention and motivation. Therefore, the fair value of equity instruments granted on the issue date is applied (indirect measurement via option pricing model).

The key parameters to the Black-Scholes pricing model employed for the 1st tranche are the share price on the date of adoption of the resolution implementing the MSP programme (September 18, 2006) in an amount of EUR 37.30, a basis price of EUR 34.72, volatility of 30% determined by means of peer group analysis, a term of 21 months and a risk-free interest rate of 3.6%. Fair value of options granted in the context of the 1st tranche totals kEUR 409 given an option fair value of EUR 8.16 over the entire 21-month term prior to expiration, thus amounting to kEUR 228 in 2007 – taking into account expired options in an amount of kEUR 6 for employees who have left the company.

The allocation date for the 2nd tranche was May 24, 2007. Each MSP share held in the blocked security deposit entitled the holder to five phantom stocks of the 2nd tranche. The strike price of EUR 73.29 is equivalent to the average non-weighted closing price of the Schmack share on the XETRA trading system of the Frankfurt Stock Exchange during the last 60 trading days prior to the allocation, EUR 65.44, plus 12%. A volatility of 28.93% was taken as the basis, the term is 24 months and the risk-free interest rate is 4.5%. Fair value of options granted in the context of the 2nd tranche totals kEUR 535 given an option fair value of EUR 10.66 over the entire 24-month term prior to expiration, thus amounting to kEUR 178 since the allocation date.

This item is recorded as personnel expenses charged against capital reserves in equal amounts (pro-rata) over the vesting period, in line with IFRS 2. The number of shares subscribed in the context of the Matching Stock Programme is 10,025 for the 1st and 2nd tranche each. Therefore, a total of 100,250 options (phantom stocks) can be exercised.

Currency translation reserves
Currency translation reserves in an amount of kEUR -43 (2006: kEUR -14) represented exclusively the difference resulting from currency translation of the financial statement figures of the associate Schmack Bio-Energy LLC, Independence, Ohio.

Cash flow hedge reserve
The cash flow hedge reserve includes the fair value of an interest rate swap recognised by Schmack Biogas AG less deferred taxes. For further information, please refer to item D. (34) Financial Instruments.

Retained earnings
Appropriated retained earnings contain the effects of reconciliation to IFRS in an amount of kEUR 118 (2006: kEUR 118) as of January 1, 2003.

Minority interests
Adjustment items in an amount of kEUR 2,922 (2006: kEUR 1,584) represent shares in fully consolidated companies held by outside interests. The table below shows the existing minority interests:

	2007 kEUR	2006 kEUR
Stelzenberger Biogas GmbH, Kirchweidach	1,766	1,500
Schmack Biogas S.r.l., Bolzano, Italy	39	84
Köhler & Ziegler Anlagentechnik GmbH, Lollar	769	0
VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG, Eschborn	1	0
CarboTech Engineering Holding GmbH, Schwandorf and CarboTech Engineering GmbH, Essen	347	0
Total	**2,922**	**1,584**

Capital management
The management aims for a risk-adequate return on equity. Besides the acquisitions already made, the net investment requirements mainly result from the construction of biogas plants for own operation. These investments are assessed over a period of 20 years assuming leverage in line with market practice and applying an internal rate of after-tax return on the total capital employed.

(27) FINANCIAL LIABILITIES

Financial liabilities broke down as follows as of December 31, 2007 and December 31, 2006:

kEUR	12/31/2007 broken down by duration Total	≤ 1 year	1 to 5 years	> 5 years	12/31/2006 broken down by duration Total	≤ 1 year	1 to 5 years	> 5 years
Bank loans	28,627	6,415	14,752	7,460	11,088	670	6,081	4,337
Finance lease liabilities	721	218	440	63	315	120	195	0
Total	**29,348**	**6,633**	**15,192**	**7,523**	**11,403**	**790**	**6,276**	**4,337**

Bank loans

Bank loans are offset against origination fees in an amount of kEUR 441 (2006: kEUR 124). Origination fees are reversed back to income on an annual basis in view of materiality considerations in accordance with the durations of loans outstanding.

See Notes provided under item D. (34) Financial Instruments for further information concerning bank loans.

Finance lease liabilities

Total future minimum lease payments from finance lease contracts broke down as follows as of December 31, 2007 and December 31, 2006:

	12/31/2007 kEUR	12/31/2006 kEUR
Total future minimum lease payments	**824**	**346**
Amount due within one year	257	138
Amount due between one and five years	500	208
Amount due in more than five years	67	0
Present value of future minimum lease payments	**721**	**315**
Amount due within one year	217	120
Amount due between one and five years	441	195
Amount due in more than five years	63	0
Amount representing interest	**103**	**31**

Finance lease liabilities primarily represent liabilities from the leasing of technical, operating and office equipment as well as ERP software. The respective leases have remaining terms of between two and eight years.

(28) OTHER PROVISIONS

Provisions break down as shown below:

	12/31/2007			**12/31/2006**		
kEUR	Total	Current	Non-current	Total	Current	Non-current
Other provisions	7,515	5,934	1,581	1,417	853	564
Pension provisions	1,382	0	1,382	1,302	0	1,302
Total provisions	**8,897**	**5,934**	**2,963**	**2,719**	**853**	**1,866**

Detailed information on pension provisions is provided below under item (29).

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

	Balance 01/01/2007	Additions	Settlement	Release	Change in basis of consolidation	Balance 12/31/2007
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Warranties	734	2,061	670	52	73	2,146
Technical defects	0	2,098	0	0	0	2,098
Remaining construction site expenses	298	3,017	1,376	6	157	2,090
Service and maintenance agreements	112	577	160	0	70	599
Provisions for loss-making orders	0	0	4,965	0	5,252	287
Personnel-related commitments	79	54	14	3	0	116
Reimbursements	88	37	14	58	0	53
Archiving expense	23	14	0	0	0	37
Contracting plant fees	70	0	70	0	0	0
Others	13	279	13	190	0	89
Total	**1,417**	**8,137**	**7,282**	**309**	**5,552**	**7,515**

The increase in provisions for warranties and the first-time creation of provisions for technical defects are primarily attributable to non-recurrent effects. These relate to touch-up work that was required for individual projects due to the use of new technologies and developments in the construction of biogas plants.

