iQ POWER

Half-Year Report 2014

1st PRIZE 2010
Category Parts
automechanika
innovationaward

www.tuv.com
TÜVRheinland
ID:0000031871
geprüfte Sicherheit

The ECO.
Award-winning
and TÜV tested.

Interim Report 30.June.2014

Management Report

Dear Shareholders and Stakeholders.

In the first six months of 2014 iQ Power AG was able to accomplish significant progress in the execution of its strategy as Licensor for Technology. iQ Power AG was able to accomplish a milestone by posting the first half-year profits in its company history.

The half-year results were as expected. The net revenue for the period was EUR 551k (vs. 1st 6 months of 2013: EUR 12k). The large increase was due to the start of sales of the strategic licensee, Discover Energy and the conclusion of the license contract with the Brazilian licensee including an upfront royalty payment.

The net revenues are a combination of sales margin from plastic parts and license income. Since the cost of plastic was deducted from the net revenue figure, the gross sales were higher. Due to contractual confidentiality commitments, the revenue per licensee may not be disclosed.

The profit after tax was EUR 5k (versus 1st 6 months of 2013: loss of EUR 781k). The total assets of the company were EUR 5,09 million. The equity as a percent of total assets improved to 50% (versus 30.June.2013: 27%).

A sales forecast for the total year 2014 can not be made at this time due to the unclear situation at the licensee and Joint Venture, iQ Power Asia, Gwangju/Korea and the early phase of sales of the strategic licensee, however iQ Power AG anticipates a continual and steady increase in revenues in the 2nd half of 2014. Given the lean cost structure and the good results from the first six months, iQ Power AG anticipates a significant improvement in all financials for 2014. Net profits for the entire year 2014 is questionable but cannot be ruled out.

The successful capital increase and results from the first half of 2014 has strengthened the financial stability of the company significantly. Unfortunately, due to technical difficulties among the banks, the capital increase was not able to be closed out by the reporting date, however it is anticipated that in the coming weeks all shares will be issued to investors.

The financing of the strategy to source own tooling for the many and varied plastic parts of the new IQP-2 technology remains a challenge, on which management is actively working currently. The IQP-2 parts can be used almost universally by all battery manufacturers. This allows a much quicker integration of the iQ Power technology at existing battery factories. Licensees must no longer risk capital to create their own tooling for the plastic parts.

Although tooling exists for the most important battery sizes, there remains a large number of tools to be produced to complete the necessary product portfolio. In addition to passenger car sizes, tooling for all of the commercial battery sizes must be sourced. This is especially important because many potential licensees see commercial sizes as the best use of iQ Power technology.

The company accomplished a significant step towards OEM business through the conclusion of the license agreement with the Brazilian battery manufacturer, Moura Batterias. Management is in various stages of discussions with several OEM-oriented battery manufacturers. OEM automotive manufacturers are under pressure to reduce CO2 and fuel consumption and are using increasingly the start-stop engines to meet the tighter regulations. iQ Power technology increases the cycle lifetime of the starter battery, which is a key criteria for batteries under the stress of multiple starts and stops per day. iQ Power technology is affordable and has no negative side effects on the electrics or electronics of the vehicle.

With the sub-license for iQ Power Licensing AG from iQ Power Asia, previously exclusive territories were made available to new licensees, most prominently Discover Energy (Hong Kong und Vancouver). Although iQ Power AG still anticipates working with iQ Power Asia long-term and a expects significant revenues from iQ Power Asia, the sub-license decouples the fortunes of iQ Power AG from the Korean plant.

The re-start of operations in Korea have been delayed due to prolonged negotiations between the shareholders and management. A solution has not yet been reached but it is anticipated in the near future.

Sales in the North America from the Licensee, Smart Battery, started in 2013 and could be a significant contributor to license income, however the amount of sales activity is unclear at this point in time.

CEO

Charles Robert Sullivan

iQ Power AG, Zug

Interim Consolidated Financial Statements as at 30 June 2014

Unaudited

Consolidated Balance Sheet

in EUR 1.000	Notes	30. 6. 2014	31.12. 2013
Assets			
Cash and cash equivalents	10	791	65
Trade receivables		515	57
Receivables against associated companies		87	87
Prepayments to suppliers		200	0
Other receivables		181	129
Current assets		**1.774**	**338**
Property, plant and equipment		176	175
Intangible assets		653	747
Participation in associated companies	11	2.168	2.168
Longterm financial assets		322	326
Non-current assets		**3.319**	**3.416**
Total assets		**5.093**	**3.754**
Liabilites and equity			
Accounts payable trade		170	483
Other liabilites		23	51
Accrued expenses		897	949
Accruals		113	318
Convertible bond		260	289
Other loans	12	329	76
Current liabilites		**1.792**	**2.166**
Accruals		389	212
Borrowings from shareholder		373	363
Non-current liabilites		**762**	**575**
Share capital		13.495	12.390
Additional paid-in capital and other reserves		14.227	13.811
Treasury shares		-5	-5
Accumulated deficit		-25.178	-25.183
Equity	**14**	**2.539**	**1.013**
Total liabilities and equity		**5.093**	**3.754**

