Annual Report 2013

Solar-Fabrik Aktiengesellschaft
für Produktion und Vertrieb
von solartechnischen Produkten

Freiburg im Breisgau


STILL
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At a glance

Corporate indicators

		2013	2012	2011	2010	2009
Sales revenue[1)]	EUR '000	52,965	96,223	176,899	227,279	135,561
Earnings before taxes (= EBT)[1)]	EUR '000	-7,967	-22,509	-338	9,801	-36
Operating income (= EBIT)[1)]	EUR '000	-7,993	-21,853	776	11,349	1,644
EBITDA[1)]	EUR '000	-7,197	-4,410	4,624	14,888	4,590
Net result for the period	EUR '000	-8,174	-22,134	-4,150	7,667	-4,214
Net earnings per share	EUR	-0.58	-1.69	-0.28	0.64	-0.36
Total assets	EUR '000	28,425	39,696	82,428	82,586	63,297
Equity capital	EUR '000	21,767	29,756	52,143	56,440	42,537
Equity ratio	%	76.6	75.0	63.3	68.3	67.2
Profitability of equity capital	%	-31.7	-54.1	-7.6	15.5	-9.9
ROI	%	-24.0	-36.2	-5.0	10.5	-6.1
Profit margin[1)]	%	-15.4	-23.0	-2.3	3.4	-3.1

[1)] Figures for continued operations.

1 Preface from the Chief Executive Officer

Dear shareholders, employees and friends of Solar-Fabrik.

Last year was yet another year of turmoil in our industry, however, due to quite different reasons. The 'Undertaking', an agreement between the European Trade Commission and the Chinese Chamber of Commerce for Import and Export of Machinery and Electronics (CCCME) on minimum import prices of solar cells and panels, which was accepted by virtually all major Chinese manufacturers, has had a major impact on the European market. Those European manufacturers anticipating price increases and therefore hoping for relief were disappointed, again: market price levels have not recovered, at least not in a sufficient way to return to full cost coverage, and therefore market consolidation continued at the same pace.

As a consequence the well-known industry pattern could be watched again. A couple of European players had to file for insolvency and/or restructure their debt, generating huge losses for their shareholders, bondholders, and the likes. Others just gave up by discontinuing their business, among those even well-known brands. In this environment, Solar-Fabrik AG has proven strength, once again: We are one of the very few stock-listed companies without debt restructuring, despite our clear operational loss, and that shows in our financials. We are confident to have reached the bottom of our business and are now focused to generate growth again.

Growth in Europe remains a challenge, though, and requires quite an effort. While the German EEG (regulation for feed-in-tariff) has been a blueprint for many countries around the world it is now being politically demolished step-by-step. This has a huge impact on our European neighbors and leads to unstable market developments all over Europe, where a single digit market growth in 2014 seems to be the best of all cases. Our asset in this market situation is the fact that we are one of less than half dozen European manufacturers left, commanding a three digit megawatt capacity.

Given this position Solar-Fabrik considers itself on the winning side of the market consolidation. As a well-established German manufacturer our Premium brand gains ever more attraction in a growing market for modules "made-in-Germany", further supported by every event when yet another German competitor either gives up or is acquired by Eastern players.

The market is set to grow. Power from solar production has reached cost levels well below grid parity in many European countries. This new, economic attractiveness paves the way towards new business models, based on direct consumption schemes. This newly emerging market is still heavily impacted by administrations, supportive or destructive, but it cannot be stopped. Solar-Fabrik offers a complete product portfolio as well as system solutions tailored to specific needs for this emerging market.

I'ld like to say a big 'Thank You!' to thank all our employees for their commitment and flexibility, and another big 'Thank You!' to our shareholders for their continued support.

Yours sincerely,

Guenter Weinberger

2 Report of the supervisory board

for fiscal 2013

Supervisory board of Solar-Fabrik AG:
Gerhard E. Kulbe, Klaus Grohe, Norbert Binder, Dr. Winfried Hoffmann, Carolin Salvamoser, Alfred T. Ritter

Ladies and gentlemen,

In fiscal 2013, the supervisory board once again closely monitored the management board's management of business. It intensively and regularly dealt with the Company's position and prospects along with special issues. The supervisory board was directly involved in all decisions that were material for the Company and the Group.

In the year under review, the supervisory board performed its duties specified by the law, corporate bylaws, the supervisory board's rules of procedure, and the recommendations of the German Corporate Governance Code. It regularly provided the management board with consulting services and monitored the management board's activities. The management board regularly provided the supervisory board with the latest comprehensive information – both in writing and orally – regarding corporate planning, business developments, strategic further development, and the Company's and Group's current position, including its risk situation. The supervisory board is convinced that the Company has effective control and early-detection systems. The management board explained deviations in business trends from planned strategy in detail. The management board coordinated corporate strategy with the supervisory board. The supervisory board discussed in detail business transactions that were crucial for the Group based on the management board's reports. To the extent required by law or corporate bylaws, the supervisory board voted on the management board's motions for resolutions after thorough examination and consultation.

A total of five meetings took place during the year under review. In addition, resolutions were drawn up by mail in cases where it was deemed necessary. One member of the supervisory board attended less than half of the meetings.

The supervisory board chair was also in regular contact with the management board, and the chief executive officer in particular, outside of normal meetings and provided him with advice on strategy, the development of business, material business events, and risk management.

Along with regular meetings, the supervisory board's current composition and size ensure that the board works efficiently and is able to discuss all strategic issues and details. For this reason, the supervisory board has not created any committees.

Issues that the supervisory board dealt with in detail in plenary sessions

Solar-Fabrik AG's revenue, results, and employment trends were the focus of attention at the regular plenary sessions both at the level of the Group's lines of business and at the consolidated level in addition to material holdings. The liquidity and financing situation was also regularly discussed in detail. In particular, the supervisory board made sure that the compliance system and the internal controlling and risk management system are effective and high-performance. The management board regularly provided comprehensive information about corporate planning, strategic further development, business developments, and the Company's and Group's current position, including risks and compliance management. The supervisory board kept abreast of corporate developments, particularly the effects of changes in Germany's Renewable Energy Act and the policy situation in the most important export markets. Over the course of several meetings, the future position of Solar-Fabrik AG's operations was discussed.

Supervisory board meetings and resolutions

At the meeting on February 3, 2013, the Company and the Group's current position and strategic focus were on the agenda. In addition, a decision was made not to appoint a new chief financial officer and to extend Mr. Martin Schlenk's contract on the management board for an additional three years up to April 30, 2016.

At the meeting for the financial report on March 22, 2013, the management report and consolidated financial statements for 2012 were approved after a thorough review and discussion, as was the supervisory board report for 2012. In addition, the

management board's motion to appoint three new authorized representatives was approved. The revised bylaws for the management board and the supervisory board were also approved. The meeting also focused on general market trends in photovoltaics, the Company's situation, and preparations for the supervisory board's annual efficiency audit and the general meeting of shareholders in 2013. Finally, the new accounting director was introduced to the supervisory board.

The meeting on July 2, 2013, which took place after the shareholder meeting, focused on the Company's current position, particularly in terms of Solar-Fabrik AG's main sales markets and trends in import duties imposed on Chinese solar products. Furthermore, a decision was made to extend Mr. Günter Weinberger's position on the management board by an additional five years up to December 31, 2018.

The supervisory board meeting on September 9, 2013 focused in particular on the general business environment along with Solar-Fabrik AG's net assets, financial position, and earnings situation, particularly in terms of trends in prices and sales volumes for photovoltaic panels, the development of the Installation segment, and possible expansions of the product portfolio. The Company's risk management system was also discussed.

On November 18, 2013, the last meeting in person for the year took place. It focused in particular on preparations for the 2013 audit – with the auditor from PricewaterhouseCoopers attending – along with current business trends. An agreement was also reached about business planning for 2014 to 2016 after a detailed discussion. The supervisory board made sure that the Company and the Group's in-house control system and system for compliance and risk management are effective.

Written resolutions were adopted in particular concerning consent to dissolve the subsidiary Solar Application Srl, consent for the appointment of management board member Martin Schlenk as executive director of the subsidiaries SolSystems Energy GmbH and Solar Application Srl, and consent for the appointment of management board member Günter Weinberger as executive director of the subsidiary Solar Application GmbH.

Corporate governance

The supervisory board dealt intensively with the content of the German Corporate Governance Code and its further development; it also kept up with discussions about changes in the Code. Information on corporate governance and a detailed report on the amount and structure of compensation for the supervisory board and management board are included in the annual report for fiscal 2013 as a corporate governance report. The compensation report is also a component of the summary consolidated report and management report for fiscal 2013. In fiscal 2013, a declaration of conformity with Section 161 of the German Securities Act was signed by the management board and supervisory board and published on our website. On March 7, 2014, the management and supervisory boards approved the annual declaration of conformity, which has also been made permanently accessible to shareholders on the Company's website. Solar-Fabrik AG complies with the recommendations in the current version of the German Corporate Governance Code and will continue to do so with the exceptions listed in the declaration of conformity.

Approval of the annual report and consolidated financial statements

The annual report created by the management board in accordance with the German Commercial Code for fiscal 2013 of Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb von solartechnischen Produkten and the 2013 consolidated financial statements created in accordance with international reporting standards - including the summary group report and management report - were audited by PricewaterhouseCoopers AG of Freiburg in accordance with the resolution by the general meeting of shareholders of Solar-Fabrik AG on July 2, 2013 and the contract granted to said auditing firm by the supervisory board. In each case, the auditor issued an unqualified audit opinion.

The annual report and consolidated financial statements, the summary Company and Group management reports, and the auditor's reports were available to all of the supervisory board members in due time and were the subject of the supervisory board's financial statements meeting on March 24, 2014. In the meeting, the supervisory board comprehensively reviewed the documents in the presence of the auditor, who reported the essential results of the audit and fielded numerous questions. In addition to the statements of Solar-Fabrik AG and the Group and the summary Group and Company management report, the supervisory board also discussed the risk management system. The supervisory board approved the results of the audit and did not have any objections to the final result after its own review. Accordingly, the supervisory board approved the annual report and the consolidated financial statements for fiscal 2013 presented by the management board on March 24, 2014; the annual report is thereby established.

Personnel

Mr. Martin Friedrich left the Company's management board on April 30, 2013 at his own request to tackle new challenges outside of the photovoltaics sector.

On February 3, 2013, the supervisory board resolved to extend the appointment of management board member Martin Schlenk from April 30, 2013 to April 30, 2016.

On July 2, 2013, the supervisory board resolved to extend the appointment of management board member Günter Weinberger from December 31, 2013 to December 31, 2018.

No conflicts of interest that needed to be reported to the supervisory board for any members of the management board or supervisory board occurred in the year under review.

The supervisory board would like to thank members of the management board, company employees, and employee representatives at all consolidated subsidiaries for the good work in fiscal 2013. They all worked together constructively, responsibly, and with a great deal of personal commitment last year.

Freiburg, Germany, March 24, 2014

On behalf of the supervisory board

Dr. Winfried Hoffmann
Chairman of the supervisory board

Management board



Günter Weinberger
Chief Executive Officer

Martin Schlenk
Chief Operating Officer

Martin Friedrich
Chief Financial Officer
(up to April 30, 2013)

Supervisory board



Dr. Winfried Hoffmann
Chairman
Consultant for applied solar energy

Gerhard E. Kulbe
Deputy Chairman
Registered auditor, tax advisor

Norbert Binder
Lawyer



Klaus Grohe
Entrepreneur

Alfred T. Ritter
Entrepreneur

Carolin Salvamoser
Deputy director

4 Combined Management Report for the Group and Management Report 2013

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb
von solartechnischen Produkten, Freiburg i. Br.

4.1 Key corporate information

Strategic positioning

In general, the silicon-based photovoltaic value chain begins with the production of solar-grade silicon, followed by the manufacture of ingots and wafers from silicon and the further processing of the wafers into solar cells. Solar power module manufacturers then make solar panels out of the solar cells, and system providers sell and install these solar panels along with electronics, storage, and installation solutions for customers.

The Solar-Fabrik Group develops, manufactures, markets, and sells solar modules and systems as well as technical products and components used to employ and convert solar energy. Power generation from photovoltaic arrays set up and operated by the Company are other business sectors along with project development, installation, and the assembly and procurement of photovoltaic arrays; furthermore, technical and economic consulting is now offered during the operational phase. But from the current vantage point, the sale of turnkey PV production plants to investors is preferred. By shifting and expanding its business scope, Solar-Fabrik aims to generate additional added value and simultaneously become less vulnerable to fluctuations in demand for solar power modules and systems.

The goal of Solar-Fabrik AG is to consolidate its position as a provider of solar power modules and systems in Germany and to expand / set up exports on international growth markets. We will achieve these goals primarily by continuously expanding our customer base and systematically penetrating selected European and international markets. The focus will continue to be on other countries in Europe, but new sales markets – such as Turkey – are also to be entered.

The diversification of our products and services is an additional strategic component. Solar-Fabrik currently posts most of its revenue from the solar power modules that it produces itself, which it sells as components for grid-connected systems. At the same time, Solar-Fabrik aims to reach its strategic targets by offering more niche products, thereby becoming less dependent on the highly competitive mass market. Another strategic component is the idea of being a one-stop shop. Solar-Fabrik aims to offer more assembly equipment and possibly storage technology along with sales of panels and inverters. In such areas, additional margins can be generated.

Solar-Fabrik's business activities and organizational structure

In fiscal 2013, there were no changes in business fields. In addition to the segment of Solar Power Systems, the segments of Installation and Power Generation also did business.

As at December 31, 2013, Solar-Fabrik AG has direct or indirect control of seven subsidiaries. They perform various local tasks, such as sales and marketing, consulting, research and development, customer support, training, and administration.

A complete list of subsidiaries is included in the scope of consolidated financial statements in the Notes.

Solar Power Systems:
Solar-Fabrik AG

Solar-Fabrik AG of Freiburg develops, manufactures, markets, and sells solar modules and systems as well as technical products and components used to employ and convert solar energy. Complete Solar Power Systems consist of solar power modules, an inverter, and installation technology. Solar-Fabrik offers its customers complete system solutions with carefully coordinated quality components. Our company philosophy and current market position reflect our unwavering commitment to quality and the building of a base of satisfied long-term customers whose return business we can count on.

As one of the pioneering companies in the photovoltaics industry with many years of expertise in the field, Solar-Fabrik AG is considered very credible, and this reputation has enhanced our image in the industry, an image that is further reinforced by our commitment to quality. For sales, Solar-Fabrik AG works with specialist installers of electronics and

heating systems along with wholesalers and project developers. Solar-Fabrik's main sales markets are in Europe.

Solar-Fabrik offers comprehensive consulting to ensure customer retention. Solar-Fabrik AG not only sells solar modules, but also supports buyers in developing their own solar competence, for instance in seminars where customers get technological and sales training. We also work closely with our customers to ensure that their complete photovoltaic systems are optimally configured.

Solar-Fabrik AG has its headquarters in Freiburg, Germany. In 2013, high-quality modules were manufactured in a manufacturing facility with three lines with modern manufacturing technology in accordance with German quality criteria. Total capacity is currently 150 megawatts (MWp) annually with three shifts around the clock five days a week; three shifts seven days a week would increase that maximum theoretical annual capacity to 210 MWp. With around 15,000 square meters of floor space, the plant offers ample potential for further expansion in Freiburg. In production, the focus is on utmost quality. International testing procedures have confirmed that Solar-Fabrik's panels are extremely durable. For instance, the Company provides a power production warranty for up to 25 years. Furthermore, numerous studies conducted by the Fraunhofer Institute for Solar Energy Systems have confirmed that Solar-Fabrik's systems provide above-average power yields. Solar panel owners expect their systems to provide high energy returns and run reliably. With its inverter portfolio, Solar-Fabrik AG offers devices that completely fulfill these requirements. Solar-Fabrik generally offers inverters with three-phase grid connections. They combine the stability and long service life of large central inverters with the flexibility and great efficiency of string inverters without transformers. Inverters turn direct solar current into alternating current electronically without a transformer, thereby ensuring high efficiency rates across a very wide output spectrum.

Installation:

SolSystems Energy GmbH

The current policies in a number of countries provide PV arrays with attractive returns in some cases, though they vary greatly because of differences not only in policy, but also in local weather conditions. The margins attainable along the solar value chain in the fields of project development and installations are therefore currently among the largest in the entire value chain. However, the continuing drastic cuts to be made to solar feed-in tariffs, for instance in Germany, will reduce the return on investments in such arrays and probably also put pressure on margins in project planning. Project and installation business is not limited to Germany, but it is increasingly difficult to get financing for projects in general and specifically at affordable costs in the wake of the financial and debt crisis, especially in light of lower array returns.

SolSystems Energy GmbH, a consolidated company, develops photovoltaic projects via project firms founded for specific projects and also purchases photovoltaic projects during the planning phase. The projects are mainly large arrays on industrial and commercial roofs or ground-mounted arrays for commercial power production or in-house consumption. SolSystems Energy GmbH sets up turnkey photovoltaic arrays. When the projects have been completed, the project firms are sold to investors. Alternatively, SolSystems Energy GmbH also takes over the project planning of photovoltaic arrays as a general contractor. In 2013, SolSystems Energy GmbH had 5 employees (previous year: 5) on average and did business throughout Germany. In our estimation, the lower project returns for system construction mean that arrays will increasingly be built to provide power directly to commercial array owners, thereby reducing the average power purchase price and hedging against possible future price increases.

Power Generation:

Solar Application GmbH

Solar Application GmbH's mission is essentially to operate a PV array that generates electricity on the roof of the production plant in Freiburg. The company generates revenue from the sale of power. A technical partnership agreement was also signed with a local mechanical engineering firm; the contract specifies that Solar Application can use a highly automated string soldering machine at no charge in order to further develop it based on market demand.

Research and development

Solar-Fabrik constantly improves and optimizes the quality, service life, performance, and yield of its solar panels. Sample panels undergo accelerated aging in climate chambers and are continually tested throughout the process. These aging tests go far beyond what is required by DIN standards. The effects of changes to products and processes are investigated before they are taken up in ongoing panel production. Furthermore, quality inspections during panel production are constantly refined, and new, improved tests are implemented. The goal is to ensure that solar panels from Solar-Fabrik always fulfill the strictest requirements. On a case-by-case basis, third-party institutes are contracted to perform specific investigations that go beyond the technical abilities at Solar-Fabrik AG. In 2013, 52,000 euros (previous year: 170,000 euros) was spent on research and development.

Solar-Fabrik is taking part in the German Environmental Ministry's research project on the reliability of PV panels. Solar panels from Solar-Fabrik generally have DIN EN 61730 and 61215 certification as assessed by third-party institutes.

At Solar-Fabrik, research and development focuses on in-house process optimization. The expenses incurred for development are not material. As a result, the Group's research and development costs cannot be capitalized, as specified by international accounting standards (IAS 38).

Financial performance indicators relevant for management

Solar-Fabrik AG employs an important control instrument: a Management Information System (MIS) based on key figures. The MIS collects key data from all areas within the Company, analyzes it, and communicates regularly to executives, authorized managers, and department heads. The main company departments are procurement, production, sales, and finance, which includes liquidity management and human resources. In addition, the supervisory board at Solar-Fabrik AG receives the MIS assessment each month at the same level of detail as the management board does. Furthermore, segmental reporting and an overview across multiple periods are provided to the supervisory board to make possible a deeper analysis of the (monthly) statements presented.

The main financial performance indicators used for internal monitoring are defined as follows.

Revenue:

Although Solar-Fabrik cannot influence market prices because of its small share of the market, revenue is seen as a crucial parameter for monitoring. The product of sales volume and price is a good indicator of how Solar-Fabrik is positioned internationally.

Sales volume:

Measured in megawatts (MWp), sales volume is an important monitoring parameter because of the significant reduction in market prices over the past few years. Management believes that a higher sales volume reflects successful growth in national and international sales.

Gross profit and gross margin:

In our material-intensive sector, gross profit and gross margin are central monitoring parameters. Gross profit is the absolute difference between overall performance and material expenditures. The gross margin is the difference between overall performance and material expenditures relative to overall performance. We believe that these parameters best reflect the ongoing realization of improved procurement terms and the pressure on market prices brought about by intense competition.

EBIT and EBIT margin:

We use various monitoring indicators of our performance to assess attainment of our main corporate objectives. In terms of finance, we pursue the central goal of profitability, measured in terms of earnings before interest and taxes (EBIT) or the EBIT margin, which expresses EBIT in relation to sales revenue. We believe that these indicators most clearly show the success or failure of our operations.

4.2 Economic report

Basic conditions and business trends

The market for renewables in the main sales markets of Solar-Fabrik AG

Germany

Renewables have mainly grown in the German power sector because of the Renewable Energy Act (EEG), which became law on April 1, 2000. The share of renewables in gross power consumption reached 22.9 percent in 2012. That share of power supply is to increase to 40-45 percent by 2025 and to 55-60 percent by 2035.

Power consumers cover the cost of renewable power that falls under the EEG. In this policy design, grid operators are required to give priority access to renewable power on their grids. They pay the feed-in tariff specified in the EEG to the renewable power producer for each kilowatt-hour of renewable electricity exported to the grid. The feed-in tariffs are guaranteed for 20 years at the rate applicable when the system is connected to the grid. The tariffs vary based on the generation cost of different power types, such as wind and solar. Feed-in tariffs are regularly reduced for new systems to provide manufacturers with an incentive to invest in further technical developments and greater cost efficiency.

The transmission grid operators market this "EEG electricity" on the power exchange. The power price on the exchange is generally below the price that grid operators have to pay renewable power producers. Transmission grid operators can pass on the difference between the feed-in tariff and the exchange price to consumers. The grid operators expect the difference to be around 20 billion euros in 2014. The resulting "renewables surcharge" (EEG-Umlage) of 6.24 cents/kWh is added to the power price.

In 2012, the EEG was revised, and a new policy was introduced: the market bonus model for direct marketing. It allows facility operators to look for their own buyers instead of receiving feed-in tariffs from grid operators. The facility operator then receives the difference between the feed-in tariff and the market price, which is specified as a monthly average. An additional bonus is paid to cover the cost of this marketing.

When the EEG's rules for photovoltaics were amended and took effect on April 1, 2012, the planned 15 percent reduction in feed-in tariffs (degression) for photovoltaic arrays was implemented ahead of schedule (originally planned for July 2012); in addition, a one-off reduction was made, and further scheduled monthly reductions based on previous installation volumes were introduced. At the same time, the law now stipulated that photovoltaics would no longer be eligible for feed-in tariffs when 52 gigawatts in total is installed. The EEG was not amended in 2013, but the reforms from 2012 continued to be in effect. Specifically, the monthly reductions in feed-in tariffs for new systems are recalculated every three months for subsequent months.

In the past few years, the growing renewables surcharge in particular has led to a discussion about reforming the EEG and the surcharge. The coalition agreement calls for an amended EEG by the summer of 2014.

France

For a long time, France was one of the countries that focused almost exclusively on nuclear power in their energy policies. In the past few years, however, the French government has passed laws to help the country catch up with other European states in the field of renewables. Nonetheless, the policies implemented to promote renewables have successively been cut back. At the beginning of October 2013, new feed-in tariffs for solar power went into effect in France. The degression was very low, however. Now, operators of new arrays with a capacity of up to nine kilowatts receive 29.10 cents per kilowatt-hour. The previous rate was 29.69 cents per kilowatt-hour. The energy regulatory authority CRE now pays 14.51 cents per kilowatt-hour for power from newly installed roof arrays with capacities up to 36 kilowatts; the old rate was 15.21 cents per kilowatt-hour. Arrays up to 100 kilowatts now only get 13.81 cents per kilowatt-hour. The previous rate was 14.45 cents per kilowatt-hour. Power from all larger arrays up to 12 megawatts now receives 7.55 cents per kilowatt-hour instead of the

previous 7.76 cents if the generator is connected to the grid after October 1, 2013.

In late September 2013, French President François Hollande once again cast doubt on feed-in tariffs for renewables, and his statements created a lot of uncertainty within the renewables sector. A new policy is to be implemented. The government has entered into negotiations about policy changes for renewables with the industries affected. Specifically, the question is what policy France can adopt to promote renewables in the future. By the end of 2013, however, no solution had been announced. The photovoltaics industry in France urgently needs to overcome the current uncertainty.

Italy

In 2013, solar power production from photovoltaics increased by 19 percent to 22.1 terawatt-hours (TWh), according to grid operator Terna (Rome). PV arrays thus covered seven percent of power demand in Italy – the largest share worldwide, and roughly two percent above the share of PV in Spain and Germany. Including hydropower, wind, and geothermal, renewables produced 94.9 TWh of electricity in Italy last year, thereby covering 30 percent of the country's power demand. PV arrays in Italy produce a relatively large amount of electricity even in the winter compared to countries to the north. In December 2013, PV covered 3.6 percent of Italy's power demand. In June and August, it even covered ten percent.

It is unlikely, however, that power production from photovoltaics will increase further in Italy in 2014 because feed-in tariffs for new solar arrays were discontinued in the summer of 2013 after the budget had been used up.

Market researchers at Mercom Capital believe the photovoltaics market in Italy shrank by 2 GW in 2013 after peaking at 9.2 GW in 2011. The analysts believe it will shrink slightly in 2014 again.

Power grid regulator Gestore dei Servici Energetici (GSE) announced that the budget of 6.7 billion euros had been used up on June 6, 2013. The second register in the Conto Energia V, worth 58 million euros, had not yet been completely spent, but the remaining amount had already been earmarked for small arrays that did not need to be registered. Since then, arrays are only eligible for feed-in tariffs if they comply with strict rules. PV arrays that receive a permit from the GSE have up to 12 months to be built, so projects are still being completed in Italy.