The strong increase in provisions for remaining construction site expenses is attributable to the fact that final accounting of several projects took place at year-end. Provisions had to be established for touch-up work and trailing invoices.

Rising provisions for service and maintenance agreement-related expenses resulted from a number of plants completed in 2007 for which service and maintenance agreements were concluded.

The acquisition of the biogas division of insolvent company Hese Umwelt GmbH, Gelsenkirchen, was conditional on the takeover and execution of certain outstanding orders; in this context, provisions for loss-making orders were established. As most of these orders were already completed by the end of the fiscal year, the provisions established were used.

Schmack Group provisions created are generally current; below is a detailed view of projected outflows by category:

	Current		Non-current		Total	
	12/31/2007	12/31/2006	**12/31/2007**	12/31/2006	**12/31/2007**	12/31/2006
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Warranties	1,313	382	833	352	2,146	734
Technical defects	2,098	0	0	0	2,098	0
Remaining construction site expenses	2,090	298	0	0	2,090	298
Service and maintenance agreements	0	0	599	112	599	112
Provisions for loss-making orders	287	0	0	0	287	0
Personnel-related commitments	0	0	116	79	116	79
Reimbursements	53	88	0	0	53	88
Archiving expense	4	2	33	21	37	23
Contracting plant fees	0	70	0	0	0	70
Others	89	13	0	0	89	13
Total	**5,934**	**853**	**1,581**	**564**	**7,515**	**1,417**

(29) PENSION PROVISIONS

Pension provisions in an amount of kEUR 1,382 recorded on the Schmack Group consolidated financial statements (2006: kEUR 1,302) represent defined benefit plan commitments stemming from CarboTech Engineering GmbH, Essen, and Köhler & Ziegler Anlagentechnik GmbH, Lollar. Pursuant to company agreement, all regular employees of CarboTech Engineering GmbH, Essen, are entitled to pension benefits including retirement, disability and survivors' pensions. Pension plan eligibility was subject to a minimum five years of qualifying service without termination of employment. The amount of pension benefits payable is typically a function of length of service and employee salary. Köhler & Ziegler Anlagentechnik GmbH, Lollar, was initially consolidated as a subsidiary with effect from April 1, 2007 and the respective pension provision was recognised in the balance sheet of the Schmack Group. A single employee of Köhler & Ziegler Anlagentechnik GmbH, Lollar, is entitled to a company pension, while 19 employees of CarboTech Engineering GmbH, Essen, have pension entitlements. Both companies' obligations stem exclusively from older employment contracts; new employees are ineligible for pension benefits.

The amount of pension commitments or the defined benefit obligations was computed using actuarial methods, applying the following parameters:

	2007		2006
Discount rate		5.50%	4.65%
Salary trend	3.60% 2) /	0.00% 3)	3.00%
Pension trend	2.00% 2) /	5.00% 3)	1.50%
Turnover 1)		0.00%	0.00%
Inflation		2.00%	1.50%

1) Zero turnover reflects the fact that all pension commitments outstanding as at the balance sheet date are vested.
2) Factor used by CarboTech Engineering GmbH, Essen
3) Factor used by Köhler & Ziegler Anlagentechnik GmbH, Lollar. The salary trend is 0.00% as the entitled person is already in retirement.

The projected unit credit method was used to measure the present value of defined benefit obligations (DBO) and current service cost, in line with IAS 19. Actuarial gains and losses are immediately and fully recognised in profit or loss in the year in which they arise. The present value of the obligation is therefore equivalent to the pension provision recognised as at the balance sheet date.

The table below shows the change in the present values of total defined benefit obligations for the Schmack Group:

	2007 kEUR	2006 kEUR
Present value of commitments	1,302	0
Change in basis of consolidation	122	1,302
Current service cost	50	0
Interest expense	64	0
Benefits disbursed	-16	0
Actuarial gains	-133	0
Adjustment for past expenses (due to plan changes)	-7	0
Present value of commitments (DBO) on December 31	**1,382**	**1,302**

The change in the basis of consolidation refers to CarboTech Engineering GmbH, Essen, with effect from December 31, 2006 and to Köhler & Ziegler Anlagentechnik GmbH, Lollar with effect from April 1, 2007.

Pension expenses broke down as follows:

	2007 kEUR	2006 kEUR
Current service cost	50	0
Interest expense	64	0
Actuarial gains	-133	0
Adjustment for past expenses (due to plan changes)	-7	0
Pension expenses in the fiscal year	**-26**	**0**

As the initial consolidation of CarboTech Engineering GmbH was performed on December 31, 2006, the Schmack Group consolidated financial statements showed zero current pension expenses for the fiscal year 2006.

(30) TRADE PAYABLES

Trade payables in an amount of kEUR 11,779 (2006: kEUR 13,067) have durations of less than one year.

(31) OTHER FINANCIAL LIABILITIES

Other financial liabilities are mostly current liabilities. They broke down as follows as of December 31, 2007 and December 31, 2006:

	Current		Non-current		Total	
	12/31/2007	12/31/2006	**12/31/2007**	12/31/2006	**12/31/2007**	12/31/2006
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Liabilities from turnover tax and other taxes	3,632	1,082	0	0	3,632	1,082
Liabilities from shareholder loans	64	0	1,979	0	2,043	0
Other personnel liabilities from vacation and overtime	1,773	751	0	0	1,773	751
Personnel liabilities from salary and wages	628	561	0	0	628	561
Social security liabilities	453	191	0	0	453	191
Liabilities from put options	168	1,959	0	0	168	1,959
Liabilities from acquisition of investments	0	468	0	0	0	468
Liabilities from investments	0	165	0	0	0	165
Others	1,688	728	0	0	1,688	728
Total	**8,406**	**5,905**	**1,979**	**0**	**10,385**	**5,905**

Liabilities from turnover tax and other taxes totalling kEUR 3,632 (2006: kEUR 1,082) represent turnover tax in an amount of kEUR 3,199 (2006: kEUR 801) and wage and church taxes of kEUR 433 (2006: kEUR 246). The previous year's figure additionally includes land transfer tax in an amount of kEUR 35.