Accompanying notes are integral part of consolidated interim financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in EUR 1'000 except per share data	Jan.-Jun. 2014	Jan.-Jun. 2013
Revenues	551	12
Cost of sales	0	0
Gross Margin	**551**	**12**
Research & Development expenses	-165	-195
Administrative Expenses	-355	-534
Operating result	**31**	**-717**
Financial income	13	0
Financial expense	-33	-64
Earnings before tax	**11**	**-781**
Tax	-6	0
Income (Loss) after Tax	**5**	**-781**
Non-controlling interests	0	0
Saheholders of iQ Power AG	5	-781
Other comprehensive income, net of tax	**0**	**0**
Total comprehensive income for the reporting period	**5**	**-781**
Non-controlling interests	0	0
Shareholders of iQ Power AG	5	-781
Undilluted and diluted earnings (loss) per share		
Earnings (loss) per share continuing operations	0,00	-0,01

Accompanying notes are integral part of consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CASHFLOW

in EUR 1.000	Jan.-Jun. 2014	Jan.-Jun. 2013
Net earnings (loss) after tax	5	-781
Adjustments:		
Financial result – net	20	64
Depreciation, Amortisation and Impairment	125	118
Other non-cash expenses	1	13
Net cashflow before changes in working capital	**152**	**-586**
Increase accounts receivables and other receivables	-710	-88
Increase/Decrease trade liabilities and other liabilities	-341	186
Decrease accrued expenses and accruals	-80	-215
Operating cashflow from continuing operations	**-979**	**-703**
Interest paid	-6	-19
Net cash used in operating activities	**-985**	**-722**
Interest received	0	0
Investments in tangible assets	-31	-30
Repayments received from financial assets	0	26
Net cash used in discontinuing opeartions	0	-436
Net cash used in investing activities	**-31**	**-440**
Free cashflow	**-1.016**	**-1.162**
Proceeds from borrowings	329	0
Repayments of borrowings	-76	-150
Repayments of convertible loan	-35	-23
Proceeds from issuance of shares (net)	1.524	828
Net cash from financing activities	**1.742**	**655**
Net increase/decrease in cash and cash equivavalents	**726**	**-507**
Foreign exchange variation	0	0
Cash and cash equivalents at beginning of the year	65	937
Cash and cash equivalents at end of reporting period	**791**	**430**

Accompanying notes are integral part of consolidated interim financial statements.

Consolidated Statement of Change in Equity

in EUR 1.000 except number of shares	Number of shares	Share capital	Additional paid-in capital and other reserves	Treasury Shares	Accumulated deficit	Equity
Balance as at 1.1.2013	**642.937.404**	**11.142**	**13.414**	**-5**	**-23.482**	**1.069**
Other comprehensive income					0	0
Net loss after tax					-781	-781
Total comprehensive income					**-781**	**-781**
Issuance of shares/preference shares	79.024.240	650	371			1.021
Expense on issuance of shares			-193			-193
Balance as at 30.6.2013	**721.961.644**	**11.792**	**13.592**	**-5**	**-24.263**	**1.116**
Balance as at 1.1.2014	**788.257.455**	**12.390**	**13.811**	**-5**	**-25.183**	**1.013**
Other comprehensive income					0	0
Net income after tax					5	5
Total comprehensive income					**5**	**5**
Issuance of shares/preference shares	134.897.399	1.105	637			1.742
Expense on issuance of shares			-218			-218
Convertible bond valuation			-3			-3
Balance as at 30.6.2014	**923.154.854**	**13.495**	**14.227**	**-5**	**-25.178**	**2.539**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2014

1. General information

Die iQ Power AG ('the company') is the parent company of iQ Power Group ('the Group'). iQ Power AG is responsible for central management and administrative functions in addition to the financing function for the Group.

iQ Power is a battery technology company that licences its innovative technology to battery manufactures. The centrepiece of it's iQ technology is efficency-enhancing automatic electrolyte mixing for car starter batteries. iQ Power focusses on licence business and active marketing measures of its own patented technology.

