ANNUAL REPORT **2008**

ENERGY

WITH BIOGAS. TODAY. TOMORROW.

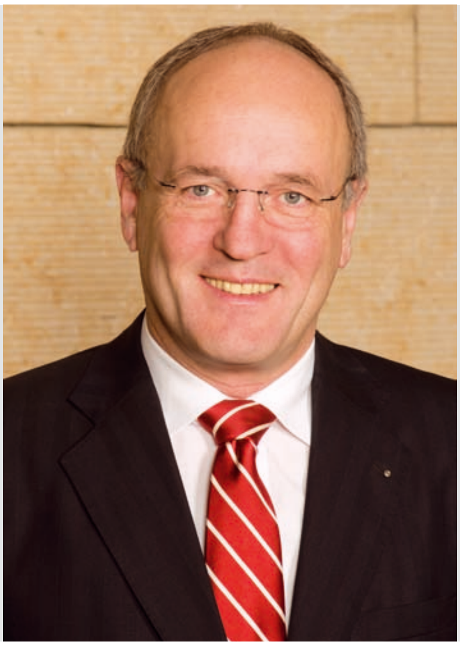
Schmack Biogas AG

THE SCHMACK GROUP AT A GLANCE

	2008 kEUR	2007 kEUR
EARNINGS POSITION		
Sales	67,616	135,167
Sales growth	-50.0%	50.2%
EBIT	-39,843	-9,620
Net income*	-33,804	-6,579
EBIT margin	-58.9%	-7.1%
Earnings per share (in EUR)	-5.76	-1.23
ASSET AND CAPITAL STRUCTURE		
Non-current assets	54,570	53,702
Current assets	38,531	74,113
Equity	35,484	64,508
Equity ratio	38.1%	50.5%
Non-current liabilities	23,651	28,168
Current liabilities	33,975	35,139
Total assets	93,110	127,815
CASH FLOW/INVESTMENTS		
Cash flow from operating activities	-9,709	-27,527
Cash flow from investing activities	2,121	-10,205
Free cash flow	-7,588	-37,732
Cash flow from financial activities	606	39,431
Cash balance	13,353	20,335
EMPLOYEES AT BALANCE SHEET DATE	452	522

* After income minority shareholders.

CONTENT



Werner Rüberg (CEO)

INTERVIEW WITH WERNER RÜBERG

Mr Rüberg, you were appointed CEO in mid-2008. When you took up office, did you expect Schmack Biogas AG to close the fiscal year 2008 with such a high loss?
I felt that it was at least a realistic risk. The market for biogas plants was collapsing because commodity prices were extremely high and many investors remained in wait-and-see mode ahead of the amendment of the Renewable Energies Act (EEG). Also, our initially positive expectations for the year 2008 were not least based on a framework agreement with Hg Renewable Power Partners for twelve biogas feed-in plants. It was not 100% sure, however, that this agreement would be put into practice, and when it was cancelled by mutual agreement in mid-2008, the worst case scenario came true.

What mistakes were made? What should have been tackled more aggressively, what should have been considered at an earlier stage?
Well, afterwards you always know better. Maybe costs should have been cut earlier and more aggressively. Given the extent of the crisis in the market as a whole, no set of measures would have led to a positive result for our business model in the short term – even less so once it was clear that the agreement with Hg Renewable Power Partners would be cancelled. Since then, negotiations have been underway with all renowned energy companies for the takeover of the gas feed-in plants we have developed. This has taken us one step closer to this important group of investors. We achieved the first success at the end of 2008, when two projects were sold to E.ON und RWE; further sales will follow in 2009.

"Biogas plants will be able to win a significant share of the renewable energies market only if they meet investors' profitability targets."

During your career as a CEO you have already helped other companies master difficult situations. What areas did you address at Schmack Biogas in 2008?
In similar turnaround situations, one thing has proven true every time – you cannot resolve problems for good with a one-dimensional approach that is exclusively targeted at the cost side. We have therefore launched a set of measures. First of all, the elimination of over 80 jobs reduces our fixed costs. The efficiency of our processes is another important issue. Schmack Biogas has grown significantly since 2005 and our organisational structures have become more complex as a result of the integration of subsidiaries that were taken over in 2007. The development and optimisation of gas feed-in plants, all of which today have a capacity of several megawatts, also present new challenges. The aim is to simplify, standardise and increase the efficiency of all company units and products. This process will gradually lead to higher profit contributions from each single project. But that does not work immediately.

Why did your competitors fare better last year?
They were more successful because they had lower fixed costs, which allowed them to respond more effectively to the shrinking market. As an integrated supplier, Schmack Biogas has a business model that covers the complete value chain of a biogas plant. Following intensive discussions, we have decided to retain this business model in spite of the cost pressure, as we are convinced that it will be successful in the long term. Our service operations, which comprise raw materials management, repair and maintenance, plant operation and biology, will be expanded because this is what our customers expect. Moreover, we have invested in an extensive research and development programme for many years. Just like the market slump in 2008 hit us especially hard, we will benefit especially from a growing market.

What makes this business model, which cost you so much money in 2008, so good and promising for 2009?
We control and optimise the complete process. Biogas plants will be able to win a significant share of the renewable energies market only if they meet investors' profitability targets. We must guarantee the availability of raw materials and therefore need functioning raw materials strategies. We must increase the throughput speed of the plants and therefore need microbiological expertise. And we must improve the energy yield from a given quantity of raw materials. Our business model is based on the interaction between these elements.

"Positive legal amendments have been adopted, raw materials prices have dropped sharply and last year's investment backlog should be eliminated. This could make us one of the few growth industries in the current year."

What is so important about, say, microbiological expertise?
The production of biogas is more complex than wind or solar energy, for instance. For the latter two, you need to build the best plants, install them – and then wait for wind or sun and feed the electricity generated into the grid at the prices specified in the Renewable Energies Act. Where biogas plants are concerned, however, the amount of gas generated depends not only on the technology but also on the microbiological process. Today, we convert about 70% of the energy contained in the natural resources and use it. You do not need a lot of imagination to understand how much more efficient a biogas plant would be if we could increase the energy yield to 80% or 85%.

What about the feeding of gas into the grid which you keep mentioning. Why is this so important?
Politicians aim to replace 6% of Germany's natural gas consumption with biogenous gas by the year 2020. This is equivalent to roughly 6 billion cubic metres. Between them, all biogas plants in Germany currently deliver just short of 100 million cubic metres. So you see the huge potential for growth. Feeding gas into the grid is therefore also the approach the energy utilities want to take. Our ability to produce large, complex plants with functioning feed-in technology therefore makes us a preferred partner. We thus hold the market leading position both with regard to the current market situation and the medium to long-term outlook.

How will the biogas market develop in 2009 with a view to the economic crisis?
We could experience an exceptional economic situation in the biogas industry in 2009. The reasons are plain to see – positive legal amendments have been adopted, raw materials prices have dropped sharply and last year's investment backlog should be eliminated. This could make us one of the few growth industries in the current year.

What risks will result from the financial and economic crisis?
It is no secret that the financial crisis is primarily making it difficult to raise debt capital. This applies to nearly all sectors and projects. The returns outlook in the biogas sector is very good, though, and this is where I see a major advantage for our company. The large energy companies are the most important investors for gas feed-in plants. While they are also cutting their budgets, I do not so much expect them to do it with regard to biogas. There is a risk, however, that financial investors will refrain from investing in this attractive market segment due to a lack of available debt capital.

You have just mentioned the improvement and optimisation of processes. What does that mean at the operational level?
This will be achieved through the standardisation of our plant technology and our processes and the professionalisation of our project management activities. Our operational structure still leaves much room for efficiency increases. All this helps save costs and improves our margins. Our construction sites, which require a great logistical effort, are now planned more precisely. More clearly defined specifications allow us, for instance, to better compare quotations from our suppliers. This leads to better purchasing terms and helps us avoid cost-intensive additional claims.

You certainly want to boost sales revenues as well. What are your levers here?
It will be most important for us to sell the gas feed-in projects that have already been developed. After all, a 6 MW gas feed-in project generates about EUR 12 to 13 million in sales. Moreover, the liquid manure bonus granted under the new Renewable Energies Act makes the agricultural sector interesting again, especially where small plants of about 150 to 350 kW are concerned.

As I said before, we will aggressively expand our service operations. Outside Germany, we will grow in Italy, in particular. Finally, we want to expand the components business of our subsidiaries – here, too, we expect to achieve strong sales growth. Incidentally, this will be reflected in improved earnings. Apart from the effects of the cost-cutting measures and the profit contributions resulting from the increase in sales, the negative one-time effects of the year 2008 will not recur in 2009.

What do you mean by components business?
In the past years, we acquired several companies to gain control over the major technological components of the biogas process. We want to exploit our subsidiaries' expertise not only through purchasing their products – we want them to sell their products and services in the market to earn more money than they did in 2008.

And what makes the international business so interesting?
Due to its cost structure, Schmack Biogas must expand its revenue base quickly. Italy has the best subsidisation policy along with Germany, which makes it possible to produce biogas under favourable economic conditions. We have done a lot of start-up work in the past two years and have a local subsidiary in Italy. The high orders on hand will lead to strong sales growth in 2009. We also expect our first projects in France and the UK this year.

And in other countries?
We assume that the legal framework that is needed to feed biogas into the grid will be in place in many European countries by the year 2011. This is required under the European Commission's Renewable Energies Directive. The market-leading companies in Germany will clearly benefit from this trend – just like the global development of solar power has led to a boom for German solar companies. The current economic crisis should not make us forget that issues such as energy supply, supply security and climate protection are long-term mega trends. They will have a strong impact on the coming decade and stay on the agenda for much longer than the current crisis. Against this background, I expect Schmack Biogas to generate a significant sales growth outside Germany in the next two to three years.

What are your plans for the Own Operations division in 2009?
The Own Operations division will remain an element of our long-term strategy. But as we must concentrate our resources in 2009, it will play no role this year.

Is that also a result of the capital increase at the end of last year? Shareholders' response was relatively low.
Prior to the announcement of the capital increase, we already secured the capital we needed to finance our business plan for 2009 from various investors and members of the Management Board. This was a precondition for the provision of additional debt capital and guaranteed credits. Looking at the past two years, I cannot blame shareholders for being cautious. Although we received a lot of positive feedback and clearly felt investors' interest, their message was "increase the capital first and prove that you can be profitable". We have done the former and are now working on the latter.

What are your longer-term prospects? Can you already provide an outlook for 2010?
No, I cannot provide a concrete outlook. With a view to our business model and our investments in technological leadership, I would like to emphasise that we think in long terms. We will first do our homework and meet our targets for 2009, which is what the capital market expects of us. This is how we want to regain investors' confidence. Thereafter, we will have to operate sustainably profitable and meet investors' return demands.

"The current economic crisis should not make us forget that issues such as energy supply, supply security and climate protection are long-term mega trends."

What makes the Schmack Biogas share attractive from your point of view?
We are currently a typical turnaround candidate. The value of our company seems to be discounted on the stock market which is reflected in the low share price. On the other hand, our company's prospects after the successful reorganisation have not been priced in yet. We simply have to deliver first. Personally, I believe in a successful future and have invested in Schmack Biogas shares.

Mr Rüberg, your current contract will end in 2011. Where do you want Schmack Biogas AG to stand by then?
I will fully concentrate on the targets I mentioned. If we fulfil our tasks effectively, we will again be the market leader in one of the most important and attractive sectors of the future. Every single one of us, our employees and the Management Board, are working hard to achieve this and I am proud to be part of this development.

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

During the past fiscal year 2008, the Supervisory Board complied with the tasks and duties defined by law, the Statutes, the Corporate Governance Code and the Code of Procedure and advised and regularly supervised the Management Board in the governance of Schmack Biogas AG. The Supervisory Board was involved directly and in good time in all decisions that were of fundamental importance for the company. Following thorough examination and consultation, the Supervisory Board voted on the reports and proposals for resolution submitted by the Management Board. The efficiency of the work of the Supervisory Board was reviewed in the context of regular self-assessments.

The Management Board informed the Supervisory Board regularly, without delay and comprehensively, both orally and in writing, about the situation of the Group, especially about the business and financial situation, investment and disinvestment projects as well as fundamental aspects of corporate planning and strategy. Deviations from the plans and targets were explained in detail by the Management Board. In addition, we paid special attention to the financing and liquidity position, the risk situation, risk management, compliance as well as important transactions and incidents. The contents and scope of the Management Board's reports fully complied with the requirements made by the Supervisory Board at all times. With a view to being able to support and advise the Management Board when-ever required, the Supervisory Board was regularly informed, also in between its meetings, about the current business situation and those events in the Group that were relevant to assess the situation and performance and to manage the company.

Focus of consultation

Due to the numerous issues to be decided, the Supervisory Board held seven ordinary meetings in fiscal 2008. All meetings were attended by all members of the Supervisory Board. Again, no committees were formed, as the Supervisory Board believes that it operates efficiently with three members. In the context of the consultations, the Supervisory Board regularly addressed the topics requiring approval, the sales and earnings performance, the financing and liquidity position, the investment and disinvestment plans, risk situation, risk management as well as corporate planning and strategy. The Supervisory Board was involved in all decisions of primary concern for Schmack Biogas AG. In fiscal 2008, the focus was on the following issues:

- Reports of the Management Board on the business development and the future corporate strategy
- Separate and consolidated financial statements for the fiscal year 2007

- Management Board report on transactions with related parties of the company's bodies and approval of these transactions by the Supervisory Board
- Management Board appointments
- Agenda for the Annual General Meeting on June 20, 2008
- Equity investment in Schmack Biogas S.r.l.
- Market trends, especially related to the Renewable Energies Act, commodity prices and gas feed-in projects
- Management Board reports on the financing and liquidity position of the Schmack Biogas Group
- Measures to restructure the Schmack Biogas Group
- Cash capital increase of Schmack Biogas AG
- Annual planning for fiscal 2009
- 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 2008

In addition, the Supervisory Board thoroughly examined the instruments and contractual agreements that may represent obstacles to the potential takeover of the company as defined in sec. 289 para. 4 and sec. 315 para. 4 of the German Commercial Code (HGB). For detailed information, please refer to page 41 of the consolidated management report.

Corporate Governance
The Supervisory Board regularly addresses issues relating to the compliance with corporate governance rules. Implementation of the German Corporate Governance Code as amended on June 6, 2008 was discussed thoroughly with the Management Board. Following joint consultation, the Management Board and the Supervisory Board issued a new Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) on November 14, 2008, which is permanently made available on the company's website. For more detailed information on corporate governance at Schmack Biogas AG, please refer to the corporate governance report of the Management Board and the Supervisory Board from page 14 of this Annual Report.

Annual audit
The consolidated financial statements and the consolidated management report were prepared in accordance with International Financial Reporting Standards (IFRS), while the separate financial statements and the management report of Schmack Biogas AG were established in accordance

with the German Commercial Code (HGB). Based on the resolution of the Annual General Meeting of June 20, 2008, the Supervisory Board appointed Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg, as auditors for Schmack Biogas AG and the Group. Before the proposal to appoint Rödl & Partner was submitted to the Annual General Meeting, Rödl & Partner had issued a written declaration to the Chairman of the Supervisory Board, in which they stated that no circumstances existed that might affect their independence as auditors. Rödl & Partner thoroughly reviewed the accounts as well as the separate and consolidated financial statements, the separate and consolidated management reports as well as the risk management system and issued unqualified audit opinions. The auditors also reviewed the related party disclosures, for which they issued the following unqualified audit opinion:

"Following our dutiful audit and examination, we confirm that

1. the actual information in the report is correct,

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

All documents relating to the annual accounts, including the audit reports of the auditors, were made available to all members of the Supervisory Board in a timely manner. The annual results meeting on April 3, 2009, was attended by the auditors from Rödl & Partner, who reported in detail on their audit and the audit results. Our own thorough review of the separate and consolidated financial statements, the separate and the consolidated management report and the third party disclosures led to no objections. The Supervisory Board therefore endorsed the results of the audit as well as the separate and consolidated financial statements and the separate and the consolidated management report. The financial statements of Schmack Biogas AG have thus been approved.

Changes on the Supervisory Board
Supervisory Board member Horst Kuschetzki will resign from office with effect from April 15, 2009. To ensure that the Supervisory Board has a quorum, the Management Board has filed an application for appointment of a Supervisory Board member with the responsible court pursuant to section 104 of the German Stock Corporation Act (AktG).

Changes on the Management Board

With effect from June 1, 2008, the Supervisory Board appointed Mr Werner Rüberg as the new Chairman of the Management Board of Schmack Biogas AG. In addition to chairing the Board, Mr Rüberg is in charge of Finance. Mr Joachim Schlichtig, who is in charge of Plant Construction, Technology, Development as well as Service, and Mr Otto R. Eichhorn, who is responsible for national and international marketing in his capacity as Chief Sales Officer, were appointed to the Management Board with effect from the same date. Mr Ulrich Schmack assumed the position of Vice Chairman, focusing on raw materials, biology and research as well as strategic corporate development together with Mr Rüberg. The Management Board now consists of four members.

Dr. Karl Reinhard Kolmsee asked the Supervisory Board to be released from office with effect from February 29, 2008 due to fundamental differences of opinion about the future strategic positioning of the company. The Supervisory Board thanks Dr. Karl Reinhard Kolmsee for his services to the Schmack Biogas Group.

Dr. Alexander Götz, CFO of Schmack Biogas AG since October 2006, left the company for personal reasons with effect from May 31, 2008. The Supervisory Board would like to thank him for the great commitment shown in the past years.

The Supervisory Board thanks the members of the Management Board as well as all employees for their work in the fiscal year 2008.

Schwandorf, April 3, 2009

W. Gnauert

The Supervisory Board
Walter Gnauert
Chairman

CORPORATE GOVERNANCE REPORT

Schmack Biogas AG believes in basing its activities on responsible corporate governance and corporate control geared to the creation of sustainable value. It is the company's declared objective to maintain and foster the confidence placed in the company's activities by its shareholders, business partners, employees and the general public. This objective is in line with the objectives of best practice in corporate governance.

The company complies with most of the recommendations of the German Corporate Governance Code as amended on June 6, 2008. Deviations exist only in a few isolated cases and are justified by the size, structure and specific conditions of the company. With a few exceptions, Schmack Biogas AG also complies with the non-mandatory suggestions of the German Corporate Governance Code. The Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) was issued jointly by the Management Board and the Supervisory Board on November 14, 2008 and is publicly and permanently accessible at www.schmack-biogas.com. It can also be found from page 20 of this report.