Shareholder loans amounting to kEUR 1,350 and kEUR 693, respectively, exist at VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG, Eschborn, and at Köhler & Ziegler Anlagentechnik GmbH, Lollar. Of the non-current liabilities totalling kEUR 1,979, liabilities in an amount of kEUR 1,721 have an effective remaining term of more than five years.

Other personnel liabilities totalling kEUR 1,773 (2006: kEUR 751) represent accrued vacation commitments in an amount of kEUR 1,313 (2006: kEUR 535), accrued overtime of a total kEUR 446 (2006: kEUR 216) as well as liabilities from old-age part-time arrangements in an amount of kEUR 14 (2006: kEUR 0).

Other current financial liabilities as of December 31, 2006 included a put option in an amount of kEUR 6,190 relating to the fully consolidated Stelzenberger Biogas GmbH, Kirchweidach. This liability was retroactively adjusted to kEUR 1,959 in accordance with IFRS 3.62. As of December 31, 2007, the liability from this put option amounted to kEUR 168.

Other liabilities in an amount of kEUR 1,688 (2006: kEUR 728) mainly include liabilities for insurance, invoices not yet received, Supervisory Board compensation, deferred income as well as costs for the preparation of the financial statements.

(32) ADVANCES RECEIVED

Advances received include gross amounts due from customers for contract work and corresponding advance payments creating a net liability position.

For long-term construction contracts, the incurred contract costs including recognised revenues in an amount of kEUR 55,422 (2006: kEUR 7,873) were offset against payments received on account in an amount of kEUR 57,510 (2006: kEUR 9,716). This results in a credit balance of kEUR 2,088 (2006: kEUR 1,843).

	12/31/2007 kEUR	12/31/2006 kEUR
Contract costs including realised profits	55,422	7,873
Payments received on account	57,510	9,716
Total	**2,088**	**1,843**

(33) TAX LIABILITIES

Tax liabilities represent actual income taxes for the current fiscal year not yet remitted to the tax authorities. Tax liabilities are carried at the projected amount payable. Total tax liabilities in an amount of kEUR 299 (2006: kEUR 591) consist solely of German income taxes, representing trade tax in an amount of kEUR 278 (2006: kEUR 280) and corporate income tax plus an associated solidarity surcharge in an amount of kEUR 21 (2006: kEUR 311).

D. OTHER DISCLOSURES

(34) FINANCIAL INSTRUMENTS

The table below shows the carrying amounts, measurements and fair values of all categories of financial assets and liabilities as of December 31, 2007 to the extent that they are covered by IFRS 7.

kEUR	Measurement category as defined in IAS 39	Carrying amount 12/31/2007	Measurement acc. to IAS 39			Fair value 12/31/2007
			Amortised cost	Fair value recognised in equity	Fair value recognised in profit or loss	
ASSETS						
Financial assets	LaR	1,216	1,216	0	0	1,155
Trade receivables	LaR	14,043	14,043	0	0	14,043
Accounts receivable from related companies	LaR	81	81	0	0	81
Other current financial assets	LaR	2,989	2,989	0	0	2,989
Cash and cash equivalents	LaR	20,335	20,335	0	0	20,335
LIABILITIES						
Hedge-related derivatives	n.a.	56	0	56	0	56
Non-current financial liabilities	FLAC	22,715	22,715	0	0	20,745
Other non-current financial liabilities	FLAC	1,979	1,979	0	0	1,979
Current financial liabilities	FLAC	6,633	6,633	0	0	6,633
Trade payables	FLAC	11,685	11,685	0	0	11,685
Liabilities to related parties	FLAC	94	94	0	0	94
Other current financial liabilities	FLAC	8,406	8,406	0	0	8,406
Thereof aggregated by measurement categories as defined in IAS 39:						
Loans and receivables (LaR)		38,664	38,664	0	0	38,603
Financial liabilities measured at amortised cost (FLAC)		51,512	51,512	0	0	49,542

The table below shows the respective figures as of December 31, 2006:

kEUR	Measurement category as defined in IAS 39	Carrying amount 12/31/2006	Measurement acc. to IAS 39			Fair value 12/31/ 2006
			Amortised cost	Fair value recognised in equity	Fair value recognised in profit or loss	
ASSETS						
Financial assets	LaR	512	512	0	0	490
Trade receivables	LaR	6,868	6,868	0	0	6,868
Accounts receivable from related companies	LaR	987	987	0	0	987
Other current financial assets	LaR	3,254	3,254	0	0	3,254
Cash and cash equivalents	LaR	18,636	18,636	0	0	18,636
LIABILITIES						
Hedge-related derivatives	n.a.	0	0	0	0	0
Non-current financial liabilities	FLAC	10,613	10,613	0	0	10,205
Other non-current financial liabilities	FLAC	0	0	0	0	0
Current financial liabilities	FLAC	790	790	0	0	790
Trade payables	FLAC	12,688	12,688	0	0	12,688
Liabilities to related parties	FLAC	379	379	0	0	379
Other current financial liabilities	FLAC	5,905	5,905	0	0	5,905
Thereof aggregated by measurement categories as defined in IAS 39:						
Loans and Receivables (LaR)		30,257	30,257	0	0	30,235
Financial Liabilities Measured at Amortised Cost (FLAC)		30,375	30,375	0	0	29,967

With the exception of financial assets, non-current financial liabilities and derivative financial instruments, the carrying amounts as of December 31, 2007 and December 31, 2006 of all financial assets and liabilities listed above are equivalent to their fair values due to the short terms.

The fair values of financial assets and non-current financial liabilities are determined in accordance with generally accepted measurement models based on discounted cash flow analyses and on the prices of current market transactions for similar instruments.