Revenues will be generated by granting of technolgy licenses to battery manufactures. Features of iQ Power's licence model include payment of licence fees by every battery unit sold by licence partner. In addition to this cantractually fixed licence fee, depending on the contract and shareholding, iQ Power also benefits from profits generated by respective partners in case of joint ventures with licensee.

The company has ist registered office in Zug, Switzerland. The company is a joint-stock company under Swiss law.

It's common shares are listed and traded on regulated market (General Standard) of Frankfurt Stock Exchange.

It's voting and preference shares (WKN A1J7TW / ISIN CH0199540599) are registered and traded on the OTC of the Berlin Stock Exchange since 30 June 2014.

The preferred shares carry the exact same dividend rights and similar voting rights as the common shares.

These half-year interim consolidated financial statements as at 30 June 2014 were approved for publication by the board of director's on 4 August 2014.

2. Basis of preparation of the half-year report

The attached consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income for the six months to 30 June 2014 and 2013, the consolidated statement of cash flows for the six months to 30 June 2014 and 2013, the consolidated statement of changes in equity for the six months to 30 June 2014 and 2013 and the explanatory notes have not been audited and were prepared for the interim report.

These interim consolidated financial statements are condensed and have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. These should be read in conjunction with the audited IFRS consolidated financial statements of iQ Power AG as at 31 December 2013. The accounting policies used in the interim consolidated financial statements are the same as those used in the consolidated financial statements for the 2013 financial year.

In the opinion of the company's management, these unaudited interim consolidated financial statements contain all the standard adjustments made on an ongoing basis to ensure a true and fair view of the company's business performance in interim reporting periods. The results of the six months up to 30 June 2014 do not necessarily serve as a basis for forecasts of future business performance.

The interim consolidated financial statements were prepared in Euro. Unless specified otherwise, all amounts are given in thousands of euro (EUR thousand). Rounding may mean that individual figures given in this report do not add up exactly to the given total and that percentages are not the exact result of the figures presented.

The separate financial statements of the consolidated companies were prepared as at the same date as the interim consolidated financial statements.

The information in the notes relates to iQ Power unless stated otherwise.

3. Summary of significant accounting policies

Accounting policies are the same as those used in audited consolidated financial statements as at 31 December 2013 with exceptions below.

Recently adopted accounting pronouncements

As of 1 January 2014 iQ Power adopted IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities and consequential amendments to IAS 27, Separate Financial Statements (amended 2011) and IAS 28, Investments in Associates and Joint Ventures (amended 2011). IFRS 10 provides a comprehensive concept of control in determining whether an entity is to be consolidated, IFRS 11 provides guidance on accounting for joint arrangements by focusing on rights and obligations of the arrangement and IFRS 12 provides comprehensive disclosure requirements for all forms of interests in other entities. The standards are applied on a retrospective basis. The adoption of the new standards did not have a material impact on the Company’s Consolidated Financial Statements; disclosures according to IFRS 12 will be provided in the Notes to the 31 December 2014 annual Consolidated Financial Statements.

As of 1 January 2014 iQ Power adopted IFRS 13, Fair Value Measurement. The new standard defines fair value and standardizes disclosures on fair value measurements of both financial and non-financial instrument items. The standard is applied on a prospective basis. The adoption of IFRS 13 did not have a material impact on the Company’s Consolidated Financial Statements.

In addition iQ Power adopted as of 1 January 2014 IFRIC 21 Levies for the first time. IASB issued IFRIC Interpretation 21 Levies, which was developed by the IFRS Interpretations Committee. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation is applied on a prospective basis, which did not have a material impact on Group Financial Statements of iQ Power.

Recent accounting pronouncements - not yet adopted

In November 2013, the IASB issued IFRS 9, Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39), which introduces new regulations regarding the application of hedge accounting and which provides corresponding additional disclosure requirements, to better reflect an entities’ risk management activities especially with regard to managing non-financial risks, and to provide enhanced information on these activities. The amendments permit to separately adopt the requirement of IFRS 9 to present the effects of own credit risk on liabilities designated at fair value through profit or loss in other comprehensive income without adopting IFRS 9 in its entirety. The mandatory effective date of IFRS 9 of annual reporting periods beginning on or after January 1, 2015 was removed, however, early application is still permitted. The European Financial Reporting Advisory Group postponed its endorsement advice on IFRS 9. The Company is currently assessing the impacts of adopting IFRS 9 on the Company’s Consolidated Financial Statements.

4. Use of estimates and assumptions

The preparation of interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts at the date of the financial statements as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Income taxes

The income tax expense in the interim reporting period is calculated on the basis of the effective tax rate currently anticipated for iQ Power for the year as a whole.