Shareholders and Annual General Meeting

The shareholders of Schmack Biogas AG exercise their rights at the Annual General Meeting, which is usually held once a year. In particular, they decide on the appropriation of profit, the discharge of the acts of the Management Board and the Supervisory Board, the election of the Supervisory Board members, the appointment of the auditors and amendments to the Statutes. Each share carries one vote in the resolutions. Each shareholder is entitled to participate in the General Meeting, to take the floor on matters on the agenda and to submit materially relevant questions and proposals. Shareholders may exercise their voting rights without attending the Annual General Meeting in person by granting power of attorney to a proxy. The invitation to the Annual General Meeting as well as the reports and documents required for the votings are published on the company's website to inform shareholders in a timely and comprehensive manner prior to the Annual General Meeting.

Schmack Biogas AG deliberately refrains from sending notification of the convening of the General Meeting together with the convention documents to all domestic and foreign financial services providers, shareholders and shareholders' associations by electronic means. The company thus fails to comply with the recommendations in Clause 2.3.2 of the German Corporate Governance Code, although the requirements are fulfilled through the approval granted by the Annual General Meeting on June 22, 2007. In view of the current number of shareholders and the shareholder structure, the organisational and financial effort required to meet the requirements of Section 30b para. 3 No. 1 of the German Securities Trading Act (WpHG) would be much higher than the benefit for the company and its shareholders.

Cooperation between Management Board and Supervisory Board
In the spirit of close and trusting cooperation, the Management Board informs the Supervisory Board regularly, promptly and comprehensively about the business situation, the company's strategy and planning as well as the risk situation and risk management. For this purpose, both bodies regularly exchange information about the company's affairs also outside the Supervisory Board meetings. For details of the cooperation between the Management Board and the Supervisory Board, please refer to the Report of the Supervisory Board on pages 10 to 13.

Management Board
The Management Board of Schmack Biogas AG is responsible for independently managing the company. In doing so, it is obliged to act primarily in the enterprise's best interests and is committed to increasing the sustainable value of the enterprise. The Management Board develops the corporate strategy, coordinates it with the Supervisory Board and ensures its implementation.

Since June 1, 2008, the Management Board of Schmack Biogas AG has comprised four members. Mr Werner Rüberg was appointed the new Chairman of the Board, who is also responsible for Finance. Joachim Schlichtig, responsible for Plant Construction, Technology, Development, Service, and Otto R. Eichhorn, Chief Sales Officer in charge of national and international marketing, were appointed to the Management Board with effect from the same date. Mr Ulrich Schmack assumed the position of Vice Chairman and focuses on raw materials, biology and research as well as strategic corporate development together with Mr Rüberg.

Dr. Karl Reinhard Kolmsee asked the Supervisory Board to be released from office with effect from February 29, 2008 due to fundamental differences of opinion about the future strategic positioning of the company.

Dr. Alexander Götz, CFO of Schmack Biogas AG since October 2006, left the company for personal reasons.

No conflicts of interest that needed to be disclosed to the Supervisory Board occurred on the Management Board in fiscal 2008. No member of the Management Board has a supervisory board mandate.

Supervisory Board
The Supervisory Board supervises and advises the Management Board in managing the company in accordance with the German Stock Corporation Act, the Statutes and the Code of Procedure. It appoints the members of the Management Board and must approve important transactions of the Management Board. The Supervisory Board is composed of three members. These are Mr Walter Gnauert, Chairman, Mr Michael Fehn, Vice Chairman, and Mr Horst Kuschetzki.

Mr Horst Kuschetzki will resign from office with effect from April 15, 2009. To ensure that the Supervisory Board has a quorum, the Management Board has filed an application for appointment of a Supervisory Board member with the responsible court pursuant to section 104 of the German Stock Corporation Act (AktG).

The Supervisory Board is of the opinion that it has a sufficient number of independent members who do not maintain any professional or personal relationships with the company or its Management Board and can therefore guarantee objectivity in advising and supervising the Management Board. For a full list of all supervisory board and similar mandates, please refer to page 107.

In view of its size, the Supervisory Board still refrains from forming an Audit Committee or a Nomination Committee pursuant to Clause 5.3 of the German Corporate Governance Code. The members of the Supervisory Board examine the efficiency of their work through regular self-assessments, the results of which are implemented immediately in order to optimise the work. In fiscal 2008, no conflicts of interest were reported to the Supervisory Board by members of the Management Board or the Supervisory Board. Details of the work and the decisions of the Supervisory Board during the fiscal year are described in the report to the Annual General Meeting.

Compensation report for the Management Board and the Supervisory Board

The Management Board compensation 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. Other criteria for the individual determination and appropriateness of the fixed and variable compensation of the Management Board include, in particular, 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 a 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 salary trend in the Group, as well as the changes in 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 generally based on the result of the past fiscal year. Components with a long-term incentive effect are reflected in the form of a Matching Stock Programme (MSP).

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

In fiscal 2008, the total compensation of the members of the Management Board amounted to kEUR 1,659 (previous year: kEUR 903), of which kEUR 1,135 (previous year: kEUR 770) referred to non-performance-linked components, while kEUR 450 (previous year: kEUR 0) represented benefits paid due to the termination of a contract. An amount of kEUR 100 (previous year: kEUR 0) has been recognised for the variable compensation of the Management Board. As a result of the resignation of Management Board members, expenses for components with a long-term incentive effect amounted to kEUR -26 in fiscal 2008 (previous year: kEUR 133).

As of the balance sheet date, Schmack Biogas AG had a stock option programme in the form of a so-called Matching Stock Programme (MSP). 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 85 et seq. and in the group management report on page 41.

The compensation of 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 individualised compensation figures in accordance with a resolution passed by the Annual General Meeting. Second, in deviation from the Code, the deputy chairmanship is not reflected in the compensation structure.

The total compensation of the Supervisory Board in the fiscal year 2008 of kEUR 45 (previous year: kEUR 58) is composed of a fixed compensation of kEUR 45 (previous year: kEUR 58) as well as a variable compensation of kEUR 0 (previous year: kEUR 0).

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 or the Supervisory Board in the reporting year.

Transparency
Schmack Biogas constantly communicates with its shareholders, analysts, the media as well as the interested public to keep them informed about the current business situation. All relevant information such as annual and quarterly reports and press and ad-hoc releases are published on the company's website in German and English. Seven ad-hoc releases pursuant to Section 15 of the Securities Trading Act (WpHG) and 15 notifications on changes in voting rights pursuant to Section 25 and Section 26 of the Securities Trading Act (WpHG) were published in fiscal 2008 and are permanently available on the company's website.

The following directors' dealings pursuant to Section 15a of the German Securities Trading Act (WpHG) were also published in fiscal 2008:

DIRECTORS' DEALINGS 2008

Date of Publication	Name	Date Place	Function	Transaction type	Quantity	Price in EUR	Total amount in EUR
08/26/2008	Horst Kuschetzki	08/21/2008 Xetra	Administrative or supervisory body	Purchase	10,000	10.60	106,000.00
08/29/2008	Werner Rüberg	08/28/2008 Xetra	Executive body	Purchase	3,000	10.45*	31,348.97
09/01/2008**	Werner Rüberg	08/26/2008 Xetra	Executive body	Purchase	3,000	10.45*	31,348.97
09/26/2008	Werner Rüberg	09/24/2008 Xetra	Executive body	Purchase	3,000	8.592547	25,777.64
09/29/2008	Michael Fehn	09/25/2008 off market	Administrative or supervisory body	Purchase	10,000	8.325	83,250.00
09/29/2008	Otto R. Eichhorn	09/26/2008 Munich	Executive body	Purchase	6,000	8.17825	49,069.50
09/30/2008	Werner Rüberg	09/29/2008 Xetra	Executive body	Purchase	4,000	7.524705	30,098.82
10/07/2008	Werner Rüberg	10/01/2008 Xetra	Executive body	Purchase	10,000	6.283177	62,831.77
12/19/2008	Werner Rüberg	12/17/2008 off market	Executive body	Purchase	8,000	3.07	24,560.00
12/19/2008	Ulrich Schmack	12/18/2008 off market	Executive body	Purchase	81,433	3.07	249,999.31

* Rounded to two digits after the decimal point.
** Correction of the notification from August 28, 2008.

Shares held by members of the Management Board and the Supervisory Board
As of March 31, 2009 the Management Board and the Supervisory Board held the following registered shares:

	Number of Registered Shares
Management Board	
Werner Rüberg	79,433
Ulrich Schmack	482,866
Joachim Schlichtig	16,287
Otto R. Eichhorn	22,287
	600,873
Supervisory Board	
Walter Gnauert	1,500
Michael Fehn	10,000
Horst Kuschetzki	14,838
	26,338
Total amount	**627,211**

This means that the Management Board and the Supervisory Board held a total of 627,211 shares as of March 31, 2009, which represented 7.8% of the 8,044,601 shares outstanding as of this date.

Accounting and Annual Audit

The consolidated financial statements and the quarterly reports of Schmack Biogas AG are prepared in accordance with International Financial Reporting Standards (IFRS). The financial reports are published within the deadlines of the stock exchange rules and regulations for the Prime Standard segment. The separate financial statements of Schmack Biogas AG continue to be based on the regulations of the German Commercial Code (HGB).

The Annual General Meeting of June 20, 2008, elected Rödl & Partner GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Nuremberg, auditors of the separate and the consolidated financial statements. Prior to submitting the proposal for election to the Annual General Meeting, the Supervisory Board checked the auditors for independence and asked them to submit a statement on their personal and business relations with the company. The auditors were commissioned by the Supervisory Board to carry out the audit.

In addition to the audit of the separate and consolidated financial statements, all quarterly reports of Schmack Biogas AG are reviewed by Rödl & Partner GmbH.

Declaration by the Management Board and the Supervisory Board of Schmack Biogas AG regarding the recommendations of the Government Commission on the German Corporate Governance Code as amended on June 6, 2008 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 the 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 or will not be applied (Declaration of Conformity). The Declaration shall be made permanently available to the shareholders.

The Management Board and the 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 the Supervisory Board of Schmack Biogas AG also intend to comply with these recommendations and proposals in future.

For the period between November 2007 and June 6, 2008, the subsequent Declaration refers to the Code as last amended on June 14, 2007. For the period since June 7, 2008, the Declaration refers to the requirements of the Code as amended on June 6, 2008.

The Management Board and the Supervisory Board of Schmack Biogas AG declare:
Schmack Biogas AG complied with and continues to comply 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 sending notification of the convening of the General Meeting together with the convention documents to all domestic and foreign financial services providers, shareholders and shareholders' associations by electronic means if the approval requirements are fulfilled. Schmack Biogas AG currently refrains from such electronic notification although the amended Statutes (based on the resolution of the Annual General Meeting on June 22, 2007) allows for electronic transmission in accordance with the requirements of Section 30b para. 3 No. 1 of the Securities Trading Act (WpHG). In view of the current number of shareholders and the shareholder structure, the organisational and financial effort required to meet the requirements of Section 30b para. 3 No. 1 of the German Securities Trading Act (WpHG) would be much higher than the benefit for the company and its shareholders that would result from compliance with this recommendation.

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 2008, given that the shareholders of Schmack Biogas AG decided against an individualised presentation of the Management Board compensation at the Annual General Meeting on April 6, 2006 in line with Section 286 para. 5 of the German Commercial Code (HGB).

   The compensation of the Management Board and the Supervisory Board for the fiscal year 2008 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, who proposes suitable candidates to the Supervisory Board for recommendation to the Annual General Meeting. As the Supervisory Board of Schmack Biogas AG consists of only of three members, neither an Audit Committee nor a Nomination Committee nor any other committee will be formed. Schmack Biogas AG is of the opinion that in the case of a Supervisory Board consisting of three members 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 determining the compensation of the members of the Supervisory Board. Schmack Biogas AG only takes the chairmanship in the Supervisory Board into consideration in determining the 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 of the end of the fiscal year and that the interim reports be publicly accessible within 45 days of the end of the reporting periods. In deviation from these recommendations, Schmack Biogas AG will make neither the consolidated financial statements publicly accessible within 90 days of the end of the fiscal year nor the interim reports publicly accessible within 45 days 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 voluntarily complies, with a few exceptions, with the non-obligatory suggestions of the German Corporate Governance Code.

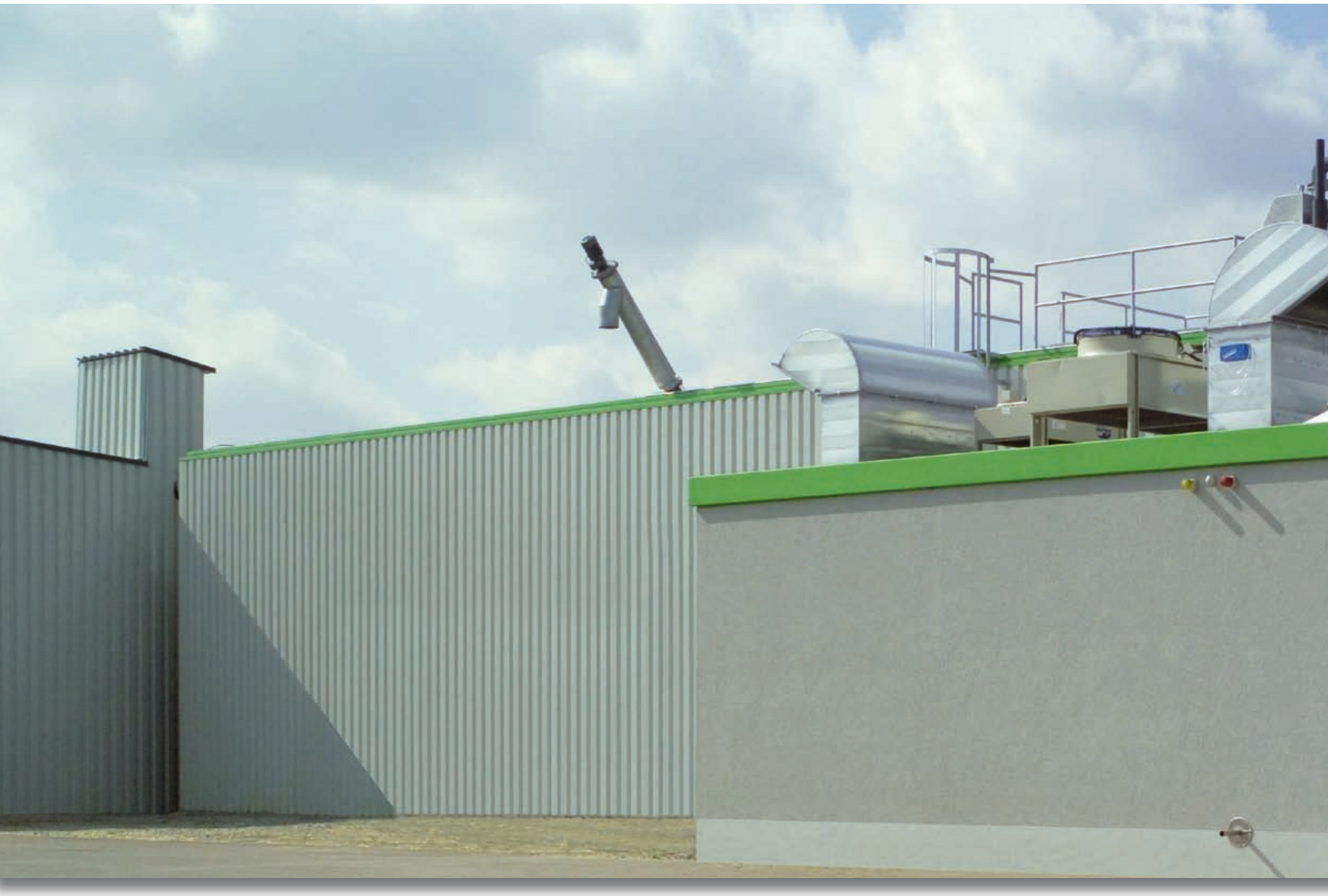
Schwandorf, November 14, 2008

Schmack Biogas AG

On behalf of the Management Board	On behalf of the Supervisory Board
Werner Rüberg	Walter Gnauert

CONSOLIDATED MANAGEMENT REPORT

SCHMACK BIOGAS AG, SCHWANDORF



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1. BUSINESS AND GENERAL CONDITIONS

1.1 Activity and business segments

Schmack Biogas is a full-service provider of biogas plants. The company's customer groups include energy utilities, investors, farmers and industrial corporations.

The main business segments of Schmack Biogas are:

1. Planning and Construction of biogas plants
2. Service
3. Own Operations

The planning and the construction of a biogas plant comprises securing the site, obtaining the right to build and the building permit, securing the raw materials and the turnkey construction of the plant including the connection to the electricity or gas grid.

Service comprises raw materials management, full-service repair and maintenance agreements, plant operation and management, monitoring of the plants by a computer-based central control system as well as biological laboratory services.

Schmack Biogas operates its own biogas plants, markets either the biomethane or the electricity generated under the Renewable Energies Act (EEG) and sells the heat produced to consumers in the vicinities of the plants. At present, the company does not focus on expanding the Own Operations segment.

1.2 Strategy
Market strategy

Energy utilities and investors remain the primary target group for the marketing of biogas feed-in plants. For these customer groups it is important that Schmack Biogas is a full-service provider capable of providing project site development services as well as the complete planning, construction and operation process from a single source.

As a result of the amendment of the Renewable Energies Act (EEG), farmers are clearly regaining importance as a customer group. Schmack Biogas has longstanding experience as well as a competitive standardised product portfolio in this market segment.

The company aggressively develops the market for biogas plant components. Apart from the expansion of their components business to third parties, the respective subsidiaries supply the plant components for the projects marketed by Schmack Biogas.

In fiscal 2009, Schmack Biogas will generate the major portion of its sales revenues in Germany. The company's foreign activities focus on Italy, where Schmack Biogas has its own subsidiary. Italy has a similarly attractive legal framework for the subsidisation of biogas as Germany. In addition, France, the UK and selected Eastern European markets will be developed at project level.

Technology strategy

Schmack Biogas is a leader in turnkey plant construction and microbiology. Together with its subsidiaries, the company covers all the main technological components of a biogas plant. The primary objective of the technology strategy is to improve the process efficiency – and hence the economic efficiency – of a biogas plant as an integrated system. Among the key success factors are the ongoing development of the gas refinement and gas feed-in technology (CarboTech Engineering GmbH), the cogeneration unit technology (Köhler & Ziegler Anlagentechnik GmbH), the engineering expertise for the construction of fermentation residue processing plants and the further standardisation of large-scale plants.

Schmack Biogas has over twelve years of R&D experience in the field of microbiology. The company aims to achieve more stable fermentation processes, higher gas yields from the raw materials used and, hence, increased efficiency of the biogas plants. The in-house microbiological research centre will be expanded.

1.3 Legal Group structure

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

To implement its business model successfully, Schmack Biogas has invested in several companies.