The fair values of derivative financial instruments are determined using discounted cash flow analyses and applying the respective yield curves for the maturities of the instruments.

Discounts on LaR resulted in a net gain or loss as defined in IFRS 7.20 in an amount of kEUR 864 (2006: kEUR -40).

The following receivables for which no allowances had been established existed as at the balance sheet date:

kEUR	Carrying amount 12/31/2007	Not overdue	Overdue	
			≤ 1 year	> 1 year
12/31/2006	7,759	5,518	2,241	0
12/31/2007	**12,456**	**6,696**	**5,760**	**0**

Value allowances

The table below shows the development of the valuation allowances for trade receivables:

kEUR	**2007**	2006
Balance January 1	**249**	**91**
Change in basis of consolidation	0	198
Net additions	876	6
Releases	12	46
Balance December 31	**1,113**	**249**

Beside the trade receivables, no other current financial assets include overdue items or value adjustments.

Default risks

The amount of financial assets is the maximum default risk. Insofar as default risks are recognisable for financial assets, these risks are considered through valuation allowances.

Default risks are minimised because customer orders are not accepted until financing confirmations have been received from the responsible banks. Orders are also financed through instalment payments reflecting construction progress. The large customers (energy utilities) generally have a very good credit standing.

Exchange rate risks and sensitivity analysis

In order to assess the interest rate risk, financial instruments are differentiated between those with fixed and those with variable interest rates as per IAS 32 in conjunction with IFRS 7.

	12/31/2007 Carrying amount kEUR	12/31/2006 Carrying amount kEUR
Non-current interest-bearing financial liabilities (> 1 year)		
Variable interest rate financial liabilities	7,181	0
Fixed interest rate financial liabilities	15,534	10,613
Current interest-bearing financial liabilities (< 1 year)		
Variable interest rate financial liabilities	4,375	111
Fixed interest rate financial liabilities	2,258	679

In conjunction with the acquisitions of Hese Biogas GmbH and CarboTech Engineering GmbH, the Group company has raised a 5-year acquisition loan in a total amount of kEUR 10,500 (value as of December 31, 2007: kEUR 9,450), under which interest payments are due semi-annually at a variable interest rate based on the EURIBOR. To hedge the resulting cash flow, the company has taken out an interest rate swap (payer swap) in the same amount, which has been designated as a cash flow hedge. The agreed interest terms as well as the payment flows of the interest rate swap and the variable loan are matched. Accordingly, the change in the market value of this interest rate swap in an amount of kEUR 56 and the resulting deferred tax in an amount of kEUR -15 are recognised in the cash flow hedge reserve. There were no material ineffective derivative positions.

With the exception of the above acquisition loan, non-current bank debt bears fixed interest rates. The weighted average interest rate during the year under review was 5.75% (2006: 5.38%).

The following loans have fixed interest rates limited in time:

Lender	Carrying amount **12/31/2007** kEUR	Maturity through	Interest rate in %	Rate fixed through
Sparkasse im Landkreis Schwandorf	319	06/2021	5.45	06/2011
Sparkasse Regensburg	2,758	02/2019	4.80	12/2013
Norddeutsche Landesbank Hannover	1,960	09/2022	5.15	09/2017
Volksbank Mittelhessen eG Gießen	2,368	04/2022	5.30	04/2017
Volksbank Mittelhessen eG Gießen	1,638	09/2021	5.30	09/2016

A change in market interest rates as a result of a parallel shift in the yield curve by ± 100 basis points as at the balance sheet date would have had the following effects for the Schmack Biogas Group:

kEUR	**2007**		2006	
	+100 basis points	-100 basis points	+100 basis points	-100 basis points
Derivative financial instruments				
Effect on result	0	0	0	0
Effect on equity	+211	-211	0	0
Variable interest rate financial liabilities				
Effect on result	-58	58	-2	2
Effect on equity	-58	58	-2	2

Given that all fixed-interest financial instruments are recognised at amortised cost, there is no resulting interest rate risk as defined in IFRS 7. The interest rate risk of the acquisition loan is hedged by the above interest rate swap (payer swap) in the same amount.

This means that an unhedged interest rate risk basically existed only with regard to the company's current account credit.

Currency risks
Schmack Group companies generally earn revenue and effect purchases from companies with headquarters in the euro-zone. All outgoing invoices are denominated in euros exclusively, thus there were no material currency risks as of December 31, 2007.

Liquidity risks
Following the IPO of Schmack Biogas AG in May 2006, further cash capital increases were effected in February 2007 and in April 2008. The issue of 493,955 (in February 2007) and of 453,350 (in April 2008) new registered shares generated gross proceeds in an amount of approx. EUR 27.2 million as well as EUR 7.1 million. The additional capital enabled the company to continue pursuing the Schmack Group's growth objectives. Besides organic growth, the company also relied on acquisitions and increases in existing investments (see Notes on item A. (4) Acquisitions) in the reporting year.

Basically the policy of collecting instalment payments for biogas projects in progress helps finance growth through ongoing business operations, although it does not cover entire financing needs. These are covered with free cash flow and credit lines from banks.

General legal risks
The Schmack Group holds insurance policies including all-risk insurance policies for contracting plants, professional, environmental risk and industrial liability insurance policies, car insurance as well as business, property and business interruption insurance for coverage of typical operational hazards.

In the plant contracting segment, Schmack has entered into very long-term, binding contracts (12 years) and offered extensive service and performance guarantees. There is little definitive data on the service costs and the average technical availability of older biogas plants, so that the risks are not yet estimable. The Management Board has created provisions in an amount of approximately kEUR 577 (2006: kEUR 112) arrived at by best estimate.

Provisions were created in an amount of kEUR 53 for probable damages payable (2006: kEUR 88).

Collateral
The loan from the Sparkasse im Landkreis Schwandorf (value as of December 31, 2007: kEUR 657) was collateralised by mortgaging the laboratory and office buildings on the site of Schmack Biogas AG in Schwandorf in an amount of kEUR 1,092. Laboratory equipment, patents, trademarks and utility models have additionally been pledged.