6. Reclassifications

The presentation of certain prior-year information has been reclassified to conform to the current year presentation. To enhance transparency, the Company changed retrospectively the presentation of financing of discontinued operations in the Consolidated Statements of Cash Flows for 2013.

7. Financial risk management

7.1. Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The group's overall risk management system focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the group's financial performance.

Risk management is carried out by the management using policies approved by the Board of Directors. The Board of Directors provides written principles for overall risk management.

(a) Market risk

(i) Foreign exchange risk

The group operates in Switzerland and Germany. In addition supply and sale oriented transactions will be handled in USD for business activities in the US and Asian market. The functional currency of the group and its subsidiaries is the Euro. Smaller volumes of liabilities are also denominated in other currencies. Based on the limited fluctuation risk of the Swiss franc as at 30 June 2014, the management is not aware of any substantial exchange rate risks.

(ii) Cash flow and fair value interest rate risk

The group is not currently exposed to interest rate risks as it does not hold any substantial investments, other than cash, which could be impacted by fluctuations in interest rates.

(b) Credit risk

Credit risk is managed at group level. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, loans and prepayments to third parties, as well as credit risks with regard to third parties, including outstanding receivables, when the contracting party is unable or unwilling to fulfil its obligations. The credit rating of business partners in constantly monitored in order to counter this risk. Valuation allowances are recognized by the group companies based on standard procedures, which are verified by central bodies. Regular management reviews are also carried out to ensure that potential risks are identified in good time and that necessary measures are initiated in order to minimize risk.

(c) Liquidity risk

Group finance monitors rolling forecasts of the group's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times so that the group is able to pay back liabilities when due. During first half in 2014, the company obtained financing through the issue of new shares. These liquid funds are used to absorb ongoing expenses until they can be financed by revenue generated from the licensing business.

The management expects planned expenditure to be financed by means of existing liquid funds and the expected operating cash flow from licensing revenue.

7.2. Capital risk management

The group's capital management objectives are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Liquidity as well as earnings before interest, tax and depreciation and amortization (EBITDA) represent central control parameter for iQ Power.

8. Seasonal nature of business

Given the seasonal nature of battery business, higher unit sales/licence income and operating earnings are usually expected in the second half of the year than in the first six months. Sales in first six month of 2014 are mainly influenced by an upfront royalty for an exclusivity licence.

9. Segment reporting

Operating segments are reported in accordance with the internal reporting structure of the iQ Power Group. Reports are prepared for continuing operations. The management has determined the operating segments based on the reports reviewed by the CEO, which are used to make strategic and operating decisions. The company has focused on its licencing business. Up to 30 June 2014, revenue from continuing operations was limited to licence proceeds. As at the end of the reporting period, iQ Power regards its business as a single operating segment.

10. Cash and cash equivalents

in EUR 1.000	30.6.2014	31.12.2013
Cash and cash equivalents	**791**	**65**

Cash and cash equivalents are held in different currencies (EUR, CHF and USD). The balances are measured in euro at the closing rate as at the balance sheet date and any exchange gains/losses are recorded in the income statement.

11. Participation in associated companies

in EUR 1.000	30.6.2014	31.12.2013
iQ Power Asia Inc. / 29,4%	2.168	2.168
Smart Battery Inc. / 20%	0	0
Total	**2.168**	**2.168**

iQ Power Asia Inc.

iQ Power Gruppe holds a 29,4% interest (31.12.2013; 29,4%) in iQ Power Asia Inc. as at 30 June 2014. Reduction in this interest is expected during 2014 as a result of the entry of further investors into the equity holding, which led to dilution of iQ Power AG's notional shareholding and strengthening of the company's equity base. Negotiations to these delaings are still ongoing.

Smart Battery Inc.

The purpose of the joint venture company Smart Battery Inc., USA, is to manufacture and sell high-quality starter batteries for the automotive market in the USA, Canada and Mexico. iQ Power AG provides leading battery technology in the form of licences. In return, it holds a 20% stake in Smart Battery Inc. and also receives licence fees for each battery sold. iQ Power is not obliged to make financial contributions. Balance sheet data is not available for Smart Battery Inc.

12. Other loans

Disclosed other loans are free of interest. Balance as at 31 December 2013 (TEUR 76) was fully converted into shares during issue of shares in April (debt-to-equity).

Balance as at 30 June 2014 will be fully converted into shares as part of issue of shares during third quarter 2014 (private placement, debt-to-equity).

13. Capitalisation measures until 30 June 2014

iQ Power has stipulated excercise period for options with ISIN CH0210038169 during period from 8 April to 22 April. As a result of this capitalisation measure 18.203.484 preference shares with a gross value of TEUR 255 habe been subscribed and funded.