1. Investments in domestic companies that have great expertise in the key technologies of the biogas production process:
   These include CarboTech Engineering GmbH (biogas refinement and feed-in technology), Stelzenberger Biogas GmbH (stirring devices for fermenters, feeding equipment), Köhler & Ziegler Anlagentechnik GmbH (cogeneration units, Organic Rankine Cycle (ORC)) and Hese Biogas GmbH, whose core competency is the construction of cofermentation plants that operate with organic residual materials and waste as well as liquid manure and sludges.

2. Foreign investments:
   In view of the importance of the Italian market, Schmack Biogas S.r.l. was established in 2006. The company has all organisational units that are necessary to develop the Italian market autonomously. The investment was increased to 100% in 2008. Schmack BioEnergy LLC was established to prepare entry in the US market. As at the balance sheet date, Schmack Biogas held 25.4% of the company.

3. Joint ventures with energy utilities and investors:
   If requested by customers, Schmack Biogas temporarily participates in biogas feed-in projects. The shares held by Schmack are usually acquired by the customer after two to three years.

For a complete list of the company's subsidiaries and investments, please refer to point A. (2) Recognition and Measurement Principles (Basis of Consolidation) in the notes to the consolidated financial statements.

1.4 Management and control

The Schmack Biogas Group is led by the Management Board, which consisted of four persons as of December 31, 2008. It is controlled and monitored by the Supervisory Board which has three members.

1.5 Products and services

1. Planning and Construction of biogas plants

Schmack Biogas is a full-service provider for the marketing of biogas plants.

Project development

- Search for suitable sites
- Preparation and obtaining of approval
- Securing the site
- Clarification of gas grid access/grid connection contract
- Obtaining of soil appraisals
- Obtaining of resolutions from the responsible authorities
- Handling of zoning plan procedures
- Initial sourcing of raw materials

Construction

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

Start-up

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

Supply of components to third parties

- Biogas refinement plants
- Cogeneration units
- Stirring equipment
- Controlled feeding equipment

2. Service

Services are of prime importance for the efficient operation of a biogas plant. Schmack Biogas provides a comprehensive range of services:

Biological service

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

Technical services

- Technical inspections
- Servicing
- Maintenance
- Fault management

Plant management

- Raw materials procurement and harvest logistics
- Operation of the plant by Schmack Biogas
- 24-hour remote monitoring

3. Own operations

- Generation of biogas in own plants
- Marketing of electricity and heat or purified biogas

1.6 Competitive position

Schmack Biogas is a leading company of the biogas sector and is a highly vertically integrated player. This allows the company to develop and swiftly implement integrated technological innovations with a view to increasing the efficiency of the biogas production process.

Although the German biogas market has shrunk noticeably in the past two years, the number of biogas plant suppliers is still very high, especially in the agricultural market for small plants. Thanks to over ten years of experience, Schmack Biogas has an excellent position in this market segment.

Besides the agricultural market, the segment of the technologically more sophisticated gas feed-in plants will grow markedly. Building on its business model of an integrated biogas company, Schmack Biogas has demonstrated its expertise in this segment, in which it has a leading position.

1.7 Regulatory environment

The regulatory environment in Germany is primarily characterised by the Gas Grid Access Regulation (GasNZV), the Renewable Energies Act (EEG), the Renewable Energies Heat Act (EEWärmeG) and the planned Biofuel Quota Act (BioKraftQuG).

The new Gas Grid Access Regulation obliges grid operators to feed in and pass through the gas produced in biogas plants. Moreover, the distribution of investment and operating expenses has been amended to the advantage of investors in biogas plants.

The amendment of the Renewable Energies Act has improved the remuneration for the feeding of electricity from biogas into the grid, thus eliminating a major investment obstacle. In particular, small agricultural plants operated with a minimum percentage of liquid manure now benefit from a special bonus. Also, efficient heat usage concepts will benefit more strongly in future (CHP bonus).

The Renewable Energies Heat Act provides for 14% of the heat in Germany to be generated from renewable sources by the year 2020. A certain percentage of the heat supply in new buildings must come from renewable energy sources. All types of renewable energies may be used, also in combination, which means that heat from biogas-operated cogeneration units may be used as well.

The new Biofuel Quota Act, which is still in the legislative process, will probably oblige the oil industry to use a growing minimum share of biofuels. Apart from biodiesel, bioethanol and vegetable oil, bio-natural gas will probably also count as biofuel.

2. BUSINESS DEVELOPMENT IN 2008

2.1 Macroeconomic development in 2008

The international financial crisis led to a slowdown in economic growth especially in the second half of 2008. According to information presented by the Kiel Institute for the Word Economy (IfW) in March 2009, the global gross domestic product (GDP) expanded by only 3.3% in 2008. The euro-zone achieved a growth rate of 0.7%, which is below the US rate of 1.1%.

The German economy expanded much more slowly than in the previous two years. According to initial calculations by the Federal Statistical Office (Destatis), GDP increased by 1.3% in 2008, compared to 2.5% and 3.0% in 2007 and 2006, respectively. Unlike the previous year, 2008 saw imports (+5.2%) grow more strongly than exports (+3.9%). The number of people in employment rose by 1.5% in 2008. This failed to have a positive effect on consumer spending, however, as the cost of living rose and consumer households increased their savings in light of the economic and financial crisis.

Just like the world economy, the euro-zone economy suffered a sharp slowdown in growth in 2008, with GDP growing by 0.7% according to eurostat.

2.2 Market and industry development in 2008

The market environment for the biogas sector remained extremely difficult in 2008. The main reasons were the wait-and-see attitude adopted by investors in anticipation of the amendments to the legal framework and the continued high agricultural commodity prices. According to the German Biogas Association, investments in the construction of biogas plants declined by almost 50% from EUR 1 billion in 2006 to roughly EUR 500 million.

2.3 Business development of the Schmack Biogas Group in 2008

Against the background of the market development described above, 2008 was a disappointing fiscal year for Schmack Biogas. Apart from external factors, the delay in the realisation of over ten gas feed-in projects for one investor had an adverse impact. In mid-2008, the framework agreement with this investor was terminated prematurely by mutual agreement to allow the projects to be offered to other interested parties. Sales declined from EUR 135.2 million in 2007 to EUR 67.6 million in 2008.

Accounting for roughly 75% of total sales, Germany remained the most important market. Sales in an amount of EUR 17.1 million (2007: EUR 8.1 million) were generated outside Germany, mainly in Italy. Foreign sales thus represented approx. 25% of total sales.

The Planning and Construction division contributed more than 90% to total sales. 21 new plants were built in the reporting period. Since its foundation, Schmack Biogas has connected plants with an electrical output of approx. 90 MW to the grid.

An important milestone was reached in the young market segment for gas feed-in plants. In mid-2008, the 10 MW biogas feed-in plant in Schwandorf – then the largest plant of its kind in Europe – was inaugurated. Built by Schmack Biogas in cooperation with E.ON Bioerdgas GmbH and E.ON Bayern AG, the plant generates approx. 16 million cubic metres of biogas per year, which is sufficient to cover the energy requirements of some 5,000 households.

At the end of September, Hese Biogas GmbH, a Schmack subsidiary, signed a framework agreement for the construction of several biogas feed-in plants with RWE Innogy GmbH. The order for the first 6.5 MW plant has already been placed; it will likely feed biomethane into the gas grid from summer 2009.

2.4 Comparison of the actual and the projected business development

Following a difficult first half-year, the Schmack Biogas Group originally expected a more positive trend in the second half of 2008. No concrete sales and EBIT targets were defined. The upward trend anticipated for the second half of the year failed to materialise. This was due to the long uncertainty about the amendment of the Renewable Energies Act and the commodity price rally, which lasted till mid-year. Against this background, Group sales of approx. EUR 75 million and EBIT of approx. EUR -40 million were projected for the full year in November. While the company met its earnings projections, sales came in at EUR 67.6 million.

2.5 Acquisitions and investments in the fiscal year 2008

In February 2008, the interest of Schmack Biogas AG, Schwandorf, in Stelzenberger Biogas GmbH, Kirchweidach, increased by 0.66% to 79.96% after a financial investor exercised a put option. The purchase price was kEUR 200. The remaining shares of 20.4% were transferred to Schmack Biogas AG by the remaining old shareholders with effect from June 30, 2008 at a token price.

At the beginning of October, the investment in the Italian subsidiary, Schmack Biogas S.r.l., was increased from 66% to 100%. The purchase price for the remaining 34% was kEUR 1,154.

Other changes occurred with regard to the joint ventures and the at-equity investments, which are negligible in relation to total assets. A detailed description of all equity investments is provided in the notes to the consolidated financial statements under point A. (4) Basis of consolidation and changes in the basis of consolidation.

3. THE SHARE

3.1 Share price performance

The share opened the year 2008 at EUR 27.90 (Xetra) and closed it at EUR 3.34. At -88.0%, the share clearly underperformed the Renewable Energies Index, which lost only 67.2%.

3.2 Market capitalisation

The market capitalisation amounted to approximately EUR 20.0 million at the end of the year. The free float, as defined by Deutsche Börse AG, was 87.1% as of December 31, 2008. The free float thus had a market capitalisation of EUR 17.4 million.

3.3 Liquidity

In fiscal 2008, Schmack Biogas shares in a total amount of approx. EUR 156 million were traded at all German stock exchanges. Accounting for roughly 83% of the total trading volume, the electronic Xetra trading system was the most important exchange for the shares of Schmack Biogas AG. In the fiscal year 2008, a total of 11.7 million shares were traded on Xetra. This is equivalent to an average trading volume of 46,151 shares per day, compared to 65,820 shares in the previous year.

3.4 Shareholder structure

3.4.1 Shareholder structure as at the balance sheet date

At 7.6%, (including shares counted pursuant to section 22 para. 1 sentence 1 No. 1 of the German Securities Trading Act (WpHG)) Emerald Technology Ventures AG was the largest shareholder, followed by company founder Ulrich Schmack, who held 5.3%.

3.4.2 Shareholder structure after the capital increase

Following the rights issue in December 2008 and the entry of the new shares in the Commercial Register on January 26, 2009, Emerald Technology Ventures AG holds 18.8%, Schmack BioEnergy LLC holds 6.1% and Ulrich Schmack holds 6.0% of the Schmack Biogas shares. The free float, as defined by Deutsche Börse AG, now stands at 69.1%.

4. EARNINGS POSITION

4.1 Sales performance
In the past fiscal year, the Schmack Biogas Group generated sales of EUR 67.6 million, which was clearly below the previous year's EUR 135.2 million. A breakdown by regions shows that Germany remained the main output market. At EUR 17.1 million, foreign sales accounted for 25.3% of the Group's total sales in the fiscal year (2007: EUR 8.1 million or 6.0%).

4.2 Earnings performance
The earnings situation was affected by unexpectedly weak sales in the fiscal year 2008, which contrasted with continued high fixed costs. Apart from the decline in profit contribution resulting from the lower sales revenues, the company had to cope with special and non-recurrent effects from the cancellation of the framework agreement with Hg Renewable Power Partners and with expenses for extensive restructuring measures.

Gross profit dropped from EUR 9.5 million in the previous year to EUR -14.9 million in 2008. Accordingly, the gross profit margin declined from 7.0% to -22.0%.

Earnings before interest and taxes (EBIT) amounted to EUR -39.8 million in fiscal 2008, after EUR -9.6 million in the previous year. Besides the much lower gross profit, this also reflects the sharp rise in other operating expenses from EUR 1.5 million to EUR 11.6 million. The largest single expense item included in this amount is the reversal of EUR 8.0 million in income from the development of project sites, which had been recognised in profit and loss in the previous year under the agreement with Hg Renewable Power Partners.

Consolidated earnings after taxes before minority interests amounted to EUR -34.4 million, compared to EUR -7.4 million in the previous year.

4.3 Order situation

Incoming orders rose sharply in the fourth quarter, leading to orders on hand of EUR 144.7 million as of December 31, 2008, which exceeded the previous year's EUR 115.9 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 %)

	2008	2007
Sales revenues	100	100
Cost of sales	-122.0	-93.0
Distribution costs	-8.6	-5.0
General administrative expenses	-12.1	-7.3
Research and development costs	-3.0	-1.5

The cost of sales as a percentage of sales increased from 93.0% in 2007 to 122.0% in 2008. In this context, it should be noted that the cost of sales comprises certain fixed costs, which means that the decline in the cost of sales is not proportionate with the reduced sales.

Distribution costs amounted to EUR 5.8 million, compared to EUR 6.8 million in the previous year. Due to the disproportionate decline in sales, distribution costs as a percentage of sales climbed from 5.0% to 8.6%.

General administrative expenses were reduced from EUR 9.8 million in 2007 to EUR 8.2 million in the year under review. As a result of the disproportionate decline in sales, administrative expenses as a percentage of sales increased from 7.3% to 12.1%, however.

At EUR 2.0 million, research and development expenses remained unchanged from the previous year.

4.5 Earnings figures

The table below shows the key earnings figures of the Schmack Biogas Group for the fiscal years 2007 and 2008.

	2008		2007	
	in EUR million	in % of sales	in EUR million	in % of sales
Sales	67.6	100.0	135.2	100.0
Gross profit on sales	-14.9	-22.0	9.5	7.0
Operating income	-39.6	-58.6	-9.3	-6.9
EBIT	-39.8	-58.9	-9.6	-7.1
Pre-tax income	-42.8	-63.3	-10.5	-7.8
Net income	-34.4	-50.8	-7.4	-5.5
Result imputable to equity holders	-33.8	-50.0	-6.6	-4.9
Earnings per share in EUR as at December 31	-5.76		-1.23	

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 %)

	2008	2007
Equity capital	38.1	50.5
Non-current liabilities	25.4	22.0
Current liabilities	36.5	27.5
Total assets	**100**	**100**

Total assets of the Schmack Biogas Group declined from EUR 127.8 million on December 31, 2007 to EUR 93.1 million on December 31, 2008.

Group equity declined from EUR 64.5 million on December 31, 2007 to EUR 35.5 million on the 2008 balance sheet date. The equity ratio decreased from 50.5% in 2007 to 38.1% in 2008. Total assets are financed by non-current debt in an amount of approx. EUR 24 million (25.4%) and current liabilities of approx. EUR 34 million (36.5%).

5.3 Other financial obligations
Other financial obligations are described in point D. (38) Contingent Liabilities and Other Financial Obligations in the notes to the consolidated financial statements.

5.4 Investment analysis
Investments in intangible assets and property, plant and equipment were reduced significantly due to the decline in earnings. In addition, investments and plants of the Own Operations division were sold, resulting in a cash inflow of EUR 2.1 million, compared to a cash outflow of EUR -10.2 million in 2007. Cash flow from investing activities was primarily influenced by the sale of the investment in Bioerdgas Schwandorf GmbH.

The series of takeovers initiated in the previous years was completed by the increase in the investments in Stelzenberger Biogas GmbH, Kirchweidach, and Schmack Biogas S.r.l., Bolzano, Italy, to 100%.

5.5 Cash analysis
As of January 1, 2008, Schmack Biogas had liquid funds in an amount of EUR 20.3 million. The cash outflow from operating activities in an amount of EUR -9.7 million was not fully offset by the net cash inflows from investing activities (EUR 2.1 million) and financing activities (EUR 0.6 million). As a result, cash and cash equivalents declined to EUR 13.4 million as of December 31, 2008. To improve its cash position, the company completed a rights issue in December 2008, which generated gross proceeds of EUR 6.3 million. This effect was not shown in the balance sheet until January 2009. Based on the company's planning, it will be possible to finance the current operations in 2009 from the free liquid funds and existing bank lines.

5.6 Cash flow analysis
Although earnings after taxes were much lower than in the previous year, the operating cash flow amounted to EUR -9.7 million (2007: EUR -27.5 million) in the fiscal year 2008. This was due to reductions in trade receivables by EUR 8.2 million and in receivables under long-term construction contracts by EUR 21.0 million. Cash flow was also positively impacted by a EUR 7.0 million increase in construction contracts with credit balance and advances received, which had declined by EUR 6.7 million in the previous year.

Investments were reduced in fiscal 2008 as compared to the previous year. Moreover, the company made several divestments; most importantly, it sold the investment in Bioerdgas Schwandorf GmbH. Accordingly, the cash flow from investing activities amounted to EUR +2.1 million, compared to EUR -10.2 million in 2007.

The free cash flow, which is the balance of the cash flow from operations and the cash flow from investing activities, amounted to EUR -7.6 million in 2008, compared to EUR -37.7 million in the previous year.

The cash flow from financing activities came in at EUR 0.6 million in fiscal 2008, compared to EUR 39.4 million in the previous year. While gross proceeds in an amount of EUR 27.2 million were generated in the context of a cash capital increase in February 2007, only EUR 7.1 million was generated in April 2008. In addition, non-current financial liabilities in an amount of EUR 5.1 million (2007: EUR 0) were repaid in the fiscal year 2008.

For the full consolidated cash flow statement, please refer to page 56 of the Annual Report.

6. NET WORTH POSITION

6.1 Asset structure analysis

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

	2008	2007
Non-current assets	58.6	42.0
Current assets	41.4	58.0
Total assets	**100**	**100**

Non-current assets increased moderately from EUR 53.7 million to EUR 54.6 million in the fiscal year 2008, which is equivalent to 58.6% of total assets (December 31, 2007: 42.0%). While intangible assets declined by EUR 2.1 million to EUR 24.2 million and property, plant and equipment by EUR 2.8 million to EUR 18.3 million, deferred taxes were up by EUR 8.3 million to EUR 10.9 million as a result of the negative result for the year.

Current assets dropped sharply from EUR 74.1 million to EUR 38.5 million in the year under review. Current assets as a percentage of total assets fell from 58.0% to 41.4%. The sharp drop in sales, the final settlement of several projects and the full reversal of income from project developments for financial investor Hg Renewable Power Partners, which had been recognised in profit and loss in the previous year, led to a EUR 21.0 million decline in receivables under long-term construction contracts. In addition, trade receivables were reduced by EUR 8.2 million. Finally, the negative operating cash flow greatly contributed to the decline in cash and cash equivalents by EUR 7.0 million to EUR 13.4 million.

6.2 Acquisitions

In fiscal 2008, the investments in Stelzenberger Biogas GmbH, Kirchweidach, and Schmack Biogas S.r.l., Bolzano, Italy, were increased to 100%. Given that both subsidiaries were fully consolidated already as of December 31, 2007, this had no material impact on the net worth position. Other changes occurred with regard to the joint ventures and the at-equity investments, which were negligible in relation to total assets. A detailed description of all changes in equity investments is provided in the notes to the consolidated financial statements under point A. (4) Basis of consolidation and changes in the basis of consolidation.