All Schmack Biogas AG trade receivables were pledged to Bayerische Hypo- and Vereinsbank AG, Munich, (value loan as of December 31, 2007: kEUR 9,450).

In connection with the purchase of several biogas plants, Schmack Energie Holding GmbH, Schwandorf, assumed the seller´s outstanding loans from Sparkasse Regensburg (value as of December 31, 2007: kEUR 2,758) in 2006. As collateral the company pledged bank balances in an amount of kEUR 750, energy supply revenues and insurance benefits from its all-risk insurance on biogas plants.

In the context of the extension of a loan by Norddeutsche Landesbank Hannover (pro-rata value as of December 31, 2007: kEUR 1,960) to the joint venture Biogas Steyerberg GmbH, Steyerberg, for the construction of a biogas plant, a land charge in an amount of kEUR 4,800 (pro-rata kEUR 2,352) was registered and the biogas plant was assigned as security. In addition, the electricity revenues as well as all other rights under supply and service agreements, heat and substrate supply contracts, contracts for the purchase of fermentation residues, operating agreements and insurance contracts were assigned to the bank.

Additionally, the following collateral was pledged by Stelzenberger Biogas GmbH, Kirchweidach, to Bayerische Hypo- and Vereinsbank AG, Munich, to secure all loans extended by this bank (value as of December 31, 2007: kEUR 7,420):

- The withholding amount (nominal amount kEUR 300) and/or cash adjustment withholding amount (nominal amount kEUR 2,700)
- All current, future and potential claims on current accounts
- All current (kEUR 690), future and potential claims and rights with regard to deliveries of goods, arising from insurance contracts and from the transfer agreement with Stelzenberger Metallbau GmbH shareholders
- Land charges of kEUR 387 against land register Kirchweidach folio 1399
- Land charges of kEUR 300 against land register Kirchweidach folio 832
- All factory and office equipment
- Pledge of current account balances with Bayerische Hypo- and Vereinsbank AG, Munich (value as of December 31, 2007: kEUR 2,898).

Overnight money and fixed-term deposits totalling kEUR 1,698 were pledged as collateral for the existing current account credits and the bank guarantee line of CarboTech Engineering GmbH, Essen, with Commerzbank AG, Essen, as well as the guarantee line with Coface Kreditversicherung AG, Mainz, and Zürich Versicherung AG, Frankfurt am Main.

At Hese Biogas GmbH, Gelsenkirchen, an amount of kEUR 181 is held in trust accounts, which results in restraints on disposal.

Registered land charges totalling kEUR 4,650 were pledged as collateral for the loans granted to VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG, Eschborn, by Volksbank Mittelhessen eG, Gießen (value as of December 31, 2007: kEUR 4,457). Land charges totalling kEUR 932 were pledged as collateral for the loans granted to VR-LEASING by a shareholder of Köhler & Ziegler Anlagentechnik GmbH, Lollar (value as of December 31, 2007: kEUR 1,350).

In fiscal 2007, retentions in an amount of kEUR 3,173 (2006: kEUR 884) were retained for finally accounted projects. For retentions retained for down payment invoices, please refer to D. (22) Receivables from long-term construction contracts.

Risk management
Please see the risk report provided within the management report on further Schmack risk management objectives and methods.

(35) SEGMENT REPORTING DISCLOSURES

The Company's operation is divided into the business divisions Planning and Construction, Plant Management and Operation and Own Operations. Since the Planning and Construction division's segment revenues, segment earnings and segment assets make up more than 90% of the totals, for materiality reasons segment reporting by business activity will not be provided.

A breakdown of segment earnings by region has not been provided in view of insufficient materiality as earnings primarily derive from Germany.

Revenue broke down by region as shown below:

	2007 kEUR	2006 kEUR
Germany	127,018	88,174
Rest of EU	7,582	1,172
Non-EU	567	662
Total	**135,167**	**90,008**

(36) DISCLOSURES ON THE CASH FLOW STATEMENT

The cash flow statement shows cash flows for the fiscal year in order to present information on changes in levels of cash and cash equivalents held by the company. A distinction is made between cash flows from operating, investing and financing activities.

The cash balance shown in the cash flow statement reflects all cash balances shown in the balance sheet that are available within a three month time frame.

Cash flow from operating activities is determined using the indirect method of adjusting after-tax earnings for non-cash expenses and income and changes in working capital.

The interest paid and received within cash provided by operating activities and the taxes on income and earnings are as follows:

	2007 kEUR	2006 kEUR
Interest paid	1,682	385
Interest received	672	482
Income taxes paid	203	695

Cash flows from investing and financing activity are acquired on a cash basis. Therefore investments in intangible assets amounting to kEUR 1,939 deviate from the payments amounting to kEUR 1,849 by a non-cash amount of kEUR 90 and investments in property, plant and equipment amounting to kEUR 6,316 deviate from the payments amounting to kEUR 6,080 by a non-cash amount of kEUR 236.

For the acquisition of subsidiaries, please refer to A. (4) Acquisitions.

(37) CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Contingent liabilities

There were no material contingencies impacting Schmack Group companies as at the balance sheet date.

Other financial obligations

Schmack Group companies have entered into a number of rental and lease contracts for technical factory and office equipment, operational and business equipment and vehicles. Schmack Biogas AG, Schwandorf, and Schmack Energie Holding GmbH, Schwandorf, also have non-current purchasing contracts with supplier groups on the providing of energy crops.

Schmack Group contractual commitments to external parties broke down as follows as of December 31, 2007:

	Due < 1 year kEUR	Due 1-5 years kEUR	Due > 5 years kEUR	Total kEUR
Operating leases				
Lease contracts for buildings	266	191	0	457
Other rental/lease contracts	1,341	1,400	19	2,760
Long-term purchasing and service contracts	1,730	8,857	2,440	13,027
Total	**3,337**	**10,448**	**2,459**	**16,244**

Expenses for operating leases totalled kEUR 1,232 in 2007 (2006: kEUR 555).
For the liabilities from finance leases, see Notes under item C. (27) Financial Liabilities.