Switzerland

Swiss solar energy association Swissolar says that some 2.1 square kilometers of photovoltaic panels was installed in the country in 2013. Around one percent of the country's electricity came from solar, roughly twice as much as in 2012. The market is expected to stagnate this year, however. Further growth will mainly depend on future policy decisions, which will determine how quickly photovoltaics becomes a main source of power for Switzerland.

A survey of major installation firms conducted by Swissolar at the end of 2013 painted a positive picture. In 2013, some 300 megawatts (MWp) of PV arrays was newly installed, equivalent to about 2.1 square kilometers of panels. The country's total installed capacity was around 730 MW at the end of 2013, and the share of solar power made up around one percent of total consumption for the year as a whole.

Solar energy is growing much faster than expected by the Bundesrat. In its energy strategy presented in September, solar is only expected to reach two percent of power supply by 2020 – a level that will in fact be reached in 2016. If the Swiss energy transition becomes a reality, a target of five percent would be more appropriate – or as much as is provided by the Mühleberg nuclear plant, scheduled to be shut down no later than 2019. With its nearly six percent share of solar power, Germany shows what can be done in just a few years.

In absolute terms, newly installed capacity rose by a third in 2013 year over year, though growth has slowed down as a percentage. Stop-and-go policies made private building owners and key investors alike hesitate last year. From August to October 2013, the uncertainty about future feed-in tariffs destabilized the market until the Bundesrat adopted a practical solution. The situation should calm down for the next two years thanks to a parliamentary initiative that took effect. The market volume has been increased for feed-in tariffs for photovoltaics in 2014 and 2015. The upfront bonus for small

systems that is likely to become available on April 1, 2014, will at least encourage investments among private building owners and support the market. This upfront bonus will be paid without a waiting period, which greatly facilitates construction. The right of citizens to consume their own solar power is another innovation. This step makes photovoltaics especially attractive to private homeowners, and in 2014 the market volume should at least be at the level of the previous year as a result.

Austria

For Austria, 2013 was a strong photovoltaics year. Hans Kronberger, president of the Austrian Photovoltaics Association, estimates the country had 612.9 MWp of installed PV at the end of 2013. The Association says that the green power tariff is a major reason for this success. The "OeMAG" financed 150 MWp of PV.

The Green Electricity Act of 2002 has been revised several times. The green power tariff is available to systems larger than 5 kWp. A tariff is paid for the power exported to the grid. The feed-in tariffs are determined by an annual green electricity ordinance and apply for 13 years. Each year, the budget for photovoltaics is eight million euros. The ordinance on feed-in tariffs for green power from 2012 stipulates for the first time that an additional upfront investment bonus is offered for roof arrays in addition to the feed-in tariff; in addition, the policy was limited to cover systems from 5 to 350 kWp.

Belgium

Belgium traditionally consists of the regions of Flanders and Wallonia. Each region has different funding tools and rates. The Flemish government resolved to stop issuing green certificates for PV arrays smaller than 10 kWp on February 17, 2014. After grid fees were done away with in November 2013, this change is another setback in support for PV arrays. The government in Wallonia also passed a new policy for solar power in 2013. Solwat, as the region's green power certificate program was called, was done away with. Compensation was also retroactively cut for arrays that received funding from the policy. A new policy called Qualiwatt was launched for privately owned arrays with a capacity up to ten kilowatts. Under the new rule, producers of solar power receive credit on their power bills. One special feature is that the credit – and hence, the array's return – is adjusted by household income. In addition, preference is to be given to arrays that use cells and panels made in Europe. No details have been published, however. Existing arrays that fall under the previous certificate rule will receive a minimum of 6.5 cents per kilowatt-hour until the investment has been completely repaid. The new law will take effect once the Council of State and the power and gas regulator (CwaPE) have reviewed it.

Overall economic development

The German economy continued to gain impetus in 2013. There is a consensus among market researchers that overall economic output increased further in the third quarter. However, the growth rate was probably lower than in the second quarter, when improved weather allowed postponed work to be resumed. Production and employment figures did not rise as quickly, an indication of this effect. In addition to the robust growth of private consumption, investments in equipment probably gained a foothold in particular, as indicated by the greater growth of domestic sales of investment goods in the third quarter. Domestic demand provided the main growth momentum, while foreign trade probably made up a smaller share of the growth pie. Overall, economic growth strengthened and broadened. Preliminary indicators suggest that production growth will pick up slightly in the next few months. Economic dynamics will, however, remain modest in light of the only moderate demand from outside Germany.

Over the course of the year, the global economy picked up steam but not much speed. The consequences of the financial crisis have not yet been completely overcome. In many countries and regions, the required structural adaptation will probably continue to slow down economic growth for some time. Momentum currently comes primarily from industrialized countries. Emerging countries cannot keep up the faster growth that has become common in recent years. The US economy will pick up a bit now that the budget debate has died down. Japan's expansive monetary and fiscal policy continues to stimulate its economy. The euro zone is making slow progress in the structural adaptations required, but they are gradually providing momentum for growth. Overall, the prospects for the global economy are slowly becoming brighter.

In 2013, gross domestic product within the euro zone changed by -0.34 percent. In 2014, the growth rate is expected to be posted at 1.1 percent. Monetary policy, which is very expansive in many places, supports the upturn now making itself felt, though there is not enough momentum to keep the process going on its own in light of the great amount of debt. Against this backdrop, the German economy will probably improve in 2014. In 2013, gross domestic product grew by a mere 0.4 percent, but 1.6 percent growth is expected in 2014.

The photovoltaics industry

For companies in the PV sector, 2013 was once again very difficult, as the large number of bankruptcies within the industry over the course of the year shows. As a result of surplus capacity and lower feed-in tariffs, prices continued to plummet. There is still massive surplus capacity for PV panel production. Economic problems and the great changes within the industry are acute, and no improvement is in sight. To make matters worse, in 2013 market players faced additional uncertainty from the lengthy discussion about import duties to be imposed on Chinese manufacturers of solar panels and other components, a debate that did not die down until the middle of the year, when minimum prices were implemented. For us as a panel manufacturer that got most of its solar cell volume from China for a number of years, the discussion entailed uncertainty and risks regarding possible retroactive import duties. Even after minimum prices were introduced, it took months for market participants to deal with the rules.

Analysts at Bank Sarasin estimate that some 36.8 GW of PV was newly installed around the world in 2013, with 44.7 GW expected in 2014. In contrast, EPIA expects global newly installed PV capacity in 2013 to come in at 27.8 GW in its moderate scenario and 47.0 GW in its policy-supported scenario. For 2014, 30.8 to 52.6 GW is expected. Both Bank Sarasin and EPIA think the market will be much more modest in Europe. Bank Sarasin expects 14.8 GW in 2013 and 15.3 GW in 2014. EPIA, on the other hand, expects newly installed PV capacity in Europe in 2013 to come in at 9.7 GW in its moderate scenario and 16.8 GW in its policy-supported scenario. The forecast for 2014 is 9.3 or 18.4 GW. Both institutes thus see future market growth mainly outside of Europe, as do we. In Europe, Bank Sarasin believes that Turkey, Portugal, the Czech Republic, Switzerland, Greece, and Spain will be the main growth drivers up to 2016 along with a lot of new PV markets, such as Bulgaria, Romania, Serbia, and Slovenia.

In addition, the new solar report from the European Photovoltaic Industry Association (EPIA) forecasts continued strong growth for new solar power installations over the next few years. In 2017, EPIA expects global newly installed PV capacity to come in at 48.3 GW in its moderate scenario and 84.2 GW in its policy-supported scenario. In the European market relevant for Solar-Fabrik, EPIA's forecast for newly installed capacity is 12.8 and 27.6 GW in the two scenarios.

The development of Solar-Fabrik in fiscal 2013

Solar Power Systems:
Solar-Fabrik AG

In 2013, this segment employed 223 people on average (previous year: 240). Furthermore, an average of 7 (previous year: 18) temporary workers were employed at Solar-Fabrik AG in 2013.

In 2013, the theoretical total capacity of three-shift operation around the clock five days a week was 150 MWp, compared to 210 MWp for operation around the clock seven days a week. In Q3, Solar-Fabrik completed its investment project to complete the existing external photovoltaic lamination line at the front end. This line has been in the ramp-up phase since the end of September. The main other investments concerned increasing the degree of automation. Compared to the past few years, capacity utilization in the Solar Power Systems segment was satisfactory. Three-shift production began in March and continued until the end of June. In Q3, in contrast, production mainly took place in two shifts. Greater demand from Italy and orders for large-scale projects allowed production to return to three shifts part of the time in Q4. In fiscal 2013, production focused on panels with a rated output ranging from 190 to 265 watts-peak as standard rooftop or building-integrated modules. In fiscal 2013,

Solar-Fabrik AG sold some 85 MWp (previous year: approximately 103 MWp) of solar power modules. The volume for the Solar Power Systems segment was 83 MWp (previous year: 96 MWp) if the intragroup sales volume is not included. Based on EPIA's current estimates for 2013 of 16.8 GW, the Group thus had approximately a 0.5 percent share (previous year: 0.6 percent) of the European market. Sales remained below the original volume forecast, mainly because energy policies changed for the worse during the year in the main sales markets for Solar-Fabrik; furthermore, prices continued to drop, which made investors hesitant. In addition, investigations into import duties meant that semi-finished solar panels were not further processed or sold. Modules accounted for around 96.5 percent of our sales in 2013 (previous year: around 93.8 percent).

Expansion into export markets is a high priority at Solar-Fabrik AG. Exports made up some 62 percent (previous year: 63 percent) of total sales revenue in 2013. For the current fiscal 2014, management has set the goal at a minimum of 60 percent for exports. Nonetheless, energy policies in individual countries in particular continue to influence regional sales positively or negatively. For Solar-Fabrik AG, such countries as Italy, France, Belgium, Switzerland, Denmark, the Netherlands, and Austria were crucial foreign sales markets. Solar-Fabrik AG consistently works to expand its active customer base in selected target markets. For instance, sales staff have been hired in Germany, France, and Italy. Management plans to further expand the sales team.

As in the previous year, Solar-Fabrik did not enter into any basic annual agreements with customers. In times of constantly falling prices and weaker demand, sales volumes have proven to be insufficiently reliable for such contracts. For reasons of customer satisfaction, it therefore seemed all the more important to implement made-to-order production so that customer demand can be met exactly.

There is no scarcity of raw materials anymore in light of falling demand in 2013 resulting from cuts in support for photovoltaics on nearly all major sales markets, which has led to the current surplus capacity. The result is much lower prices, which temporarily stabilized as a result of the price dumping negotiations and the implementation of minimum prices for Chinese products. In the last quarter of 2013, however, prices began falling again when Asian manufacturers from outside China began offering their products at prices far below those of the Chinese minimum prices.

For procurements, Solar-Fabrik AG generally pursues long-term strategic partnerships in its contracts. Nonetheless, successively renegotiating procurement prices with individual suppliers can be a good idea when market prices drop. Such renegotiations were essential in the past and will continue to be if prices continue to drop. Third parties cover all of the Company's cell demand. In the selection of suppliers, general reliability, quality, and prices play decisive roles. Although the parties generally wish to have long-term deals, all other supply relations are based on loose agreements. In this way, individual orders can be placed as need be at market prices. To make itself more independent of suppliers and take advantage of purchasing potential on the current market, Solar-Fabrik now has a wide range of companies to source from. The market is quite dynamic at the moment, making it all the more important for Solar-Fabrik to be able to react flexibly and quickly to changes. Like every year, contracts for the supply of raw materials and consumables were renegotiated in requests for proposals, and additional suppliers underwent in-house qualification. In 2013, the Company internally qualified more solar cells from outside China in order to have alternatives in light of the minimum prices for Chinese solar cells. The strategic goal is to get high-quality materials at competitive prices in addition to ensuring a supply of raw materials.

Power Generation:
Solar Application GmbH

In 2013, a PV array on the roof of Solar-Fabrik's production building in Freiburg was installed and is to be maintained within the Company. The electricity generated is exported to the grid, and a feed-in tariff is received. The 65,000 euros (previous year: 0 euros) in revenue mainly affect the Company's operating results. Based on a profit transfer agreement between Solar-Fabrik AG and Solar Application GmbH, annual surplus is posted at 0 euros for 2013 (previous year: 0 euros).

Solar cell production:
Solar-Fabrik Services Pte. Ltd./
Solar Energy Power Pte. Ltd.

In Singapore, Solar-Fabrik Services Pte. Ltd. (SFS), a former 100 percent subsidiary of Solar-Fabrik AG, and its 90 percent subsidiary Solar Energy Power Pte. Ltd. (SEP) together made up the solar cell production segment. This segment was consolidated for the last time on January 31, 2013.

Installation:
SolSystems Energy GmbH

Fiscal 2013 was characterized by the final processing of a number of projects that took longer than expected in the Installation segment. In addition, two smaller roof arrays and a larger ground-mounted array – all of them in Germany – were also built. In total, 2.9 MWp (previous year: 6.9 MWp) was installed in the fiscal year. Two of these projects with a collective 2.8 MWp are reported under unfinished products at the lower of manufacturing cost or net realisable value on the balance sheet date.

Financial position and financial performance of Solar-Fabrik AG

The enterprise financial statements for Solar-Fabrik AG from January 1 to December 31, 2013, were compiled in accordance with Germany's Commercial Code (HGB).

Profit situation

In fiscal 2013, Solar-Fabrik AG posted a loss of 9.858 million euros after a loss of 20.461 million euros in the previous year. The profit margin (= annual net loss / revenue * 100) was thus -18.4 percent (previous year: -24.4 percent). Earnings before interest and taxes (EBIT) amounted to -9.964 million euros (previous year: -20.546 million euros). The difficult market situation within the photovoltaics industry considerably influenced this result. The financial statements for 2012 forecast a negative EBIT margin for 2013.

In 2013, Solar-Fabrik AG posted 53.577 million euros in revenue, some 36.1 percent (30.264 million euros) less than in 2012. This reduction is a result of both lower sales volume and lower prices. In 2013, the sales volume fell year over year by 17.5 percent to 85 MWp (previous year: 103 MWp). At the same time, the average sales price fell year over year by around 21.1 percent. For 2013, Solar-Fabrik expected both lower sales volume and lower prices, and hence lower sales revenue.

Sales trends and the regional distribution of sales were very volatile in 2013. In all of Solar-Fabrik's main sales markets, governmental support for solar was cut back, reducing the possible returns from PV arrays in these markets. Along with massive overcapacity on the market, general investor reluctance led to drastic price reductions over the year. The investigations into import duties on imports of Chinese solar products ended in 2013 when minimum import prices were implemented. They initially stabilized sales prices but were not able to keep prices from falling further over the long run. Because the market continues to have massive surplus capacity, suppliers from outside China (such as Taiwan and Singapore) entered the market with prices lower than the minimum for China.

The incoming orders worsened considerably to 60.108 million euros in 2013 after 93.620 million euros in the previous year. This reduction is mainly the result of more difficult market conditions in the German and overall European photovoltaic sector. As a result, the backlog of orders shrank, sometimes to only two to four weeks. Procurement and production planning had to react because overseas shipping of raw materials sometimes takes longer than the backlog mentioned above.

Better purchasing terms compensated for the drop in sales prices. Overall, the gross margin (= 1 - material expenses/ overall performance * 100) improved considerably from 10.2 percent in the previous year to 19.4 percent in 2013. This percentage increase also led to an absolute increase in gross profit from 8.448 million euros in the previous year to 10.454 million euros in 2013 thanks to better procurement terms. In addition, one-off burdens that occurred in 2012 (value adjustments of down payments on inventory in the amount of

1.159 million euros and on related module supplies in the amount of 305,000 euros) were not repeated in 2013. Likewise, the lower value adjustments on raw materials and consumables in the amount of 483,000 euros compared to 3.603 million euros in the previous year improved the gross margin. The change year over year is the result of the planned drawdown of the inventory of raw materials and consumables along with the slower price reductions on the procurement market.

Other operating income mainly includes 203,000 euros of income from the reimbursement of utilities to third parties (previous year: 156,000 euros) and 97,000 euros in insurance compensation (previous year: 280,000 euros). In the previous year, the 4.001 million euros in other operating income also included income from the release of 341,000 euros in provisions and a contractual supplier's compensation in the amount of 3.070 million euros.

In 2013, personnel expenses fell by 4.8 percent from 11.015 million euros in the previous year to 10.489 million euros. This reduction is mainly the result of the decreasing number of staff members during the course of 2013. The average number of Solar-Fabrik employees fell during the fiscal year from 240 in 2012 to 223 in 2013 (including trainees, without management board). In addition, the management board was reduced from three to two members in the second quarter. This development was partly offset by various one-off staff provisions in December 2013. As sales revenue dropped, the personnel expenses ratio (= personnel expenses / overall performance * 100) increased from 13.3 percent in the previous year to 19.4 percent in 2013. Performance per employee (average number of employees, not including management board) fell by around 29.9 percent to 242,000 euros in 2013 (previous year: 345,000 euros), mainly due to lower sales revenue.

Year over year, write-offs from tangible assets, intangible assets and current assets dropped by 12.112 million euros to 3.702 million euros in 2013. Probable permanent impairment led to unscheduled write-downs of 2.564 million euros in intangible assets and 10.210 million euros in tangible assets in 2012. In 2013, there was a one-off effect from write-downs of current assets, which exceed the write-downs common in the Group, in the amount of 3.336 million euros as a result of a correction in the carrying amount of receivables from a subsidiary.

Other operating expenses increased by 606,000 euros to 6.772 million euros. For instance, expenditures for warranties increased mainly because there were 1.178 million euros as allocations to provisions compared to 43,000 euros in 2012. Furthermore, utility costs also increased floor space costs by 130,000 euros to 2.022 million euros (previous year 1.892 million euros); and finally, value adjustments on receivables and losses from receivables also increased due to the difficult market conditions. They rose from 104,000 euros in the previous year to 335,000 euros in 2013. In contrast, advertising and travel costs fell by 218,000 euros to 287,000 euros (previous year: 505,000 euros), while insurance costs fell from 214,000 euros to 176,000 euros. Furthermore, legal and consulting fees fell by 140,000 euros to 214,000 euros (previous year: 354,000 euros). On the balance sheet date, 69,000 euros (previous year: 5,000 euros) in currency conversion losses was reported.

The financial result of 108,000 euros (previous year: 52,000 euros) was mainly the result of other interest income from associated companies in the amount of 480,000 euros (previous year: 662,000 euros). Interest on bank deposits is reported at 82,000 euros (previous year: 208,000 euros), with interest expenses for consortium funding utilized being reported at 74,000 euros (previous year: 812,000 euros). In addition, 400,000 euros (previous year: 0 euros) in financial assets had to be written down in 2013 to correct the carrying value of the holding in an associated company.

Financial position

In line with the principles and objectives of finance management, the focus at Solar-Fabrik is on the management of liquid financial resources. Cash reserves allow Solar-Fabrik to pay immediately any liabilities that need to be repaid. In addition, it is the task of finance management to devote any excess in liquidity to the best short-term investment in order to exploit the current low interest rates on bank credit as well as possible.

Enforcement of a balanced, sound ratio of equity and borrowed capital serves as the basis of financial management at Solar-Fabrik AG. The equity ratio (= equity capital / total assets * 100) is reported at 79.8 percent (previous year: 83.1 percent), which is only slightly less than in the previous year despite the negative annual result mainly due to the repayment of bank liabilities; the figure remains very high in an industry comparison. The balance sheet sum has dropped considerably year over year because bank liabilities were significantly reduced and because of the annual net loss.

On October 21, 2009, Solar-Fabrik AG signed a consortium loan agreement worth a total of 19 / 17 million euros with a bank consortium that included Germany's Kreditanstalt für Wiederaufbau (KfW). Loan A finances the investments reported under investment planning in the amount of seven million euros, of which six million has been utilized. Loan B (for the financing of operational resources) was completely repaid on schedule by September 30, 2012. Loan A is to be repaid in 16 equal quarterly installments by September 30, 2014. The first installment was due on December 30, 2010. The interest rate for Loan A is currently 3.08 percent per annum. This interest rate applies for the period of fixed interest up until September 30, 2014. As of December 31, 2013, the remaining loan is worth 1.125 million euros. The loans are offered and granted contingent upon key financial figures defined in the loan agreement (net debt ratio and adjusted equity ratio). The management of Solar-Fabrik AG confirms fulfillment of these requirements each month. Furthermore, the Group has a global assignment for assets as security, and an assignment of goods held in stock for warehouses with changing stock.

The cash flow from current operations is posted at 3.711 million euros (previous year: -6.370 million euros) in fiscal 2013. This considerable improvement despite the negative annual net result of -9.858 million euros (previous year: -20.461 million euros) was mainly the result of a reduction in inventory, trade receivables, and other assets in the amount of 8.543 million euros. Because of the purchase of tangible assets, a cash outflow for investments is reported at -596,000 euros (previous year: -1.694 million euros). The cash flow from financing is reported at -1.500 million euros (previous year: -16.500 million euros) resulting from the scheduled (partial) repayment of Loan A from consortium financing.

In total, financial resources increased as a result by 1.615 million euros to 15.314 million euros.

Asset situation

On the balance sheet date, Solar-Fabrik AG had a sound asset structure. Long-term capital (equity) covers some 1,369 percent (previous year: 1,858 percent) of long-term asset values (fixed assets). Year over year, fixed assets decreased by around 9.6 percent to 1.602 million euros, mainly as a result of a one-off write-down of financial assets not compensated for by the moderate investment volume in 2013. At the same time, the annual loss reduced equity by 31.0 percent to 21.921 million euros (previous year: 31.779 million euros). Scheduled repayment reduced long-term bank debt by 1.125 million euros to 0 euros. In particular because of the negative annual net result and the planned repayment of bank debt, the equity ratio fell slightly to 79.8 percent (previous year: 83.1 percent). Short-term assets more than compensate for the total debt in the amount of 5.568 million euros (previous year: 6.467 million euros).

In fiscal 2013, investments in fixed assets are reported at 610,000 euros (previous year: 1.697 million euros). Of that, 307,000 euros was devoted to technical equipment and machines; 136,000 euros to down payments and facilities under construction; 68,000 euros to other systems, operating resources, and office equipment; and 99,000 euros to intangible assets.

Asset intensity (= (intangible assets + tangible fixed assets)/ total assets * 100) rose in 2013 to 5.2 percent (previous year: 3.1 percent), mainly as a result of the reduction in the balance sheet sum.

Inventory decreased by 652,000 euros to 4.747 million euros (previous year: 5.399 million euros) in 2013. The reduction in inventory was the result of lower floating average prices and production and procurement plans that were regularly adjusted according to sales figures. In particular, the devaluation of raw materials and consumables decreased significantly. Raw materials and consumables decreased by 1.064 million euros over the previous year to 2.609 million euros.

At 1.556 million euros (previous year: 1.565 million euros), finished goods and products remained nearly unchanged, while semifinished products increased by 120,000 euros year over year to 281,000 euros. Down payments also rose by 302,000 euros to 302,000 euros year over year.

The average time on stock (= (365 days x average inventory of raw materials and consumables)/material expenses per year) was relatively unchanged at around 26 days (previous year: 27 days). This outcome is mainly the result of the market environment, which remains highly volatile; inventory did decrease considerably as of December 31, 2013, but material expenses over the year also dropped materially.

Trade receivables fell to 2.303 million euros (previous year: 2.743 million euros). Various effects led to this outcome. On the one hand, customers reduced existing payment targets because of the difficult market conditions, often because trade credit insurers reduced credit lines. On the other hand, Solar-Fabrik generated more business with key customers, who were granted extended payment due dates beyond the balance sheet date. The average number of days sales outstanding (= (365 days x average net receivables)/revenue) thereby increased to about 17 days (previous year: 16 days).

Receivables from affiliated companies fell by 11.133 million euros in 2013 to 2.965 million euros. Solar-Fabrik provided financing for projects that its subsidiary SolSystems Energy GmbH is currently constructing or completing. In addition to 7.797 million euros in repayments in 2013, Solar-Fabrik corrected the level of remaining receivables by 3.336 million euros. The two firms have a subordination agreement worth 1.500 million euros for the outstanding receivables.

Solar-Fabrik AG took advantage of six million euros in an investment line, 1.125 million euros of which was still outstanding after regular repayments as of December 31, 2013.

Liabilities from trade payables decreased by 163,000 euros to 741,000 euros on the balance sheet date.

Other liabilities in the amount of 360,000 euros mainly concern liabilities related to wages and salaries, social insurance, and 111,000 euros in payroll taxes and church taxes.

Overall, fiscal 2013 ended with an annual net loss of 9.858 million euros. This loss is mainly the result of the general environment on the photovoltaics market in Germany and throughout Europe. The management board forecast a negative EBIT margin in the annual report for 2012. Despite this unfortunate trend in earnings, the Company managed to considerably reduce receivables, other assets, and inventory in particular year over year thanks to aggressive management of working capital. There were two consequences: first, liquid financial resources improved year over year; second, the balance sheet sum was clearly reduced year over year, so that the annual loss in 2013 only moderately reduced the equity ratio.