In addition, on the basis of the authorization in Article 3a of the Articles of Association, the Board of Directors has resolved to increase the share capital by up to CHF 1.540.000 by issuing up to 154.000.000 voting and preference registered shares with a nominal value of CHF 0.01 per share to be paid up in full.

Existing shareholders will be granted an indirect subscription right in proportion to their existing equity interest. The subscription ratio is 3.65 to 1 for registered shares with a nominal amount of CHF 0.03 each (ISIN CH0020609688) and 10.93 to 1 for voting and preference registered shares with a nominal amount of CHF 0.01 each (ISIN CH0199540599). This means that ownership of 3.65 registered shares or 10.93 voting and preference registered shares of iQ Power AG will entitle the owner to subscribe for one new voting and preference registered share at a subscription price of EUR 0.01275 per voting and preference registered share.

Above and beyond their subscription rights, shareholders can also submit an additional binding subscription order for an unlimited number of new voting and preference registered shares (oversubscription) allowing them to subscribe for new voting and preference registered shares that are not subscribed for as part of the indirect offer for subscription.

Following the subscription right offer preferred shares with a gross value of EUR 1.27 million have been subscribed (99.560.039 preferred shares). With private placement 17.133.876 preferred shares (gross value: TEUR 218) were allocated to the capital increase.

14. Equity

Allocation of share capital	Nominal value in CHF	Number of shares	Total in 1.000 CHF	Total in 1.000 EUR
Registered shares	0,03	476.389.396	14.291	9.827
Treasury shares	0,03	-244.695	-7	-5
		476.144.701	**14.284**	**9.822**
Resitered shares with preferential rights	0,01	446.765.458	4.468	3.668
Total as at 30 June 2014		**922.910.159**	**18.752**	**13.490**

No transactions were performed with treasury shares, whether in first half 2014 nor during fiscal year 2013. Total remains 244.695 since 1 January 2012.

Movement of registered shares without preferential rights	Nominal value in CHF	Number of shares	Total in 1.000 CHF	Total in 1.000 EUR
Total shares issued as at 31.12.2012		**472.361.644**	**14.171**	**9.729**
Total conversions of convertible bonds, not yet recorded as at balance sheet date	0,03	4.027.752	120	98
Total shares issued as at 31.12.2013		**476.389.396**	**14.291**	**9.827**
Total conversions of convertible bonds, not yet recorded as at balance sheet date	0,03	0	0	0
Total shares issued as at 30.6.2014		**476.389.396**	**14.291**	**9.827**

Movement of registered shares with preferential rights	Nominal value in CHF	Number of shares	Total in 1.000 CHF	Total in 1.000 EUR
Total shares issued as at 31.12.2012		**170.575.760**	**1.706**	**1.413**
Issuance of shares	0,01	141.292.299	1.413	1.150
Total shares issued as at 31.12.2013		**311.868.059**	**3.119**	**2.563**
Issuance of shares	0,01	134.897.399	1.349	1.105
Total shares issued as at 30.6.2014		**446.765.458**	**4.468**	**3.668**

On 30 June 2014, the company's share capital recorded in the commercial register totalled to CHF 17.991.968,02 and was divided into 456.878.276 registered shares with a par value of CHF 0,03 and 428.561.974 preference shares with a par value CHF 0,01. The share capital is fully paid in. As at the balance sheet date, 19.511.120 (shares without preferential rights) resulting from the conversion of convertible bonds into shares and 18.203.484 (shares with preferential rights) resulting from options rights program in 2014 were not yet entered in the commercial register.

In accordance with the 2011 convertible bond prospectus for the securities with ISIN: DE000A1GXE20, iQ Power AG retains the right to issue remaining convertible bonds in a private placement up to a total amount of EUR 5.6 million notional.

15. Contingent liabilities

iQ Power Group had until the beginning of 2014 contingent liabilities in respect of BaFIN investigations in connection with potential violations of ad hoc disclosures and potential insider trading during 2009. iQ Power received in June 2014 a fine with a penalty of TEUR 42. Company has accepted required penalty and paid out contribution in month of July after having examined the case by an external attorney of law. As a result of that, incident is completed. Liability is accrued as at 30 June 2014. There are no further contingencies existing.

16. Events after the end of the reporting period

There were no significant events after the end of the reporting period.

iQ Power AG
Metallstrasse 6
CH—6304 Zug
Switzerland

Tel.: +41 (0)417680363
Fax.: +41 (0)417680368

info@iqpower.com
www.iqpower.com