(38) EVENTS AFTER THE REPORTING DATE

In February, a financial investor exercised a put option, which increased the shareholding of Schmack Biogas AG, Schwandorf, in Stelzenberger Biogas GmbH, Kirchweidach, by 0.66% to 79.96%. The purchase price was kEUR 200.

In response to the earnings performance in fiscal 2007 and customers' wait-and-see attitude in view of the upcoming statutory amendments, the Management Board decided in February 2008, to initiate cost-cutting measures in addition to the commenced product and process standardisation. This is expected to result in savings with regard to both procurement costs and the total block of fixed costs. The reduction of fixed costs is to result from savings in material costs as well as from reduction in staff. To this end, first concrete steps have already been realised by the beginning of April.

Chief Sales Officer Dr. Karl Reinhard Kolmsee resigned from the Management Board of Schmack Biogas AG at the end of February. The vacant position will not be filled for the time being.

In March 2008, the company decided to dissolve Energiefeld Bayern GmbH & Co. KG and Energiefeld Bayern Verwaltungs GmbH, two joint ventures that had been established in the previous year by Erdgas Südbayern GmbH and Schmack Energie Holding GmbH.

In March 2008, the German Federal Cabinet has officially adopted changes to the Gas Grid Access Regulations (GasNZV) already passed by the Bundesrat, Germany's upper parliament, in mid-February. The new Gas Grid Access Regulations will make it considerably easier to feed biogas into the gas grid. Moreover, certain costs which previously had to be borne by biogas producers will now be shifted to grid operators. The improvement in the legal framework will considerably raise margins in the production of biogas for feeding into the gas grid.

On April 1, 2008, Schmack Biogas AG has placed 453,350 registered shares in a capital increase from its authorised capital against a cash contribution, ex rights. Following entry of the capital increase in the Commercial Register, which is expected by the end of April or beginning of May, the company's share capital will increase by EUR 453,350 from EUR 5,523,514 to EUR 5,976,864. The capital increase was resolved with the consent of the Supervisory Board on April 1, 2008. The issue price lay at EUR 15.67 per share which corresponds to issue proceeds of around EUR 7.1 million which will primarily be used for the further development of project sites for gas feed-in plants.

(39) EMPLOYEES

The Schmack Group maintained a staff of 553 employees (2006: 307 employees), as of year-end, 31 of whom were apprentices and trainees (2006: 10 apprentices and trainees).

The average number of employees for the year Group-wide broke down as follows:

	2007 No.	2006 No.
Non-office staff	157	64
Office staff	296	132
Part-time employees	35	19
	488	**215**
Apprentices and trainees	21	7
Total	**509**	**222**

(40) CORPORATE GOVERNANCE CODE DECLARATION

The Management Board and the Supervisory Board of Schmack Biogas AG have issued a declaration of conformity with the German Corporate Governance Code pursuant to section 161 of the Stock Corporation Act (AktG), made accessible to shareholders via the company's website (www.schmack-biogas.com). Directors' dealings disclosures as defined in section 15a of the Securities Trading Act (WpHG) are also available for download from the company's website.

(41) TRANSACTIONS WITH RELATED PARTIES

Individuals in key positions

See item C. (43) Disclosures on Corporate Officers regarding individuals in key positions.

Subsidiaries

A listing of all subsidiaries included in the consolidated financial statements is provided under item A. (2) Recognition and Measurement Principles in the table of basis of consolidation. Transactions between the parent company and subsidiaries that constitute related parties are eliminated in consolidation and are not discussed in these Notes.

Joint Ventures

A listing of all joint ventures included in the consolidated financial statements including headquarters and pro-rata equity held is provided under item A. (2) Recognition and Measurement Principles in the table of basis of consolidation. In accordance with uniform application of consolidation rules, assets, liabilities, expenses and income of joint ventures are included in the consolidated financial statements on a pro-rata basis, while intra-Group transactions and balances are offset pro-rata in line with IAS 27. Material transactions primarily related to Biogas Steyerberg GmbH in the form of the sale of a biogas plant. The net transaction volume with Biogas Steyerberg GmbH in the fiscal year totalled kEUR 907. From the point of view of Schmack Biogas AG, the receivables outstanding amounted to kEUR 14 as at the balance sheet date. The other joint ventures had not started operations as of December 31, 2007.

Associated companies

A listing of all associates included in the consolidated financial statements including headquarters and percentage equity held is provided under item A. (2) Recognition and Measurement Principles in the table of basis of consolidation. The following reportable transactions were effected during the year under review:

Schmack Biogas AG, Schwandorf, extended an annuity loan to Köhler & Ziegler Anlagentechnik GmbH, Lollar, in an amount of kEUR 609 in a loan agreement dated March 17, 2006. The loan was increased by kEUR 94 with effect from July 19, 2007. The monthly annuity amount is kEUR 7, and the interest rate 5%, in line with market rates. Köhler & Ziegler Anlagentechnik GmbH supplies Schmack Biogas AG with cogeneration units and all-in-one technical system containers. The total net transaction volume with Köhler & Ziegler Anlagentechnik GmbH in the period from January 1, 2007 to March 31, 2007 amounted to kEUR 4,071. Köhler & Ziegler Anlagentechnik GmbH has been fully consolidated in the Schmack Group since April 1, 2007, which means that all transactions since this date have been eliminated in the context of consolidation.

Schmack Bio-Energy LLC, Independence (Ohio), USA, remitted two advance payments to Schmack Biogas AG in connection with the joint implementation of a biogas plant construction project in Acron, USA. In addition, various materials were charged to Schmack Bio-Energy LLC. The net transaction volume with Schmack Bio-Energy LLC in 2007 amounted to kEUR 978. From the point of view of Schmack Biogas AG, the receivables outstanding amounted to kEUR 7 as at the balance sheet date.