Overview of financial position and financial performance of Solar-Fabrik AG over several years

		31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
Sales revenue	EUR '000	53,577	83,841	179,272	230,912	139,962
Overall performance	EUR '000	53,962	82,722	176,458	231,549	137,628
Cost of materials	EUR '000	43,508	74,274	152,011	191,616	116,397
of overall performance	%	80.6	89.8	86.1	82.8	84.6
Personnel expenses	EUR '000	10,489	11,015	13,667	13,465	10,518
of overall performance	%	19.4	13.3	7.7	5.8	7.6
Revenue per employee	EUR '000	240	349	570	719	533
Operating income (= EBIT)	EUR '000	-9,964	-20,546	-1,262	11,131	-1,470
Financial result	EUR '000	108	52	-1,471	-1,423	-1,177
Earnings before taxes (= EBT)	EUR '000	-9,855	-20,494	-2,733	9,708	-2,647
of overall performance	%	-18.3	-24.8	-1.5	4.2	-1.9
Result for the financial year	EUR '000	-9,858	-20,461	-2,737	8,354	-2,651
Number of shares	'000	12,853	12,853	12,853	12,853	11,685
Depreciation on						
Intangible assets	EUR '000	33	2,951	395	444	306
Tangible assets	EUR '000	333	12,863	2,470	2,413	1,691
Current assets	EUR '000	3,336	0	0	0	0
Total assets	EUR '000	27,489	38,248	80,679	80,284	60,282
Equity capital	EUR '000	21,921	31,779	52,240	54,977	40,663
Equity ratio	%	79.7	83.1	64.8	68.5	67.5
Profitability of equity capital	%	-36.7	-48.7	-5.1	17.5	-6.3
EBITDA	EUR '000	-6,262	-4,732	1,603	13,988	527
ROI [1)]	%	-30.0	-34.4	-3.4	11.9	-4.3

[1)] ROI: The return on investment (ROI) is calculated as the result of annual surplus divided by average total capital multiplied by 100.

Financial position and financial performance of the Solar-Fabrik Group

These consolidated financial statements for the period from January 1 to December 31, 2013, comply with the International Financial Reporting Standards (IFRS in the following) as applied in the European Union.

IFRS 5 requires the effects of segments abandoned/sold on results to be reported separately in the income statement as a total amount. The result of business segments abandoned/sold – within the Solar-Fabrik Group, the Solar Cell Production segment – is -195,000 euros (previous year: 338,000 euros). The statements on the Company's profit situation below exclusively concern the continued operations.

Profit situation

In fiscal 2013, Solar-Fabrik posted a periodic result of -8.174 million euros (previous year: -22.134 million euros). The profit margin (= periodic result / revenue * 100) was thus -15.4 percent (previous year: -23.0 percent). Earnings before income and taxes (EBIT) are posted at -7.993 million euros (previous year: -21.853 million euros) for continued operations. The difficult market situation within the photovoltaics industry considerably influenced this result. The financial statements for 2012 forecast a negative EBIT margin for 2013. The two segments of Solar Power Systems and Installation had a significant impact on EBIT for the whole Group. As management forecast, the Solar Power Systems segment finished 2013 with a negative EBIT. This segment's EBIT improved from -22.111 million euros in 2012 to -6.554 million euros, especially because there were no one-off effects in 2013, such as the impairment of 2012. In contrast, the forecast positive EBIT margin in low single digits could not be reached in the Installation segment. This development is mainly the result of difficult PV market conditions in Germany preventing the Company from reaching its expected project volume. This segment saw its EBIT worsened from -163,000 euros in 2012 to -1.473 million euros, in particular because market conditions meant that sales revenue fell from 17.399 million euros in 2012 to 862,000 euros.

For the Group as a whole, the constantly worsening market prospects for the short and midterm over the course of the year led to a smaller sales volume year over year as well as to lower sales prices. As a result, revenue shrank (by 41.258 million euros year over year), and procurement prices for raw materials fell even further. While the gross margin thus increased by 6.5 percentage points year over year, the absolute gross profit fell by 598,000 euros. In 2013, the gross profit did not suffice to cover the predominantly fixed costs in personnel expenses, depreciation, and other operating expenses, resulting in the negative EBIT. Nonetheless, results improved (= EBIT-improvement) considerably year over year by 13.860 million euros because one-off expenditures occurred in 2012 due to impairment (unscheduled depreciation of 2.564 million euros in intangible assets and 10.422 million euros in tangible assets due to probable long-term impairment). In 2013, an impairment test only reduced the Installation segment's total goodwill by 365,000 euros.

Revenue in the reporting period sank by some 45.0 percent to 52.965 million euros (previous year: 96.223 million euros). This reduction is a result of lower sales volume and lower prices. In 2013, the sales volume with third-party customers posted by the segment of Solar Power Systems fell year over year by 13.5 percent to 83 MWp (previous year: 96 MWp). At the same time, average sales prices of solar panels fell by around 21.1 percent year over year from December 2012 to December 2013. Likewise, sales revenue in the Installation segment fell considerably from 17.399 million euros in the previous year to 862,000 euros in 2013. Sales volume and revenue fell far short of expectations for the fiscal year. The lower sales volume and revenue merely reflected the far lower expected returns from turnkey PV arrays, and hence lower expectations for margins from sales. As financing risk increased, only three PV arrays were completed in 2013, and only one of them was actually sold to an investor.

Sales trends and the regional distribution of sales were very volatile in 2013. In all of Solar-Fabrik's main sales markets, governmental support for solar was cut back, reducing the possible returns from PV arrays in these markets. Along with massive overcapacity on the market, general investor reluctance led to drastic price reductions over the year. The investigations into import duties on imports of Chinese solar

products ended in 2013 when minimum import prices were implemented. They initially stabilized sales prices but were not able to keep market prices from falling further over the long run. Because the market continues to have massive surplus capacity, suppliers from outside China (such as Taiwan and Singapore) entered the market with prices lower than the minimum for China.

The incoming orders in the Solar Power Systems segment worsened to 60.108 million euros in 2013 after 93.620 million euros in the previous year. This reduction is mainly the result of more difficult market conditions in the German and overall European photovoltaic sector. As a result, the backlog of orders shrank, sometimes to only two to four weeks. Procurement and production planning had to react because overseas shipping of raw materials sometimes takes longer than the backlog mentioned above. The future backlog of orders in the Installation segment depends on the market situation in Germany. Here, sales of self consumption projects will have to be established in the future, whereas fiscal 2013 and earlier were mainly devoted to sales of projects promising returns to investors.

Better purchasing terms compensated for the drop in sales prices. Overall, the gross margin (= 1 - material expenses/ overall performance * 100) improved considerably from 11.8 percent in the previous year to 18.3 percent in 2013. This increase should not, however, draw attention from the absolute drop in gross profit from 10.781 million euros to 10.183 million euros in 2013 due to the price reductions over the past few years. Furthermore, gross margins developed much differently from one segment to another. As explained above, the gross margin considerably improved in the Solar Power Systems segment, but the Installation segment posted a negative gross margin. It is the result of the considerable worsening of sales revenue in the Installation segment year over year; there were also one-off costs from the reworking of construction projects from previous years, the extent of which only became clear in 2013 and were not completely finished in 2013. For this purpose, 159,000 euros were allocated to the respective provisions (previous year: 1.072 million euros). Likewise, the lower value adjustments on raw materials and consumables in the amount of 483,000 euros compared to 3.603 million euros in the previous year improved the gross margin. The change year over year is the result of the planned drawdown of the inventory of raw materials and consumables along with the slower price reductions on the procurement market.

Other operating income in the amount of 652,000 euros mainly includes 203,000 euros of income of the reimbursement of utilities to third parties (previous year: 156,000) and 97,000 euros in insurance compensation (previous year: 180,000 euros). In the previous year, the 4.001 million euros in other operating income also included income from the release of 341,000 euros in provisions and a contractual supplier's compensation in the amount of 3.070 million euros.

Personnel expenses fell by 531,000 euros from 11.354 million euros in the previous year to 10.823 million euros in 2013, a drop of 4.7 percent. This reduction is mainly the result of the decreasing number of staff members during the course of 2013. The average number of Solar-Fabrik Group employees fell during the fiscal year from 240 in 2012 to 229 in 2013 (including trainees, without management board). In addition, the management board was reduced from three to two members in the second quarter. This development was partly offset by various one-off staff provisions in December 2013. As sales revenue dropped as a result of lower prices and sales volume, the personnel expenses ratio (=personnel expenses / overall performance * 100) worsened from 12.4 percent in the previous year to 19.4 percent in 2013. Performance per employee (average number of employees, not including management board) fell by around 33.3 percent to 244,000 euros in 2013 (previous year: 366,000 euros), mainly due to lower sales revenue.

Year over year, write-offs from tangible assets and intangible assets dropped by 16.647 million euros to 796,000 euros in 2013. The great demand for depreciation in the previous year was mainly the result of an impairment test, which reduced goodwill in the Solar Power Systems segment by 1.019 million euros; in addition, 2.564 million euros in unscheduled depreciation was reported for intangible assets along with 10.210 million euros for tangible assets. In 2013, the impairment test reduced goodwill in the Installation segment by 365,000 euros.

Other operating expenses fell in the year under review by 908,000 euros to 7.209 million euros. Advertising and travel costs contributed to this outcome; they fell by 274,000 euros to 298,000 euros (previous year: 572,000 euros). Likewise, the cost of temporary workers dropped from 418,000 euros in the previous year to 212,000 euros. Furthermore, legal and consulting fees fell by 108,000 euros to 415,000 euros (previous year: 523,000 euros). Furthermore, research and development expenses dropped by 170,000 euros to 52,000 euros in 2013. One-off effects in 2012 reduced value adjustments for down payments by 1.159 million euros to 0 euros. In contrast, the expenditures for warranties rose from 43,000 euros to 1.211 million euros in 2013 mainly because of allocations to the respective provisions. The difficult market conditions also led to an increase in value adjustments for receivables and related losses, which grew from 310,000 euros to 501,000 euros in 2013.

The financial result is posted at 25,000 euros (previous year: -655,000 euros). Financing income mainly consists of interest on bank deposits, whereas financing expenditures come in particular from interest on consortium funding taken advantage of.

Financial position

In line with the principles and objectives of finance management, the focus at Solar-Fabrik is on the management of liquid financial resources and supplying all subsidiaries with liquidity. Cash reserves allow Solar-Fabrik and all of its subsidiaries to cover any liabilities that become due at any time. In addition, it is the task of finance management to devote any excess in liquidity to the best short-term investment in order to exploit the current low interest rates on bank deposits as well as possible.

Strict enforcement of a balanced, sound ratio of equity and borrowed capital provides the basis of financial management at Solar-Fabrik AG. The equity ratio (= equity capital / balance sheet total * 100) of 76.6 percent (previous year: 75.0 percent) is a clear sign of a sound financial structure. Despite the negative annual result, the equity ratio slightly rose as liabilities were reduced and it remains very high in comparison to other firms in the industry. As a result of the reduction in bank liabilities, lower liabilities from trade payables, and the annual net loss, the balance sheet sum decreased considerably year over year; both the lower equity and the greatly reduced liabilities and provisions led to a considerably lower balance sheet sum.

On October 21, 2009, Solar-Fabrik AG signed a consortium loan agreement worth a total of 19 / 17 million euros with a bank consortium that included Germany's Kreditanstalt für Wiederaufbau (KfW). Loan A finances the investments reported under investment planning in the amount of 7 million euros, of which 6 million has been utilized. Loan B (for the financing of operational resources) was completely repaid on schedule by September 30, 2012. Loan A is to be repaid in 16 equal quarterly installments by September 30, 2014. The first installment was due on December 30, 2010. The interest rate for Loan A is currently 3.08 percent per annum. This interest rate applies for the period of fixed interest up until September 30, 2014. As of December 31, 2013, the remaining loan is worth 1.125 million euros. The loans are offered and granted contingent upon key financial figures defined in the loan agreement (net debt ratio and adjusted equity ratio). The management of Solar-Fabrik AG confirms fulfillment of these requirements each month. Furthermore, the Group has a global assignment for assets as security, and an assignment of goods held in stock for warehouses with changing stock.

The cash flow from current operations is posted at -754,000 euros (previous year: -1.547 million euros) in fiscal 2013. The improvement over the previous year is mainly the result of the lower negative annual result (EBIT) of -7.993 million euros (previous year: -21.853 million euros). In addition, inventories, trade receivables, and other assets were reduced by 5.517 million euros (previous year: 4.830 million euros). However, trade payables and other liabilities dropped by 3.098 million euros (previous year: 3.312 million euros), which led to an outflow of funds in that amount. In 2012, non-cash depreciation (17.443 million euros) played a major role, while the greater elimination of other non-cash expenditures (especially 4.021 million euros in total for provisions and value adjustments) was a big factor in 2013.

Because of the purchase of tangible assets, a cash outflow for investments is reported at 616,000 euros (previous year: -2.521 million euros). The improvement year over year is the result of moderate investment activity.

Cash flow from financing is reported at -1.364 million euros (previous year: -16.760 million euros), mainly as a result of the further payback of the consortium loan. Repayment of the borrower's loan note and Loan B from consortium financing in 2012 led to a greater cash outflow last year.

Overall, the financial fund decreased by 2.734 million euros to 15.211 million euros.

The goal of Solar-Fabrik is to achieve a positive cash flow from operating activities with considerably greater sales and consistent working capital management on the basis of a secure supply of raw material.

Asset situation

On the balance sheet date, the Solar-Fabrik Group has a sound asset structure. Long-term capital (equity and long-term financial liabilities) covers some 964 percent (previous year: 1,481 percent) of long-term assets. Year over year, intangible and tangible assets decreased by around 9.3 percent to 1.903 million euros (previous year: 2.099 million euros), mainly as a result of the moderate investment activities and the impairment test, which reduced goodwill in the Installation segment from 365,000 euros to 0 euros. At the same time, the annual loss reduced equity by 26.8 percent to 21.767 million euros (previous year: 29.756 million euros). Long-term finance debt fell by 977,000 euros to 348,000 euros. Despite the negative annual result, the equity ratio increased slightly to 76.6 percent (previous year: 75.0 percent) due to the scheduled repayment of long-term financial debt and the reduction in short-term debt. Short-term assets more than compensate for the total debt in the amount of 6.658 million euros (previous year: 9.940 million euros).

In fiscal 2013, investments in fixed assets are reported at 616,000 euros (previous year: 2.521 million euros), 517,000 euros of which (previous year: 2.449 million euros) was investments in tangible assets, whereas 99,000 euros (previous year: 72,000 euros) was devoted to investments in intangible assets.

The intensity of these assets (= (intangible assets + tangible fixed assets) / balance sheet total * 100) is 6.7 percent (previous year: 5.3 percent), an increase of 1.4 percentage points over the previous year.

Inventory increased to 7.441 million euros (previous year: 5.717 million euros) in 2013. While raw materials and consumables were reduced by 1.103 million euros to 2.625 million euros and finished goods remained nearly the same at 1.542 million euros (previous year: 1.587 million euros), unfinished products rose by 2.872 million euros to 3.274 million euros. The increase is mainly the result of PV arrays constructed in the Installation segment for sale to interested investors in the short term; they are reported under unfinished products in the amount of 2.993 million euros.

The average time on stock (= (365 days x average inventory of raw materials and consumables)/material expenses per year) worsened to around 25 days (previous year: 23 days). The increase is mainly due to the difficult market situation in 2013.

Trade receivables decreased by 9.563 million euros to 2.467 million euros, mainly because of cash inflows for sales of projects from the previous year in the Installation segment. The average number of days sales outstanding (= (365 days x average net receivables)/revenue) increased to around 50 days (previous year: 32 days), mainly due to the significant reduction in sales revenue in 2013 year over year.

On the balance sheet date, the Solar-Fabrik Group had reduced its financial debt, which includes funding from an investment line, project financing, and liabilities from finance leasing, by 1.364 million euros to 1.581 million euros.

Trade payables fell by 1.479 million euros to 1.151 million euros due to the lower procurement volume. Other short-term liabilities dropped by 1.156 million euros to 1.176 million euros, including in value added tax liabilities and liabilities for wages and salaries, payroll taxes and church taxes, and liabilities for Social Security.

Overall, fiscal 2013 ended with a consolidated periodic result of -8.174 million euros. This loss is mainly the result of the general environment on the photovoltaics market in Germany and throughout Europe. The management board forecasted

a negative EBIT margin in the annual report for 2012. Despite this unfortunate trend in earnings, the Group managed to considerably reduce receivables and other assets in particular year over year thanks to aggressive management of working capital. The balance sheet sum thereby shrank considerably, leading to a moderate increase in the equity ratio despite the annual loss in 2013. In 2013, financial resources fell year over year by 2.734 million euros on the balance sheet date despite the clear reduction in receivables, but the Group nonetheless is convinced that it has the liquidity to cover any and all claims, with a cash quota relative to the balance sum of 53.5 percent, compared to 45.2 percent in 2012.

Overview of financial position and financial performance of Solar-Fabrik Group over several years

		31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
Sales revenue [1]	EUR '000	52,965	96,223	176,899	227,279	135,561
Overall performance [1]	EUR '000	55,676	91,410	178,229	227,915	133,377
Cost of materials [1]	EUR '000	45,493	80,629	153,769	187,595	109,753
of overall performance [1]	%	81.7	88.2	86.3	82.3	82.3
Personnel expenses [1]	EUR '000	10,823	11,354	13,797	13,465	11,082
of overall performance [1]	%	19.4	12.4	7.7	5.9	8.3
Revenue per employee [1]	EUR '000	232	385	503	619	434
Operating income (= EBIT) [1]	EUR '000	-7,993	-21,853	776	11,349	1,644
Financial result [1]	EUR '000	25	-655	-1,114	-1,548	-1,680
Earnings before taxes (= EBT) [1]	EUR '000	-7,967	-22,509	-337	9,801	-36
of overall performance [1]	%	-14.3	-24.6	-0.2	4.3	0.0
Net result for the period	EUR '000	-8,174	-22,134	-4,150	7,667	-4,214
of which						
continued operations	EUR '000	-7,979	-22,471	-360	8,428	-838
discontinued operations	EUR '000	-195	338	-3,790	-761	-3,376
Number of shares	'000	12,853	12,853	12,853	12,853	11,685
Depreciation on						
Intangible assets [1]	EUR '000	406	3,979	716	743	297
Tangible assets [1]	EUR '000	390	13,463	3,132	3,701	2,649
Total assets	EUR '000	28,425	39,696	82,428	82,586	63,297
Equity capital	EUR '000	21,767	29,756	52,143	56,440	42,537
Equity ratio	%	76.6	75.0	63.3	68.3	67.2
Profitability of equity capital [1]	%	-31.7	-54.1	-7.6	15.5	-9.9
EBITDA [1]	EUR '000	-7,196	-4,410	4,624	15,793	4,590
ROI [2]	%	-24.0	-36.2	-5.0	10.5	-6.1

[1] Figures only for continued operations.

[2] ROI: The return on investment (ROI) is calculated as the annual result divided by average total capital multiplied by 100.

Management team and staff

On December 31, 2013, the management board consisted of the following two people: Mr. Günter Weinberger, Chief Executive Officer (CEO), and Mr. Martin Schlenk, Chief Operating Officer (COO). On April 30, 2013, Martin Friedrich stepped down as the CFO of Solar-Fabrik AG and left the company.

The composition of the supervisory board did not change in 2013. Dr. Winfried Hoffmann is chairman of the supervisory board. Mr. Gerhard Ernst Kulbe is deputy chairman. The remaining board members are Ms. Carolin Salvamoser, Mr. Norbert Binder, Mr. Alfred T. Ritter, and Mr. Klaus Grohe.

In 2013, the Solar-Fabrik Group had an average of 229 employees (previous year: 250). In addition, 7 temporary workers (previous year: 18) were employed on the average in 2013 in the Solar Power Systems segment. Most of these employees work in production.

In 2008, an agreement was reached between labor union IG Metall and the Solar Power Systems segment for labor contracts. In addition to the blanket wage increases, Solar-Fabrik will also pay an additional wage/salary increase to make up the difference between the general wage level within the industry and the level paid at Solar-Fabrik. In 2013, employees received up to a 3.4 percent wage increase and increases from the adjustment contract of 0.83 percent on the average. Solar-Fabrik AG is a member of "Unternehmensverband Südwest e.V.", an independent association of enterprises. Before the Company joined the association, employment contracts, including those for all subsidiary companies, were generally handled individually.

In the fourth quarter of 2012, the management board reached an agreement with labor union IG Metall, which included an employment guarantee up to December 31, 2013, in return for a renunciation of half of the special compensation to be paid in November 2012. In 2013, negotiations continued to be held with IG Metall for staff cost savings. The result was a reduction in a special compensation package in November 2013; performance-based compensation was also not increased.

Solar-Fabrik places great store on the skills of its staff. Solar-Fabrik therefore provides the funding and the time that the employees need to pursue further training courses.

Compensation report

The compensation report summarizes the principles applied for the determination of the management board's compensation at Solar-Fabrik AG; the report also explains the amount and structure of executive incomes.

The compensation report complies with the recommendations of the German Corporate Governance Code and provides information that is part of the Notes and Annual Report in accordance with the German Commercial Code and the Act on the Disclosure of Executive Compensation (VorstOG). It is the supervisory board's task to determine compensation for the management board.

Compensation for members of the management board at Solar-Fabrik AG is based on the size of the company and its global business, its economic and financial situation, and the amount and structure of compensation for executives at comparable companies in Germany and abroad. In addition, the tasks and contribution of each member of the management board are taken into consideration. Compensation is designed to be competitive on the international market for highly qualified executives and to provide an incentive for success.

Compensation for management consists of two components: (a) fixed compensation and (b) a variable bonus.

(ad a) Fixed compensation is paid as a monthly salary.

(ad b) Success-dependent variable bonuses are calculated based on consolidated EBIT. The minimum target for EBIT has to be reached before variable compensation can be paid.

The supervisory board can also opt to provide additional variable bonuses.

Should a member of the management board step down before his employment contract has expired, no severance pay is expressly promised. However, individual agreements for severance pay may be signed.

The members of the management board received a total fixed compensation of 469,000 euros (previous year: 649,000 euros) in 2013. In the previous year, management board members received an additional 52,000 euros in other compensation concerning social insurance contributions from 2009 to 2012, which became payable after a social insurance review. Management board members did not receive any additional bonuses as variable compensation because the negative EBIT did not reach the target. As part of an agreement with IG Metall, the management board forewent 25 percent of one gross monthly salary. The total gross amount of this reduction adds up to 9,000 euros (previous year: 12,000 euros).

As proposed by the management board and the supervisory board, the general meeting of shareholders specifies compensation for the supervisory board. This compensation is set forth in the bylaws.

As resolved by the general meeting of shareholders on July 5, 2011, compensation for supervisory board members is stipulated in Section 12.1 of the bylaws as follows. Each supervisory board member receives 1,750.00 euros per month for each full month of membership on the supervisory board. The chairman receives twice that amount; the deputy chair, 150 percent. All supervisory board members additionally receive 1,000.00 euros per meeting. In total, compensation for the supervisory board amounted to 107,000 euros (previous year: 127,000 euros) in 2013.

Environmental protection

The great environmental commitment at Solar-Fabrik is evident in one of our administrative buildings, which uses environmentally friendly materials as part of a special energy concept. All of the building's energy requirements are met using renewable energy. The building originally contained a production line, making it Europe's first zero-emissions plant. It has been awarded numerous prizes and has been used as a model for numerous other projects.

We also take environmental protection into consideration in selecting our suppliers, and environmental concerns play a key role in planning our own projects.

Our environmental and quality management system is certified in accordance with DIN EN ISO 9001 and DIN EN ISO 14001. The cornerstone of Solar-Fabrik's management system is our ongoing improvement process. We have taken it upon ourselves to consistently attempt to improve the quality of our products and services. Minimizing environmental pollution is one of the main goals of this optimization. We intend to increase the efficiency of all aspects of our operations, and in so doing we always seek to apply the best available technologies and methods. In addition, the management system for occupational safety and health is OHSAS 18001 certified.

4.3 Additional reporting duties in compliance with Section 289 para 4 and Section 315 para 4 of the German Commercial Code (HGB)

Section 289 para 4 s. 1 and Section 315 para 4 s. 1 HGB

As recognized in the current consolidated financial statements, Solar-Fabrik AG's fully paid capital stock is divided into 12,853,499 no-par value bearer shares. The individual share certificates thus cover an equivalent amount of equity capital in compliance with Section 8 para 3 of the German Stock Corporation Law.

Section 289 para 4 s. 3 and Section 315 para 4 s. 3 HGB

The following holdings in capital exceed ten percent of the voting rights:

Mr. Alfred T. Ritter, Germany:
19.03 percent = 2,445,872 individual share certificates

Mr. Klaus Grohe, Germany:
10.03 percent = 1,289,520 individual share certificates

Mr. Heinrich Dienes, Colombia:
10.38 percent = 1,334,041 individual share certificates

Section 289 para 4 s. 6 and Section 315 para 4 s. 6 HGB

The members of the management board are appointed and dismissed in compliance with Sections 84 and 85 of the German Stock Corporation Law. The bylaws stipulate that the supervisory board shall determine the number of members on the management board. Section 13 of the Company's bylaws stipulates that the supervisory board has the authority to make changes and amendments to the bylaws that only concern the management board's composition. The bylaws contain no stipulations beyond what is in the Stock Corporation Law; therefore, regulations on stock corporations apply for changes to bylaws.

Section 289 para 4 s. 7 and Section 315 para 4 s. 7 HGB

Approved capital

A resolution adopted at the annual general meeting on July 5, 2011, authorizes the management board of Solar-Fabrik (with the supervisory board's consent) to increase the Company's share capital one or more times up to July 5, 2016, by up to 6,426,749 euros by issuing new bearer shares in exchange for cash or non-cash contributions, including "mixed" contributions in kind (Approved Capital 2011). The management board will decide with the supervisory board's consent whether to exclude subscription rights.