6.3 Other intangible assets

Customer relations

Schmack Biogas customers include multinational companies such as E.ON, RWE and EDF/ Dalkia as well as with many municipal utilities.

Organisational and process advantages

Schmack Biogas AG's microbiological expertise is an important competitive advantage. The company believes itself to be leading in this segment. Thanks to over twelve years of microbiological research and its own database, the company is able to increase the efficiency of its plants.

Supplier relations

For many years, Schmack Biogas has maintained close relations with suppliers of key technologies and components. This is also reflected in equity investments in selected technology leaders such as Köhler & Ziegler Anlagentechnik GmbH, Lollar, Stelzenberger Biogas GmbH, Kirchweidach, and CarboTech Engineering GmbH, Essen.

7. RESEARCH & DEVELOPMENT

The ongoing and new development of products in the biogas sector and related sectors is a key competitive factor for Schmack Biogas. Research and development work is the basis for boosting the efficiency of biogas plants. The aim is to increase plant availability, to improve the gas yields from the raw materials used, to accelerate the throughput speeds of the input materials (for a given fermenter volume) and to reduce the energy consumption of the plants.

In the technological field, development activities are geared to further expanding the company's position by constantly improving the quality of all products and services through innovation and standardisation.

Besides the plant technology, the research and development activities focus on expanding the microbiological expertise, which is based on many years of collecting and analysing data. Schmack Biogas constantly updates and expands this database.

In fiscal 2008, Schmack Biogas invested a total of EUR 1.6 million (2007: EUR 2.9 million) in research and development. At 2.3%, R&D expenses as a percentage of sales remained largely unchanged from the previous year.

8. POST-BALANCE SHEET EVENTS

In response to the rights offering decided on December 7, 2008, 2,067,737 new registered no-par shares were subscribed at a price of EUR 3.07 per share. Upon the entry of the capital increase in the Commercial Register on January 26, 2009, the company's share capital increased from EUR 5,976,864 to EUR 8,044,601. The new shares are to be traded in the regulated market of the Frankfurt Stock Exchange by June 30, 2008 at the latest. Gross proceeds totalled EUR 6,347,953.

Following the capital increase, Emerald Technology Ventures AG (including shares counted pursuant to section 22 para. 1 sentence 1 No. 1 of the German Securities Trading Act (WpHG)) holds 18.8%, Schmack BioEnergy LLC, Independence, Ohio, USA, holds 6.1% and Ulrich Schmack holds 6.0% of the Schmack Biogas shares. Accordingly, the free float, as defined by Deutsche Börse AG, stands at 69.1%.

9. MANAGEMENT BOARD COMPENSATION

The compensation for the Management Board consists of fixed and variable components. The fixed amount, which is a non-performance-related compensation, is paid out as a monthly salary. The fixed component also includes non-monetary compensation, which essentially consists of a company car as well as insurance cover. The bonuses, which are performance-related, are generally based on the EBIT shown in the consolidated financial statements.

The Management Board may participate in the Matching Stock Programme (MSP) as an additional compensation component with a long-term incentive effect. For more detailed information on the compensation of the Management Board, please refer to the Corporate Governance Report (page 16 et seq.) as well as to point D. (44) Disclosures on Corporate Officers in the notes to the consolidated financial statements.

10. 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.

10.1 Composition of the share capital
As of December 31, 2008, the share capital of Schmack Biogas AG amounted to EUR 5,976,864.00, divided into 5,976,864 registered shares.

Since the entry of the rights issue decided in December 2008 in the Commercial Register on January 26, 2009, the company's share capital has amounted to EUR 8,044,601.00, divided into 8,044,601 registered shares. The 2,067,737 new shares have not yet however been admitted to the regulated market of the Frankfurt Stock Exchange. Admission of the new shares is expected to be completed by June 30, 2009 at the latest.

10.2 Transfer or voting right restrictions
As of the balance sheet date, no transfer or voting right restrictions existed under the company's statutes for the 5,976,864 registered shares of Schmack Biogas, each of which represents one vote at the Annual General Meeting. This voting right also applies to the

2.067,737 new shares issued in the context of the rights issue decided in December 2008. Given that these shares have not yet been admitted to the regulated market of the Frankfurt Stock Exchange, they cannot be traded at the stock exchange. Admission of the new shares is expected to be completed by June 30, 2009 at the latest.

10.3 Capital interests and voting control

No direct or indirect shareholdings in Schmack Biogas AG exceeding 10% of the voting rights were reported to the company in 2008.

Following the capital increase, which was entered in the Commercial Register on January 26, 2009 (see under 8. "Post-balance sheet events"), Emerald Technology Ventures AG (including shares counted pursuant to section 22 para. 1 sentence 1 No. 1 of the German Securities Trading Act (WpHG)) holds 18.8%, Schmack BioEnergy LLC, Independence, Ohio, USA, holds 6.1% and Ulrich Schmack holds 6.0% of the Schmack Biogas shares.

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.

10.4 Special rights

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

10.5 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.

10.6 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 2,988,432.00 (authorised capital). Following the capital increase, which was entered in the Commercial Register on January 26, 2009 (see under 8. "Post-balance sheet events"), the remaining authorised capital amounts to EUR 920,695.00.

In using the authorised capital, the company is entitled – under certain conditions defined in the statutes – to exclude shareholders' subscription rights.

10.7 Powers of the Management Board regarding the issue of bonds with warrants and/or convertible bonds and the creation of contingent capital

a) Authorisation to issue bonds with warrants and/or convertible bonds
The Management Board is authorised, until June 19, 2013 and subject to the approval of the Supervisory Board, to issue, once or several times, bearer bonds with warrants and/or convertible bonds in a total amount of EUR 2,988,432.00 with a term of no more than 20 years and to grant the holders of bonds with warrants and the holders of convertible bonds option rights and conversion rights, respectively, to new shares in the company representing up to EUR 2,988,432.00 of the share capital, such authorisation being subject to the terms and conditions of the bonds ("the terms and conditions"). The bonds with warrants and/or convertible bonds (hereinafter also collectively referred to as "the bonds") may also be issued against a non-cash contribution.

As a matter of principle, the bonds must be offered to the shareholders for subscription. They may also be taken over by a credit institution or consortium of banks chosen by the Management Board with the obligation to offer them to the shareholders (indirect subscription right). With the consent of the Supervisory Board, the Management Board is, however, authorised to exclude shareholders' subscription rights to the bonds under certain conditions.

The option or conversion price to be set in proportion of the par value of a bond to the number of shares received for it shall be fixed in euros and calculated according to various criteria defined in the statutes.

b) Creation of contingent capital
The company's capital stock is conditionally increased by EUR 2,988,432.00 by issuing up to 2,988,432 registered no-par shares representing EUR 1.00 in the capital stock per share. The contingent capital increase serves the purpose of granting conversion or subscription rights to the holders of convertible bonds or bonds with warrants issued against cash payments according to the above authorisation under a) by the company by June 19, 2013. Pursuant to the terms and conditions, the contingent capital increase also serves the purpose of issuing shares to holders of convertible bonds with conversion obligations. The new shares shall be issued pursuant to the option or share price to be determined pursuant to a). The contingent capital increase shall be implemented to the extent to which option or conversion rights arising as a result of bonds with warrants and/or convertible bonds issued against cash payment are exercised or holders of convertible bonds fulfil their conversion obligation and to the extent to which these rights cannot be satisfied by the provision of own shares. The new shares participate in the profits starting at the beginning of the fiscal year in which they are acquired by exercising option or conversion rights

or by fulfilling conversion obligations. The Management Board is authorised, with the consent of the Supervisory Board, to determine any other details concerning the implementation of the contingent capital increase.

10.8 Authorisation to repurchase own shares

a) The company is authorised to acquire own shares.

b) The authorisation is restricted to the acquisition of own shares representing EUR 597,686.00 of the company's share capital. The company may make use of this authorisation once or several times in full or in partial amounts, it may also be exercised by third parties for the company's account. 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. The authorisation may not be used by the company to trade in own shares.

c) The authorisation became effective on June 21, 2008 and will expire as soon as a new authorisation for the acquisition of own shares pursuant to section 71 para. 1 sentence 1 No. 8 of the German Stock Corporation Act (AktG) becomes effective, without an explicit cancellation being required. Irrespective of the above, the authorisation will expire no later than December 20, 2009.

d) The shares may be acquired, at the discretion of the Management Board, either via the stock exchange or in the context of a public offering to all shareholders of the company.

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 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). 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.

10.9 Agreements regarding a change of control
Schmack Biogas has not entered into any agreements that are subject to a change of control as a result of a takeover bid.

10.10 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.

11. 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 helps to identify not only risks but also opportunities.

In the context of the audit of the financial statements, the auditors reviewed the early risk identification system and confirmed its general appropriateness and proper functioning. The Management Board's response to risks that have been identified was not covered by the review.

11.1 Risk management system
The risk management 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. Responsibility for monitoring the risks rests with the heads of the operating units. This allows risks and opportunities to be identified where they arise. Undesirable developments are identified at an early stage and counter measures are initiated.

The central elements of the system include:

- Planning and forecasting process in the course of the year to manage the business activities.

- Standardised monthly reporting system to the Management Board and the Supervisory Board to provide a current overview of the overall situation.

- Involvement of the Controlling Department in the fortnightly project meetings for early risk identification.

- Ad-hoc reporting duty to the Management Board as soon as risks that have a material influence of the performance of the company are identified.

- Structured release and approval procedures for all investments, new hirings and obligations outside the budget.

- Central contract management, which reviews compliance with the mostly standardised contracts, e.g. plant construction contracts, service agreements, relevant purchasing agreements, corrects them where necessary and approves them.

- Support in contractual negotiations and contract reviews by the Legal Department.

- Ongoing refinement of the technical solutions and systems to improve the reliability and availability of the Schmack plants.

- Mapping of the business processes modified as a result of identified risks in the management system pursuant to DIN EN ISO 9001:2000.

11.2 General statement on the risk situation of Schmack Biogas

The risk situation of the Schmack Biogas Group changed in fiscal 2008 due to the long uncertainty about the amendment of the Renewable Energies Act (EEG) and the situation in the agricultural commodities markets. The risk relating to the framework agreement with Hg, which was outlined in the last Annual Report, materialised in the first half of 2008.

No risks that could jeopardise the company's existence in future can be identified at present.

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

11.3 Material risks of the business activity

Market and industry-related risks

- Demand for the products and services of Schmack Biogas depends on government subsidisation of the use of biogas.

- A decline in the prices of conventional energy sources could have an adverse impact on demand for the products and services of Schmack Biogas.

- Banks' reluctance to finance new biogas plants and investment cuts could have negative effects on demand for biogas plants.

- Public opinion about the use of renewable agricultural resources for the generation of energy could deteriorate.

- As the international activities are expanded, Schmack Biogas is increasingly exposed to country-specific risks.

Company-related risks

- Schmack Biogas might be unable to achieve a sustainable improvement in its cost structure, sales and results.

- If the actual business performance is much poorer than planned, the company may be dependent on additional debt or equity capital. Especially in view of the current global financial crisis it cannot be ruled out that these funds cannot be raised at all or only at unfavourable terms.

- The company may be unable to take appropriate measures to develop its internal information and organisational structures.

- A major portion of the sales revenues are generated with large-scale projects (gas feed-in plants) and a limited number of customers.

- Defective products and services may have an adverse impact on their market acceptance and entail claims for damages against Schmack.

- Schmack Biogas is exposed to risks associated with agricultural resources management.

- A substantial deviation from the profit projections could have an adverse effect on the value of the subsidiaries and the deferred tax assets recognised in the balance sheet.

For information on exchange rate or interest rate risks and derivative financial instruments, please refer to point D. (35) Financial instruments in the notes to the consolidated financial statements.

12. OPPORTUNITY MANAGEMENT

The task of the opportunity management system is to create a decision-making basis that allows Schmack Biogas to leverage existing opportunities more quickly. Examples include the further liberalisation of the energy markets and the growing public awareness of climate and environment protection. Schmack Biogas regularly and systematically analyses the resulting potential. In view of its strategic positioning and the existing investment structure, the company sees itself in a good position in this respect.

13. FORECAST REPORT

13.1 Economic and financial crisis

The present global economic and financial crisis is much more serious than normal cyclical downturns of the past, which means that its consequences for 2009 and the coming years are difficult to predict. At the time of the preparation of the Group management report, it is impossible to issue precise projections of the implications of the crisis.

13.2 Industry situation in 2009 and 2010

Following the consolidation in the past two years, the biogas market should grow markedly in 2009 against the general economic trend. The German Biogas Association projects a market volume of approx. EUR 1 billion for 2009, which would be about twice the volume of 2008. The new legal regulations not only improve the situation for existing plants but primarily benefit future investment projects. Moreover, the much lower commodity prices will help eliminate the investment backlog. In 2009, the building of 780 biogas plants with a total electrical output of at least 200 MW is expected.

Energy companies, in particular, will continue to invest in gas feed-in plants. Their investment decisions will probably be less affected by the financial and economic crisis than those of other investor groups. The agricultural market will stabilise at a higher level, not least thanks to the attractive liquid manure bonus granted under the amended EEG.

13.3 Company outlook on 2009 and 2010

Schmack Biogas expects a significantly improved business situation in 2009 as compared to the previous year. The Management Board's expectations are based on the projected market growth, an increase in incoming orders and the successful implementation of the cost cuts planned in the context of the restructuring.

An increase in domestic sales revenues will primarily be achieved through the sale of developed gas feed-in projects and the expansion of the subsidiaries' component business with third parties.

New opportunities and potential will arise outside Germany and gradually be leveraged by Schmack Biogas. The internationalisation strategy will focus on Italy, which has the most attractive subsidisation policy along with Germany. The first projects are being realised in France, the UK and selected Eastern European countries.

The Management Board expects the business situation of the Schmack Biogas Group to improve further in the fiscal years beyond 2009.

CONSOLIDATED FINANCIAL STATEMENTS

SCHMACK BIOGAS AG, SCHWANDORF

CONSOLIDATED INCOME STATEMENT (IFRS)

	Group notes	01/01/2008-12/31/2008 kEUR	01/01/2007-12/31/2007 kEUR
Sales	(5)	67,616	135,167
Cost of sales	(6)	-82,509	-125,666
Gross profit		**-14,893**	**9,501**
Distribution expenses	(7)	-5,799	-6,789
General administrative expenses	(8)	-8,158	-9,829
Research and development expenses	(9)	-2,031	-1,998
Other operating income	(11)	2,905	1,296
Other operating expenses	(12)	-11,621	-1,512
Operating income		**-39,597**	**-9,331**
Income from financial assets carried at equity	(13)	-246	-289
EBIT		**-39,843**	**-9,620**
Interest income	(13)	332	950
Interest expense	(13)	-3,313	-1,875
Pre-tax income		**-42,824**	**-10,545**
Income tax expense	(14)	8,462	3,113
Net income		**-34,362**	**-7,432**
Income imputable to minority interests	(15)	558	853
Result imputable to equity holders		**-33,804**	**-6,579**
Profit/loss carried forward		-4,925	1,654
Balance sheet profit		**-38,729**	**-4,925**
Earnings per share in EUR			
Earnings per share basic (EUR)	(16)	-5.76	-1.23
Earnings per share diluted (EUR)	(16)	-5.76	-1.23
Weighted average shares outstanding			
Basic	(16)	5,865,079	5,369,909
Diluted	(16)	5,865,079	5,369,909

CONSOLIDATED BALANCE SHEET (IFRS)

ASSETS	Group Notes	12/31/2008 kEUR	12/31/2007 kEUR
NON-CURRENT ASSETS			
Intangible assets	(17)	24,239	26,298
Property, plant and equipment	(18)	18,283	21,112
At-equity investments	(19)	740	2,495
Other financial assets	(19)	456	1,216
Deferred taxes	(14)	10,852	2,581
		54,570	**53,702**
CURRENT ASSETS			
Inventories	(20)	12,562	10,842
Trade receivables	(21)	5,950	14,124
Receivables from long-term construction contracts	(22)	4,524	25,508
Other short-term assets	(23)	1,734	2,989
Tax receivables	(24)	408	315
Cash and cash equivalents	(25)	13,353	20,335
		38,531	**74,113**
NON-CURRENT ASSETS HELD FOR SALE	**(26)**	**9**	**0**
TOTAL ASSETS		**93,110**	**127,815**

EQUITY AND LIABILITIES	Group Notes	12/31/2008 kEUR	12/31/2007 kEUR
EQUITY			
Subscribed capital	(27)	5,977	5,524
Capital reserves	(27)	67,312	60,943
Currency translation reserves	(27)	0	-43
Revaluation reserve	(27)	10	10
Cash flow hedge reserve	(27)	-191	-41
Other retained earnings	(27)	118	118
Balance sheet profit	(27)	-38,729	-4,925
Minority interests	(27)	987	2,922
		35,484	**64,508**
NON-CURRENT LIABILITIES			
Long-term debt	(28)	17,446	22,715
Other long-term liabilities	(32)	2,279	1,979
Long-term provisions	(29), (30)	3,809	2,963
Deferred taxes	(14)	117	511
		23,651	**28,168**
CURRENT LIABILITIES			
Trade payables	(31)	8,428	11,779
Short-term debt	(28)	5,563	6,633
Other short-term liabilities	(32)	6,248	8,406
Construction contracts with credit balance and advances received	(33)	9,057	2,088
Short-term provisions	(29)	4,505	5,934
Tax liabilities	(34)	174	299
		33,975	**35,139**
TOTAL EQUITY AND LIABILITIES		**93,110**	**127,815**

CHANGE IN GROUP EQUITY (IFRS)*

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

	Common shares outstanding	Subscribed capital kEUR	Capital reserves kEUR	Currency translation reserves kEUR
Balance January 1, 2008	5,523,514	5,524	60,943	-43
Net profit/loss for the period	0	0	0	0
Adjustments taken to equity:				
Cash flow hedge	0	0	0	0
Deferred tax on cash flow hedge	0	0	0	0
Difference from currency translation	0	0	0	43
Net profit/loss for the period factoring in adjustments taken to equity	5,523,514	5,524	60,943	0
Change in basis of consolidation and minority interests	0	0	0	0
Expenses of raising equity capital	0	0	-315	0
Stock options (MSP)	0	0	33	0
Capital increase	453,350	453	6,651	0
Balance December 31, 2008	**5,976,864**	**5,977**	**67,312**	**0**

* Also see (27) Equity in the notes to the consolidated financial statements.