In fiscal 2007, Schmack Biogas AG performed laboratory analyses for Certified Energy BV, Wanroij, Netherlands. The net transaction volume in 2007 totalled kEUR 9. At the same time, Certified Energy charged biological start-ups to Schmack Biogas AG. This resulted in a net transaction volume of kEUR 20. From the point of view of Schmack Biogas AG, the receivables outstanding amounted to kEUR 4 as at the balance sheet date. No payables are outstanding.

IMB Verfahrenstechnik GmbH, Frechen, supplied Schmack Biogas AG with a test plant for the processing of fermentation residues as well as Hese Biogas GmbH, Gelsenkirchen, with a plant for the processing of fermentation residues. The net transaction volume with Schmack Biogas AG in the period from September 14, 2007 to December 31, 2007 totalled kEUR 28. No receivables or payables were outstanding between the companies as at the balance sheet date. The net transaction volume with Hese Biogas GmbH in the same period amounted to kEUR 229 and thus corresponds with the receivables outstanding as of December 31, 2007.

Schmack Biogas AG is building a biogas plant for Bioerdgas Schwandorf GmbH, Schwandorf. In the period from November 1, 2007 to December 31, 2007, the net transaction volume totalled kEUR 9,110. No receivables or payables were outstanding as at the balance sheet date.

In the period from from November 1, 2007 to December 31, 2007, Schmack Energie Holding GmbH purchased the raw materials for Bioerdgas Schwandorf GmbH, Schwandorf, and provided various other services. The net transaction volume in this period totalled kEUR 1,186. No receivables or payables were outstanding as at the balance sheet date.

Other related parties

Material transactions were conducted with the following related parties in the reporting period:

(a) Abel Mobilfunk GmbH & Co. KG, Engelsberg: Mr. Hermann Abel (Managing Director of Schmack Energie Holding GmbH through November 16, 2007) is limited partner of the company and brother of Mr. Herbert Abel (Schmack Biogas AG Management Board member through May 31, 2007).

(b) Abel Elektrotechnik GmbH & Co. KG, Engelsberg: Mrs. Petra Abel, wife of Mr. Hermann Abel (Managing Director of Schmack Energie Holding GmbH through November 16, 2007), and sister-in-law of Mr. Herbert Abel (Schmack Biogas AG Management Board member through May 31, 2007), is limited partner.

(c) Auto Abel GmbH, Engelsberg: Mr. Alfred Abel, brother of Mr. Hermann Abel (Managing Director of Schmack Energie Holding GmbH through November 16, 2007) and Mr. Herbert Abel (Schmack Biogas AG Management Board member through May 31, 2007) is managing director of the company.

(d) KLSAL Rechtsanwälte, Munich: Mr. Wolfgang Abel, brother of Mr. Hermann Abel (Managing Director of Schmack Energie Holding GmbH through November 16, 2007) and Mr. Herbert Abel (Schmack Biogas AG Management Board member through 31 May 2007), is a shareholder.

(e) BGA Feichten GmbH & Co. KG, Feichten: Mr. Hermann Abel (Managing Director of Schmack Energie Holding GmbH through November 16, 2007) is limited partner of the company and brother of Mr. Herbert Abel (Schmack Biogas AG Management Board member through May 31, 2007).

(f) Aufwind Schmack Gruppe, Regensburg: Mr. Ferdinand Schmack, brother of Mr. Ulrich Schmack, Schmack Biogas AG, Management Board member, is managing director of Aufwind Schmack Neue Energien GmbH, Regensburg, Aufwind Schmack Planungs GmbH, Regensburg, and Aufwind Schmack Betriebs GmbH.

(g) BG Schoissenkager GmbH & Co. KG, Schoissenkager: Mr. Robert Schmack, brother of Mr. Ulrich Schmack, Schmack Biogas AG, Management Board member, is limited partner.

(h) Energy & Technology S.r.l., Bolzano: Mr. Christof Erckert is sole manager. Energy & Technology S.r.l. holds 34% of Schmack Biogas S.r.l, Bolzano.

(i) BHKW Franz Stelzenberger, Kirchweidach: Owned by Mr. Franz Stelzenberger, managing director of Stelzenberger Biogas GmbH.

Transactions with related parties in 2007 were as shown below:

Regarding item	Acct. rec. (R) Acct. paybl. (P)	Transaction amount in kEUR	Type of transaction	Balance 12/31/2007 kEUR
(a) 1)	R	254	Installation and project development	31
(b) 1)	R	743	Misc. electrical work	62
(c) 1)	R	3	Repairs, tyres	0
(d) 1)	R	92	Legal counsel	1
(f)	R	13	Personnel sharing, brokerage commission, excavation	0
(a) 1)	P	7	Repair	7
(b) 1)	P	6	Misc. electrical work	7
(e) 1)	P	-11	Plant construction/ repair and service of technical, operating and office equipment	12
(f)	P	41	Laboratory services, trial fermentation, planning	56
(g)	P	13	Plant construction	-1
(h)	P	0	Loans	582
(i)	P	3	Supply of materials	0

1) Transactions between January 1, 2007 and December 31, 2007.

All transactions were effected on market terms as with independent third parties. Valuation allowances or bad debt losses on receivables were not recorded; no guarantees were granted or received, respectively.

(42) AUDITOR FEES

Auditor fees accrued during fiscal year 2007 as shown below:

	2007 kEUR
Auditing	159
Other certification or accounting work	51
Tax consulting	31
Other services	31
Total	**272**

(43) DISCLOSURES ON CORPORATE OFFICERS

Appointees to the Management Board in the reporting period:

NAME AND FUNCTION	OTHER POSITIONS HELD
Ulrich Schmack Chief Executive Officer (CEO)	No other positions held
Herbert Abel Chief Operational Officer (COO) - through May 31, 2007 -	No other positions held
Dr. Guido Zimmermann Chief Operational Officer (COO) - May 1, 2007 to August 31, 2007-	No other positions held
Dr. Alexander Götz Chief Financial Officer (CFO)	No other positions held
Dr. Karl Reinhard Kolmsee Chief Sales Officer - July 1, 2007 to February 29, 2008 -	Supervisory Board member Osthannoversche Eisenbahn AG, Lüneburg (05-07/2007)

Total Management Board compensation for fiscal year 2007 was kEUR 903 (2006: kEUR 655), of which kEUR 770 (2006: kEUR 444) represents non-performance-based components. No obligation was included under performance-based Management Board compensation (2006: kEUR 186), while long-term incentive components amounted to kEUR 133 (2006: kEUR 25). The compensation of the Management Board members is not shown in individualised form, as the Annual General Meeting of April 6, 2006 voted to release the company from this duty.