Conditional capital

On July 5, 2011, the general meeting of shareholders authorized the management board to increase the Company's equity by up to 4,500,000 euros by issuing 4,500,000 new bearer shares with a prorated amount of equity at 1 euro per share ("Conditional Capital 2011"). The conditional capital increase serves exclusively to provide shares by July 4, 2016, to holders/creditors of options and/or convertible bonds issued/guaranteed by the Group or consolidated companies in which the Company directly or indirectly holds at least 90 percent of all shares in compliance with Section 18 of the German Stock Corporation Act based on the resolution of the general assembly of July 5, 2011. The conditional capital increase will only take place if holders/creditors of options and/or convertible bonds issued/guaranteed by July 4, 2016, by the Group or consolidated companies in which the Company directly or indirectly holds at least 90 percent of all shares in compliance with Section 18 of the German Stock Corporation Act based on the resolution of the general assembly of July 5, 2011, make use of their option/conversion rights or are obligated to exercise these option/conversion rights unless their own shares are used to exercise these option/ conversion rights/obligations or unless cash compensation is provided.

4.4 Supplementary report

No material events that require reporting occurred after the completion of the fiscal year for Solar-Fabrik AG or for the Solar-Fabrik Group.

4.5 Opportunity report

Solar-Fabrik speaks of "opportunities" in reference to possible future developments or events that could lead to a positive deviation from guidance or targets for the Company.

The key opportunities for Solar-Fabrik are as follows:

Successful transformation from product-oriented manufacturer of solar power modules to a photovoltaic system developer

Solar-Fabrik is a pioneer in the German photovoltaics sector with many years of experience in manufacturing solar panels. Thanks to its well-known brand, Solar-Fabrik stands for high-quality solar power modules and systems made in Germany. The Solar-Fabrik brand is especially recognized among specialists, such as installers. Over the past few years, Solar-Fabrik has managed to evolve from simply a manufacturer of solar power modules to a photovoltaic system developer that also does business in installation and power generation.

Italy and France have both passed new laws providing a special bonus for solar equipment made in the EU. Solar-Fabrik can benefit from these bonuses by offering such products, which its Asian competitors cannot. In the course of market consolidation, a number of European competitors who would also have been able to benefit from bonuses for "local content" have gone out of business, thereby increasing market potential.

The stages of the photovoltaics value chain downstream from solar panel production – in particular, the production and sale of silicon wafers and the manufacturing of solar cells – have become less attractive as prices drop and margins shrink due to global surplus capacity. In addition, the downstream stages of the photovoltaics value chain require high investment amounts every year. Solar-Fabrik has therefore completely exited the downstream stages of the value chain. Instead, Solar-Fabrik has focused more on the downstream stages of the photovoltaics value chain – installation and power generation – by taking over a majority holding in Sol-Systems Energy GmbH and by founding Solar Application GmbH. These business fields currently offer greater profit margins than the production of solar power modules and systems. By shifting and expanding its business focus onto these areas, Solar-Fabrik aims to strengthen its profitability even as it becomes less vulnerable to fluctuations in demand for solar power modules and systems. The focus on these business segments reflects the Company's flexibility in reacting to a constantly changing market environment.

Making the business model more international and flexible

As part of its transformation to a forwardly integrated photovoltaics system developer, Solar-Fabrik has become more international. In the course of this internationalization, Solar-Fabrik has gained both customers and suppliers abroad.

International sales now covers all of the main photovoltaics markets in Europe. The sales team is also constantly being expanded, with a special focus on expanding sales for new and existing export markets. In 2013, these efforts kept the export ratio at a constantly high level of around 62 percent (previous year: 63 percent).

Although the forecast for Solar-Fabrik's current sales markets are not rosy (the Company mainly does business in Europe), the PV market continues to grow worldwide. One opportunity could therefore be in reaching out to other markets outside Europe.

Solar-Fabrik also aims to address more key account customers. Such a customer – such as a wholesaler with an international network – could serve as a multiplier for Solar-Fabrik. The focus on key account customers could increase the sales volume and facilitate/accelerate internationalization. Key account customers are, however, generally more sensitive to price.

As the general conditions for larger arrays in Germany continue to worsen, management expects the PV market to focus on smaller and smaller systems; but as the average system size decreases, demand for turnkey solutions should increase. Solar-Fabrik is working to become a one-stop shop, providing not only panels, but also inverters and storage solutions to generate additional gross profit.

Overall opportunity situation

The assessment of the overall opportunity situation is the result of the consolidated view of all material opportunity fields and individual opportunities. The current global surplus capacity and the shrinking of the Company's core sales markets in Europe mean that the number and extent of the opportunity fields and individual opportunities is modest compared to the risks discussed below. Management is convinced that the risks currently far outweigh the opportunities.

4.6 Risk report

Germany's Financial Reporting Modernization Act (BilMoG) obligates firms on the capital market to describe the essential characteristics of their internal monitoring and risk management systems for reporting.

The in-house monitoring system for reporting at Solar-Fabrik AG and the Solar-Fabrik Group is to ensure proper reporting and compliance with legal requirements.

The in-house monitoring system at Solar-Fabrik AG and the Solar-Fabrik Group is intended to provide sufficient security for the reliability of financial reports and the publication of financial statements. In-house monitoring to control risks is an integral part of risk management at Solar-Fabrik AG and the Solar-Fabrik Group.

The monitoring system for reporting covers the structures, processes, and checks relevant for the creation of annual financial statements and the consolidated financial statements. Solar-Fabrik AG and the Solar-Fabrik Group both take the principle of segregation of duties as a guideline. This principle stipulates that a single person should never be able to conduct and monitor all phases of a business transaction without a second person intervening. The principle is anchored at all levels of Solar-Fabrik AG and the Group and corresponds with the concept of a second set of eyes, which is also considered a basic part of checks and balances at Solar-Fabrik AG and the Solar-Fabrik Group.

The in-house monitoring system for reporting is centralized as part of finances and accounting at Solar-Fabrik AG. Ultimate responsibility lies with the management board.

Solar-Fabrik AG employs integrated IT accounting systems standardized within the Group and managed centrally at Solar-Fabrik AG. A third-party service provider keeps the books for subsidiaries held as project developers for sales to investors.

The consolidated financial statements include Solar-Fabrik AG as the parent company along with five domestic and two foreign subsidiaries. The consolidated financial statements for Solar-Fabrik AG for the year ending December 31, 2013, were drawn up in accordance with the principles of the International Financial Reporting Standards (IFRS), as applicable within the European Union, the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), and the supplementary regulations under commercial law as per Section 315a para 1 of the German Commercial Code (HGB). The consolidated financial statements are developed manually from the separate accounts of each company. Written accounting manuals are binding for all companies within the consolidated group. Adjustments in entries at the Group level ensure the standardization of financial reporting and valuation.

The consolidated treasury is centrally located at Solar-Fabrik AG for all consolidated subsidiaries.

For the creation of financial statements, a detailed calendar is used for both Solar-Fabrik AG's financial statements and the consolidated financial statements from the separate accounts. It is the duty of the management board to ensure that reporting deadlines are met and to monitor the quality of reports. The principle of a second set of eyes ensures that each stage of reporting has a creator and a reviewer, both of whom have to put their signatures on related financial documents.

Solar-Fabrik has detailed rules on signatures and approvals. These rules specify who can conduct what business and what approvals from authorized representatives and/or executives are required for which transactions/amounts. Here, the principle of a second set of eyes also applies.

Solar-Fabrik AG also employs an additional control instrument: a management information system (MIS) based on key figures. The MIS collects key data from all areas within the Company, analyzes it, and communicates regularly to executives, authorized managers, and department heads. The main company departments are procurement, production, sales, and finance, which includes liquidity management and human resources.

Between the balance sheet date and the annual report, no material changes took place with respect to the in-house monitoring and risk management system.

In particular, decisions left to personal discretion, flawed monitoring, criminal acts by parties in charge, and other circumstances can reduce the effectiveness and reliability of the in-house monitoring and risk management system used so that the accurate, complete, and timely reporting of events cannot be completely ensured in corporate reporting throughout the Group.

Monitoring and managing risk is a top priority for Solar-Fabrik AG and the Solar-Fabrik Group because experience has shown that the timely identification and management of risk is a key success factor. German lawmakers have promulgated rigorous and strictly mandatory standards for the direct and indirect management of risks that are relevant to our activities.

The mission of our risk management system is to ensure that any risks that arise are identified, analyzed, and assessed and to see to it that risk-related information is systematically brought to the attention of decision-makers.

Solar-Fabrik speaks of "risks" in reference to possible future developments or events that could lead to a negative deviation from guidance or targets for the Company.

In the interest of supporting and documenting risk, we have issued a risk manual that describes the key risks to our company and the manner in which they should be handled. This manual is continually being updated and is binding for Solar-Fabrik AG and its subsidiary companies. The main responsibility for risk management falls to the management board of Solar-Fabrik AG.

Risks must be operationalized so that any risks identified as relevant to the enterprise can be detected early. Early-warning indicators for both quality and quantity have been defined to reveal any risks before they can endanger the enterprise. The early-warning indicators are analyzed to show the extent to which the plans and targets they are based on are fulfilled. If a certain tolerance is exceeded or targets are not met, a value for the expected damage is determined based on the maximum damage defined in thousands of euros for each individual risk and on probability. In other words, risk analysis includes the assessment of the scope of the risks detected in terms of their probability and their quantitative effects. The ultimate goal is to assess the monetary effects on the Group's financial position and financial performance.

Other material risks for Solar-Fabrik AG and the Solar-Fabrik Group are as follows:

Procurement

The Solar-Fabrik Group and Solar-Fabrik AG face intense competition, which is reflected in shrinking gross margins. The Solar-Fabrik Group and Solar-Fabrik AG are therefore particularly dependent on material costs. Procurement prices are especially important in a material-intensive industry like photovoltaics.

The Solar-Fabrik Group and Solar-Fabrik AG currently no longer have any long-term supply contracts at fixed prices. The way purchasing contracts are designed, the Company and the Group nonetheless bear these price risks and, should global market prices for raw materials drop, may not be able to sell its products at profitable prices; in the worst case, production at competitive prices will not be possible. The market prices for all components of a solar power panel and all components of a photovoltaic array are subject to intense competition and constant price pressure. Even though procurement prices are adjusted to the current market price level on a monthly basis, high procurement prices materially limit competitiveness.

Should these price risks occur, the effects on business and the financial position and performance of Solar-Fabrik AG and the Solar-Fabrik Group would be severely detrimental.

Sales

Business at Solar-Fabrik AG and the Solar-Fabrik Group depends on state support for renewable energy.

Business at Solar-Fabrik AG and the Solar-Fabrik Group greatly depends on state support for photovoltaics. Without

state support, photovoltaics – especially grid-connected arrays – would not yet be profitable in most regions because power generation costs exceed the retail price of electricity and the cost of power generated by conventional sources of energy (such as coal, nuclear, and natural gas). Grid-connected arrays are currently the main market for the Company.

Over the past few years, the German government has revised the Renewable Energy Act multiple times. See the information provided under "The market for renewables in the main sales markets of Solar-Fabrik AG". In addition, individual political parties are once again calling for the Act to be reformed, which could further worsen the policy situation. Photovoltaics cannot be expected to become more efficient and less expensive at the same rate as feed-in tariffs are reduced. There is thus a great risk of reduced feed-in tariffs failing to provide sufficient investment incentives, resulting in fewer installations of solar arrays; as a result, demand for photovoltaics would drop, thereby continuing to negatively affect Solar-Fabrik's sales in Germany, which has been the Company's main sales market up to now. Solar-Fabrik's financial position and earnings could suffer more as a result. In our other main sales markets – Italy, France, Austria, Switzerland, and Belgium – state support either has already been cut or is expected to be cut, as well. At present, it is not completely clear how the cuts in support announced or to come will materially affect Solar-Fabrik's prices and sales opportunities in its main sales markets. In general, however, fiercer competition and lower demand on the markets affected by these cuts are expected to lead to further price reductions.

Solar-Fabrik AG and the Solar-Fabrik Group cannot guarantee that cost reductions and improvements to products and processes will suffice to generate positive results in all lines of business.

In the fiscal year under review, the Solar-Fabrik Group posted losses. The current intense competition on the market for photovoltaic products is forcing Solar-Fabrik to make constant improvements to products and processes. In particular, Solar-Fabrik has to succeed in reducing production costs over the long term, expanding its customer base in Germany and abroad, and selling its products and services for satisfactory prices. After all, competition with providers from low-wage countries and those with state subsidies as well as reductions in feed-in tariffs for solar power are continually leading to lower market prices for solar cells, solar power modules, and Solar Power Systems. There is no guarantee that Solar-Fabrik will be able to compensate by means of cost reductions from product and process improvements or greater sales to a degree that would allow positive results to be posted despite these price reductions in the Solar Power Systems segment. If not successful, Solar-Fabrik's financial position and earnings could be detrimentally affected to a considerable extent.

The Solar-Fabrik Group and the Solar-Fabrik AG face fierce competition, and the Company expects this competition to increase further.

The Solar-Fabrik Group faces especially fierce competition in the field of Solar Power Systems. Solar-Fabrik's current and potential competitors include some companies that have far greater financial, technical, and human resources (for example, international conglomerates such as Total, Sharp, and Suntech). The capacity of Solar-Fabrik to achieve economically viable margins in a market characterized by intense price competition could be impaired by the aforementioned increase in competition. Other providers may be able to manufacture products at lower costs and offer them at lower prices than Solar-Fabrik can. In 2013, sales prices at Solar-Fabrik fell by around 3.4 percent (previous year: roughly 40.5 percent) due to fierce competition. As competition continues and intensifies, this price pressure will only increase, which could detrimentally affect sales at Solar-Fabrik AG and the Solar-Fabrik Group and have material negative effects on business and the Company's financial position and performance.

The realization and sale of turnkey PV arrays to interested investors is becoming increasingly difficult in Germany as the general conditions worsen.

The Installation segment generally sells turnkey PV plants to interested investors. There is an initial risk of no buyers being found who are willing to pay the desired price. The result could be far lower margins than planned or even sales prices below manufacturing costs, which would lead to losses. In addition, buyers of PV arrays often only want to make a pur-

chase if there is financing. Here, there is a risk of no borrowed capital being made available with adequate terms, if at all. In addition, the decision-making process at banks cannot be sped up. The lower expectations for returns in combination with the increase in struggling companies has clearly made banks reluctant to promise financing for projects.

Liquidity and financing risk

Financing for all consolidated companies is handled via the parent company. Solar-Fabrik also operates its own intra-group liquidity control system. Here, integrated financial planning is used, with reports and monitoring on a weekly basis for the short term and on a monthly basis for the mid-term. There are also multi-year plans. The market expectations, which remained tense in 2013, and the general increase in bankruptcies and struggling firms within the photovoltaic sector made banks and other investors far more reluctant to provide financing. This reluctance has also affected Solar-Fabrik, as banks are currently not eager to expand their current engagements or enter into new ones. Consolidated firms are therefore nearly completely financed from the cash flow from operations at the moment. Solar-Fabrik is currently posting losses that must be financed. In 2013, Solar-Fabrik managed to finance a large part of the losses by converting assets, in particular receivables, into financial resources, but operative cash flow remained negative nonetheless. The extent to which Solar-Fabrik and the Solar-Fabrik Group can generate positive cash flows by converting other assets is also very limited. There is therefore an increased risk of operative cash flows no longer sufficing as the single source of financing based on the current position and structure of Solar-Fabrik and the Solar-Fabrik Group. This risk is not yet estimated as high over the next two fiscal years based on current liquidity. Strategic measures are to help improve operative cash flow in order to cover future liquidity demand.

On October 21, 2009, Solar-Fabrik AG signed a loan worth 19 million euros with a consortium under the leadership of Commerzbank AG, Frankfurt, consisting of Commerzbank AG, Deutsche Bank AG, KBC Deutschland AG, Investkredit Bank AG, and Sparkasse Freiburg - Nördlicher Breisgau, with the Kreditanstalt für Wiederaufbau (KfW) also involved; the goal was to avoid difficulties in the procurement of liquid funds to fulfill payables coming due. Loan A financed the investments reported under investment planning in the amount of seven million euros, of which six million has been utilized. Loan B (for the financing of operational resources) was completely repaid on schedule by September 30, 2012. Loan A is to be repaid in 16 equal quarterly installments by September 30, 2014. The first installment was due on December 30, 2010. The interest rate for Loan A is currently 3.08 percent per annum. This interest rate applies for the period of fixed interest up until September 30, 2014. The value of the loan was 1.125 million euros on December 31, 2013. The contract in foreign currency is subject to covenant rules common on the market. In 2013, Solar-Fabrik AG complied with all covenants. Because the remainder of the loan will be repaid by September 30, 2014, the risk of non-compliance with the covenants can be almost entirely ruled out; the effects would not be material in any case.

The current net cash position of 13.630 million euros (previous year: 15.000 million euros) seems sufficient at this point to comply with repayment schedules, continue operations, and simultaneously finance the growth in sales volume envisioned.

For its further growth, however, Solar-Fabrik needs borrowed capital and equity. Additional borrowed capital could entail additional obligations towards lending banks, which could further restrict the operational leeway of the Solar-Fabrik. Access to additional equity partly depends upon the general trend on the stock exchange and the photovoltaics market. Should Solar-Fabrik AG fail to receive a sufficient amount of additional borrowed capital and/or equity under acceptable conditions, business and the net assets, financial position, and earnings situation at Solar-Fabrik AG and the Solar-Fabrik Group could be materially detrimentally affected.

Risk of default

Trade credit insurance covers receivables related to Solar Power Systems at the Solar-Fabrik Group. The deductible is 15 percent of the amount covered. If coverage via trade credit insurance is not possible in the amount required for the supply volume a customer desires, the Company gets information from a credit bureau and analyzes it or asks the customer

for additional security (such as bank guarantees). Furthermore, a large part of the orders the Company receives entail prepayment. In general, new customers only receive goods upon prepayment. Furthermore, Solar-Fabrik AG has a strict system of reminders as a part of outstanding balances management, in which clear payment deadlines and a detailed reminder process are specified. Default risk increases as a particular customer's sales volume rises because the Company's customer structure becomes less diversified. Because many of the Company's key customers are foreign firms and the share of exports in overall sales is expected to gradually increase, some supply contracts are signed on the basis of foreign law. At the same time, customers' financing and liquidity partly depends on the completion of the solar projects in question. If completion is delayed, the customer may not be able to pay Solar-Fabrik on time; in extreme cases, receivables may be irrecoverable, and securities may turn out to be valueless. Such extreme cases can have severely detrimental effects on business and the financial position and performance of Solar-Fabrik AG and the Solar-Fabrik Group. In 2013, 365,000 euros (previous year: 101,000 euros) of individual value adjustments were made at Solar-Fabrik AG, along with 625,000 euros (previous year: 312,000 euros) at the Solar-Fabrik Group. The risk of default increased significantly in 2013 as a result of the greatly worsening market expectations along with a general increase in bankruptcies and corporate difficulties.

Legal risks

Risks from the assumption of warranties

The Solar Power Systems segment grants long-term performance guarantees of up to 25 years and product warranties of up to 12 years to purchasers of solar power modules and systems. The Company provides a warranty of up to ten years for inverters. Solar-Fabrik intends to continue to provide such warranties to the extent required for successful sales. It cannot be ruled out that non-fulfillment of certain performance indicators covered by the Company's warranty or flaws in products sold by the Company may lead to claims against Solar-Fabrik in excess of the provisions set aside to cover this risk. The increase in claims for warranties over the past few months have led to a greater need for provisions, so this risk is now considered to be greater. Provisions are therefore completely reported for these risks, to the extent they can be identified, in the annual and consolidated reports for the year under review. The risk could, however, increase further in the months and years to come. Such cases can have severely detrimental effects on business and the financial position and performance of Solar-Fabrik AG and the Solar-Fabrik Group.

Risks from acquisitions

In the past, Solar-Fabrik has been involved in acquisitions, holdings, and joint ventures. Going forward, the Company does not rule out similar deals if the opportunity presents itself within the downstream value chain for photovoltaics. Should there be delays in implementing this strategy and/or if Solar-Fabrik fails to adapt its organizational and staff structures, its risk monitoring and management system, and its technical resources to the requirements for growth, the outcome could be a considerable financial burden on Solar-Fabrik. Future acquisitions, holdings, and joint ventures also require additional integration services and always entail the risk of failing to be valuable. If these risks pertaining to future growth do lead to problems, the negative effects on Solar-Fabrik's business, financial position, and earnings could be considerable.

Tax risks

Solar-Fabrik could be exposed to considerable additional tax claims. Tax risks could result from the Company's current and past structure. In addition, tax loss carryforwards also pose risks. Should one or more of these risks occur, the detrimental effects on business and the financial position and performance of Solar-Fabrik AG and the Solar-Fabrik Group could be severe. In light of this possibility, the Company receives consulting on tax law from third-party tax law experts.

Risks from foreign currencies and price changes

Should the euro become weaker vis-à-vis the US dollar, the effect on Solar-Fabrik AG and the Solar-Fabrik Group could be negative.

Solar-Fabrik AG has a treasury department whose main task is to optimize and minimize risk in operations and, to the extent possible, prevent the negative effects of fluctuations in market prices on financial success. A selection of derivative

hedging instruments – generally, foreign currency contracts – are used to optimize risk related to foreign currencies. Derivative financial instruments are only used to hedge against procurement obligations; that is, they are not used for trading or other speculative purposes. Often, however, the foreign currency needed is directly purchased at the spot market. The need for foreign currency can come about, in particular, when raw materials are purchased, generally in USD. Should the euro become weaker vis-à-vis the US dollar, the effect on Solar-Fabrik AG and the Solar-Fabrik Group could be negative.

The consolidated and annual financial statements of Solar-Fabrik AG are created in euros. The Solar-Fabrik Group currently generates most of its revenue in euros. In the past, however, Solar-Fabrik conducted some of its business in US dollars. Although there are currently no transactions in foreign currency, there could be in the future. To protect itself from fluctuations in exchange rates (if foreign currency transactions are planned), Solar-Fabrik AG has also entered into currency futures transactions for sales. This approach entails costs for the Company. In addition, the derivatives used to cover the currency exchange risks related to the Company's core business cannot completely rule out risk, especially considering the great volatility of foreign currencies. As new international markets are focused on and business becomes more international, Solar-Fabrik AG and/or the Group could be exposed to even greater currency risks. Fluctuations in exchange rates could therefore materially and detrimentally affect business and the financial position and performance of Solar-Fabrik AG and the Solar-Fabrik Group.

In fiscal 2013, transactions in foreign currencies resulted in -23,000 euros in net currency translation losses (previous year: -3,000 euros). For fiscal 2014, Solar-Fabrik AG has not yet entered into any hedges against short-term currency fluctuations because the foreign currency needed is currently purchased at the spot market.

The value of assets at Solar-Fabrik AG and the Solar-Fabrik Group is regularly assessed. In addition to the annual audits, in cases where (as a result of changes in the general economic, business, or political environment) there is reason to believe that the value of intangible assets or tangible assets may have depreciated, Solar-Fabrik AG and the Solar-Fabrik Group investigate whether a review of impairment is necessary to determine whether certain items need to be written down. In fiscal 2013, related unscheduled depreciation is reported in the amount of 365,000 euros (previous year: 14.005 million euros) based on management's expectations that the market will slow down considerably over the next three years.

Competition, products, and innovation

Other technologies that generate electricity from renewable sources could develop more successfully than silicon-based photovoltaics, which could slow down or stop altogether the expansion of photovoltaics.

Silicon-based photovoltaics competes with other technologies that generate renewable electricity, such as wind power, biomass, geothermal, and solar thermal, in addition to photovoltaic technologies not based on silicon. For technological, economic, regulatory, or other reasons, such technologies could advance faster than silicon-based photovoltaics and become dominant on the market for renewable energy. As a result, investments in silicon-based photovoltaics could be reduced or eliminated altogether – or at least fall far short of what the Company expects. Such an outcome could also have a materially detrimental effect on business and the financial situation and performance of Solar-Fabrik.

Rapid technological change could detrimentally affect the Solar-Fabrik Group.

The photovoltaics market is constantly undergoing rapid technological change, with improved or new products and services frequently being launched; short product lifecycles and constantly changing or new customer demands characterize the market.

The success of the Solar-Fabrik Group greatly depends upon the quick identification of new technical developments that will be crucial for the market of solar power modules and systems so that such innovations can be used for in-house production or at least taken into account in adaptations of in-house production. In particular, there is a risk that com-

petitors will launch novel solar power modules sooner or at lower prices or get exclusive rights for new technologies. The need for further development stands in contrast to the cost pressure that Solar-Fabrik faces.

At present, the Solar-Fabrik Group only manufactures solar power modules that contain silicon-based solar cells. It cannot be ruled out, for instance, that thin-film technology might largely or completely push the silicon-based solar power modules offered by Solar-Fabrik out of the market in the mid to long term. Should methods based on other technologies offer considerable cost benefits, and should the Solar-Fabrik Group not succeed in switching to this new technology fast enough in order to benefit from the new development to an extent that would sufficiently compensate for losses in the production of solar power modules based on silicon solar cells, the detrimental effect on Solar-Fabrik's business and financial position and performance could be considerable.