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**

Revaluation reserve	Cash flow hedge reserve	Other retained earnings	Net profit/loss for the year	Minority interests	Total
kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
10	-41	118	-4,925	2,922	64,508
0	0	0	-33,804	-558	-34,362
0	-210	0	0	0	-210
0	60	0	0	0	60
0	0	0	0	0	43
10	-191	118	-38,729	2,364	30,039
0	0	0	0	-1,377	-1,377
0	0	0	0	0	-315
0	0	0	0	0	33
0	0	0	0	0	7,104
10	**-191**	**118**	**-38,729**	**987**	**35,484**

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

			01/01/2008-12/31/2008 kEUR	01/01/2007-12/31/2007 kEUR
		CASH FLOW FROM OPERATING ACTIVITIES		
1.		After-tax result before minority interests	-34,362	-7,432
2.	+/-	Income tax expense	-8,462	-3,113
3.	+	Interest expense	3,313	1,875
4.	-	Interest income	-332	-950
		ADJUSTMENTS TO NON-CASH EXPENSES AND INCOME		
5.	-/+	Stock option plan income/expenses	33	406
6.	+/-	Write-downs/-ups on property, plant and equipment	1,587	1,462
7.	+/-	Write-downs/-ups on intangible assets	1,467	747
8.	+/-	Write-downs/-ups on financial assets	842	0
9.	-/+	Gains/losses on at-equity holdings	246	289
10.	-/+	Gains/losses on the sale of property, plant and equipment	288	4
11.	-/+	Gains/losses on the sale of financial assets	-716	4
12.	-/+	Other non-cash income/expenses	-139	-70
		CHANGE IN NET CURRENT ASSETS (WORKING CAPITAL)		
13.	-/+	Increase/decrease in inventories	-1,317	2,235
14.	-/+	Increase/decrease in trade receivables	8,174	-5,292
15.	-/+	Increase/decrease in receivables from long-term construction contracts (asset balance)	20,959	-9,081
16.	-/+	Increase/decrease in other short-term financial assets	1,294	840
17.	-/+	Increase/decrease in tax receivables	-93	1,307
18.	+/-	Increase/decrease in trade payables	-3,351	-2,647
19.	+/-	Increase/decrease in other short-term liabilities	-3,744	1,340
20.	+/-	Increase/decrease in constructions contracts with credit balance and advances received	6,969	-6,651
21.	+/-	Increase/decrease in provisions	-583	299
22.	+/-	Increase/decrease in tax liabilities	-168	-1,886
23.	=	**CASH GENERATED FROM OPERATING ACTIVITIES**	**-8,095**	**-26,314**
24.	-	Income tax remitted	-160	-203
25.	-	Interest paid	-1,747	-1,682
26.	+	Interest received	293	672
27.	=	**CASH INFLOW/OUTFLOW FROM OPERATING ACTIVITIES**	**-9,709**	**-27,527**
		CASH FLOW FROM INVESTING ACTIVITIES		
28.	+	Proceeds from disposals of intangible assets	173	0
29.	-	Payments for investments in intangible assets	-377	-1,849
30.	+	Proceeds from disposals of property, plant and equipment	1,187	13
31.	-	Payments for investments in property, plant and equipment	-954	-6,080
32.	+	Proceeds from disposals of financial assets	2,224	188
33.	-	Payments for investment in financial assets	-132	-982
34.	-	Payments for the acquisition of consolidated companies and business units	-304	-1,495
35.	+	Proceeds from minority interests	304	0
36.	=	**CASH INFLOW/OUTFLOW FROM INVESTING ACTIVITIES**	**2,121**	**-10,205**
		CASH FLOW FROM FINANCING ACTIVITIES		
37.	+	Proceeds from equity financing	7,104	29,008
38.	-	Payments for equity financing	-315	-500
39.	-	Payments for finance leasing	-232	-201
40.	+	Proceeds from the incurrence of long-term financial liabilities	0	9,141
41.	-	Payments for the redemption of long-term financial liabilities	-5,089	0
42.	+	Proceeds from the incurrence of short-term financial liabilities	0	3,463
43.	-	Payments for the redemption of short-term financial liabilities	-862	-2,205
44.	+	Proceeds from the incurrence of other long-term liabilities	0	725
45.	=	**CASH INFLOW/OUTFLOW FROM FINANCING ACTIVITIES**	**606**	**39,431**
46.	=	**CHANGE IN CASH AND CASH EQUIVALENTS (TOTAL FROM LINES 27, 36, 45)**	**-6,982**	**1,699**
47.	+	Cash balance on January 1	20,335	18,636
48.	=	**CASH BALANCE ON DECEMBER 31**	**13,353**	**20,335**

GROUP NOTES

SCHMACK BIOGAS AG, SCHWANDORF

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 submitted to the Supervisory Board for review on March 20, 2009 and approved for release on April 3, 2009.

(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", "Service" 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 2008. Accordingly, these consolidated financial statements, dated December 31, 2008, were produced in conformance with applicable IFRS accounting rules. All standards effective and mandatory as of December 31, 2008 have been applied.

CHANGES IN THE ACCOUNTING AND MEASUREMENT METHODS

Save for the following exceptions, the Group applied the same accounting and measurement methods as in the previous year:

As of December 31, 2008, the Group followed the new and revised IFRS standards and interpretations (IAS 8.14) listed below:

- Amendments to IAS 39 and IFRS 7: Reclassification of Financial Instruments:
  In October 2008, the IASB published amendments to IAS 39 and IFRS 7 to reflect the current situation in the financial markets. Under extraordinary circumstances, certain financial assets may be reclassified from the "at fair value through profit or loss" category to another measurement category. The amendments were adopted by the EU in October 2008 and may be applied retroactively from July 1, 2008. This amendment had no effect on the Group as no assets were reclassified.

- 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 and notes of the Schmack Biogas Group.

- IFRIC 12 "Service Concession Arrangements":
  IFRIC 12 was published by the IFRIC in November 2006. The interpretation defines rules for the accounting of service concession arrangements with regard to the obligations entered into and the rights received by the operator. Given that no company of the Group is an operator of a service concession arrangement, this interpretation has no impact on the Group.

- 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. This interpretation is principally concerned

with the interaction of an obligation at the reporting date to make additional payments into a pension plan (minimum funding requirement) and the relevant provisions of IAS 19 relating to the upper limit for a defined benefit asset resulting from the difference between the plan assets and the defined benefit obligation (asset ceiling). It has no impact on the financial statements and the notes of the Schmack Biogas Group.

Standards that have been published but not become effective yet

The company did not opt for early application of the IASB standards and interpretations below, which become effective only after December 31, 2008:

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements":
  The amendments to IFRS 1 allow a company to determine the deemed cost of an investment in a subsidiary, jointly controlled entity or associate in the IFRS opening balance sheet in accordance with IAS 27 or by using the transition date fair value or the transition date local GAAP carrying amount instead of deemed cost. The amendment to IAS 27 requires all dividends of subsidiaries, joint ventures or associated companies to be presented as income in the separate financial statements of the investor. Both amendments are effective for annual periods beginning on or after January 1, 2009. The amendment to IAS 27 is to be applied prospectively. The new requirements only affect the IFRS separate financial statements of Schmack Biogas AG and have no impact on the consolidated financial statements.

- Amendment to IFRS 2 "Share-Based Payment: Vesting Conditions and Cancellations":
  The amendments are effective for annual periods beginning on or after January 1, 2009. Schmack will apply the amended IFRS 2 from January 1, 2009. The amendments address two issues. First, "vesting conditions" are service conditions and performance conditions only. Second, all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendments have no impact on the financial statements and the notes of the Schmack Biogas Group.

- Revised IFRS 3 "Business Combinations" and Amendments to IAS 27 "Consolidated and Separate Financial Statements":
  The revised standards were published in January 2008 and are effective for annual periods beginning on or after July 1, 2009. The standard introduces amendments to the accounting of business combinations after this date, which will have an impact on the amount of goodwill recognised, on the results in the reporting period in which a business combination took place and on future results. IAS 27 rules that the partial disposal of an investment in a subsidiary (while control is retained) must be recognised as an equity transaction. Accordingly, no goodwill or gain or loss will result from such a transaction. Other amendments affect rules relating to the attribution of losses to parent companies and non-controlling interests and the accounting rules for transactions resulting in a loss of control. This entailed amendments to IAS 7 "Cash Flow Statement", IAS 12 "Income Taxes", IAS 21 "The Effects of Changes in Foreign Exchange Rates", IAS 28 "Investments in Associates" and IAS 31 "Interests in Joint Ventures". The amendments to IFRS 3R and IAS 27R will have an impact on future acquisitions, losses of control and transactions with non-controlling interests.

- IFRS 8 "Operating Segments":
  IFRS 8 was published by the IASB in November 2006 and is effective for annual periods beginning on or after January 1, 2009. The new standard defines the financial information a company must report about its operating segments. From the time it becomes effective, IFRS 8 replaces IAS 14 "Segment Reporting" and follows the so-called "management approach" to segment reporting, according to which information on the operating segments are published on the basis of internal reports. Potential implications for the Schmack Biogas Group are currently being reviewed.

- Amendments to IAS 1 “Presentation of Financial Statements: A Revised Presentation”:
  The revised IAS 1 is to be applied for annual periods beginning on or after January 1, 2009. Schmack will apply the amended IAS 1 from January 1, 2009. The amendments relate to terminology as well as to new elements of IFRS statements. As far as the terminology is concerned, the terms for balance sheet and cash flow statement have been changed. As a new element, there will either be a single statement of earnings and comprehensive income or two separate statements, i.e. a traditional income statement and a statement of other comprehensive income. The result for the period and the total result incl. changes in equity without recognition of gain or loss must be allocated to shareholders of the parent company and to minority interests. The tax effects associated with each component of other comprehensive income and the effects of reclassifications must be disclosed either on the face of the income statement or in the notes to the financial statements. Also, three balance sheet dates must be shown when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassifies an item as at the reporting date. The main change for Schmack is the presentation of other comprehensive income, which used to be explained in the Group notes and will be shown in a separate statement of comprehensive income from 2009.

- Amendment to IAS 23 “Borrowing Costs”:
  In April 2007, the IASB published an amendment to IAS 23. The revised IAS 23 requires borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised. Potential implications for the Schmack Biogas Group are currently being reviewed.

- Amendments to IAS 32 and IAS 1 “Puttable Financial Instruments and Obligations Arising on Liquidation”:
  These amendments to IAS 32 and IAS 1 were published in February 2008 and are effective for annual periods beginning on or after January 1, 2009. As a result of the amendments, some puttable financial instruments may be classified as equity, provided they meet certain criteria. The amendments to the standards will have no impact on the net worth, financial and earnings position of the Group, as the latter has not issued any such instruments.

- Amendment to IAS 39 “Financial Instruments: Recognition and Measurement: Eligible Hedged Items”:
  These amendments to IAS 39 were published in August 2008 and are effective for annual periods beginning on or after July 1, 2009. The amendment defines how the hedge accounting principles contained in IAS 39 should be applied to the designation of a one-sided risk in a hedged item and to the designation of inflation in a hedged item. The amendment clarifies that it is permissible to designate only a portion of the change in the fair value or the cash flow of a financial instrument as a hedged item. The Schmack Biogas Group assumes that the amendment will have no impact on the net worth, financial and earnings position of the Group, as the Group has not entered into any hedging transactions.

- Improvements to IFRS 2008:
  In the context of the annual “Improvements Project”, the IASB made a number of small material and editorial amendments to 20 different standards. Unless explicitly stated otherwise, these rules must be applied from January 1, 2009. The Schmack Biogas Group has not applied any of these amendments and assumes that they will have no material impact on the presentation of the net worth, financial and earnings position of the Group for the time being.

- IFRIC 13 “Customer Loyalty Programmes”:
  IFRIC 13 is to be applied for annual periods beginning on or after July 1, 2008. Schmack will apply IFRIC 13 from January 1, 2009. The interpretation provides guidance on the accounting, measurement and recognition of award credits in the context of customer loyalty programmes. It has no impact on the financial statements and the notes of the Schmack Biogas Group.

• IFRIC 15 "Agreements for the Construction of Real Estate":
IFRIC 15 was published in July 2008 and is effective for annual periods beginning on or after January 1, 2009. This interpretation must be applied retrospectively. It clarifies when and how revenue from the sale of a property and the associated expenses must be recognised if a project developer and a buyer sign an agreement prior to completion. The interpretation also provides guidance on whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will probably have no impact on the consolidated financial statements, as the Schmack Biogas Group does not engage in this kind of business activity.

• IFRIC 16 "Hedges of a Net Investment in a Foreign Operation":
IFRIC 16 was published in July 2008 and is effective for annual periods beginning on or after October 1, 2008. The interpretation must be applied prospectively. IFRIC 16 provides guidance on the accounting of hedges in a net investment in a foreign operation. The interpretation explains what may be designated as a hedged risk of a net investment and which entity within a Group may hold the hedging instrument. It also clarifies how to determine the exchange gain or loss from the net investment and the hedging instrument. When the net investment is disposed of, the accumulated profits or losses from the hedge and the translation difference attributable to the foreign operation must be reclassified from equity to profit or loss. This will have no material impact on the financial statements and the notes of the Schmack Biogas Group.

• IFRIC 17 "Distributions of Non-Cash Assets to Owners":
IFRIC 17 will become effective for annual periods beginning on or after July 1, 2009 and defines when an obligation to distribute a non-cash dividend is to be recognised. The latter must generally be recognised at the fair value when the dividend is appropriately authorised and is no longer at the discretion of the entity. Any difference between the dividend paid and the carrying amount of the net assets distributed must be recognised in profit or loss. No implications for the Schmack Biogas Group are expected.

• IFRIC 18 "Transfers of Assets from Customers":
In January 2009, the IFRIC published IFRIC 18, an interpretation that relates to the accounting of assets received by an entity from a customer that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The rules will become effective as of July 1, 2009. The Schmack Biogas Group is currently reviewing the potential effects on the presentation of its net worth, financial and earnings position.

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

(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, 2008 as were used to determine the relevant figures for the annual financial statements for the period ending December 31, 2007. 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, substantial intercompany profit and losses, income and expenses between consolidated companies are eliminated.

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".

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".

BASIS OF CONSOLIDATION

As of December 31, 2008, the basis of consolidation included the 13 domestic and 2 international subsidiaries listed below in addition to Schmack Biogas AG:

Domestic subsidiaries:

Name and headquarters	Equity held in %	Consolidation type	IFRS equity in kEUR	IFRS net profit/loss in kEUR
1. Schmack Biogas AG, Schwandorf			44,976	-26,342
2. Schmack Energie Betriebs GmbH, Schwandorf	100.00	full	22	0
3. Schmack Energie Holding GmbH, Schwandorf	100.00	full	-479	-2,342
4. CarboTech Engineering Holding GmbH, Schwandorf	91.43	full	6,871	-78
5. CarboTech Engineering GmbH, Essen	91.43	full	419	-1,183
6. Hese Biogas GmbH, Gelsenkirchen	100.00	full	3,102	-2,173
7. Feldgaszentrum Schwandorf GmbH & Co. KG, Schwandorf	100.00	full	-10	-2
8. BION Energie Verwaltungs GmbH, Regensburg	100.00	full	22	-1
9. VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG, Eschborn	94.00 2)	full	55	34
10. Stelzenberger Biogas GmbH, Kirchweidach	100.00	full	5,166	-1,076
11. Köhler & Ziegler Anlagentechnik GmbH, Lollar	50.19	full	1,301	1
12. RENION Biogas Verwaltungs GmbH, Regensburg	50.00	proportionate	27	2 1)
13. RENION Biogas GmbH & Co. KG, Regensburg	50.00	proportionate	-255	-146 1)
14. Biogas Steyerberg GmbH, Steyerberg	49.00	proportionate	1,192	-167 1)

1) IFRS net profit/loss reflected in consolidated net profit/loss in the amount of the Group's shareholding.
2) This is the share held by the subsidiary Köhler & Ziegler Anlagentechnik GmbH, Lollar.

International subsidiaries:

Name and headquarters	Equity held in %	Consolidation type	IFRS equity in kEUR	IFRS net profit/loss in kEUR
1. Schmack Biogas S.r.l., Bolzano, Italy	100.00	full	2,045	-1,208
2. Schmack BioEnergy LLC, Independence (Ohio), USA	25.40	at equity	2,699 1)	-1,046 2)

1) Applying exchange rate on December 31, 2008.
2) Applying average exchange rate for the period January 1, 2008 through December 31, 2008.

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

	2008 kEUR	2007 kEUR
Current assets	1,194	2,144
Non-current assets	5,999	5,341
Current liabilities	1,282	2,119
Non-current liabilities	4,946	4,020
Revenues	1,488	63
Expenses	1.803	353

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

	2008 kEUR	2007 kEUR
Assets	3,942	18,367
Liabilities	1,243	10,500
Sales	80	7,699
Net income	-1,046	-1,050

Apart from the 14 domestic and 2 foreign subsidiaries mentioned above, 4 subsidiaries that were not included in the basis of consolidation due to a lack of materiality existed as at the balance sheet date. These were Aufwind Schmack Betriebs GmbH & Co. Vierzehnte Biogas KG, Regensburg, Aufwind Schmack Betriebs GmbH & Co. Fünfzehnte Biogas KG, Regensburg, Aufwind Schmack Betriebs GmbH & Co. Siebzehnte Biogas KG, Regensburg as well as Aufwind Schmack Betriebs GmbH & Co. Einundzwanzigste Biogas KG, Regensburg. All these companies are wholly owned and are reported at purchase cost in the balance sheet. Joint ventures or associated companies that were not included in the basis of consolidation due to a lack of materiality did not exist.

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.

Currency:		Balance sheet date spot rate **12/31/2008** EUR	12/31/2007 EUR	Weighted average exchange rate **2008** EUR	2007 EUR
USA	1 USD	0.70935	0.67942	0.67965	0.72953

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“. 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 or 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“. Instead, goodwill is subject to annual impairment testing, in which projected cash flows are discounted and compared against the carrying values of the cash generating units (CGUs) to which goodwill is allocated. 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 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

Government 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 is 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 (CGU).

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 construction contracts with credit balance and 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 with original maturities of up to three months. Cash and cash equivalents are carried at nominal value.

Non-current assets held for sale

Non-current assets held for sale as defined in IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" only include assets that are immediately sellable and whose sale is highly probable. They are measured at the lower of carrying amount and fair value less costs to sell. Subsequent impairment losses must be recognised. A gain for any subsequent increase in fair value less costs to sell of an asset can be recognised in the profit or loss to the extent that it is not in excess of the cumulative impairment loss that has been recognised in accordance with IAS 36 "Impairment of Assets" or IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

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. 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 must be accounted for if the entity becomes a party to the contract of the financial instrument. A distinction is made between original and derivative financial instruments.