Non-performance-based compensation is disbursed in the form of a monthly salary. Non-cash benefits are included under non-performance-based compensation, including in particular the use of a company car and insurance premiums. Management Board members are individually responsible for any taxes due in connection with non-cash benefits.

Performance-based bonuses are calculated based on EBIT reported on the consolidated financial statements. Long-term incentive components concerned Matching Stock Programme (MSP) benefits received by Management Board members in fiscal year 2007 in the context of a second tranche for a total 16,130 options on phantom stocks in the company. The fair value of options granted to Management Board members during the period under review totalled kEUR 172 applying an option fair value of kEUR 10.66 over the 24-month period prior to expiration, thus amounting to kEUR 58 for fiscal year 2007. The fair value of options granted to Management Board members in 2006 in the context of the first tranche totalled kEUR 132 applying an option fair value of kEUR 8.16 over the 21-month period prior to expiration, thus amounting to kEUR 75 for fiscal year 2007. Additional information on the MSP programme is provided under item C. (26) Equity, sub-item Equity-based incentives.

Appointees to the Supervisory Board in the reporting period:

NAME AND FUNCTION	OTHER POSITIONS HELD
Walter Gnauert Business executive Supervisory Board Chairman	• Advisory Board Chairman, Amann Holding GmbH, Massenbachhausen • Advisory Board Chairman, WESTFALIA - Automotive Holding GmbH, Rheda-Wiedenbrück • Advisory Board Chairman, Spheros GmbH, Stockdorf
Michael Fehn Managing Director, E.ON Czech Holding AG, Munich Supervisory Board Vice-Chairman	• Supervisory Board Chairman, E.ON Energie a.s., Czech Republic • Supervisory Board member, Jihomoravská plynárenská a.s., Czech Republic • Supervisory Board Chairman, Pražská plynárenská a.s., Czech Republic • Supervisory Board member, Pražská plynárenská Holding a.s., Czech Republic
Dr. Philipp Hasler Investment Director, SAM Sustainable Asset Management AG, Zurich Regular Supervisory Board member through February 22, 2007	No other positions held
Horst Kuschetzki Entrepreneur Regular Supervisory Board member since February 22, 2007, previously Substitute Supervisory Board member	• Advisory Board Chairman, PAS Management Holding GmbH, Neuruppin • Supervisory Board Chairman, nie wieder bohren ag, Hanau • Supervisory Board member, Edscha AG, Remscheid • Advisory Board member of Carcoustic International GmbH, Leverkusen • Supervisory Board Chairman, Karl Wiedemann Wachswarenfabrik GmbH, Deggendorf

All Supervisory Board members received appropriate annual compensation, the amount of which was set by shareholder resolution on April 6, 2006. Total Supervisory Board compensation for fiscal year 2007 came to kEUR 58 (2006: kEUR 67), consisting of fixed salary totalling kEUR 58 (2006: kEUR 58) and variable compensation of kEUR 0 (2006: kEUR 9).

Schwandorf, April 4, 2008

Management Board

Ulrich Schmack

Ulrich Schmack
Chief Executive Officer (CEO)

Dr. Alexander Götz
Chief Financial Officer (CFO)

RESPONSIBILITY STATEMENT

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

Schwandorf, April 4, 2008

Management Board

Ulrich Schmack
Chief Executive Officer (CEO)

Dr. Alexander Götz
Chief Financial Officer (CFO)

REPORT OF THE INDEPENDENT AUDITORS

We have audited the consolidated financial statements prepared by Schmack Biogas AG, Schwandorf – consisting of the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes – as well as the consolidated management report for the fiscal year from January 1, 2007 to December 31, 2007. The preparation and content of the consolidated financial statements and the consolidated management report in accordance with the International Financial Reporting Standards (IFRS) applicable in the EU and in accordance with the complementary requirements applicable under Section 315a para. 1 HGB (Handelsgesetzbuch – German Commercial Code) are the responsibility of the company's Management Board. Our task consists in making a judgement on the consolidated financial statements and the consolidated management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB (Handelsgesetzbuch – German Commercial Code) and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of German Certified Public Accountants). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable accounting standards and in the consolidated management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the consolidated management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the consolidated companies, the definition of the scope of consolidation, the accounting and consolidation principles used and significant estimates made by the company's Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the consolidated management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on our audit, the consolidated financial statements comply with the IFRS applicable in the EU and with the complementary requirements applicable under Section 315a para. 1 HGB (Handelsgesetzbuch – German Commercial Code) and, based on such compliance, give a true and fair view of the net assets, financial position and results of operations of the Group for the financial year. The consolidated management report is in accordance with the consolidated financial statements, gives a realistic view of the Group's position as well as of the future risks and opportunities.

Nuremberg, April 4, 2008

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Bömelburg
Certified Public Accountant

Morgenroth
Certified Public Accountant

Financial Calendar 2008

April 24, 2008	*Publication of Annual Report*
April 24, 2008	*Annual Press Conference*
May 28, 2008	*Publication of Q1 Report*
June 20, 2008	*Annual General Meeting*
August 27, 2008	*Publication of Q2 Report*
November 2008	*Analysts' Conference*
November 26, 2008	*Publication of Q3 Report*

Service & Contact

This Annual Report was compiled as of April 4, 2008 and was published in German and English on April 24, 2008.

The Annual report as well as further up-to-date information on **Schmack Biogas AG** are available on the Internet at **www.schmack-biogas.com**

Under this address, you may also subscribe to the newsletter from **Schmack Biogas AG**.

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