Risks from the debt crisis in the euro zone

The current state debt crisis in the euro zone is a budget and debt crisis for individual member states within the euro zone. In some cases, member states cannot refinance themselves on the capital market or repay debt and interest that comes due. Up to now, loans and guarantees from the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) of euro member states and the International Monetary Fund have managed to prevent member states in the euro zone from going bankrupt. There is concern that the bankruptcy of even one euro member state would lead to bankruptcy for a number of banks and hence to a financial and economic crisis that would far exceed the effects of the economic and financial crisis after the insolvency of the Lehman Brothers Group in 2008. In particular, such an economic and financial crisis could cause demand for photovoltaic systems to plummet, and banks would be more reluctant to give out loans – all of which would have a considerable detrimental effect on the business, financial position, and earnings of Solar-Fabrik.

Credit charges increased considerably in the wake of the governmental debt crisis. As a result, the refinancing terms offered by financial service providers worsened noticeably. Leading banks of issue – including the US Federal Reserve, the European Central Bank, and the Bank of England – have taken joint action to stabilize financial markets. They lowered prime lending rates and flooded markets with fresh money to ensure that monetary and capital markets have liquidity. Refinancing costs will mainly depend on how quickly and sustainably trust can be restored in markets. Over the past few months, international financial markets have calmed down a bit. As a result, a number of countries in crisis have been able to get money again from capital markets. Nonetheless, it remains to be seen how the financial situation within the euro zone will pan out.

Overall risk situation

The assessment of the overall risk situation is the result of a consolidated view of all material risk fields and individual risks. Massive global surplus capacity has caused market prices to plummet. Most of the firms in the sector were not able to reduce their costs as quickly and are deep in the red – as is the Solar-Fabrik Group. In the past few years in particular, bankruptcies have become more common, and many firms have exited the sector. The market outlook has even worsened for the short to midterm, so such reports are expected to continue. The announced and/or expected additional cuts in feed-in tariffs for solar power in the main sales markets for Solar-Fabrik continue to pose the risk of even lower prices and smaller margins. Even though the implementation of minimum prices for Chinese imports has stabilized market prices within the EU somewhat, surplus capacity continues to exist and could lead to further erosion of prices and margins. Considerably less public funding could negatively affect the sales channels of Solar-Fabrik AG and the Solar-Fabrik Group. In addition, a renewed economic recession in the euro zone could have a negative impact on sales channels at Solar-Fabrik AG and the Solar-Fabrik Group. As recent experience shows, the combination of a surplus supply of raw materials and difficult refinancing terms could have a considerable detrimental effect on a company's trading opportunities. Solar-Fabrik AG and the Group's existence is not in danger based on present knowledge.

4.7 Forecast

For all of the goals given in the forecast as well as for other statements made about the future in the group report, we remind readers that actual events may deviate materially from expectations about probable developments. This is especially true if one of the detrimental uncertainties mentioned or one not mentioned takes place or if the assumptions on which these statements are based prove to be inaccurate.

Over the past twelve months, the market outlook for the short to midterm has worsened further, making it very hard to provide a forecast. In particular, the worsening policy support in Solar-Fabrik's main sales markets, such as Italy, have increased uncertainty considerably.

Industry situation

In EPIA's current Global Market Outlook, industry insiders expect between 30.8 GW and 52.6 GW of PV to be newly installed in 2014, equivalent to growth rates between 10.8 and 12.1 percent above the estimation for 2013. Over the next few years, global newly installed PV capacity will continue to increase in absolute terms. In 2017, the analysts expect newly installed PV capacity to reach between 48.3 and 84.2 worldwide. The European market, however, is not expected to grow as quickly, with 9.3 to 18.4 GW in 2014, 10.1 to 21.5 GW in 2015, 11.7 to 25.4 GW in 2016, and 12.8 to 27.6 GW in 2017. EPIA thus sees future market growth mainly outside of Europe, as do we. A return to moderate growth in following years up to and including 2017 will more than compensate for the expected shrinking market in Europe in 2014. Over the next few years, EPIA believes that the main PV markets in Europe will be Germany, France, Italy, the UK, Spain, the Netherlands, Greece, Poland, Romania, Belgium, and Austria.

Since the end of 2008, prices for solar technology have dropped considerably. Manufacturers all along the value chain have increased their production capacity significantly, so that supply currently exceeds demand by a wide margin. We are therefore looking at a classic buyer's market. The management board at Solar-Fabrik AG shares the commonly held opinion that prices for solar power modules will continue to drop over the next few years. Mass production and more efficient process technologies can open up new ways to reduce prices, and these reductions can be passed on to customers, but the price curve should nonetheless flatten. The plummeting prices over the past few years have eroded margins along all stages of the value chain, so that further price reductions will largely only be possible by means of greater productivity.

Over the past ten years, photovoltaics has lowered costs more than any other source of renewable energy. Photovoltaics is quickly approaching grid parity. For consumers, grid parity – when solar power costs the same as retail power from the grid – is the tipping point. Energy providers compare the generation costs of a PV array with those of a conventional peak power plant. Reaching grid parity is decisive for the further development of PV. Like all other sources of renewable energy, solar power increasingly has to take account of storage and grid integration in order to stabilize power supply as it takes up an ever greater share of power production. The management board generally agrees with this assessment.

In all of Solar-Fabrik's main sales markets, feed-in tariffs have been drastically cut or such cuts have been announced. See the detailed information provided under "The market for renewables in the main sales markets of Solar-Fabrik AG". The management of Solar-Fabrik AG expects the drastic cuts to reduce demand for solar panels in its main sales markets, as the negative changes in feed-in tariffs will directly influence returns on investments in PV arrays. It is not yet clear, however, what the effects of the lower feed-in tariffs will be on the Company's / the Group's business after the lower tariffs go into effect.

Focus of the Solar-Fabrik Group in fiscal 2014 – the management board's general statement

In a market with fierce competition, which ultimately leads to lower gross profit, the focus of Solar-Fabrik and the Solar-

Fabrik Group is, in particular, on increasing sales volumes and lowering costs by increasing productivity and reducing material procurement costs. Naturally, the Company is looking for ways to reduce costs in all areas. In particular, the following goals are pursued:

Greater volume from OEM production and in-house production

Solar-Fabrik AG would like to increase its sales volume. The focus remains on the European PV market. Although this market is expected to shrink in terms of newly installed capacity, the market share of Solar-Fabrik AG is so small that an increase in volume should be possible. To this end, Solar-Fabrik AG has set up a second product line called "Pro" in addition to the "Premium" line manufactured in Freiburg; with this second line, Solar-Fabrik sells products from reliable OEM (original equipment manufacturer) partners in Asia under its own name. With this product line, the crucial market for utility-scale projects can be inexpensively targeted in addition to the established market for roof systems and small arrays. The implementation of minimum prices for Chinese solar products, however, has made German products more attractive again, so the "Pro" product line has been reduced. Management believes this trend will continue in 2014. Solar-Fabrik AG has therefore invested in the current line of semi-finished products to round it off in order to be able to react to this trend in 2014. The production capacity for solar panels in Freiburg, Germany, is constantly being further developed to accommodate new developments; here, the "Premium" line of very well established products is manufactured, including building-integrated solutions that focus on this market segment's demands. Solar-Fabrik AG manages production flexibly to accommodate market demand and optimize capacity utilization. In addition to increasing the sales volume from OEM production, Solar-Fabrik AG is thus also prepared to greatly increase its own production. This approach will be especially necessary if an increasing number of countries provide special bonuses for products from Europe, as France and Italy currently do.

With the combination of the "Premium" and "Pro" product lines, Solar-Fabrik therefore believes it has an optimal product strategy to sustainably increase its sales even as it increases profitability because the Company can use it to react flexibly to changing general conditions. At present, it is not clear how the minimum prices on imports of Chinese solar products will continue over the next few months and years.

Growth from array construction

To increase volume growth further, Solar-Fabrik AG took over a majority holding in SolSystems Energy GmbH, which develops and installs solar arrays. Solar-Fabrik aims to position itself better as a market player in this field and is working to come up with business models to address falling feed-in tariffs. The focus is on PV arrays on industrial and commercial roofs for self consumption. There is a general consensus that self consumption will characterize at least the German market. The construction of solar farms will proceed at a rate

that depends on the possible return. Cuts in state support therefore directly affect Solar-Fabrik's growth targets in this segment. Solar-Fabrik only builds a PV array if the potential investor can be offered a marketable return.

Expanding the customer base in Germany and abroad

Solar-Fabrik's customers for solar power modules and systems are mainly professional installers, project developers, and wholesalers in Europe. Solar-Fabrik's sales strategy is very flexible and effective while also focusing on cost effectiveness. Solar-Fabrik sees this strategy as an important key to success in regional markets whose political frameworks quickly change. Solar-Fabrik will still focus on European sales markets. However, new European countries, such as Turkey, are to be entered. By expanding its sales area, Solar-Fabrik plans to become less dependent on individual markets. To this end, sales are to be further expanded; additional sales staff are to be hired for the target sales markets.

Probable development

Solar Power Systems

In 2013, the Solar Power Systems segment posted a considerable drop in sales revenue and a negative EBIT. In the financial statements for 2012, management assumed that both of these indicators would drop. Here, we refer readers to the guidance of 2012. In addition, a negative EBIT was also expected for 2014. Management stands by this guidance. Though it is expected to slightly improve over the level of 2013, a clearly negative EBIT margin is expected in 2014 once again in light of the global surplus capacities and the resulting pressure on margins as well as the difficult market conditions. The Solar Power Systems segment expects sales revenue to slightly drop in 2014 below the level of the previous year as prices continue to fall, though sales volumes should increase slightly year over year. At least 60 percent of sales revenue is to come from abroad. Management believes that the attainable gross profit, which depends to a large extent on sales revenue and material expenditures, will slightly drop year over year because of the expected decrease in sales revenue. This decrease will probably outstrip the savings attained in material procurement.

These forecasts are, however, highly uncertain because feed-in tariffs for solar power are expected to be reduced in number of important sales markets, and the extent, time frames, and exact effects are unknown. Massive surplus production capacity has caused fierce price competition, which is expected to continue in the coming months and years. The result could be price levels and gross margins that Solar-Fabrik did not account for in its in-house planning. As a consequence, the sales revenue and gross profit could be even lower, and the EBIT could be very negative.

Installation

In 2013, the Installation segment also posted a considerable drop in sales revenue and a negative EBIT. In the financial statements of 2012, management still expected sales revenue to increase and the EBIT margin to be positive at a low single-digit percentage. Here, we refer readers to the guidance of 2012. In addition, sales revenue was also expected to increase in 2014, and the EBIT margin was expected to be positive. In light of the market development, this guidance can no longer be maintained. The reductions in feed-in tariffs in Germany have considerably reduced the project returns that are possible. As a result, the margins in the project sector have come under pressure. In the end, fewer projects than planned were realized. The small number of projects completed were not able to impact the result in 2013 materially. In addition, as explained in Section "The development of Solar-Fabrik in fiscal 2013", additional expenditures for the processing of legacy projects also put a burden on the result. In total, the Installation segment was not able to reach its goals for sales revenue or results.

In 2014, management expects sales revenue to grow in the Installation segment, though the EBIT margin is expected to be slightly negative by a small single digit. The forecast increase in sales revenue is largely based on the assumption that the projects begun in 2013 can be successfully completed in 2014 and sold to interested third parties. Management expects a positive gross margin of less than ten percent. The negative EBIT expected is based on the premise that the number of new projects will be small and that the average project size will also decrease. As a result, it will not be possible to completely cover fixed costs. However, the actual financial indicators largely depend upon the returns that are possible from PV arrays. If the German government decides

to implement even further drastic cuts to feed-in tariffs, expectations for sales revenue and results could be even more negative.

See the information provided on strategic positioning under "Solar-Fabrik's business activities and organizational structure".

Power Generation

In individual cases, Solar-Fabrik also constructs PV arrays for its own power production or contracts third parties to do so, as it did in 2013 on the roof of the Company's production building, That system is expected to generate income from feed-in tariffs and positive results over the entire duration of the project. In the short term, this segment is not, however, expected to significantly impact the consolidated result in terms of volume or results. Such in-house arrays are only constructed if the returns will be clearly positive over the long term.

Group

For the Group's probable development, we refer the reader to the statements on the Solar Power Systems segment and the Installation segment. Both of these segments will sustainably affect the Group's result situation, at least in the mid-term. The management board expects competition to become even fiercer in light of the global surplus capacity and successive cuts in feed-in tariffs in a number of countries. Margins will probably shrink as a result in the long term. The proceeds posted currently do not cover the expenditures incurred because market prices are too low and the sales volume is too low in relation to the cost situation. Solar-Fabrik's goal must therefore be to significantly increase its sales volume and reduce costs sustainably over the mid to long term.

In 2013, the Group posted a considerable drop in sales revenue and a negative EBIT. In the consolidated financial statements for 2012, management assumed that both of these indicators would drop. Here, we refer readers to the guidance of 2012. A negative EBIT was also forecast for 2014 at the time. Management stands by this guidance. Though it is expected to slightly improve over the level of 2013, a clearly negative EBIT margin is expected in 2014 once again in light of the global surplus capacities and the resulting pressure on margins as well as the difficult market conditions. The Group expects sales revenue to slightly drop in 2014 below the level of the previous year as prices continue to fall, though sales volumes should increase slightly year over year. Management believes that the attainable gross profit, which depends to a large extent on sales revenue and material expenditures and therefore materially impacts Solar-Fabrik's result situation, will slightly drop year over year because of the expected decrease in sales revenue. This decrease will probably outstrip the savings attained in material procurement.

As at December 31, 2013, Solar-Fabrik AG has 15.211 million euros in liquid funds, which exceed the financial debt by 13.630 million euros. Section "Financial position" under "Financial position and financial performance of Solar-Fabrik Group" explains the repayment schedule for 2014 in detail. The current net cash position seems sufficient at this point to comply with repayment schedules and continue to finance operations in 2014 and 2015.

Solar-Fabrik AG

In 2013, Solar-Fabrik AG posted a considerable drop in sales revenue and a negative EBIT. In the financial statements for 2012, management assumed that both of these indicators would drop. Here, we refer readers to the guidance of 2012. In addition, a negative EBIT was also expected for 2014. Management stands by this guidance. However, a clearly negative EBIT margin is expected in 2014 once again in light of the global surplus capacities and the resulting pressure on margins as well as the difficult market conditions. The Solar Power Systems segment expects sales revenue with third parties to slightly drop in 2014 below the level of the previous year as prices continue to fall. At least 60 percent of sales revenue from third parties is to come from abroad. Management believes that the attainable gross profit, which depends to a large extent on sales revenue and material expenditures and therefore materially impacts the result situation, will slightly drop year over year because of the expected decrease in sales revenue. This decrease will probably outstrip the savings attained in material procurement.

These forecasts are, however, highly uncertain because feed-in tariffs for solar power are expected to be reduced in number of important sales markets, and the extent, time frames, and exact effects are unknown. Massive surplus production capacity has caused fierce price competition, which is expected to continue in the coming months and years. The result could be price levels and gross margins that Solar-Fabrik did not account for in its in-house planning. As a consequence, the sales revenue and gross profit could be even lower, and the EBIT could be very negative. Accordingly, liquidity could also, of course, develop much more negatively than planned.

4.8 Declaration of Corporate Governance

Section 289a of the German Commercial Code requires listed stock corporations to publish a corporate governance declaration.

Please visit our website at www.solar-fabrik.de. Under Investor Relations, the declaration from the management board and the supervisory board is provided along with a description of essential corporate practices and the practices of the management board and the supervisory board.

5 Consolidated Financial Statements

5.1 Consolidated statement of financial position

as of December 31, 2013

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb
von solartechnischen Produkten, Freiburg i. Br.

Assets

	Notes	EUR '000	31.12.2013 EUR '000	EUR '000	31.12.2012 EUR '000
I. LONG-TERM ASSETS					
1. Intangible assets	(9.)				
Licences, industrial property rights, and similar rights and values		77			33
Goodwill		0			365
			77		398
2. Property, plant, and equipment	(9.)				
Technical equipment and machinery		1,540			1,419
Other equipment, fixtures and furnishings		286			282
			1,826		1,701
3. Other long term receivables	(13.)			390	0
				2,293	2,099
II. SHORT-TERM ASSETS					
1. Inventory	(10.)				
Raw materials and consumables			2,625		3,728
Work in progress			3,274		402
Finished goods and goods for resale			1,542		1,587
				7,441	5,717
2. Trade receivables	(11.)		2,467		12,030
3. Receivables PoC	(11.)		0		530
4. Tax receivables	(12.)		15		155
5. Other operating receivables	(13.)		998		1,220
				3,480	13,935
6. Cash at bank and in hand	(14.)			15,211	17,945
				28,425	39,696

Liabilities

		Notes	31.12.2013 EUR '000	31.12.2013 EUR '000	31.12.2012 EUR '000
I.	**SHAREHOLDERS' EQUITY AND NONCONTROLLING INTEREST**	(16.)			
1.	Subscribed share capital		12,853		12,853
2.	Capital reserves		37,066		37,066
3.	Other reserves		0		160
4.	Retained earnings		-26,643		-19,247
	Equity attributable to shareholders		23,276		30,832
5.	Noncontrolling interests		-1,509		-1,076
				21,767	29,756
II.	**LONG-TERM PROVISIONS AND LIABILITIES**				
1.	Financial liabilities	(18.)	348		1,325
2.	Other provisions	(17.)	2,072		1,258
				2,420	2,583
III.	**SHORT-TERM PROVISIONS AND LIABILITIES**				
1.	Financial liabilities	(18.)	1,233		1,620
2.	Advance payments received	(18.)	89		505
3.	Trade payables	(18.)	1,151		2,630
4.	Other operating liabilities	(18.)	1,176		2,332
5.	Tax liabilities	(18.)	34		51
6.	Other provisions	(17.)	555		180
				4,238	7,318
	Liabilities of discontinued operations			0	39
				28,425	39,696

5.2 Consolidated income statement

from January 1 to December 31, 2013

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb von solartechnischen Produkten, Freiburg i. Br.

			2013	2012
Continued operations		Notes	EUR '000	EUR '000
1.	Sales revenue	(1.)	52,965	96,223
2.	Change in finished goods and work in progress		2,711	-4,813
3.	Overall performance		**55,676**	**91,410**
4.	Other operating income	(2.)	652	4,279
5.	Cost of materials	(3.)	-45,493	-80,629
6.	Personnel expenses	(4.)	-10,823	-11,354
7.	Depreciation on intangible and tangible assets	(5.)	-796	-17,443
8.	Other operating expenses	(6.)	-7,209	-8,117
			-63,668	**-113,264**
9.	**Operating income (= EBIT)**		-7,993	-21,853
10.	Interest and similar income	(7.)	121	208
11.	Interest and similar expenses	(7.)	-95	-863
12.	**Earnings before taxes (= EBT)**		**-7,967**	**-22,509**
13.	Tax result	(15.)	-12	38
14.	Earnings after taxes (= EAT) from continued operations		-7,979	-22,471
Discontinued operations				
15.	Earnings after taxes (= EAT) from discontinued operations	(8.)	-195	338
16.	**Net result for the period**		**-8,174**	**-22,134**
	thereof:			
	Net result attributable to shareholders of Solar-Fabrik AG		-7,391	-21,735
	Noncontrolling interests		-783	-399
			EUR	EUR
Earnings per share				
	Undiluted (= diluted), the net result attributable to ordinary shareholders of the parent company	(16.)	-0.58	-1.69
	Undiluted (= diluted), the earnings after taxes attributable to ordinary shareholders of the parent company from discontinued operations	(16.)	-0.02	0.02
	Undiluted (= diluted), the earnings after taxes attributable to ordinary shareholders of the parent company from continued operations	(16.)	-0.56	-1.72

5.3 Consolidated statement of comprehensive income

from January 1 to December 31, 2013

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb
von solartechnischen Produkten, Freiburg i. Br.

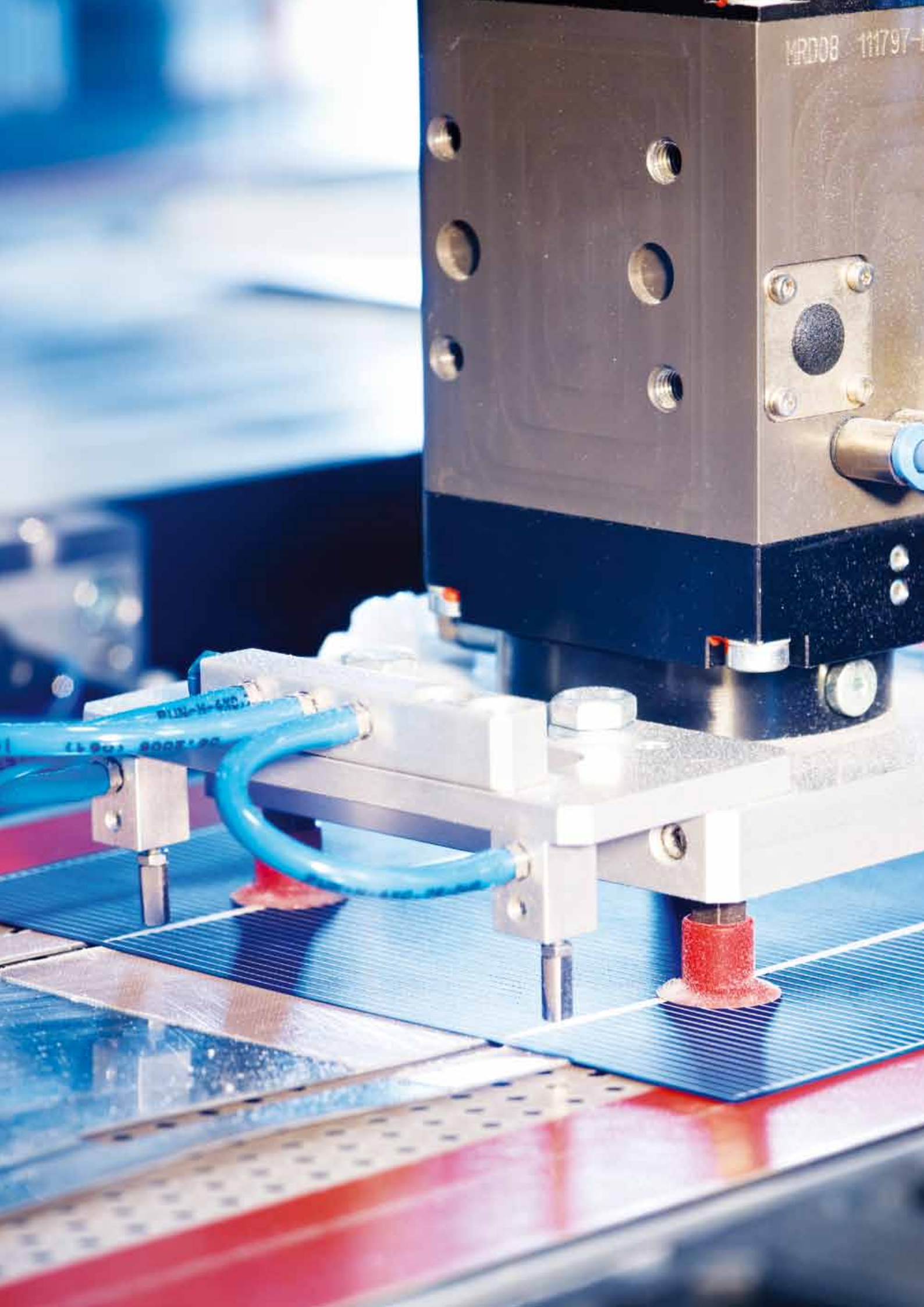
	2013 EUR '000	2012 EUR '000
Net result for the period	**-8,174**	**-22,134**
Unrealized losses from currency conversion adjustments	-160	-253
Other comprehensive loss, net of taxes	-160	-253
Total comprehensive loss	**-8,334**	**-22,387**
thereof:		
Total comprehensive loss attributable to shareholders of Solar-Fabrik AG	-7,551	-21,960
Noncontrolling interests	-783	-427
Total comprehensive loss attributable to shareholders of Solar-Fabrik AG	**-7,551**	**-21,960**
thereof:		
continued operations	-7,196	-22,044
discontinued operations	-355	84

5.4 Consolidated statement of cash flows

for 2013

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb von solartechnischen Produkten, Freiburg i. Br.

	2013 EUR '000	2012 EUR '000
1. Cash flow from operating activities		
Operating income (= EBIT)	-7,993	-21,853
Interest paid	-95	-863
Interest received	120	208
Depreciation	796	17,443
Elimininations of Non Cash Items	4,021	1,969
Losses from disposal of fixed asstes	0	3
Changes in operating assets	5,517	4,830
Changes in operating libilities	-3,098	-3,312
Cash flow from operating activities from discontinued operations	*-22*	*28*
Cash flow from operating activities	**-754**	**-1,547**
2. Cash flow from investing activities		
Payments in intangible assets	-99	-72
Payments in tangible assets	-517	-2,449
Cash flow from investing activities	**-616**	**-2,521**
3. Cash flow from financing activities		
Repayment of financial liabilities	-1,245	-16,503
Repayment of leasing liabilities	-119	-257
Cash flow from financing activities	**-1,364**	**-16,760**
4. Cash and cash equivalents at the end of period		
Net change in cash and cash equivalents	-2,734	-20,828
Effect of exchange rate changes	0	17
Cash and cash equivalents as of January 1	17,945	38,756
Cash and cash equivalents as of December 31	**15,211**	**17,945**
5. Composition of cash and cash equivalents		
Cash at bank and in hands	15,211	17,945
Cash and cash equivalents as of December 31	**15,211**	**17,945**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5.5 Consolidated statement of changes in equity

as of December 31, 2013

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb
von solartechnischen Produkten, Freiburg i. Br.