Original financial instruments fall into four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available for sale financial assets. Assets in the first and last category must generally be measured at the fair value, with a difference between recognition of changes in the fair value. The other assets must be measured at amortised cost. Apart from the classification of a financial asset because of its type (primary classification), certain assets may be designated to other categories upon initial recognition under certain circumstances. In particular, this includes the fair value option. Financial liabilities are divided into “at amortised cost” and “fair value through profit or loss”.

The Schmack Group uses a derivative financial instrument (interest rate swap) to hedge interest rate risks. Hedge accounting requires the documentation of the hedging relationship between a hedging instrument and a hedged item and the demonstration of effectiveness.

Pursuant to IAS 39, derivative financial instruments must be recognised at their fair value as assets or liabilities. They are initially measured as of the transaction day. In the case of financial instruments qualifying for hedge accounting, the recognition of changes in the fair value is conditional on the existence of a hedging relationship.

The interest rate swap is a cash flow hedge which serves to hedge future cash flows. The hedging instruments are measured at their fair value. However, changes in the value of the effective part of the derivative are initially recognised in equity in the cash flow hedge reserve net of deferred taxes and recognised in profit or loss only upon realisation of the hedged item.

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

Other 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.

Liabilities

Current liabilities are recorded at their repayment or fulfilment amount, non-current liabilities at amortised 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 recognised 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 total cost of production. It includes, in addition to the material and labour costs, overheads of the units involved in the production of goods and services including the production-related depreciation on property, plant and 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 PREPARATION 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 the value of intangible assets, especially goodwill, and receivables as well as actuarial parameters of the pension provisions and the probable cash outflows of the other provisions and financial liabilities.

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 Biogas.

(4) BASIS OF CONSOLIDATION AND CHANGES IN THE BASIS OF CONSOLIDATION

Within the basis of consolidation the following changes occurred in the reporting period:
Of the 17 domestic and 4 international subsidiaries included in the consolidated financial statements in addition to the parent, Schmack Biogas AG, Energiefeld Bayern GmbH & Co. KG and Energiefeld Bayern Verwaltungs GmbH, two joint ventures established by Erdgas Südbayern GmbH and Schmack Energie Holding GmbH in the previous year, were deconsolidated with effect from June 18, 2008 due to the liquidation of the joint ventures decided in March 2008. Because of insolvency proceedings initiated in May 2008, IMB Verfahrenstechnik GmbH, Frechen, in which Schmack Biogas AG held 30.07%, is no longer included in the basis of consolidation.

On June 26, 2007, Schmack Biogas S.r.l., Bolzano, Italy, a subsidiary that is today wholly owned by Schmack Biogas AG, and an Italian partner company established Fri-El Biogas Holding S.r.l., Bolzano, Italy. The company's fully paid-up share capital amounted to kEUR 100, of which 30.00% or kEUR 30 were accounted for by Schmack Biogas S.r.l. Given that the share capital of Fri-El Biogas Holding S.r.l. was increased to kEUR 450 by external shareholders in the reporting period, the shareholding of Schmack Biogas AG declined from 30.00% to 6.67%. As a result, Fri-El Biogas Holding S.r.l. is no longer included in the basis of consolidation.

In February 2008, a financial investor exercised a put option, which increased the investment of Schmack Biogas AG, Schwandorf, in Stelzenberger Biogas GmbH, Kirchweidach, by 0.66% to 79.96%. The purchase price amounted to kEUR 200. The residual 20.04% share was transferred to Schmack Biogas AG by the remaining old shareholders at a symbolic price with effect from June 30, 2008.

Against the background of the strategic repositioning of the Schmack Biogas Group, the 33.33% investment in Bioerdgas Schwandorf GmbH was sold to E.ON Bioerdgas GmbH, Essen, under a contract dated October 1, 2008. The investment was sold at a price of kEUR 2,224; the gain from the sale amounted to kEUR 716.

At the beginning of October, the interest in the Italian subsidiary, Schmack Biogas S.r.l., Bolzano, Italy, was increased from 66% to 100%. The remaining 34% were acquired at a price of kEUR 1,154 with a view to strengthening the company's focus on the promising Italian market.

Schmack BioEnergy LLC, Independence (Ohio), USA, which is accounted for using the equity method, increased its capital by kUSD 1,100 in the fiscal year. Given that Schmack Biogas AG did not participate in the capital increase, the shareholding declined from 30.00% to 25.40%.

As the Schmack Group intends to sell the investment in Certified Energy BV, Wanroij, Netherlands, in the short term, this investment was reclassified from "at-equity investments" to "non-current assets held for sale". The investment in Certified Energy BV, Wanroij, Netherlands, was written down in the reporting period; the amount of the write-down is shown under item B. (13) Financial result.

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. Sales revenues of kEUR 67,616 (2007: kEUR: 135,167) were generated in fiscal 2008. Total sales revenues include contract revenues determined using the POC method in an amount of kEUR 40,859 (2007: kEUR 103,089). A breakdown of revenues by market is provided under item D. (36) Segment Reporting Disclosures.

(6) COST OF SALES

The cost of sales includes the total cost of production. It includes, in addition to the material and labour costs, overheads of the units involved in the production of goods and services including the production-related depreciation on property, plant and equipment and certain intangible assets and valuation allowances on inventories.

In fiscal 2008, the cost of sales accounted for 122.0% (2007: 93.0%) of sales. The percentage increase is attributable, among other things, to additional expenses caused by technical adjustments and related touch-up work. As the cost of sales also comprises fixed costs, the decline in the cost of sales is not proportionate with the decline in sales.

The line item is composed of the following:

	2008 kEUR	2007 kEUR
Cost of materials (incl. purchased services)	55,665	99,237
Personnel expenses	17,826	16,837
Amortisation and depreciation	2,023	1,566
Other costs of goods sold	6,995	8,026
Total	**82,509**	**125,666**

(7) DISTRIBUTION EXPENSES

An amount of kEUR 3,463 (2007: kEUR 3,470) of distribution expenses totalling kEUR 5,799 (2007: kEUR 6,789) for fiscal year 2008 were related to personnel expenses. Other distribution expenses in an amount of kEUR 2,168 (2007: kEUR 3,143) primarily represent sales commissions and travel, marketing, fleet and legal/advisory-related costs. This line item also includes depreciation in an amount of kEUR 168 (2007: kEUR 176).

(8) GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses in an amount of kEUR 8,158 (2007: kEUR 9,829) include personnel expenses in an amount of kEUR 4,422 (2007: kEUR 5,233), depreciation of kEUR 234 (2007: kEUR 278) and other administrative costs totalling kEUR 3,502 (2007: kEUR 4,318). These primarily represent legal and advisory fees, travel expenses, staff recruitment expenses, stock quotation costs as well as 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 2,031 (2007: kEUR 1,998). Personnel expenses of kEUR 517 (2007: kEUR 936), depreciation of kEUR 836 (2007: kEUR 189) and other research and development expenses of kEUR 678 (2007: kEUR 873) were included in total costs for the fiscal year. Other research and development expenses mainly include the cost of purchased services, patents 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:

	2008 kEUR	2007 kEUR
Cost of materials	30,120	53,310
Cost of purchased services	25,712	46,669
Personnel expenses	26,228	26,579
Amortisation and depreciation	3,261	2,209
Total	**85,321**	**128,767**

The increase in inventories by kEUR 1,720 (2007: kEUR 7,813) was fully recognised in profit or loss. The severance payments in fiscal 2008 totalled kEUR 722 (2007: kEUR 0). For details on the severance payments for the company's corporate officers, please refer to item D. (44) Disclosures on Corporate Officers.

(11) OTHER OPERATING INCOME

Other operating income for fiscal year 2008 in an amount of kEUR 2,905 (2007: kEUR 1,296) includes revenues from vehicle benefits, government grants and subsidies for development projects (see item C. (17) Intangible Assets) and insurance benefits. Due to the relation to the business activity (construction of a biogas plant), it also includes a gain of kEUR 716 on the disposal of Bioerdgas Schwandorf GmbH, a project company recognised at equity in the previous year.

(12) OTHER OPERATING EXPENSES

This item shows all expenses only indirectly related to operating income. In fiscal 2008, they totalled kEUR 11,621 (2007: kEUR 1,512). Significant expense items include valuation allowances for various projects in conjunction with financial investor Hg Renewable Power Partners in the amount of kEUR 8,015, specific valuation allowances recognised for receivables and money transfer costs.

(13) FINANCIAL RESULT

Financial income for fiscal year 2008 in an amount of kEUR 332 (2007: kEUR 950) consists of interest for short-term bank balances as well as miscellaneous financial income.

Financial expenses for fiscal year 2008 totalling kEUR 3,313 (2007: kEUR 1,875) include interest expense for current liabilities in an amount of kEUR 207 (2007: kEUR 224) and interest for non-current liabilities in an amount of kEUR 1,365 (2007: kEUR 1,282). Financial expenses also include interest expenses for guaranteed credits in an amount of kEUR 125 (2007: kEUR 190), interest expenses for finance leases in an amount of kEUR 140 (2007: kEUR 94), write-downs on at-equity investments in an amount of kEUR 102 (2007: kEUR 0) and other financial assets of kEUR 740 (2007: kEUR 0), expenses from exchange differences of kEUR 190 (2007: kEUR 40) as well as miscellaneous financial expenses in an amount of kEUR 444 (2007: kEUR 45).

Income from at-equity investments was kEUR -246 (2007: kEUR -289).

(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, 2008 and December 31, 2007 were as shown below:

	12/31/2008 kEUR	12/31/2007 kEUR
German corporate income tax for the fiscal year	4	71
German corporate income tax for prior years	-8	-370
German solidarity surcharge for the fiscal year	0	4
German solidarity surcharge for prior years	0	-21
German trade tax for the fiscal year	15	51
German trade tax for prior years	9	8
Current tax income (-)/expense (+)	**20**	**-257**
Source:		
Germany	20	-257
International	0	0
Temporary differences	-2,666	2,884
Accumulated loss carryforwards	-5,816	-5,740
Deferred tax income (-)/expense (+)	**-8,482**	**-2,856**
Source:		
Germany	-8,084	-2,269
International	-398	-587
Total	**-8,462**	**-3,113**

The income tax gains reported for fiscal year 2008 in an amount of kEUR 8,462 (2007: kEUR 3,113) were kEUR 3,831 lower (2007: kEUR 884 lower) than the projected figure of kEUR 12,293 (2007: gain of kEUR 3,997), which would have resulted when applying the domestic German income tax rate of 28.71% (2007: 37.91%) on pre-tax profits. This is a composite rate consisting of the flat 15% corporate income tax plus a 5.5% solidarity surcharge and a modified effective trade tax rate of 12.88% (2007: 11.53%).

Under the 2008 Corporate Income Tax Reform Act, the statutory corporate income tax rate for domestic entities declined to 15% in fiscal 2008, while the average trade tax burden of the Group rose from 11.53% to 12.88% due to the fact that trade tax is no longer deductible for corporate income tax purposes under the 2008 Corporate Tax Act.

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

	12/31/2008 kEUR	12/31/2007 kEUR
Earnings before income taxes	-42,824	-10,545
Combined income tax rate	28.71%	37.91%
Expected income tax benefit (-)/expense (+)	**-12,293**	**-3,997**
Change in tax rate and trade tax effects	91	256
Questionable loss carryforwards and results from the initial consolidation	3,330	40
Non-tax deductible expenses	167	69
Tax effects unrelated to the accounting period	0	288
Changes in other permanent differences	100	153
Other international taxes	63	352
Tax credits and tax refunds from prior years	-20	-383
At-equity consolidation	100	109
Tax benefit (-)/expenses (+) reported	**-8,462**	**-3,113**

Deferred tax assets and liabilities broke down as follows as of December 31, 2008 and December 31, 2007:

	12/31/2008 kEUR	12/31/2007 kEUR
Inventories	0	61
Pension provisions	70	147
Other provisions	45	101
Financial liabilities	168	207
Cash flow hedge	75	15
Accumulated loss carryforwards	11,925	6,109
Netting	-1,431	-4,059
Deferred tax assets	**10,852**	**2,581**
Intangible assets	421	991
Property, plant and equipment	179	62
Trade receivables	11	34
Construction contracts	680	3,454
Financial liabilities	23	29
Netting	-1,431	-4,059
Deferred tax liabilities	**117**	**511**
Net deferred tax assets (+)/ liabilities (-)	**10,735**	**2,070**

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:

	2008		2007	
	Deferred tax receivables kEUR	Deferred tax liabilities kEUR	Deferred tax receivables kEUR	Deferred tax liabilities kEUR
Realisable within 12 months	213	10	369	63
Realisable beyond 12 months	10,639	107	2,212	448
Total	**10,852**	**117**	**2,581**	**511**

Given that sustainable positive results are projected from the fiscal year 2009 for a planning period of seven years, the value of the deferred tax assets recognised is ensured.

Valuation allowances are recorded for deferred tax assets when the future realisation of the corresponding tax benefits seems 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:

	12/31/2008 kEUR	12/31/2007 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 Köhler & Ziegler Anlagentechnik GmbH, Lollar (49.81%), Schmack Biogas S.r.l., Bolzano, Italy (until September 30, 2008: 34%), Stelzenberger Biogas GmbH, Kirchweidach (until June 30, 2008: 20.7%), CarboTech Engineering Holding GmbH, Schwandorf, and CarboTech Engineering GmbH, Essen (8.57% each) and VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG, Eschborn (52.82%).

(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.

	2008 EUR	2007 EUR
Result imputable to equity holders	-33,804,037	-6,579,006
Basic weighted average shares outstanding	5,865,079	5,369,909
Diluted weighted average shares outstanding	5,865,079	5,369,909
Basic earnings per share	-5.76	-1.23
Diluted earnings per share	-5.76	-1.23

C. DISCLOSURES ON THE CONSOLIDATED BALANCE SHEET

(17) INTANGIBLE ASSETS

The table below shows the change in intangible assets for fiscal year 2008 and the previous year:

	Acquired intangible assets kEUR	Development projects in process kEUR	Completed development projects kEUR	Goodwill kEUR	Advances kEUR	Total kEUR
Cost						
01/01/2007	1,555	1,017	69	15,861	39	18,541
Change in basis of consolidation	521	0	0	6,872	0	7,393
Additions	1,048[1)]	891	0	0	0	1,939
Reclassifications	0	-1,068	1,068	0	0	0
Disposals	0	0	0	0	39	39
12/31/2007	**3,124**	**840**	**1,137**	**22,733**	**0**	**27,834**
Change in basis of consolidation	0	0	0	-797	0	-797
Additions	112	265	0	0	0	377
Reclassifications	0	-303	303	0	0	0
Disposals	8	82	90	0	0	180
12/31/2008	**3,228**	**720**	**1,350**	**21,936**	**0**	**27,234**
Accum. amortisation and impairment losses						
01/01/2007	768[1)]	0	21	0	0	789
Additions	689	0	58	0	0	747
12/31/2007	**1,457**	**0**	**79**	**0**	**0**	**1,536**
Additions	728	210	529	0	0	1,467
Disposals	8	0	0	0	0	8
12/31/2008	**2,177**	**210**	**608**	**0**	**0**	**2,995**
Net balances December 12/31/2008	**1,051**	**510**	**742**	**21,936**	**0**	**24,239**
Net balances December 12/31/2007	**1,667**	**840**	**1,058**	**22,733**	**0**	**26,298**

1) Correction of prior-year figure of kEUR 120 due to the netting of cost and amortisation.

Intangible assets primarily represent goodwill in an amount of kEUR 21,936 (2007: kEUR 22,733) recognised upon initial consolidation of subsidiaries acquired, capitalised development costs in an amount of kEUR 1,252 (2007: kEUR 1,898) and intangible assets purchased in an amount of kEUR 1,051 (2007: kEUR 1,667).

The table below shows the goodwill attributed to the Group's identifiable cash generating units (CGUs) or groups of CGUs as of December 31, 2008 and December 31, 2007:

	12/31/2008 kEUR	12/31/2007 kEUR
Schmack Biogas AG, Schwandorf/Stelzenberger Biogas GmbH, Kirchweidach	6,912	8,867
CarboTech Engineering Holding GmbH, Schwandorf	7,033	7,033
Schmack Biogas S.r.l., Bolzano, Italy	1,158	0
Hese Biogas GmbH, Gelsenkirchen	5,114	5,114
Köhler & Ziegler Anlagentechnik GmbH, Lollar	1,719	1,719
Total	**21,936**	**22,733**

The change in goodwill is attributable to the increase in the majority investments in Stelzenberger Biogas GmbH, Kirchweidach, and Schmack Biogas S.r.l., Bolzano, Italy, to 100%.

Goodwill from 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 orders for gas feed-in plants that have already been completed or are just about to be completed. 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 Biogas Group. The cost of equity, which was derived using the capital asset pricing model (CAPM), is 9.40%. The assumed cost of debt is 6.50%. Based on the assumed balanced capital structure, this results in a weighted average cost of capital (WACC) of 6.98% after tax and 9.96% before tax. Sensitivity analyses were carried out, which provided no indication of goodwill impairment.

Of the development expenses incurred in 2008 kEUR 265 (2006: kEUR 891) 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 172 (2007: kEUR 102).

Development costs capitalised during the fiscal year primarily related to expenses for the development of the large-scale trial facility. The purpose of this upscaling stage is to smoothen the transfer of new technologies and techniques from the lab stage and the small-scale trial stage into practical application.

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 63 as at the balance sheet date (2007: kEUR 190).

Write-downs of development costs in an amount of kEUR 739 include write-downs for impairment in an amount of kEUR 461, of which kEUR 210 relates to development projects in process and kEUR 251 to completed development projects. The write-downs for impairment were necessary as the projects can no longer be sold or used.

Accumulated amortisation of kEUR 1,467 (2007: kEUR 747) is included under cost of sales in an amount of kEUR 679 (2007: kEUR 514), distribution expenses in an amount of kEUR 94 (2007: kEUR 53), general administrative expenses in an amount of kEUR 119 (2007: kEUR 104) and research and development expenses in an amount of kEUR 575 (2007: kEUR 76).

As of December 31, 2008, purchase commitments for development projects amounted to kEUR 32 (2007: kEUR 0).

(18) PROPERTY, PLANT AND EQUIPMENT

The table below shows the change in property, plant and equipment in fiscal year 2008 and in the previous year:

	Land, land rights and buildings incl. buildings on leased land	Equipment/ machinery	Other technical, operating and office equipment	Advances and assets under construction	Total
	kEUR	kEUR	kEUR	kEUR	kEUR
Cost					
01/01/2007	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
12/31/2007	**7,716**	**8,975**	**4,223**	**2,712**	**23,626**
Additions	176	394	456	72	1,098
Reclassifications	2,717	-2,543	-47	-127	0
Disposals	134	1,443	258	864	2,699
12/31/2008	**10,475**	**5,383**	**4,374**	**1,793**	**22,025**
Accumulated depreciation					
01/01/2007	61	236	755	0	1,052
Additions	205	345	912	0	1,462
12/31/2007	**266**	**581**	**1,667**	**0**	**2,514**
Additions	278	602	707	0	1,587
Disposals	2	149	208	0	359
12/31/2008	**542**	**1,034**	**2,166**	**0**	**3,742**
Net balances 12/31/2008	**9,933**	**4,349**	**2,208**	**1,793**	**18,283**
Net balances 12/31/2007	**7,450**	**8,394**	**2,556**	**2,712**	**21,112**

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 527 (2007: kEUR 479).

Total depreciation in an amount of kEUR 1,587 (2007: kEUR 1,462) is included under cost of sales in an amount of kEUR 1,139 (2007: kEUR 1,053), distribution expenses in an amount of kEUR 74 (2007: kEUR 123), general administrative expenses in an amount of kEUR 115 (2007: kEUR 174) and research and development expenses in an amount of kEUR 259 (2007: kEUR 112).

(19) FINANCIAL ASSETS

The changes in financial assets in the fiscal year 2008 and the previous year are shown in the table below:

	At-equity investments kEUR	Other financial assets kEUR	Total kEUR
Cost			
01/01/2007	1,273	512	1,785
Additions	2,661	1,247	3,908
Disposals	806	543	1,349
12/31/2007	**3,128**	**1,216**	**4,344**
Additions	0	152	152
Disposals	1,925	687	2,612
12/31/2008	**1,203**	**681**	**1,884**
Accum. write-ups			
01/01/2007	162	0	162
12/31/2007	**162**	**0**	**162**
Disposals	162	0	162
12/31/2008	**0**	**0**	**0**
Accum. amortisation and impairment losses			
01/01/2007	0	0	0
Additions	795	0	795
12/31/2007	**795**	**0**	**795**
Additions	517	325	842
Disposals	849	100	949
12/31/2008	**463**	**225**	**688**
Net balances 12/31/2008	**740**	**456**	**1,196**
Net balances 12/31/2007	**2,495**	**1,216**	**3,711**

The reduction in the value of the associated companies in an amount of kEUR 1,755 comprises cost disposals of the at-equity investments in the fiscal year in an amount of kEUR 1,925, disposals of write-ups in an amount of kEUR 162, amortisation additions in an amount of kEUR 517 and amortisation disposals of kEUR 849. This includes the at-equity result for the year in an amount of kEUR 246.

Other financial assets include primarily the non-current portion of loans granted. These loans are carried at amortised cost. Other financial assets also include shares in non-consolidated subsidiaries in an amount of kEUR 23.

(20) INVENTORIES

Inventories broke down as follows as of December 31, 2008 and December 31, 2007:

	12/31/2008 kEUR	12/31/2007 kEUR
Raw materials and supplies	7,201	6,044
Work in progress	2,515	2,705
Finished products	2,846	2,093
Total	**12,562**	**10,842**

Unscheduled impairment losses in an amount of kEUR 410 (2007: kEUR 0) were recognised for the inventories reported in the balance sheet in an amount of kEUR 12,562 (2007: kEUR 10,842). Inventories recorded at net realisable value had a carrying value of kEUR 2,823 (2007: kEUR 0).

(21) TRADE RECEIVABLES

Trade receivables broke down as follows as of December 31, 2008 and December 31, 2007:

	12/31/2008 kEUR	12/31/2007 kEUR
Germany	5,063	11,790
EU	685	2,248
Non EU	202	86
Total	**5,950**	**14,124**

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 2,240 (2007: kEUR 1,113).

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

(22) RECEIVABLES FROM LONG-TERM CONSTRUCTION CONTRACTS

In the item receivables from long-term construction contracts, accrued contract costs factoring in income are offset against any respective advances received where this resulted in a positive balance.

For long-term construction contracts, the incurred contract costs including recognised revenues in an amount of kEUR 42,145 (2007: kEUR 84.042) were offset against payments received on account in an amount of kEUR 37,621 (2007: kEUR 58,534). This results in a balance of kEUR 4,524 (2007: kEUR 25,508) gross amount due from customers for contract work.

	12/31/2008 kEUR	12/31/2007 kEUR
Contract costs including realised profits	42,145	84,042
Advances received	-37,621	-58,534
Total	**4,524**	**25,508**

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 68,190 (2007: kEUR 139,464).

Retentions pursuant to IAS 11.40 (c) amounted to kEUR 396 in the fiscal year 2008 (2007: kEUR 424).

At the end of the previous 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 Hg Renewable Power Partners. 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 required the underlying projects to be realised with great probability. In the fiscal year 2008, Schmack Biogas and Hg Renewable Power Partners mutually agreed, however, to cancel the framework agreement for the sale of biogas plants to Hg Renewable Power Partners. This was the main reason for the decline in receivables from long-term construction contracts.

(23) OTHER SHORT-TERM ASSETS

Other short-term financial assets broke down as follows as of December 31, 2008 and December 31, 2007:

	12/31/2008 kEUR	12/31/2007 kEUR
Advance payments made	626	331
Prepaid expenses	329	308
Receivables from companies in which an interest is held	262	607
Guaranties, holdback	125	500
Security deposits	94	106
Creditors with debit balances	89	60
Value-added tax	58	464
Loans and interest on loans	42	100
Insurance	30	252
Receivables from minority interests	20	215
Personnel	7	32
Bonuses	4	7
Others	48	7
Total	**1,734**	**2,989**

(24) TAX RECEIVABLES

Tax receivables totalled kEUR 408 for the fiscal year (2007: kEUR 315) representing corporate income tax and solidarity surcharge totalling kEUR 408 (2007: kEUR 297) as well as trade tax in an amount of kEUR 0 (2007: kEUR 18).

(25) CASH AND CASH EQUIVALENTS

Cash and cash equivalents totalled kEUR 13,353 on the balance sheet date (2007: kEUR 20,335), 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) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale in an amount of kEUR 9 as defined in IFRS 5 include the at-equity investment in Certified Energy BV, Wanroij, Netherlands. As the company intends to sell this investment in the short term, it has been reclassified from "at-equity investments" to "non-current assets held for sale".

(27) 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 5,977 on the balance sheet date, consisting of 5,976,864 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, 2007	**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**
Share capital increase from authorised capital (based on Management Board resolution dated April 1, 2008 and Supervisory Board approval – non-cash capital increase)	453
Balance December 31, 2008	**5,977**

Authorised capital

The Annual General Meeting of Schmack Biogas AG on June 20, 2008 authorised 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 of kEUR 2,988, subject to Supervisory Board approval.

Own shares

The Annual General Meeting dated June 20, 2008 also resolved to authorise the company to acquire own shares worth kEUR 598 with a pro-rata amount of the share capital. This authorisation will expire on December 20, 2009.

Conditional capital

Based on a resolution passed at the Annual General Meeting on June 20, 2008, the company's share capital was increased conditionally by kEUR 2,988. The conditional capital increase exclusively serves to issue shares to the holders of optional and/or convertible bonds that may be issued by the company by June 19, 2013 in accordance with the applicable conditions for option and/or convertible bonds.

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 and 2008 less the equity financing-related costs.

Capital reserves also include the amounts associated with Schmack Biogas AG's Matching Stock Programme (MSP – see Equity-based incentives).

The change in capital reserves for fiscal years 2007 and 2008 is shown below:

	kEUR
Balance January 1, 2007	**32,613**
Premium from capital increases	28,424
Equity financing-related costs	-695
Deferred taxes on equity financing-related costs	195
Stock options	406
Balance December 31, 2007	**60,943**
Premium from capital increases	6,651
Equity financing-related costs	-438
Deferred taxes on equity financing-related costs	123
Stock options	33
Balance December 31, 2008	**67,312**

Equity-based incentives

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 programme. The company grants all MSP participants 5 "virtual", phantom shares per MSP share in the first three tranches issued. MSP shares may generally be subscribed 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 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 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 to 3rd tranche of the MSP are shown below:

	1st tranche[1)]	2nd tranche	3rd tranche
Strike price in EUR	34.72	73.29	17.67
Expected volatility in % [2)]	30.00	28.93	35.16
Allocation date	05/24/2006	05/24/2007	05/24/2008
Maturity	05/23/2008	05/23/2009	05/23/2010
Risk-free interest rate in %	3.60	4.50	4.19
Options outstanding at the beginning of the reporting period	50,125	50,125	0
Number of options outstanding as of December 31, 2008	0	21,100	21,100
Fair value of an option at the time of agreement in EUR	8.16	10.66	2.69
Relevant total value of options in kEUR	0	225	57
Relevant pro-rata expenditure 2008 in kEUR	75	113	19

1) The phantom stocks of the first tranche allocated on May 24, 2006 could not be exercised after expiry of the holding period and lapsed without replacement on May 23, 2008 as the stock was trading below the stipulated exercise threshold (EUR 15.78 as compared to EUR 34.72).
2) The calculation was based on the mean value of the implied volatility of options on the TecDAX.

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.

As a result of several employees leaving the company in the course of 2008, 11,285 options of the first tranche and 29,025 options of the second tranche (i.e. a total of 40,310 options) lapsed as compared to the number of options as at December 31, 2007. In the reporting period this resulted in total income of kEUR 173.

Currency translation reserves

Currency translation reserves in an amount of kEUR 0 (2006: kEUR -43) represented exclusively the difference resulting from currency translation of the financial statement figures of the associate Schmack BioEnergy LLC, Independence, Ohio, USA.

Revaluation reserve

The revaluation reserve in an amount of kEUR 10 (2007: kEUR 10) results from the initial consolidation of Köhler & Ziegler Anlagentechnik GmbH, Lollar, as of April 1, 2007.

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. (35) Financial Instruments.

Retained earnings

Appropriated retained earnings contain the effects of reconciliation to IFRS in an amount of kEUR 118 (2007: kEUR 118) as of January 1, 2003.

Minority interests

Adjustment items in an amount of kEUR 987 (2007: kEUR 2,922) represent shares in fully consolidated companies held by outside interests. The table below shows the existing minority interests:

	kEUR **2008**	kEUR 2007
Stelzenberger Biogas GmbH, Kirchweidach	0	1,766
Schmack Biogas S.r.l., Bolzano, Italy	0	39
Köhler & Ziegler Anlagentechnik GmbH, Lollar	729	769
VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG, Eschborn	19	1
CarboTech Engineering Holding GmbH, Schwandorf and CarboTech Engineering GmbH, Essen	239	347
Total	**987**	**2,922**

The minority interests in VR-LEASING SOLIDUS Achtzehnte GmbH & Co. Immobilien KG, Eschborn, were not reclassified as debt capital for reasons of immateriality.

Capital management

The primary objective of the capital management activities of Schmack Biogas is to guarantee financial flexibility on the basis of a sound capital structure. This includes ensuring that liquidity is sufficient at all times, that the equity ratio is appropriate and that the capital required for the company's future growth is available. The capital management activities are based on the constantly updated short and medium-term profit and financial plans, which are derived from the business activities. Building on this basis, the company aims to optimise its financial resources through external and internal financing measures as well as a policy of collecting instalment payments for biogas projects.

(28) FINANCIAL LIABILITIES

Financial liabilities broke down as follows as of December 31, 2008 and December 31, 2007:

	12/31/2008				12/31/2007			
		broken down by duration				broken down by duration		
kEUR	Total	≤ 1 year	1 to 5 years	> 5 years	Total	≤ 1 year	1 to 5 years	> 5 years
Bank loans	22,361	5,376	10,873	6,112	28,627	6,415	14,752	7,460
Finance lease liabilities	648	187	428	33	721	218	440	63
Total	**23,009**	**5,563**	**11,301**	**6,145**	**29,348**	**6,633**	**15,192**	**7,523**

Bank loans

Bank loans are offset against origination fees in an amount of kEUR 326 (2006: kEUR 441). 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. (35) 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, 2008 and December 31, 2007:

	12/31/2008 kEUR	12/31/2007 kEUR
Total future minimum lease payments	**725**	**824**
Amount due within one year	222	257
Amount due between one and five years	466	500
Amount due in more than five years	37	67
Present value of future minimum lease payments	**648**	**721**
Amount due within one year	187	217
Amount due between one and five years	428	441
Amount due in more than five years	33	63
Amount representing interest	**77**	**103**

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 one and seven years. Renewal or purchase options and price adjustment clauses exist in isolated cases.

(29) OTHER PROVISIONS

Provisions break down as shown below:

	12/31/2008			**12/31/2007**		
kEUR	Total	current	non-current	Total	current	non-current
Other provisions	7,005	4,505	2,500	7,515	5,934	1,581
Pension provisions	1,309	0	1,309	1,382	0	1,382
Total	**8,314**	**4,505**	**3,809**	**8,897**	**5,934**	**2,963**

Detailed information on pension provisions is provided below under item (30).

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

	Balance 01/01/2008	Additions	Settlement	Release	Change in basis of consolidation	Balance 12/31/2008
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Warranties	2,146	2,372	2,010	21	0	2,487
Technical defects	2,098	2,012	2,098	0	0	2,012
Remaining construction site expenses	2,090	1,143	2,415	2	0	816
Service and maintenance agreements	599	1,377	725	0	51	1,302
Provisions for loss-making orders	287	11	197	0	0	101
Personnel-related commitments	116	30	19	0	0	127
Reimbursements	53	0	0	0	0	53
Archiving expense	37	0	0	0	0	37
Contracting plant fees	0	60	0	0	0	60
Others	89	0	74	0	-5	10
Total	**7,515**	**7,005**	**7,538**	**23**	**46**	**7,005**

The increase in provisions for warranties and the allocation to 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 sharp decline in provisions for remaining construction site expenses is attributable to the fact that work in process was completed in the fiscal year and that outstanding invoices were settled as at the balance sheet date.

Rising provisions for service and maintenance agreement-related expenses resulted from plants completed in 2008 for which service and maintenance agreements were concluded. The expenses provided for are usually incurred only several years after completion of the plants.

Personnel liabilities include expenses for anniversary benefits, deferred compensation, heating allowances and expenses in the event of the termination of employment contracts. No personnel provisions will be used before 2010.

A condition for the acquisition of the biogas division of insolvent company Hese Umwelt GmbH, Gelsenkirchen, was 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 Biogas Group provisions created are generally current; below is a detailed view of projected outflows by category:

	Current		Non-current		Total	
	12/31/2008	12/31/2007	**12/31/2008**	12/31/2007	**12/31/2008**	12/31/2007
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Warranties	1,450	1,313	1,037	833	2,487	2,146
Technical defects	2,012	2,098	0	0	2,012	2,098
Remaining construction site expenses	816	2,090	0	0	816	2,090
Service and maintenance agreements	0	0	1,302	599	1,302	599
Provisions for loss-making orders	101	287	0	0	101	287
Personnel-related commitments	0	0	127	116	127	116
Reimbursements	53	53	0	0	53	53
Archiving expense	3	4	34	33	37	37
Contracting plant fees	60	0	0	0	60	0
Others	10	89	0	0	10	89
Total	**4,505**	**5,934**	**2,500**	**1,581**	**7,005**	**7,515**

(30) PENSION PROVISIONS

Pension provisions in an amount of kEUR 1,309 (2007: kEUR 1,382) recorded on the Schmack Biogas Group consolidated financial statements represent defined benefit plan commitments stemming from CarboTech Engineering GmbH, Essen, and Köhler & Ziegler Anlagentechnik GmbH, Lollar. Pursuant to a company agreement, all regular employees of CarboTech Engineering GmbH, Essen, were 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 Biogas 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:

	2008	2007
Discount rate	5.85 %	5.50 %
Salary trend	3.60 % [2] / 0.00 % [3]	3.60 % [2] / 0.00 % [3]
Pension trend	2.00 % [2] / 5.00 % [4]	2.00 % [2] / 5.00 % [4]
Turnover [1]	0.00 %	0.00 %
Inflation	2.00 %	2.00 %

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.
4) Factor used by Köhler & Ziegler Anlagentechnik GmbH, Lollar. The pension trend refers to a period of three years.

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 Biogas Group:

	2008 kEUR	2007 kEUR
Present value of commitments (DBO) on January 1	1,382	1,302
Change in basis of consolidation	0	122
Current service cost	48	50
Interest expense	75	64
Benefits disbursed	-18	-16
Actuarial gains	-178	-133
Adjustment for past expenses (due to plan changes)	0	-7
Present value of commitments (DBO) on December 31	**1,309**	**1,382**

The change in the basis of consolidation with effect from April 1, 2007 related to Köhler & Ziegler Anlagentechnik GmbH, Lollar. Initial consolidation of CarboTech Engineering GmbH, Essen, was performed with effect from December 31, 2006. As of this date, the obligation (DBO) had a present value of kEUR 1,302. Prior to this date, no obligations from pension commitments existed within the Schmack Biogas Group.

Pension expenses broke down as follows:

	2008 kEUR	2007 kEUR
Current service cost	48	50
Interest expense	75	64
Actuarial gains	-178	-133
Adjustment for past expenses (due to plan changes)	0	-7
Pension expenses in the fiscal year	**-55**	**-26**

(31) TRADE PAYABLES

Trade payables in an amount of kEUR 8,428 (2007: kEUR 11,779) have durations of less than one year.

(32) OTHER LIABILITIES

Other liabilities are mostly current liabilities. They broke down as follows as of December 31, 2008 and December 31, 2007:

	Current		Non-current		Total	
	12/31/2008 kEUR	12/31/2007 kEUR	**12/31/2008** kEUR	12/31/2007 kEUR	**12/31/2008** kEUR	12/31/2007 kEUR
Liabilities from turnover tax and other taxes	717	3,632	0	0	717	3,632
Liabilities from shareholder loans	287	64	2,279	1,979	2,566	2,043
Other personnel liabilities from vacation and overtime	1,868	1,773	0	0	1,868	1,773
Personnel liabilities from salary and wages	491	628	0	0	491	628
Social security liabilities	675	453	0	0	675	453
Liabilities from put options	0	168	0	0	0	168
Others	2,210	1,688	0	0	2,210	1,688
Total	**6,248**	**8,406**	**2,279**	**1,979**	**8,527**	**10,385**

Liabilities from turnover tax and other taxes totalling kEUR 717 (2006: kEUR 3.632) represent turnover tax in an amount of kEUR 605 (2007: kEUR 3,199) and wage and church taxes of kEUR 71 (2007: kEUR 433). The previous year's figure additionally includes land transfer tax in an amount of kEUR 41 (2007: kEUR 0).

Shareholder loans amounting to kEUR 1,350 (2007: kEUR 1,350) and kEUR 1,216 (2007: 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 2,279 (2007: kEUR 1,979), liabilities in an amount of kEUR 1,979 (2007: kEUR 1,721) have an effective remaining term of more than five years.