	Subscribed share capital EUR '000	Capital reserves EUR '000	Retained earnings EUR '000	other reserves Currency conversion EUR '000	Equity attributable to shareholders EUR '000
As of December 31, 2011	12,853	37,066	2,487	386	52,792
Net result	0	0	-21,734	0	-21,734
Other comprehensive Income	0	0	0	-226	-226
Total comprehensive Income	0	0	-21,734	-226	-21,960
As of December 31, 2012	**12,853**	**37,066**	**-19,247**	**160**	**30,832**
Changes in scope of consolidation	0	0	-5	0	-5
Net result	0	0	-7,391	0	-7,391
Other comprehensive Income	0	0	0	-160	-160
Total comprehensive Income	0	0	-7,391	-160	-7,551
As of December 31, 2013	**12,853**	**37,066**	**-26,643**	**0**	**23,276**

	Noncontrolling interests in capital EUR '000	Noncontrolling interests in profits and losses EUR '000	Currency conversion EUR '000	Equity attributable to noncontrolling interests EUR'000	Group equity EUR '000
	35	-606	-78	-649	52,143
	0	-399	0	-399	-22,133
	0	0	-28	-28	-254
	0	-399	-28	-427	-22,387
	35	**-1,005**	**-106**	**-1,076**	**29,756**
	0	244	106	350	345
	0	-783	0	-783	-8,174
	0	0	0	0	-160
	0	-783	0	-783	-8,334
	35	**-1,544**	**0**	**-1,509**	**21,767**

5.6 Notes to the consolidated financial statements
for 2013

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb
von solartechnischen Produkten, Freiburg i. Br.

Generalities

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb von solartechnischen Produkten (in short: Solar-Fabrik AG) is a German public limited company (Aktiengesellschaft) founded in Germany with headquarters in Freiburg. Solar-Fabrik AG shares are publicly traded. Solar-Fabrik AG is the parent company in which there are no shareholders with a controlling interest.

The Solar-Fabrik Group mainly develops, manufactures, markets and sells solar modules and systems as well as all technical products and components used to employ and convert solar energy. The company also provides consulting services for applications of these products. Furthermore, the Solar-Fabrik Group also handles Installation and Power Generation.

The consolidated financial statements for Solar-Fabrik AG for the year ending December 31, 2013 were drawn up in accordance with the principles of the International Financial Reporting Standards (IFRS), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as applicable within the European Union, and the supplementary regulations under commercial law as per Section 315a (1) of the German Commercial Code (HGB). All applicable mandatory standards and interpretations have been observed. The accounting policies applied herein are specified in the notes accompanying the various balance sheet items.

All monetary values in the consolidated financial statements are in euros (EUR). The income statement was prepared in accordance with the type-of-expenditure format. The statement of comprehensive income is based on the two-step approach. Unless otherwise indicated, all values are rounded off to the nearest thousand euros ('000 EUR). As values are shown in thousands of euros, rounding differences can occur in the consolidated financial statements.

The Solar-Fabrik consolidated financial statements for financial year 2013 were released for publication by the management board on March 21, 2014.

Accounting and valuation principles

Scope of consolidated financial statements

As the parent company, Solar-Fabrik AG's consolidated financial statements pertain to all of the company's domestic and foreign subsidiaries.

	Currency	Share %	Scope of consilidation
Solar Application GmbH, Freiburg (SA)	EUR	100.000	fully consolidated
Solar Application S.r.l., Bozen/Italy (SA SRL)	EUR	100.000	fully consolidated
SolSystems Energy GmbH, Stadtbergen (SSE)	EUR	50.006	fully consolidated
SolSystems Energy Verwaltungs GmbH, Stadtbergen (SSE Verw.)	EUR	50.006	fully consolidated
MT Solare2 S.r.l., Meran/Italy (MTS)	EUR	50.006	fully consolidated
Solar MF GmbH & Co. KG, Stadtbergen (SMF)	EUR	50.006	fully consolidated
Solar A1 GmbH & Co. KG, Stadtbergen (SA1)	EUR	50.006	fully consolidated

The scope of consolidation on December 31, 2013 has changed as follows compared to the previous year-end:

The liquidation of Solar Energy Power Pte. Ltd. (SEP), Singapore (90 percent share) was completed on January 31, 2013 so that the company was deconsolidated on the same date.

Solar-Fabrik Services Pte. Ltd. (SFS), Singapore (100 percent share) was also deconsolidated on January 31, 2013 because as the company does not have any operating activities, it does not have a material effect on Solar-Fabrik's consolidated financial statements.

Accounting and valuation principles

General

The consolidated financial statements of December 31, 2013 for all Solar-Fabrik AG companies were prepared in accordance with uniform accounting and valuation principles.

The applied accounting and valuation principles correspond to the methods applied in the previous year, except for the warranty provision.

The consolidated financial statements are based on the principle of original cost, with the exception of derivative financial instruments, which are measured at fair value.

Assumptions about the future and other uncertainties in estimates made on the balance sheet date that entail a risk of future adjustments to the carrying amount of assets and liabilities mainly concern the provisions and deferred tax assets.

Standards, interpretations, and changes to standards and interpretations that apply in this financial year for the first time

Solar-Fabrik has applied the following IASB pronouncements and/or amendments of pronouncements for the first time in the financial year:

The IASB published IFRS 13 "Fair Value Measurement" in May 2011. With this publication, the IASB established a uniform, generally applicable standard for fair value measurement. IFRS 13 applies to financial years beginning on or after January 1, 2013. IFRS 13 governs how to measure at fair value when another IFRS prescribes fair value measurement (or fair value reporting). A new definition of fair value applies, which describes fair value as the selling price for an actual or hypothetical transaction between any independent market participants under arm's length market conditions on the valuation date. The standard is virtually all-encompassing, only IAS 2 "Inventories" and IAS 17 "Leases" as well as IFRS 2 "Share-based Payment" are exempt. While the scope of this standard remains virtually unchanged for financial instruments, this is now regulated more comprehensively and/or precisely for other circumstances (e.g. real estate held as financial investments, intangible assets and property, plant, and equipment). The familiar three-step fair value hierarchy has to be consistently applied. The application of IFRS 13 has resulted in additional note disclosure requirements for Solar-Fabrik. The European Union endorsed this standard for use in European law in December 2012.

In June 2011, the IASB published changes to IAS 1 "Presentation of Financial Statements". These changes require the items reported under other results to be divided into two categories – depending on whether they will be included in the income statement in the future (recycling). The changes to IAS 1 apply to financial years beginning on or after July 1, 2012 and were endorsed by the European Union for use in European law in June 2012. Solar-Fabrik has applied the changes described above in the statement of comprehensive income starting with financial year 2013.

In December 2011, the IASB published additional note disclosure requirements for offsetting rights in IFRS 7 "Financial Instruments: Disclosures". In addition to expanded disclosures on actual offsetting according to IAS 32, disclosure obligations were introduced for existing offsetting rights regardless of whether offsetting according to IAS 32 is actually performed. The new rules apply retroactively to financial years beginning on or after January 1, 2013 and were endorsed by the European Union for use in European law in December 2012.

In May 2012, the IASB published "Annual Improvements to IFRS 2009-2011 Cycle" with changes to five standards. The new rules were approved by the European Union in March 2013 and apply retroactively to financial years beginning on or after January 1, 2013. The changes to IAS 1 "Presentation of Financial Statements" clarify that, if voluntary comparative information is disclosed in the financial statements, the related note disclosures are required as well. The changes to IAS 16 "Property, Plant and Equipment" mean that maintenance equipment has to be reported as property, plant, and equipment or inventory depending on the expected useful life. Changes to IAS 32 "Financial Instruments: Presentation" clarify that tax effects of distributions to investors and transaction costs for an equity transaction have to be reported according to IAS 12. Because of the changes to IAS 31 "In-

terim Financial Reporting", disclosures on segment assets and liabilities are only required when they are the object of regular management reporting and there have been material changes since the most recent annual financial statements. The changes to IFRS 1 "First-time Adoption of IFRS" have no material effect on Solar-Fabrik.

New accounting pronouncements adopted by the EU that have not been applied prior to the effective date

The IASB published IFRS 9 "Financial Instruments" in November 2009. This standard is the result of phase one of three in the project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9, which regulates the classification and measurement of financial instruments. The rules on the impairment of financial instruments and hedge accounting are currently being revised by the IASB. IFRS 9 applies for the first time to financial years beginning on or after January 1, 2017 at the earliest. The pronouncement has not yet been endorsed by the European Union for use in European law. At this time, the process to adopt the pronouncement into European law is on hold. Previous periods do not have to be changed upon first-time application, and the effects of first-time application have to be disclosed. Solar-Fabrik is analyzing the resulting effects on the presentation of the net assets, financial position and results of operations as well as cash flows.

The IASB published rules for the recognition of financial liabilities in October 2010. These are integrated in IFRS 9 "Financial Instruments" and replace the existing rules in IAS 39 "Financial Instruments: Recognition and Measurement". The rules on recognition and derecognition as well as most rules for classification and measurement are included in the new pronouncement unchanged from IAS 39. Previous periods do not have to be changed upon first-time application, although the effects of first-time application have to be disclosed. The pronouncement applies for the first time to financial years beginning on or after January 1, 2015. This pronouncement has not yet been endorsed by the European Union for use in European law. At this time, the process to adopt the pronouncement into European law is on hold. Solar-Fabrik is analyzing the resulting effects on the presentation of the net assets, financial position and results of operations as well as cash flows.

In May 2011, the IASB published three new IFRS (IFRS 10, IFRS 11, IFRS 12) and two revised standards (IAS 27, IAS 28) for the recognition of participations in subsidiaries, joint ventures and associated companies. The standard was endorsed by the European Union for use in European law in December 2012. Within the European Union, the rules apply to financial years beginning on or after January 1, 2014. The application of the new and amended IFRS will not have a material impact on the presentation of the net assets, financial position and results of operations or cash flows of Solar-Fabrik. However, the new version of IAS 27 constitutes an exception, since it now applies exclusively to individual financial statements but Solar-Fabrik does not prepare single-entity financial statements pursuant to IFRS according to Section 325 (2a) of the German Commercial Code (HGB).

In December 2011, the IASB published more precise offsetting rules in IAS 32 "Financial Instruments: Presentation". In order to meet the offsetting requirements according to IAS 32, the new rules specify that the legal right to offsetting for the reporting entity at the current time must not be subject to a future event and has to apply both in the course of ordinary business operations and in case of default or insolvency of a contracting party. Furthermore, it was determined that a gross settlement system meets the offsetting requirements according to IAS 32, insofar as no material credit and liquidity risks remain, receivables and liabilities are processed in a single offsetting process and the system in the end is therefore equivalent to net settlement. The new rules apply retroactively to financial years beginning on or after January 1, 2014 and were endorsed by the European Union for use in European law in December 2012. Solar-Fabrik is analyzing the resulting effects on the presentation of the net assets, financial position and results of operations or cash flows, but is not expecting any material changes at this time.

In June 2012, the IASB published changes to the transition rules for the three new consolidation standards IFRS 10, IFRS 11 and IFRS 12 published in May 2011. The rules were endorsed by the European Union in April 2013 and, within the European Union, apply to financial years beginning on or after January 1, 2014. The application of the new and amended IFRS will have effects on the presentation of the net assets, financial position and results of operations as well as cash flows of Solar-Fabrik.

In November 2012, the IASB published further changes to the consolidation standards IFRS 10, IFRS 12 and IAS 27. The changes relate to the consolidation of investment companies. The rules were endorsed by the European Union in November 2013 and apply to financial years beginning on or after January 1, 2014.

The following new standards also apply for the first time to financial years beginning on or after January 1, 2014:

- IAS 36: Disclosures on the recoverable amount of non-financial assets (endorsed by the European Union in December 2013),
- IAS 39: Novation of derivatives and continuation of hedge accounting (endorsed by the European Union in December 2013).

Furthermore, the following new standard applies for the first time to financial years beginning on or after January 1, 2016:

- IFRS 14, Regulatory Deferral Accounts (not yet endorsed by the European Union).

Beyond that, the following new standard applies for the first time to financial years beginning no sooner than January 1, 2017:

- IFRS 9, Financial Instruments: Classification and Measurement: Financial Liabilities (not yet endorsed by the European Union).

The application of the amended IFRS is not expected to have a material impact on the presentation of the net assets, financial position and results of operations as well as cash flows of Solar-Fabrik.

Accounting and valuation principles

Intangible assets acquired for a consideration were carried at cost. Intangible assets were amortized on a straight-line basis in accordance with their useful lives. Capitalized software was depreciated over a three-year period. Equipment installed by lessees and reported under intangible assets was depreciated over the term of the lease (15 years).

Property, plant and equipment accounting was realized at cost, and allowance was made for depreciation and impairment. Scheduled depreciation is calculated on a straight-line basis. Depreciation on additions to property, plant and equipment was prorated. The following useful lives were used in the Solar-Fabrik Group:

Category	Useful life
Technical equipment and machinery	4 - 10 years
Production equipment	3 - 8 years
Operating and office equipment	2 - 15 years
Fleet	6 years
Tools	5 years
Office Supplies	3 - 10 years

On each balance sheet date, the Group assesses whether there are any indications that an asset may have depreciated. If there are any such indications or if an annual review of an asset's value is due, the Group estimates the asset's recoverable amount. The amount, that can be recovered for an asset, is the greater of the asset's or a cash-generating unit's fair value less cost to sell and the value in use. After an impairment has been recorded in the previous year, in the following year Solar-Fabrik examines whether there is a triggering event which makes a recovery necessary.

Economic ownership of the leased property was allocated to the lessee in accordance with IAS 17 insofar as the risks and rewards arising from the leased asset in question were predominantly attributable to the lessee. Insofar as such economic ownership is attributable to Solar-Fabrik, the leased object in the underlying asset is capitalized or recognized as a liability on the date when the lease was signed at either its fair value or, if lower than the fair value, the present value of the minimum lease payments. Unlike operating leases, in which leasing rates are reported for the period within the income statement over the term of the lease, the rates in finance leases are divided up into repayment and interest, and the interest is reported for the period in the income statement. The depreciation methods and useful lives applied are consistent with those that apply to comparable assets.

The consolidated financial statements include subsidiary companies whose financial and business policies Solar-Fabrik AG can control. Generally, this is the case if more than 50 percent of the voting shares are held.

Inventories were carried at cost or at their anticipated lower net realizable value. Inventories of raw materials and consumables as well as goods for resale are capitalized at average purchase prices. When a decline in the price of materials indicates that the cost of the finished products exceeds the net realizable value, the materials are written down to the net realizable value in accordance with IAS 2.32. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. The value of work in progress and finished goods was derived from individual calculations based on manufacturing costs derived from management accounts. These calculations also took into account directly attributable material costs, labor costs or other costs, as well as indirect material and indirect labor costs and depreciation. All identifiable risk attributable to inventories that resulted from above-average storage time and reduced value was assessed on the basis of reasonable depreciation. Apart from standard retention of title and the agreement on the assignment of goods held in stock relating to finished products and merchandise, which was concluded as part of structured financing arrangements, inventories are not subject to third-party rights. No borrowing costs were incurred that can be directly assigned to the purchase, construction or production of a qualifying asset according to IAS 23.

Receivables and other assets are carried at amortized cost or, in the case of long-term production contracts, in the amount of contract fulfillment. Where necessary, the value of items subject to risk was calculated on a per item basis. General risks to receivables were calculated by means of reasonable value adjustment based on previous experience. Customer receivables that no longer have a value are written off according to the sales tax guidelines when the requirements for a sales tax adjustment are met.

Cash at bank and in hand includes cash in hand balances and deposits held at banks. These amounts are recognized at their nominal value and are valid for up to three months. When cash is pledged in the long term, it is reported under other non-current assets.

Solar-Fabrik uses derivative financial instruments solely to limit its exposure to exchange and interest rate risks. In accordance with the Group's risk management system, currency hedging transactions are made solely in relation to material procurement. Interest caps, foreign exchange forwards and plain vanilla options are used as derivative financial instruments. All derivatives are recognized at fair value and are presented under other assets (for positive market values) or other liabilities (for negative market values). On the balance sheet date, derivatives not in hedge accounting are evaluated at market prices as income. Derivatives accounted for under hedge accounting are also measured at market prices in the income statement. Market value is determined on the basis of accepted valuation methods (mark-to-market valuation).

Other provisions are recognized insofar as any third-party liability existed that was engendered by past events and insofar as it could be reliably determined that such a liability could be a drain on assets. Such provisions constitute nonspecific obligations that were carried as best estimates. Long-term provisions are discounted and reported at net present value.

Financial liabilities, trade payables, advance payments received and other liabilities are reported at amortized cost, unless discounting is necessary. Liabilities in foreign currency are converted at the conversion rate on the balance sheet date. Loans are first reported at the fair value of the consideration received minus the transaction costs related to the loan. After initial recognition, interest-bearing loans are measured at amortized cost in accordance with the effective interest method.

Deferred tax was calculated in accordance with IAS 12 (Income Taxes). Temporary differences between valuations in IFRS and tax values generally gave rise to deferred tax assets and liabilities. Pursuant to IAS 12, deferred tax was calculated on the basis of the anticipated tax rate at the time of realization. The tax rate applied for Solar-Fabrik AG at 30.53 percent (previous year: 29.83 percent, the change in 2013 due to the increase in the trade tax rate) is comprised of the corporate tax rate (15.00 percent) plus the solidarity surcharge (0.83 percent) and the trade tax charged at the company's headquarters (14.70 percent).

Tax losses carried forward but not used are reported as capitalized deferred taxes to the extent that it is probable that taxable income will be available and by taking into account the history of results.

Deferred tax liabilities and assets are offset against each other if the Group has a legally enforceable right to offset current tax assets against current tax liabilities and both concern the same tax object's income taxes levied by the same tax authority.

Discontinued operations include long-term assets and groups of assets (where applicable with provisions and liabilities), for which the carrying amount is not realized through continued use. These assets were recorded at lower value made up of the carrying amount and the fair value less cost to sell.

Although contingent liabilities constitute a potential obligation, their existence must first be substantiated by the occurrence of one or more nonspecific events that cannot be fully controlled. These liabilities should also be regarded as current obligations, but ones that will probably not become a drain on financial resources or where the extent of the drain on financial resources cannot be determined with certainty. Pursuant to IAS 37, contingent liabilities are not recognized in the balance sheet.

Sales revenue and other operating income are reported in all cases when the service is provided, the amount of the income can be reliably determined, and the economic benefit will probably accrue to the Group.

For long-term production contracts, revenue and profits are calculated based on the status of contract fulfillment. Services performed including pro rata results are presented in revenue in accordance with the stage of completion. The status of contract fulfillment is based on a comparison of the manufacturing costs up to the balance sheet date and the probable total manufacturing costs. In the process, individual items are attributed to cost centers for the project. The construction contracts are reported in trade receivables or trade payables. As long as the cumulated performance (contract costs and contract results) is higher than the advance payments received, the construction contracts are reported in trade receivables. If a negative amount remains after the deduction of the advance payments received, this obligation resulting from construction contracts is reported in trade payables. Expected contract losses are taken into account based on visible risks and the contract result is entirely and immediately recognized.

The sale of project companies (share deals) is reported in the same way as a comparable direct sale of the photovoltaic systems (asset deal) because these transactions are a core part of the Installation segment's core business. In this way, the net assets, financial position and results of operation are properly depicted. This means that the selling price of the project company's shares, plus its liabilities and less its receivables, is reported as sales revenue, whereas the carrying amount of the photovoltaic arrays is reported as material expenses. The balance of the prorated fair value for the assets and liabilities that are part of the sale is reported at original cost for any remaining holdings.

In financial year 2013, Solar-Fabrik was approved for the first time for government grants according to IAS 20 for the participation in a research project on the service life of solar modules. With the legally binding notice, the payment of a total amount of 188,000 euros has been indicated for the grant period of 2013 to 2017. A claim for reimbursement is capitalized in the income statement once corresponding costs have been incurred that meet the grant requirements. In this case, income is recorded under other operating income.

Operating expenses affect income when the service is utilized or becomes necessary.

Contribution-based pension plans are recorded directly as expenses.

Financial instruments

A financial instrument is a contract that simultaneously leads to the creation of a financial asset in one company and to a financial liability or equity instrument in another. Financial assets and liabilities are listed according to their valuation categories.

The initial and subsequent measurements of the financial instruments currently employed by the Solar-Fabrik Group are shown in the table below:

	Initial measurement	Subsequent measurement	Income statement effects of changes in fair value
Financial assets recognized in the income statement and measured at fair value including derivatives	fair value	fair value	through profit and loss
			not affecting profit and loss when in hedge accounting
Loans and receivables	fair value plus transaction costs	measured at amortized cost using the effective interest method	-
Financial liabilities recognized in the income statement and measured at fair value including derivatives	fair value	fair value	through profit and loss
			not affecting profit and loss when in hedge accounting
Liabilities measured at amortized cost	fair value plus transaction costs	measured at amortized cost using the effective interest method	-

1. Financial assets

IAS 39 recognizes four different categories of financial assets:

- Financial assets to be measured at fair value in the income statement ("designated" or "held for trading")
- Investments held up to maturity
- Loans and receivables
- Financial assets available for sale (AFS)

As of December 31, 2013 and 2012, Solar-Fabrik held no financial assets in the category "financial assets held to maturity" nor in the category "financial assets available for sale".

Financial assets are reported in the balance sheet if the organization is party to a contract involving that particular asset. The ordinary market-based purchase and sale of non-derivative financial instruments is recognized on the date of fulfillment.

Financial assets with a maturity of more than 12 months are classified as long-term.

A financial asset is derecognized as soon as the contractual rights have been settled or cancelled or have expired.

a) Financial assets measured at fair value in the income statement

A financial asset measured at fair value in the income statement is recorded at fair value on initial valuation. In subsequent valuations, it is also reported at fair value.

Within Solar-Fabrik Group, this only concerns the derivatives entered into by Solar-Fabrik AG, as long as the derivatives are not included in hedge accounting.

b) Loans and receivables

Loans and receivables are initially measured at fair value plus the directly attributable transaction costs incurred on acquisition. They are subsequently valued at amortized cost, using the effective interest method.

If there are objective grounds for writing down a financial asset and its book value is greater than the value obtained in the impairment test, the asset is depreciated and the amount recognized in the income statement. Objective grounds for writing down a financial asset could include a decline in the credit rating of a debtor and associated interruptions in payment or potential insolvency. All value adjustments are carried out indirectly by means of an impairment account. Within the Solar-Fabrik Group, the "loans and receivables" category mainly includes trade receivables and certain assets reported under other assets.

The accounting and valuation methods applied to the derivatives recognized under other assets at positive fair value are explained separately in Section 3 below.

2. Financial liabilities

In the year under review and in the preceding financial year, the Solar-Fabrik Group held no non-derivative financial li-

abilities recognizable at fair value in the income statement or designated as such. All non-derivative financial liabilities of the Solar-Fabrik Group are classified as "other liabilities measured at amortized cost." Non-derivative financial liabilities are measured initially at fair value, taking account of transaction costs. They are subsequently measured at amortized cost using the effective interest method.

These liabilities are classified as long-term if an outflow of resources is anticipated after a period of 12 months.

Financial liabilities are derecognized when the contractual obligations have been settled or cancelled or have expired.

3. Derivative financial instruments
Solar-Fabrik employs derivative financial instruments to protect itself against financial risks. Regardless of their purpose, derivative financial instruments are recorded on the contract date and recognized at fair value when first entered and thereafter. They are valued based on current market data using suitable valuation procedures.

The Solar-Fabrik Group used a derivative in the form of an interest cap in 2013 and this is still held on the balance sheet date.

IAS 39 sets strict requirements for the use of hedge accounting. These are not met by Solar-Fabrik AG, so that there was no hedge accounting in the year under review.

Use of discretion and uncertain valuations

The presentation of the net assets, financial position and results of operations of the Group in the consolidated financial statements depends on the methods of recognition and valuation used and on assumptions and estimates. Actual sums may vary from those estimated. The principal estimates and related assumptions with the accounting and valuation methods adopted are crucial to gaining an understanding of the underlying risks of financial reporting and of the impact these estimates, assumptions and uncertainties can have on the consolidated financial statements.

The measurement of property, plant and equipment and intangible assets is dependent on estimates used to calculate fair value at the time of acquisition. This applies in particular to assets acquired as part of a corporate merger. The expected useful life of the assets also has to be estimated. Calculation of the fair value of assets and liabilities and their useful lives is based on assessments made by management.

The value of goodwill and other non-financial assets is based on assumptions about the future. Any adjustment will depend on many factors, including changes in competition within the sector, expectations of growth in the photovoltaics industry, increases in capital costs, changes in the future availability of financing resources and raw materials, technological obsolescence, current replacement costs, prices paid in comparable transactions, and other changes affecting the business environment that point to a reduction in value. Recoverable value and fair value are calculated using the discounted cash flow method, which takes into account reasonable assumptions made by market participants. Payment flows are attributed to the business units defined by the company as cash-generating units. The identification of indicators that point to the need for a value adjustment, the estimation of future cash flows and the calculation of fair values for assets (or groups of assets) involve management in a considerable amount of estimating with regard to the identification and checking of value adjustment indicators, anticipated cash flows, appropriate discounting rates, service lives and residual values. With particular regard to future revenue growth, only a limited amount of historical information on customer demand is available. Any changes in product demand could lead to a reduction in revenue and cash flows and, possibly, to impairment expenses in connection with the depreciation of these investments to their fair values.

The company creates value adjustments for receivables to cover estimated losses resulting from customer insolvency. The principles used by management to assess the reasonableness of such value adjustments to receivables are the maturity structure of outstanding receivables and previous experience of writing down receivables, customers' creditworthiness and changes in payment terms. Should a customer's financial situation worsen, the volume of receivables effectively needing to be written down may exceed what was anticipated.