Other personnel liabilities totalling kEUR 1,868 (2007: kEUR 1,773) represent accrued vacation commitments in an amount of kEUR 1,222 (2007: kEUR 1,313), accrued overtime of a total kEUR 580 (2007: kEUR 446) as well as liabilities from old-age part-time arrangements in an amount of kEUR 0 (2007: kEUR 14). Other personnel-related expenses amount to kEUR 66 (2007: kEUR 0).

Other liabilities in an amount of kEUR 2,210 (2007: kEUR 1,688) mainly include liabilities for insurance, invoices not yet received, Supervisory Board compensation, deferred income, liabilities to companies in which an interest is held as well as costs for the preparation of the financial statements.

(33) CONSTRUCTION CONTRACTS WITH CREDIT BALANCE AND ADVANCES RECEIVED

Construction contracts with credit balance and advances received include gross amounts due from customers for contract work and corresponding advance payments creating a credit balance.

For long-term construction contracts, the incurred contract costs including recognised revenues in an amount of kEUR 26,045 (2007: kEUR 55,422) were offset against payments received on account in an amount of kEUR 35,102 (2007: kEUR 57,510). This results in a credit balance of kEUR 9,057 (2007: kEUR 2,088).

	12/31/2008 kEUR	12/31/2007 kEUR
Contract costs including realised profits	26,045	55,422
Payments received on account	35,102	57,510
Total	**9,057**	**2,088**

(34) 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 174 (2007: kEUR 299) consist solely of German income taxes, representing trade tax in an amount of kEUR 174 (2007: kEUR 278) and corporate income tax plus an associated solidarity surcharge in an amount of kEUR 0 (2007: kEUR 21).

D. OTHER DISCLOSURES

(35) 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, 2008 to the extent that they are covered by IFRS 7.

kEUR	Measurement category as defined in IAS 39	Carrying amount Dec. 31, 2008	Measure-ment acc. to IAS 39			Fair Value Dec. 31, 2008
			Amortised cost	Fair Value recognised in equity	Fair Value recognised in profit or loss	
ASSETS						
Financial assets	LaR	433	433	0	0	433
Investments in non-consolidated subsidiaries	AfS	23	23	0	0	23
Trade receivables	LaR	5,734	5,734	0	0	5,734
Accounts receivable from related companies	LaR	216	216	0	0	216
Other current financial assets	LaR	714	714	0	0	714
Cash and cash equivalents	LaR	13,353	13,353	0	0	13,353
LIABILITIES						
Hedge-related derivatives	n.a.	266	0	266	0	266
Non-current financial liabilities	FLAC	17,446	17,446	0	0	14,541[1)]
Other non-current financial liabilities	FLAC	2,279	2,279	0	0	2,279
Current financial liabilities	FLAC	5,563	5,563	0	0	5,563
Trade payables	FLAC	8,428	8,428	0	0	8,428
Other current financial liabilities	FLAC	778	778	0	0	778
Thereof aggregated by measurement categories as defined in IAS 39:						
Loans and Receivables (LaR)		20,450	20,450	0	0	20,450
Available for Sale (AfS)		23	23	0	0	23
Financial Liabilities Measured at Amortised Cost (FLAC)		34,494	34,494	0	0	31,589

1) Interest rate of 7.5% used for discounting.

The table below shows the respective figures as of December 31, 2007:

kEUR	Measurement category as defined in IAS 39	Carrying amount Dec. 31, 2008	Measurement acc. to IAS 39			Fair Value Dec. 31, 2008
			Amortised cost	Fair Value recognised in equity	Fair Value recognised in profit or loss	
ASSETS						
Financial assets	LaR	1,216	1,216	0	0	1,216
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	1,854[1)]	1,854[1)]	0	0	1,854[1)]
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[2)]
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	860[1)]	860[1)]	0	0	860[1)]
Thereof aggregated by measurement categories as defined in IAS 39:						
Loans and Receivables (LaR)		37,529	37,529	0	0	37,468
Financial Liabilities Measured at Amortised Cost (FLAC)		43,966	43,966	0	0	41,996

1) The prior-year figures for other current assets and other current financial liabilities were adjusted to reflect a narrower interpretation of the respective definitions.
2) Interest rate of 6.0% used for discounting.

With the exception of financial assets (in 2007) and non-current financial liabilities, the carrying amounts as of December 31, 2008 and December 31, 2007 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.

Value adjustments on LaR resulted in a net gain or loss as defined in IFRS 7.20 in an amount of kEUR 1,620 (2007: kEUR 864).

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

kEUR	Carrying amount	Not overdue	Overdue	
			1 year	> 1 year
12/31/2007	12,456	6,696	5,760	0
12/31/2008	**5,310**	**2,289**	**2,915**	**106**

Value allowances

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

kEUR	**2008**	2007
Balance January 1	**1,113**	**249**
Additions	1,847	876
Releases	227	12
Balance December 31	**2,733**	**1,113**

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.

To minimise default risks, customer orders are never dealt with before 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.

Interest 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.

	12/31/2008 Carrying amount kEUR	12/31/2007 Carrying amount kEUR
Non-current interest-bearing financial liabilities (> 1 year)		
Variable interest rate financial liabilities	5,172	7,181
Fixed interest rate financial liabilities	12,274	15,534
Current interest-bearing financial liabilities (< 1 year)		
Variable interest rate financial liabilities	4,132	4,375
Fixed interest rate financial liabilities	1,431	2,258

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, 2008: kEUR 7,350), 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 market value of this interest rate swap in an amount of kEUR -266 (2007: kEUR -56) as of December 31, 2008 and the resulting deferred tax in an amount of kEUR 75 (2007: kEUR 15) are recognised in equity 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 6.14% (2007: 5.75%).

The following loans have fixed interest rates limited in time:

Lender kEUR	Carrying amount **12/31/2008**	Maturity through	Interest rate in %	Rate fixed through
Sparkasse im Landkreis Schwandorf	295	06/2021	5.45	06/2011
Sparkasse Regensburg	2,566	02/2019	4.80	12/2013
Norddeutsche Landesbank Hannover	1,960	09/2022	5.15	09/2017
Norddeutsche Landesbank Hannover	245	09/2022	5.55	09/2017
Norddeutsche Landesbank Hannover	98	06/2023	5.80	08/2018
Volksbank Mittelhessen eG Gießen	2,240	04/2022	5.30	04/2017
Volksbank Mittelhessen eG Gießen	1,544	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	**2008**		2007	
	+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	+146	-151	+211	-223
Variable interest rate financial liabilities				
Effect on result	-104	104	-58	58
Effect on equity	-104	104	-58	58

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 mainly hedged by the above interest rate swap (payer swap).

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

Currency risks

Schmack Biogas Group companies primarily 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, 2008.

Liquidity risks

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.

On December 7, 2008, the company decided to launch a rights issue with a view to improving the liquidity position.
Gros proceeds from the issue totalled EUR 6.3 million. This effect was reflected in the balance sheet upon the entry in the Commercial Register in January 2009.

General legal risks

The Schmack Biogas 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.

A risk from service and performance guarantees results from new service and maintenance agreements signed in 2008. 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 1,302 (2007: kEUR 577) arrived at by best estimate.

Provisions were created in an amount of kEUR 53 for probable damages payable (2007: kEUR 53).

Collateral

The loan from the Sparkasse im Landkreis Schwandorf (value as of December 31, 2008: kEUR 575) 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 and Hese Biogas GmbH trade receivables were pledged to Bayerische Hypo und Vereinsbank AG, Munich, (value loan as of December 31, 2008: kEUR 7,350).

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, 2008: kEUR 2,566) in 2006. As collateral the company pledged bank balances in an amount of kEUR 780, energy supply revenues and insurance benefits from its all-risk insurance on biogas plants.

In the context of the extension of several loans by Norddeutsche Landesbank Hannover (pro-rata value as of December 31, 2008: kEUR 2,303) 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-und Vereinsbank AG, Munich, to secure all loans extended by this bank (value as of December 31, 2008: kEUR 3,536):

- All current, future and potential claims on current accounts
- All current (kEUR 538), 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 (carrying amounts of kEUR 411 on December 31, 2008 and of kEUR 484 on December 31, 2007).

Overnight money and fixed-term deposits totalling kEUR 1,700 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.

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, 2008: kEUR 4,235). 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 2008, retentions in an amount of kEUR 2,237 (2007: kEUR 3,173) 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 Schmack risk management objectives and methods.

(36) SEGMENT REPORTING DISCLOSURES

The Company's operation is divided into the business divisions Planning and Construction, Service 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.

Sales revenue broke down by region as follows:

	2008 kEUR	2007 kEUR
Germany	50,528	127,018
Rest of EU	16,274	7,582
Non-EU	814	567
Total	**67,616**	**135,167**

Assets and investments are not broken down by regions, given that 90% of the assets and investments refer to Germany.

(37) 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:

	2008 kEUR	2007 kEUR
Interest paid	1,747	1,682
Interest received	293	672
Income taxes paid	160	203

Cash flows from investing and financing activity are acquired on a cash basis. Therefore investments in property, plant and equipment amounting to kEUR 1,098 deviate from the payments amounting to kEUR 954 by a non-cash amount of kEUR 144. Of the total cash balance of kEUR 13,353, an amount of kEUR 2,593 is not freely available.

(38) CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Contingent liabilities

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

Other financial obligations

Schmack Biogas 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 Biogas Group contractual commitments to external parties broke down as follows as of December 31, 2008:

	Due < 1 year kEUR	Due 1-5 years kEUR	> 5 years kEUR	Total kEUR
Operating leases				
Lease contracts for buildings	313	79	0	392
Other rental/lease contracts	929	771	6	1,706
Long-term purchasing and service contracts	1,661	5,369	3,630	10,660
Total	**2,903**	**6,219**	**3,636**	**12,758**

Expenses for operating leases totalled kEUR 1,201 in 2008 (2007: kEUR 1,232). For the liabilities from finance leases, see Notes under item C. (28) Financial Liabilities.

(39) EVENTS AFTER THE REPORTING DATE

In response to the rights offering decided on December 7, 2008, a total of 2,067,737 new registered ordinary shares of no par value were subscribed at an issue price of EUR 3.07 per new share. Upon the entry of the capital increase in the Company Registry on January 26, 2009, the company's share capital increased from EUR 5,976,864 to EUR 8,044,601. The new shares were initially not included in shares trading in the Regulated Market of the Frankfurt Stock Exchange. It is planned to admit them to trading no later than June 30, 2009. A total of 194,773 new shares were issued to existing shareholders during the subscription period. In addition, several investors as well as all members of the Management Board subscribed 1,872,964 non-issued new shares. This brings the gross proceeds from the transaction to a total of EUR 6,347,953.

Following the capital increase, Emerald Technology Ventures AG holds 18.8% (including shares counted pursuant to section 22 para. 1 sentence 1 No. 1 of the German Securities Trading Act (WpHG)), Schmack BioEnergy LLC, Independence, Ohio, USA holds 6.1% and Ulrich Schmack holds 6.0% of the Schmack Biogas shares. Accordingly, the free float, as defined by Deutsche Börse AG, stands at 69.1%.

(40) EMPLOYEES

The Schmack Group maintained a staff of 482 employees (2007: 553 employees), as of year-end, 30 of whom were apprentices and trainees (2007: 31 apprentices and trainees).

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

	2008 No.	2007 No.
Non-office staff	140	157
Office staff	291	296
Part-time employees	45	35
	476	**488**
Apprentices and trainees	31	21
Total	**507**	**509**

(41) 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).

(42) TRANSACTIONS WITH RELATED PARTIES

Individuals in key positions

See item C. (44) 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 and operation of a biogas plant. The net transaction volume with Biogas Steyerberg GmbH in the fiscal year totalled kEUR 275. From the point of view of Schmack Biogas AG, the receivables outstanding amounted to kEUR 68 as at the balance sheet date. Schmack Biogas AG had no transactions with Renion Biogas Verwaltungs GmbH and Renion Biogas GmbH & Co. KG in the fiscal year.

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:

In connection with the joint implementation of a biogas plant construction project in Acron, USA, Schmack Biogas AG charged various materials and freight costs to Schmack BioEnergy LLC. The net transaction volume with Schmack BioEnergy LLC in 2008 amounted to kEUR 81. From the point of view of Schmack Biogas AG, the receivables outstanding amounted to kEUR 76 as at the balance sheet date.

As the company intends to sell the investment in Certified Energy BV, Wanroij, Netherlands, the investment was reclassified to "non-current assets held for sale". No transactions were effected with Certified Energy in 2008.

IMB Verfahrenstechnik GmbH, Frechen, supplied Schmack Biogas AG with a test plant for the processing of fermentation residues in 2007. The net transaction volume with Schmack Biogas AG in the period from January 1, 2008 to December 31, 2008 totalled kEUR 0. 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 results from a fermentation residue processing plant and amounted to kEUR 99, with the receivables outstanding as of December 31, 2008 amounting to kEUR 28. IMB Verfahrenstechnik filed for insolvency in May 2008.

The investment in Bioerdgas Schwandorf GmbH, Schwandorf, was sold to E.ON. The transfer was effected upon payment of the purchase price on November 27, 2008. Up to this date, the net transaction volume was kEUR 961. The receivables outstanding to Schmack Biogas AG as at the balance sheet date amounted to EUR 18.

Other related parties

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

(a) 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, Regensburg.

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

Transactions with related parties in 2008 were as shown below:

Regarding item	Acct. rec. (D) Acct. paybl. (K)	Transaction amount in kEUR	Type of transaction	**Balance Dec. 31. 2008** kEUR
(a) 1)	K	333	Installation, services and project development	0
(a) 1)	D	76	Planning, laboratory services, operator training	40
(b) 1)	D	31	Consumables and small parts	11

1) Transactions between January 1, 2008 and December 31, 2008.

All transactions were made on terms equivalent to those that prevail in arm's length transactions. Valuation allowances in an amount of kEUR 19 (2007: kEUR 0) were established for impaired receivables.

(43) AUDITOR FEES

Auditor fees accrued during fiscal 2008 as shown below:

	2008 kEUR
Auditing	138
Other certification or accounting work	58
Tax consulting	51
Other services	11
Total	**258**

(44) DISCLOSURES ON CORPORATE OFFICERS

Appointees to the Management Board in the reporting period:

NAME AND FUNCTION	OTHER POSITIONS HELD
Werner Rüberg Chairman of the Management Board, Chief Financial Officer - from June 1, 2008 -	No other positions held
Ulrich Schmack Chief Executive Officer - through May 31, 2008 - Vice Chairman of the Management Board - from June 1, 2008 -	No other positions held
Joachim Schlichtig Chief Operational Officer - from June 1, 2008 -	No other positions held
Otto R. Eichhorn Chief Sales Officer - from June 1, 2008 -	No other positions held
Dr. Alexander Götz Chief Financial Officer - through May 31, 2008 -	No other positions held
Dr. Karl Reinhard Kolmsee Chief Sales Officer - through February 29, 2008 –	No other positions held

Total Management Board compensation for fiscal year 2008 was kEUR 1,659 (2007: kEUR 903), of which kEUR 1,135 (2007: kEUR 770) represented non-performance-based components, while kEUR 450 (2007: kEUR 0) represented payments for the termination of employment. An obligation amounting to kEUR 100 (2007: kEUR 0) was included under performance-based Management Board compensation. Expenses on long-term incentive components amounted to kEUR -26 (2007: kEUR 133) due to the resignation of Management Board members in the fiscal year 2008. 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.

Performance-based bonuses are calculated based on EBIT reported on the consolidated financial statements.

In the context of the first and second tranche of the Matching Stock Program (MSP), option rights for phantom stocks in the company were granted to a Management Board member in 2006 and 2007 as a compensation component with a long-term incentive effect. Following the reorganisation of the Management Board, no further option rights were granted in 2008. The option rights from the second tranche lapsed when the respective Board member left the company. Additional information on the MSP is provided under item C. (27) 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 • Advisory Board Chairman, SSB-Antriebstechnik GmbH & Co. KG, Salzbergen
Michael Fehn Managing Director, E.ON Czech Holding AG, Munich Supervisory Board Vice-Chairman	• Supervisory Board Chairman, E.ON Energie a.s., Budweis/Czech Republic • Supervisory Board Chairman, E.ON Trend s.r.o., Budweis/Czech Republic • Supervisory Board Chairman, Pražská plynárenská a.s., Prague/Czech Republic • Supervisory Board Vice-Chairman, Pražská plynárenská Holding a.s., Prague/Czech Republic • Supervisory Board member, Jihomoravská plynárenská a.s., Brünn/Czech Republic • Supervisory Board member, E.ON Distribuce a.s., Budweis/Czech Republic
Horst Kuschetzki Entrepreneur Regular Supervisory Board member	• Advisory Board Chairman, PAS Management Holding GmbH, Neuruppin (through 10/2008) • Advisory Board Chairman, nie wieder bohren ag, Hanau • Supervisory Board Chairman, Karl Wiedemann Wachswarenfabrik GmbH, Deggendorf • Supervisory Board member, Edscha AG, Remscheid • Advisory Board member, Carcoustic International GmbH, Leverkusen • Advisory Board member, Huf Hülsbeck & Fürst GmbH & Co. KG, Velbert

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 2008 came to kEUR 45 (2007: kEUR 58), consisting of fixed salary totalling kEUR 45 (2007: kEUR 58) and variable compensation of kEUR 0 (2007: kEUR 0).

Schwandorf, March 20, 2009

Management Board

Werner Rüberg
Chairman of the Management Board

Ulrich Schmack
Vice Chairman of the Management Board

Joachim Schlichtig
Management Board member

Otto R. Eichhorn
Management Board member

RESPONSIBILTY 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 group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Schwandorf, March 20, 2009

The Management Board

Werner Rüberg
Chairman of the Management Board

Ulrich Schmack
Vice Chairman of the Management Board

Joachim Schlichtig
Management Board member

Otto R. Eichhorn
Management Board member

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 Group Management Report for the financial year from January 1, 2008 to December 31, 2008. The preparation and content of the consolidated financial statements and the Group 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 Group 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 Group 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 Group 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 Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on 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 Group 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 20, 2009

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Bömelburg	Kögler
Certified Public Accountant	Certified Public Accountant

Financial Calendar 2009

April 27, 2009	*Publication of Annual Report*
May 27, 2009	*Publication of Q1 Report*
June 26, 2009	*Annual General Meeting*
August 27, 2009	*Publication of Q2 Report*
November 2009	*Analysts' Conference*
November 26, 2009	*Publication of Q3 Report*

Service & Contact

This Annual Report was compiled as of March 20, 2008 and was published in German and English on April 27, 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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