For long-term production contracts, revenue and profits are calculated based on the status of contract fulfillment. The accounting of long-term production contracts requires an estimation of the results to be achieved from the construction contract. In addition, the stage of completion has to be estimated based upon the ratio of manufacturing costs to the probable manufacturing costs.

Deferred tax assets are recognized as long as there is a probability of future tax advantages. The actual tax result situation in future periods and, consequently, the actual use that can be made of deferred tax assets may vary from the time of estimation to the point in time at which the deferred taxes are capitalized.

The recognition and valuation of provisions – in particular guarantee and warranty provisions – depend to a large extent on estimates made by management. Assessment of the probability that a liability will arise and of the possible value of a payment obligation is based on an individual judgment of each situation. As a result of the uncertainties associated with this assessment, actual losses may vary from the original estimates and therefore from the provision recorded. To this extent, they may have a substantial impact on the future earnings situation.

Currency conversion

The consolidated financial statements are prepared in euros, the functional and presentation currency for the Group. Each company within the Group specifies the currency it uses. The items contained in the statements for each company are valuated based on the functional currency. In other words, transactions in foreign currencies are converted into the functional currency at the exchange rate on the date of the transaction, with a reassessment of monetary items taking place on the balance sheet date at the exchange rate then applicable.

The functional currency for the foreign companies SFS and SEP is the Singapore dollar. On the balance sheet date, the assets and liabilities of all foreign subsidiaries were converted into the presentation currency of Solar-Fabrik AG, the euro, at the currency exchange rate on the target date. Income and expenses were converted at the weighted average rate for the financial year. Differences due to these conversions are reported as a separate part of equity.

The following exchange rates were used for the company's foreign currency translation processes. The exchange rates for January 2013 were relevant in this case, since SFS and SEP were deconsolidated on January 31, 2013.

		Jan 2013		2012	
Country	Currency	Conversion rate	Average rate	Conversion rate	Average rate
Singapore	SGD	1.6802	1.6103	1.6116	1.6072

Consolidation principles

All intragroup accounts, transactions, income, expenses, losses, and profits from intragroup transactions contained in the carrying amount of assets are eliminated in full.

Subsidiary companies are fully consolidated starting on the date of purchase – in other words, the date on which the Group obtains control of the company. The subsidiary leaves the scope of consolidation as soon as the parent company no longer controls it.

Discontinued operations

On October 26, 2011, the management board announced, with the consent of the supervisory board, its plan to close the Solar Cell Production segment in Singapore by the end of financial year 2011. The discontinuation of this unit is in line with the Group's long-term strategy of focusing on its traditional core business of Solar Power Systems and the new segments of Installation and Power Generation. The Solar Cell Production segment includes consolidated firms SEP and SFS.

Below is an itemization of the balance sheet positions for the discontinued operation according to the main groups specified in IFRS 5.38:

	31.12.2013 EUR '000		31.12.2012 EUR '000	
Balance sheet items	Assets	Liabilities	Assets	Liabilities
Fixed assets	0		0	
Receivables and other operating receivables	0		0	
Trade payables		0		11
Other liabilities		0		28
TOTAL	0	0	0	39

The result of the discontinued Solar Cell Production segment is reported as follows:

	1.1.-31.12. 2013 EUR '000	1.1.-31.12. 2012 EUR '000
Sales revenue (external)	0	1
Other operating income	10	367
Expenses	-77	-30
Result from de-consolidation	-128	0
Income before tax from discontinued operations	-195	338
After-tax result from discontinued operations	-195	338

The cumulative income and expenses related to the discontinued operations reported under the other result amount to -160,000 euros (previous year: -253,000 euros). This applies to the reclassification (recycling) of the cumulative foreign currency effects previously included in equity on the balance sheet date as of December 31, 2012 in the amount of -160,000 euros which, together with the foreign currency effects added in financial year 2013 in the amount of -60,000 euros, were included in results for the period.

Goodwill

For initial recognition, goodwill from corporate mergers is initially valuated at original cost, which is measured as the surplus of the original cost of the merger relative to the share of the Group in the fair value of the identifiable assets, debts, and contingent liabilities purchased. Goodwill is valuated at cost less accumulated impairment expenses after initial recognition. Goodwill is tested for impairment at least once annually and more often if events indicate that the carrying amounts could have been reduced.

To see whether any impairment has occurred, the goodwill acquired during a merger must be allotted to each of the Group's cash-generating units that were to benefit from the synergies from the merger starting on the day of the takeover. This method is applied regardless of whether other consolidated assets or liabilities have already been allotted to these units. Every unit to which goodwill was assigned,

- represents the lowest level within the Group at which goodwill is monitored for internal management purposes, and
- is no larger than an operating segment according to IFRS 8 "Segment Reporting".

The cash-generating units are identical with the various legal entities.

If the carrying amount of the cash-generating unit exceeds the recoverable amount, the carrying amount is reduced to the recoverable amount in the income statement. The recoverable amount is the greater amount of the net realizable value (fair value less disposal costs) and the value in use of a cash-generating unit. The net realizable value is the recoverable amount from the sale of an asset at fair market conditions less cost to sell. In measuring fair value, account is taken of any available market transactions or valuations drawn up by the third parties for comparable assets within the same industry. The value in use is determined by discounting future cash flows before taxes using a "weighted average cost of capital" (WACC). The need for impairment is determined by the cash flow plans of the cash-generating units, which in turn are based on the medium-term plan approved by the

management board as applicable on the date on which the impairment test is conducted, covering a three-year time horizon.

Medium-term plans are drawn up on the basis of anticipated trends in the general economy and the industry, as derived from macro-economic and financial studies. Since the effects of both growth rates and inflation were factored into medium-term planning, no growth rates and no inflation adjustments were used as part of the discounting of cash flow to calculate values in use.

Assumptions for the calculation of impairment of goodwill:

	31.12.2013	
Cash generating unit	Carrying amount of goodwill EUR '000	Average weighted costs of capital (WACC) before taxes for 2013 (%)
Installation	0.0	13.84
Solar Fabrik Group	**0.0**	

	31.12.2012	
Cash generating unit	Carrying amount of goodwill EUR '000	Average weighted costs of capital (WACC) before taxes for 2012 (%)
Installation	364.9	13.36
Solar Fabrik Group	**364.9**	

The critical economic situation in the photovoltaics sector, which is the result of the ongoing price decline and worldwide excess capacity, and the reluctance of the banks to provide project financing, have caused the corporate planning figures in the Installation segment to worsen. As a result, the impairment test in this segment indicated a need for impairment since the recoverable amount was lower than the carrying amount. The value in use was chosen as the recoverable amount according to IAS 36.74. No growth effect was assumed for the perpetuity to calculate the value in use. As a result of the impairment test, the goodwill of 365,000 euros assigned to the Installation segment was written off entirely.

Capital management

Framework conditions for the optimum management of balance sheet equity are determined by the Solar-Fabrik Group's strategic positioning. At the heart of this strategy is the achievement of long-term increase in value in the interests of investors, employees, customers and banks. Meeting this aim involves achieving a continuous increase in earnings through both organic growth and growth through acquisitions and efficiency gains. In order to achieve this, a balance has to be struck between business and financial risks, and having the required financial flexibility to reach the growth targets. Solar-Fabrik is committed to assuring this balance by maintaining a strong financial profile.

On October 21, 2009, Solar-Fabrik AG signed a syndicated loan agreement originally worth a total of 19/17 million euros with a bank consortium that included Germany's Kreditanstalt für Wiederaufbau (KfW), whose remaining balance on December 31, 2013 is 1.125 million euros. The loans are offered and granted contingent upon key financial figures defined in the loan agreement (net debt ratio and adjusted equity ratio). The management of Solar-Fabrik AG confirms fulfillment of these requirements each month. Furthermore, the Group has an assignment of assets as security, and an assignment of goods held in stock for warehouses with changing stock.

Planned investments as well as required operational funds are secured based on the current liquidity situation and considering existing credit terms.

In addition to current financing, Solar-Fabrik can resort to alternative, mid-term types of financing, such as sale and leasebacks, factoring, issues of bonds, and capital increases. However, the current market and industry situation is such that credit expansions or new engagements are difficult to achieve. This is why the company's high cash level and low indebtedness are of special importance for capital management. Both elements are intended to ensure that the company's liquidity is secure for business operations and to finance planned growth.

Overall it can be noted that the Solar-Fabrik Group, notwithstanding the unfavorable development of results of operations, has been able to significantly reduce receivables and other assets year over year through the aggressive management of working capital. This has resulted in a significant reduction in total assets year over year, so that a moderate increase in the equity ratio could be achieved in spite of the net loss for 2013. While cash at bank and in hand was reduced by 2.734 million euros on the 2013 balance sheet date compared to the previous year, notwithstanding the significant reduction in receivables, the Group's readily available cash reserves can be considered adequate (cash ratio in comparison to total assets: 53.5 percent versus 45.2 percent in 2012).

Segment reporting

In determining business segments, the management relied on reports made available to the management board for strategic decisions. The operating business segments at Solar-Fabrik are divided into products/services, each comprising complete legal entities, for which separate financial information is available. Strategic corporate management assesses the performance of operating segments based on revenue and EBIT. Segment reports are standardized throughout the Group based on International Financial Reporting Standards (IAS/IFRS). Events eliminated in the transition from segment reports on profits/losses to the consolidated financial statements concern intragroup transactions. Interest income and expenses are not attributed to the segments because these business transactions are the responsibility of the Group's finance department, which controls these decisions.

The Solar Cell Production segment includes SFS and SEP; it focuses on the production of solar cells. On October 26, 2011, the management board with the consent of the supervisory board announced its plan to close the Solar Cell Production segment in Singapore. Please also refer to "Discontinued operations".

The Solar Power Systems segment includes the parent company; this segment develops, manufactures, markets and sells solar modules and systems as well as all technical products and components used to exploit and convert solar energy; it also provides consulting services covering potential applications of corresponding products.

The Installation segment includes SolSystems Energy GmbH and its subsidiaries; the business purpose is the planning, development, and installation of PV plants. The subsidiaries are project firms founded with the intent of selling them as part of a share deal when the PV plant has been completed.

The Power Generation segment includes Solar Application GmbH and Solar Application S.r.l. Solar Application GmbH currently operates one solar plant in Germany.

Transfer prices between business segments are measured based on common market terms applied between third parties. Segment income, expenses, and results relate to transfers between business segments. These transfers are eliminated during consolidation.

In 2013, as in the previous year, no customer made up more than 10 percent of sales revenue at Solar-Fabrik. Sales revenue with external customers in 2013 amounted to 50.202 million euros for modules (previous year: 74.030 million euros), 949,000 euros for inverters (previous year: 3.328 million euros), 274,000 euros for installation components (previous year: 1.077 million euros), 862,000 euros for installation services (previous year: 17.399 million euros), 65,000 euros for power generation (previous year: 0 euros) and 613,000 euros for other products (previous year: 389,000 euros).

The following table contains information on the income and results of the Group's business segments for the financial years ending December 31, 2013 and December 31, 2012.

Business Segments:

	Solar Power Systems		Power Generation		Installation	
	2013	2012	2013	2012	2013	2012
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Sales revenue						
External sales	52,038	78,824	65	0	862	17,399
Sales with other segments	1,538	5,018	0	0	0	288
Segment revenue	53,576	83,842	65	0	862	17,687
Other operating income	545	4,001	0	8	145	294
Segment expense	-64,086	-109,954	-36	-10	-2,401	-18,144
thereof:						
ordinary depreciation on intangible and tangible assets	-378	-3,393	-21	-2	-33	-43
extraordinary depreciation on intangible assets and tangible assets	0	-14,005	0	0	-365	0
extraordinary depreciation on current assets	-3,336	0	0	0	0	0
other significant non-cash expenses	-3,855	-1,666	0	0	-166	-1,044
Segment result (= EBIT)	**-9,965**	**-22,111**	**29**	**-2**	**-1,394**	**-163**
Financial result						
Earnings before interest and taxes (= EBT)						
Tax expenses						
Result from continued operations						

Segment information by regions:

	Germany		Other Europe		Total	
	2013	2012	2013	2012	2013	2012
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Sales revenue						
External sales	20,075	42,953	32,890	53,270	52,965	96,223

The regional categories for revenue generated outside the Group are based on the customer's location.

Revenue in the Installation segment totalled 862,000 euros in financial year 2013. Sales revenue of 2.807 million euros reported in the quarterly report as of September 30, 2013 had to be reduced by 2.000 million euros because a consolidation entry had been omitted in the quarterly report. Since there was an opposite entry in the profit and loss line item "change in finished goods and work in progress" of the same amount, the net profit was not affected.

Solar Cell Production (discontinued operations)		Reconciliation (discontinued operations)		Elimination		Total	
2013	2012	2013	2012	2013	2012	2013	2012
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	TEUR
0	1	0	-1	0	0	52,965	96,223
0	0	0	0	-1,538	-5,306	0	0
0	1	0	-1	-1,538	-5,306	52,965	96,223
10	367	-10	-367	-37	-24	653	4,279
-205	-30	205	30	4,912	5,753	-61,611	-122,355
0	0	0	0	0	0	-432	-3,438
0	0	0	0	0	0	-365	-14,005
0	0	0	0	0	0	-3,336	0
0	0	0	0	0	0	-4,021	-2,710
-195	**338**	**195**	**-338**	**3,337**	**423**	**-7,993**	**-21,853**
						25	-656
						-7,968	-22,509
						-12	38
						-7,980	**-22,471**

Notes on the income statement

(1.) Sales revenue

Sales revenue is itemized as indicated in the segment reporting.

(2.) Other operating income

	2013 EUR '000	2012 EUR '000
Income from the reimbursement of utilities	203	156
Income from the release of allowance for bad debt	114	50
Insurance compensation	97	180
Benefits in kind	47	49
Income from currency conversion	41	2
Canteen revenue	13	11
Income from the release of provisions	5	350
Compensation from contract supplier	0	3,070
Income from the release of liabilities	0	256
Other	132	155
	652	4,279

(3.) Cost of materials

	2013 EUR '000	2012 EUR '000
Expenses for materials and supplies and for purchased goods	45,256	77,651
Expenses for purchased services	237	2,978
	45,493	80,629

(4.) Personnel expenses

	2013 EUR '000	2012 EUR '000
Wages and salaries	9,082	9,258
Social security and expenses for retirement fund and for support	1,741	2,096
of which for defined contribution retirement plans	*(745)*	*(813)*
	10,823	11,354

Contribution-based pension plans relate to employer contributions for state retirement insurance.

(5.) Depreciation and amortization

	2013 EUR '000	2012 EUR '000
Depreciation on intangible assets	406	3.979
Depreciation on tangible assets	390	13.464
	796	17.443

The amount reported for depreciation in the year under review includes an impairment loss as a result of the impairment test for the Installation cash-generating unit conducted on December 31, 2013 according to IAS 36. As a result of the impairment test, the goodwill of 365,000 euros assigned to the Installation segment was written off. Please refer to the explanatory notes under "Goodwill".

The amount reported for depreciation in financial year 2012 includes an impairment loss as a result of the impairment test for the Solar Power Systems cash-generating unit conducted on December 31, 2012 according to IAS 36. As a result of the impairment test, the goodwill of 1.019 million euros assigned to the Solar Power Systems segment was written off entirely. Impairment losses were also recognized on intangible assets in the amount of 2.564 million euros and on fixed assets in the amount of 10.422 million euros.

(6.) Other operating expenses

	2013 EUR '000	2012 EUR '000
Rental costs	2,053	1,919
Distribution costs	1,618	852
Valuation adjustments on receivables and bad debt	501	362
Legal and consulting fees	415	523
Maintainance costs	413	457
Advertising and travel expenses	298	572
IT costs	217	109
Insurance, contribution and fees	216	241
Temporary worker compensation	212	418
Vehicle costs	207	232
Audit costs	111	130
Compensation for the supervisory board	107	127
Costs for the annual general meeting	78	136
Expenses from currency conversion	69	5
Bank fees	66	56
Research and development costs	52	170
Valuation adjustments on downpayments made	0	1,159
Other	576	649
	7,209	8,117

'Rental costs' and 'Other' under other operating expenses include expenses totaling 1.162 million euros (previous year: 1.105 million euros) for operating leasing.

Other operating expenses include research and development expenses in the amount of 52,000 euros (previous year: 170,000 euros). The share of development expenses in this figure is not material.

(7.) Financial result

	2013 EUR '000	2012 EUR '000
Interest and similar income	121	207
Interest and similar expenses	-95	-863
	26	-656

In financial year 2013, 121,000 euros in interest income (previous year: 207,000 euros) was earned for financial instruments not measured at fair value in the income statement. Interest expenses for financial instruments not measured at fair value in the income statement stood at -95,000 euros (previous year: -863,000 euros).

(8.) Result of discontinued operations

On October 26, 2011, the management board resolved to close the Solar Cell Production segment with the consent of the supervisory board. The effects of the removal of this segment on results are shown in Section "Discontinued operations".

F. Notes on the consolidated balance sheet

(9.) Group fixed assets

The development of various items of fixed assets including depreciation is presented in the following consolidated statement of changes in fixed assets.

		Procurement and conversion costs				
		01.01.13	Additions	Retirements	Transfers	31.12.13
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
I.	Intangible Assets					
1.	Licenses, industrial property rights and similar rights and values	4,600	99	-48	0	4,651
2.	Goodwill	1,453	0	0	0	1,453
		6,053	**99**	**-48**	**0**	**6,104**
II.	Property, plant and equipment					
1.	Technical equipment, plant and machinery	19,532	307	-930	136	19,045
2.	Other equipment, fixtures, fittings and equipment	4,081	74	-24	0	4,131
3.	Down payments and facilities under construction	0	136	0	-136	0
		23,613	**517**	**-954**	**0**	**23,176**
		29,666	**616**	**-1,002**	**0**	**29,280**

		Procurement and conversion costs				
		01.01.12	Currency translation adjustments	Additions	Retirements	31.12.12
		EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
I.	Intangible Assets					
1.	Licenses, industrial property rights and similar rights and values	4,711	0	72	-183	4,600
2.	Goodwill	5,299	166	0	-4,012	1,453
		10,010	**166**	**72**	**-4,195**	**6,053**
II.	Property, plant and equipment					
1.	Leasehold rights	331	0	0	-331	0
2.	Technical equipment, plant and machinery	17,175	0	2,357	0	19,532
3.	Other equipment, fixtures, fittings and equipment	4,110	0	92	-121	4,081
		21,616	**0**	**2,449**	**-452**	**23,613**
III.	Financial assets	3	0	-3	0	0
		31,629	**166**	**2,518**	**-4,647**	**29,666**

Depreciation (accumulated)					Carrying ammount	
01.01.13	Additions	Additions due to the impairment test	Retirements	31.12.13	31.12.13	31.12.12
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
4,567	41	0	-34	4,574	77	33
1,088	0	365	0	1,453	0	365
5,655	**41**	**365**	**-34**	**6,027**	**77**	**398**
18,113	321	0	-929	17,505	1,540	1,419
3,799	69	0	-23	3,845	286	282
0	0	0	0	0	0	0
21,912	**390**	**0**	**-952**	**21,350**	**1,826**	**1,701**
27,567	**431**	**365**	**-986**	**27,377**	**1,903**	**2,099**

Depreciation (accumulated)						Carrying ammount	
01.01.12	Currency translation adjustments	Additions	Additions due to the impairment test	Retirements	31.12.12	31.12.12	31.12.11
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1,790	0	396	2,564	-183	4,567	33	2,921
3,915	166	0	1,019	-4,012	1,088	365	1,384
5,705	**166**	**396**	**3,583**	**-4,195**	**5,655**	**398**	**4,305**
331	0	0	0	-331	0	0	0
6,851	0	2,685	8,577	0	18,113	1,419	10,324
1,718	0	356	1,845	-120	3,799	282	2,392
8,900	**0**	**3,041**	**10,422**	**-451**	**21,912**	**1,701**	**12,716**
0	0	0	0	0	0	0	3
14,605	**166**	**3,437**	**14,005**	**-4,646**	**27,567**	**2,099**	**17,024**

Technical equipment, plant and machinery of Solar-Fabrik AG with a carrying amount of 1.112 million euros out of the carrying amount for fixed assets has been pledged as collateral for consortium financing.

"Property, plant and equipment" includes leased assets recognized as Group property whose carrying amount is 16,000 euros (previous year: 29,000 euros). This amount relates to "Technical equipment, plant and machinery" held under full payout leases. In the course of the impairment test, unscheduled depreciation of 212,000 euros was recorded on the capitalized, leased assets in the previous year.

The minimum leasing payments are as follows for the next few years:

- Within one year: 82,000 euros (previous year: 134,000 euros)
- Between two and five years: 140,000 euros (previous year: 209,000 euros)
- After five years: 7,000 euros (previous year: 20,000 euros)

The net present values of the minimum leasing payments are as follows for the next few years:

- Within one year: 79,000 euros (previous year: 120,000 euros)
- Between two and five years: 118,000 euros (previous year: 188,000 euros)
- After five years: 4,000 euros (previous year: 12,000 euros)

The difference between the nominal values of the minimum leasing payments and their net present values represents the future interest rate effect.

(10.) Stocks

As of the balance sheet date, stocks of raw materials, consumables, work in progress and finished products and goods for resale valued at 4.445 million euros (previous year: 5.399 million euros) were affected by an agreement entered into by Solar-Fabrik AG on the assignment of goods held in stock. As of the balance sheet date, the value of raw materials and consumables was adjusted by 483,000 euros (previous year: 3.603 million euros), by 1.741 million euros for finished goods (previous year: 1.988 million euros), by 97,000 euros for work in progress (previous year: 90,000 euros), and that of goods for resale by 120,000 euros (previous year: 135,000 euros). On the balance sheet date, the carrying amount of inventory at fair value less cost to sell is 4.017 million euros (previous year: 4.339 million euros).

(11.) Trade receivables

Sales revenue accounted for on the balance sheet date in accordance with IAS 11 (Construction Contracts) amount to 0 euros (previous year: 112,000 euros) and the corresponding expenses to 0 euros (previous year: 895,000 euros). The loss recognized based on the stage of completion as of December 31, 2013 includes deferred taxes and amounts to 0 euros (previous year: loss of 735,000 euros). The trade receivables balance on the balance sheet date is 0 euros (previous year: 530,000 euros).

(12.) Income tax receivables

The receivables of 15,000 euros reported in the year under review (previous year: 155,000 euros) relate to reclamations for capital gains tax and the solidarity surcharge (previous year: trade tax and withholding tax).

(13.) Other assets

The amount reported under other non-current assets represents cash pledged to a financial institution as long-term collateral for guarantees that have been issued (customs guarantee, rent deposit guarantee).

The amount reported under other current assets includes sales taxes receivables of 296,000 euros (previous year: 104,000 euros), down payments on inventories of 302,000 euros (previous year: 783,000 euros), other claims against suppliers of 131,000 euros (previous year: 0 euros), deferred advance payments of 90,000 euros (previous year: 106,000 euros) and other receivables from business operations of 179,000 euros (previous year: 217,000 euros).

(14.) Cash at bank and in hand

Cash at bank and in hand refers to the credit amounts held at banks and cash holdings on the balance sheet date. The balance sheet item corresponds to the financial resources for the purpose of the cash flow statement.

(15.) Income taxes

Deferred taxes are comprised as follows:

	31.12.2013 EUR '000	31.12.2012 EUR '000
Deferred tax assets		
temporary differences	5	8
	5	8
Deferred tax liabilities		
temporary differences	5	8
	5	8
Balance sheet	0	0
Thereof:		
recognized in income statement	0	48
recognized in equity	0	0
	0	48

The 5,000 euros (previous year: 8,000 euros) in capitalized deferred taxes relate to long-term, temporary differences.

The tax result in the income statement was as follows:

	2013 EUR '000	2012 EUR '000
Current income taxes	-12	-10
Adjustment of deferred taxes		
from temporary differences	0	48
	0	48
Tax result	-12	38

Deferred taxes were ascertained using the liability method.

Deferred taxes on losses carried forward were determined on the basis of the forecast in subsequent years with consideration of tax losses and profits from financial years 2002 to 2013 and with consideration of the history of results.

On the balance sheet date, the losses carried forward are 53.1 million euros for corporate tax (previous year: 48.3 million euros) and 53.9 million euros for trade tax (previous year: 49.2 million euros). Because of the history of results, the excess deferred tax assets calculated in the year under review for temporary differences in the amount of 769,000 euros (previous year: 474,000 euros) and deferred taxes on loss carryforwards were not capitalized.

Reconciliation between actual and imputed tax expense (product of accounting profit in accordance with local GAAP multiplied by the applicable tax rate) of continued operations was as follows:

	2013 EUR '000	2012 EUR '000
Result before income taxes	-7,967	-22,509
Theoretical tax expenses at domestic interest rate of 30.53 % (prior year: 29.83 %)	2,432	6,714
Change in theoretical tax expense due to		
Lower actual income tax as a result of the use of tax losses not taken into consideration earlier	0	36
Effects from not recorded deferred taxes resulting from tax losses in the current year	-1,615	-6,152
Effects from not recorded deferred taxes from temporary differences in the current year	-769	-474
Effects from temporary differences in the current year	0	48
Non-deductible expenses	-48	-88
Income tax effects from previous years	-12	-46
Tax result	**-12**	**38**

(16.) Equity

For information regarding the development of Solar-Fabrik's equity, see "Consolidated statement of changes in equity as of December 31, 2013".

Subscribed capital

As recognized in these consolidated financial statements, Solar-Fabrik's fully paid capital stock is divided into 12,853,499 ordinary no-par value bearer shares. Following the company's founding in March 2001, the bulk of Solar-Fabrik's share capital was created in 2002, 2005, 2006, 2007, and 2010.

The capital increase resolved and conducted on July 29, 2010, has increased the number of shares in circulation by 1,168,499 – from 11,685,000 shares to 12,853,499 – since the beginning of financial year 2010.

Approved capital

A resolution adopted at the annual general meeting on July 5, 2011 overturned the resolution adopted by the annual general meeting on July 1, 2008 authorizing the management board of Solar-Fabrik to increase the company's share capital – with the consent of the supervisory board – one or more times on or before July 1, 2013 by up to 5,842,500.00 euros by issuing new bearer shares (common shares) in exchange for payment in cash or in kind. On the same day, the annual general meeting in this context authorized the management board to increase the company's share capital – with the approval of the supervisory board – one or more times on or before July 5, 2016 by up to 6,426,749.00 euros by issuing new bearer shares in exchange for payment in cash or in kind (including so-called mixed payments in kind) (Approved Capital 2011). The management board decides on the exclusion of subscription rights with the approval of the supervisory board.

Reserves

The capital reserve is subject to usage restrictions under stock corporation law. Capital reserves are reported at 37.066 million euros. 565,000 euros of the capital reserve is from the share premium for the non-cash capital increase for silent partners resolved and conducted on February 28, 2002; 213,000 euros from the share premium for the cash capital increase also resolved and conducted on February 28, 2002; 10.5 million euros from the share premium for the initial public offering resolved and conducted on June 27, 2002; 27.828 million euros for the capital increase resolved and conducted on February 10, 2005 (offset against transaction costs for the capital increase in the amount of 1.316 million euros); 6.136 million euros for the capital increase resolved and conducted on October 3, 2006 (offset against 384,000 euros in transaction costs); 37.863 million euros for the capital increase resolved and conducted on August 27, 2007 (offset against 3.204 million euros in transaction costs); and 4.649 million euros for the capital increase resolved and conducted on July 29, 2010 (offset against transaction costs for the capital increase in the amount of 142,000 euros with consideration of deferred taxes). On February 22, 2011, the management board resolved to cover the loss carryforwards from the previous year – to the extent not covered by net excess – with 50.688 million euros from capital reserves in accordance with Section 150 para 4, sentence 1, no. 2 German Stock Corporation Act (AktG).

Conditional capital

On July 5, 2011, the general assembly of shareholders resolved to authorize the management board to increase the company's share capital by up to 4,500,000.00 euros by issuing up to 4,500,000 new bearer shares with a prorated share of equity in the amount of 1.00 euro per share (Conditional Capital 2011). The conditional capital increase serves exclusively to grant shares to holders/creditors of options and/or convertible bonds issued/guaranteed until July 4, 2016 by the Group or consolidated companies in which the company directly or indirectly holds at least 90 percent of all shares in compliance with Section 18 of the German Stock Corporation Act (AktG) based on the resolution of the general assembly of July 5, 2011. The conditional capital increase will only take place if holders/creditors of options and/or convertible bonds issued/guaranteed until July 4, 2016 by the Group or consolidated companies in which the company directly or indirectly holds at least 90 percent of all shares in compliance with Section 18 of the German Stock Corporation Act (AktG) based on the resolution of the general assembly of July 5, 2011, make use of their options/rights or are obligated to exercise these options/rights unless their own shares are used to exercise these options/rights or unless cash compensation is provided.

Earnings per share

In calculating the basic net earnings per share, which correspond to the diluted net earnings as of December 31, 2013, the earnings allotted to holders of ordinary shares in the parent company are divided by the weighted average number of ordinary shares in circulation during the year.

	31.12.2013	31.12.2012
Net result attributable to shareholders of Solar-Fabrik (EUR '000)	-7,391	-21,735
Weighted average of number of common shares	12,853,499	12,853,499
Undiluted earnings per share (EUR)	-0.58	-1.69
After tax result from discontinued operations attributable to shareholders of Solar-Fabrik (EUR '000)	-195	310
Weighted average of number of common shares	12,853,499	12,853,499
Undiluted earnings per share (EUR)	-0.02	0.02
After tax result from continued operations attributable to shareholders of Solar-Fabrik (EUR '000)	-7,196	-22,044
Weighted average of number of common shares	12,853,499	12,853,499
Undiluted earnings per share (EUR)	-0.56	-1.72

No transactions with ordinary shares took place between the balance sheet date and the creation of the consolidated financial statements.

(17.) Provisions

The long-term provisions reported on the balance sheet date are warranty provisions calculated at net present value on the basis of warranty expenditures incurred in the past. Provisions are also recognized for warranty claims on the basis of the expected related costs, calculated on the basis of an estimated warranty ratio in relation to sales revenue subject to warranty. For modules of the highest quality grade, Solar-Fabrik AG provides a durability warranty of 12 years and a performance warranty of 25 years.

Contrary to the previous year and the most recent quarterly report, it was assumed on the balance sheet date that the performance warranty not only has to be taken into account in the provision starting in year 11. Based on concrete claims, the warranty period for the performance warranty must be taken into account from year one after the sale of modules subject to warranty. This change in the estimate takes into account the fact that customer claims and therefore the outflow of resources can occur sooner than previously assumed. This results in an increase in this provision of 609,000 euros.

Overall, this provision increased by 1.182 million euros from 1.258 million euros to 2.440 million euros in the year under review.

	31.12.12	utilization	release	additions	31.12.13
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Provision for warranties	1,258	22	0	1,204	2,440
	1,258	22	0	1,204	2,440

In the year under review, the short-term provisions reported on the balance sheet date related to 187,000 euros (previous year: 180,000 euros) in provisions to cover customer complaints and the current portion of the warranty provision in the amount of 368,000 euros (previous year: 67,000 euros).

The development of provisions to cover customer complaints was as follows:

	31.12.12	utilization	release	additions	31.12.13
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Provision for accomodation	180	0	0	7	187
	180	0	0	7	187

The cost of compounding the warranty provision contained in the income statement for 2013 was 51,000 euros.

(18.) Liabilities

Short-term financial liabilities were recognized at amortized cost, equivalent in all cases to the repayment sum. Long-term financial liabilities were recognized using the effective interest rate method.

	Remaining terms			
	Total-amount EUR '000	up to 1 year EUR '000	1 to 5 years EUR '000	more than 5 years EUR '000
Financial liabilities	1,581	1,233	171	177
Previous year	*2,945*	*1,620*	*1,313*	*12*

1.125 million euros (previous year: 2.625 million euros) of the financial liabilities is covered by the assignment of production facilities, operating/office equipment and inventory as collateral. There is an assignment of a PV-plant, which is reported under the inventories, for further financial liabilities in the amount of 255,000 euros.

Furthermore, the normal retention of title pertaining to raw materials, consumables and goods supplied applies for trade liabilities. This item includes deferrals in the amount of 182,000 euros (previous year: 337,000 euros).

Other current liabilities include staff cost liabilities of 629,000 euros (previous year: 282,000 euros), liabilities from a deferment account of 175,000 euros (previous year: 0 euros), liabilities arising from incidental costs of 107,000 euros (previous year: 40,000 euros) and other common liabilities from business operations of 265,000 euros (previous year: 67,000 euros). This item includes deferrals in the amount of 859,000 euros (previous year: 1.252 million euros).

Financial instruments

Generalities

Solar-Fabrik AG uses derivative financial instruments to limit its exposure to foreign currency and interest rate change risks. Hedging is only conducted in connection with material procurement. In financial years 2013 and 2012, derivatives were not traded in accordance with intragroup policy, which will continue to be observed. In light of crucial relations to suppliers who deal in US dollars, changes in the exchange rates between the US dollar and the euro can have a material effect on consolidated earnings. Solar-Fabrik uses currency hedging transactions in order to counter this structural currency risk.

Derivative financial instruments

A derivative financial instrument with a nominal value of 7.5 million euros and a term of 36 months (commenced March 2012) was acquired in the previous year as a long-term hedge against interest fluctuations. Other assets take into account the market value of the derivative in the amount of 0 euros (previous year: 1,000 euros). A total loss of 1,000 euros (previous year: 23,000 euros) from the hedging transaction was recognized on the balance sheet date.

The carrying amounts and fair values by category of financial instruments and carrying amounts as per IAS 39 valuation categories are shown below for December 31, 2013, and December 31, 2012.

Financial instruments within scope of IFRS 7

		Categories under IAS 39 Assets			Categories under IAS 39 Liabilities			Other types					
		at fair value through P/L			at fair value through P/L								
		Fair value option	Trading	Loans and receivab-les	Fair value option	Trading	at amortized costs	Hedging	percen-tage of comple-tion con-tracts	Leasing	not within scope of IFRS 7	Total	FAIR VALUE
	31.12.2013	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets	Trade receivables	0	0	2,467	0	0	0	0	0	0	0	2,467	
	Other assets	0	0	701	0	0	0	0	0	0	702	1,403	1,403
	Cash und cash equivalents	0	0	15,211	0	0	0	0	0	0	0	15,211	15,211
Liabilities	Financial liabilities	0	0	0	0	0	1,380	0	0	201	0	1,581	1,581
	Advance pay-ments received	0	0	0	0	0	0	0	0	0	89	89	89
	Trade payables	0	0	0	0	0	1,151	0	0	0	0	1,151	
	Other liabilities	0	0	0	0	0	144	0	0	0	1,066	1,210	1,210

Financial instruments within scope of IFRS 7

		Categories under IAS 39 Assets			Categories under IAS 39 Liabilities			Other types					
		at fair value through P/L			at fair value through P/L								
		Fair value option	Trading	Loans and receivab-les	Fair value option	Trading	at amortized costs	Hedging	percen-tage of comple-tion con-tracts	Leasing	not within scope of IFRS 7	Total	FAIR VALUE
	31.12.2012	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets	Trade receivables	0	0	12,030	0	0	0	0	0	0	0	12,030	
	Receivables from percentage of completion contracts	0	0	530	0	0	0	0	530	0	0	530	530
	Other assets	0	1	487	0	0	0	0	0	0	887	1,375	488
	Cash and cash equivalents	0	0	17,945	0	0	0	0	0	0	0	17,945	17,945
Liabilities	Financial liabilities	0	0	0	0	0	2,625	0	0	320	0	2,945	2,945
	Advance pay-ments received	0	0	0	0	0	0	0	0	0	506	506	0
	Trade payables	0	0	0	0	0	2,630	0	0	0	0	2,630	
	Other liabilities	0	0	0	0	0	137	0	0	0	2,195	2,332	2,120

Due to their short residual periods and recognition for reporting purposes at market value, the carrying amounts of financial instruments correspond to the market values on the balance sheet date. The fair values to be disclosed according to IFRS 13.97 for all items correspond to hierarchy level 2. In principle, they are determined from the discounted cash flows. In the case of the financial liabilities, the virtual equivalence of the market interest rate and effective interest rate means that the carrying amounts correspond to the market values.

The following table shows the measurement classes for derivative financial instruments in accordance with IFRS 7.27 and/or IFRS 13.93 b):

	Level 1		Level 2		Level 3		SUMME	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Assets								
Available-for-Sale Financial Assets (AfS)	0	0	0	0	0	0	0	0
Financial Assets Held for Trading	0	0	0	1	0	0	0	1
Derivative financial assets which have been hedged	0	0	0	0	0	0	0	0
Liabilities								
Financial Liabilities Held for Trading	0	0	0	0	0	0	0	0
Derivative financial liabilities which have been hedged	0	0	0	0	0	0	0	0

The following table shows the net results from financial instruments by valuation category as per IAS 39:

Net results (IFRS 7) from financial instruments	**2013**	**2012**
	EUR '000	EUR '000
Financial assets recognized in the income statement and measured at fair value	-1	-23
thereof held for trading	-1	-23
Loans and receivables	-296	-96
Financial debts	-95	-863

The following are taken into account in calculating the net result from financial instruments: interest income and expenses, value adjustments (negative and positive), profits and losses from currency conversion, dividend income, retirement profits/losses, and other changes in the fair value of financial instruments recognized in the income statement. The effects on results of the assets to be recognized at fair value are included under other operating expenses.

In financial year 2013, value adjustments totaling 654,000 euros (previous year: 338,000 euros) were made on financial assets. These write-downs relate to trade receivables in the amount of 641,000 euros (previous year: 127,000 euros) and to receivables on long-term production contracts in the amount of 0 euros (previous year: 211,000 euros) in the "Loans and receivables" category. Value adjustments in the amount of 13,000 euros (previous year: 0 euros) were also recorded on other assets assigned to the category "Outside the scope of IFRS 7". In 2013 501,000 euros (previous year: 362,000 euros) were recorded in the income statement of this amount and for write downs and bad debts.

Non-derivative financial instruments

The interest-bearing, non-derivative financial instruments that were still outstanding on December 31, 2013, are listed in the table below.

Financial liabilities	Nominal value EUR '000	Market value (EUR '000)	Total term	Remaining term	Nominal interest rate (%)	Effective interest rate (%)
Syndicated loan	1,125	1,125	09/14	1 y	3.08	3.08
Project financing	255	255	03/30	17 y	3.10	3.10
Finance Lease	201	201	-	1-7 y	-	1.27-11.32
		1,581				

The interest-bearing, non-derivative financial instruments that were still outstanding on December 31, 2012, are listed in the table below.

Financial liabilities	Nominal value EUR '000	Market value (EUR '000)	Total term	Remaining term	Nominal interest rate (%)	Effective interest rate (%)
Syndicated loan	2,625	2,625	09/14	1-5 y	3.08	3.08
Finance Lease	319	319	-	1-8 y	-	1.27-11.32
		2,944				

Risks of financial instruments

Liquidity risk

All subsidiaries are financed through the parent company. Solar-Fabrik also operates its own intragroup liquidity management system. Integrated financial planning is used for this purpose, prepared and monitored both on a short-term weekly basis and a medium-term monthly basis. Planning over several years is performed as well. Due to the ongoing tense market situation in 2013 combined with a general increase in insolvencies and companies in distress in the photovoltaics industry, the willingness of banks and other investors to provide financial resources has decreased noticeably. This reluctance is also being felt by Solar-Fabrik as banks are currently exhibiting little willingness to expand existing engagements or enter into new ones. Therefore, all Group companies are currently being financed almost exclusively from operating cash flows. Solar-Fabrik is currently generating losses that have to be financed. Although Solar-Fabrik was able to finance a large proportion of the losses through the conversion of assets in 2013, especially receivables into financial resources, cash flow from operations was nevertheless negative. The ability of Solar-Fabrik and/or the Solar-Fabrik Group to generate additional positive cash flows through the conversion of further assets is also very limited. Based on the current situation and structure of Solar-Fabrik and/or the Solar-Fabrik Group, this means there is an elevated risk that operating cash flows as the sole source of financing may no longer be sufficient in the future. On the basis of existing liquidity, this risk is not considered high for the next two financial years. Strategic measures are intended to help improve operating cash flows so that future liquidity needs can be covered.

Various financial institutions provided Solar-Fabrik with a structured financing agreement in 2007, which valued at 1.125 million euros on December 31, 2013. In this context, also see the information provided under Section „Capital management". The forms of financing are subject to a covenant provision. Valuations are based on the consolidated financial statements for each year using a valuation system.

The following tables show the contractually fixed payments as of December 31, 2013 and December 31, 2012, and illustrate the worst-case scenario for Solar-Fabrik, i.e. the earliest

possible contractual payment deadline in each case and the maximum cash outflow in each case. Creditor's cancellation rights are also taken into account. Interest payments on items subject to variable interest are calculated uniformly on the basis of the last interest rate fixing before the balance sheet date. Payments made in foreign currencies are uniformly converted at the exchange rate applicable on the balance sheet date. In addition to non-derivative financial instruments, derivative financial instruments are taken into account. Loans approved but not yet taken up and financial guarantees granted are also included.

Contractually fixed payments as of December 31, 2013 (worst case)

	until 2014 EUR '000	until 2015 EUR '000	until 2016 EUR '000	until 2017 EUR '000	after 207 EUR '000
Original financial debt	2,281	1,469	1,114	759	764
Derivative financial debt					
Derivatives with positive fair value (cash inflows)	0	0	0	0	0
Derivatives with positive fair value (cash outflows)	0	0	0	0	0
Net-Cash (out-) flow for derivatives	0	0	0	0	0
Derivatives with negative fair value (cash inflows)	0	0	0	0	0
Derivatives with negative fair value (cash outflows)	0	0	0	0	0
Netto-Cash (out-) flow for derivatives	0	0	0	0	0
Total	**2,281**	**1,469**	**1,114**	**759**	**764**

Contractually fixed payments as of December 31, 2012 (worst case)

	until 2013 EUR '000	until 2014 EUR '000	until 2015 EUR '000	until 2016 EUR '000	after 2016 EUR '000
Original financial debt	4,478	1,236	89	41	60
Derivative financial debt					
Derivatives with positive fair value (cash inflows)	0	0	0	0	0
Derivatives with positive fair value (cash outflows)	0	0	0	0	0
Net-Cash (out-) flow for derivatives	0	0	0	0	0
Derivatives with negative fair value (cash inflows)	0	0	0	0	0
Derivatives with negative fair value (cash outflows)	0	0	0	0	0
Netto-Cash (out-) flow for derivatives	0	0	0	0	0
Total	**4,478**	**1,236**	**89**	**41**	**60**

The Group's main sources of liquidity are its existing cash at bank and in hand and the credit lines available to Solar-Fabrik.

	31.12.2013 EUR '000	31.12.2012 EUR '000
Cash at bank and in hand	15,211	17,945
Total	15,211	17,945

In this context, see the information provided under "Capital management".

Default risk

Default risk is the risk that a contracting party will not fulfill, or not completely fulfill, its contractually agreed duties concerning a financial instrument. The Group only enters into transactions with creditworthy third parties. In addition, the backlog of receivables is constantly monitored to rule out any material risk of default.

At Solar-Fabrik, the risk of default arises in connection with our operating activities and is primarily determined by the buyer's credit risk. However, almost the entire stock of receivables in the Solar Power Systems segment is secured by means of trade credit insurance. The deductible is equivalent to 15 percent of the (net) receivables covered. If it is not possible to cover the supply volume requested by the customer through trade credit insurance, Solar-Fabrik requires its customer to offer other securities (such as bank guarantees). A large proportion of sales continue to be made against advance payment by the customer.

The risks associated with our operating activities are managed through the ongoing monitoring of trade receivables. If a specific default risk is identified, that risk is taken into account by means of an appropriate value adjustment. The maximum default risk for financial assets corresponds to the carrying amounts reported in the balance sheet. Guarantees that may have been accepted and services provided by the credit insurer (in the case of outstanding receivables) reduce this risk. The actual default risk is therefore 1.362 million euros (previous year: 10,586 million euros). On the balance sheet date, the theoretical value of the receivables covered by trade credit insurance amounted to 930,000 euros (previous year: 785,000 euros).

No financial guarantees are granted by the companies in the Solar-Fabrik Group to third parties with respect to payment obligations of unconsolidated companies or external third parties. In the same way, no loans are granted to third parties not included in the consolidated financial statements.

There is no significant concentration of risk in the Solar Power Systems segment with regard to default risks. The Group's customer base includes a large number of relatively small buyers and a manageable but constantly growing number of key accounts. The collectability of those stocks of receivables, which are not included as either outstanding or written down financial assets, is regarded as exceptionally high. This assessment is primarily based on the long-standing business relations we have established with most buyers. Historically, the default rates on these stocks of receivables are extremely low.

In the Installation segment, solar plants are generally sold to interested investors as turnkey systems. Initially there is the risk of not being able to find buyers who are willing to pay the sales proceeds in the amount desired. This may result in lower margins than assumed for planning purposes. Selling prices below the cost of production may have to be accepted in some cases, resulting in losses. Furthermore, buyers of solar plants often want to use third-party financing as part of the transaction. In such cases, there is a risk that third-party financing either cannot be obtained at adequate terms and conditions or not at all. Furthermore, it is not possible as a matter of principle to influence the time required by the banks to reach a decision. On December 31, 2012, there was a concentration of risk in the Installation segment regarding a potential default risk on four project companies sold to an investor. The risk concentration on the balance sheet date is 0 euros (previous year: 8.289 million euros).

The following table shows the financial assets overdue at the balance sheet date that have not been written down:

	31.12.2013				31.12.2012			
	up to 30 days EUR '000	31 days to 60 days EUR '000	61 days to 90 days EUR '000	more than 91 days EUR '000	up to 30 days EUR '000	31 days to 60 days EUR '000	61 days to 90 days EUR '000	more than 91 days EUR '000
Trade receivables	128	0	0	15	9.274	801	61	30
	128	0	0	15	9.274	801	61	30

Financial assets that have been written down are shown below:

	31.12.2013			31.12.2012		
	Gross carrying value EUR '000	Reserve for bad debt EUR '000	Net carrying value EUR '000	Gross carrying value EUR '000	Reserve for bad debt EUR '000	Net carrying value EUR '000
Trade receivables	1,771	625	1,146	509	101	408
Receivables from percentage of completion contracts	0	0	0	530	211	319
Other assets	1,011	13	998	1,220	0	1,220
	2,782	638	2,144	2,259	312	1,947

The next table illustrates the changes in the level of value adjustments to financial assets in financial year 2013 and in the previous year:

	As of January 1, 2012 EUR '000	Changes EUR '000	As of December 31, 2012 EUR '000	Changes EUR '000	As of December 31, 2013 EUR '000
Trade receivables	89	38	127	514	641
Receivables from percentage of completion contracts	0	211	211	-211	0
Other assets	0	0	0	13	13
	89	249	338	316	654

As of December 31, 2013 and December 31, 2012, no financial assets existed that were neither overdue nor adjusted only because of the renegotiation of payment methods/ terms. The individual valuation adjustments reported in the table above for the balance sheet date of December 31, 2013 also contain 16,000 euros (previous year: 26,000 euros) in flat-rate individual valuation adjustments.

Market risks

Foreign exchange risk

Currency risk relates to the risk of changes in the values of balance sheet items and fixed transactions as a result of currency fluctuations. Generally, security is provided to reduce such risk.

Solar-Fabrik is exposed to a high degree of foreign currency risk in terms of its procurement activities. This solely relates to movements of the US dollar against the euro. Currency futures and (structured) currency options are used by Solar-Fabrik AG as a hedge against currency fluctuations.

The volume of goods purchased in US dollars during the year under review was immaterial. Therefore there were no exchange rate hedging transactions in 2013 – which was also the case in 2012.

Risk of changes in interest rates

For an assessment of the risks stemming from changes in interest rates, a distinction is made between financial instruments with a fixed interest rate and those with a variable interest rate in compliance with IAS 32.

A market interest rate is agreed for the entire term of fixed interest financial instruments. Here, the risk is that the exchange value of the financial instrument will change as the interest rate fluctuates (exchange risk resulting from interest). The exchange value is calculated from the cash value of future installments (interest and repayment) minus the market interest rates applicable on the target date for the remainder of the term. The exchange risk due to interest then creates a loss or profit if the fixed interest financial instrument is sold before the end of the term.

For financial instruments with a variable interest rate, the interest rate is adjusted in real time and thus roughly approximates the respective market rate. Here, however, there is a risk that the short-term interest rate might fluctuate, changing the interest payments due (cash flow risk due to interest).

At year-end, the Group mainly financed itself from net liabilities in euros with long-term fixed interest in the amount of approximately 1.6 million euros (previous year: 2.9 million euros).

The Solar-Fabrik Group only uses derivative financial instruments to hedge against possible risks from a current core business event or a planned transaction.

The sensitivity analyses that were conducted demonstrate that the impact of a one percentage point fluctuation of the respective market interest rate on net profit and equity would not have been significant.

Other price risks

Solar-Fabrik is not exposed to any other price risks from financial instruments. There is no need to conduct a sensitivity analysis.

Contingent liabilities and other financial liabilities

Liabilities from warranty agreements

The issue of bills of exchange resulted in contingencies of 316,000 euros (previous year: 316,000 euros). The bank also has a right of restitution in the same amount in case the guarantee is exercised. The guarantee is not expected to be exercised as of the balance sheet date.

Other financial liabilities

Category of other financial liability	31.12.2013 EUR '000	31.12.2012 EUR '000
Rents an leases (operating leases)		
of which in following year	1,144	1,212
of which from 2nd to 5th year	3,553	4,181
of which from 6th year	361	614
	5,058	6,007

All leases expire by 2017; rental agreements by 2019. In regards to the leases for buildings, there is an option to extend the lease by five years.

Notes on the cash flow statement

The cash flow analysis shows how the Group's payment funds have changed over the course of the year under review through the inflow and outflow of funds. Here, payment flows are specified by operation, investment, and financing in the cash flow analysis (IAS 7: Cash Flow Statements). The cash flow statement starts with earnings before interest and taxes (= EBIT).

The investments are an outflow of funds for intangible and tangible assets.

The elimination of non-cash expenses and income items mainly comprises the formation of provisions in the amount of 1.211 million euros, value adjustments on inventories in the amount of 2.437 million euros and the allocation of value adjustments in the amount of 501,000 euros. In 2012 this included in particular write-downs on down payments made in the amount of 1.159 million euros and the change in the value adjustment on inventories in the amount of 812,000 euros.

At the end of the period, financial resources contain liquid funds minus current account loans.

In the following table, the cumulative figures for assets and liabilities that were assigned to the discontinued operations in the year under review are depicted by main groups:

	31.12.2013 EUR '000	31.12.2012 EUR '000
Assets	0	0
Short-term liabilities		
1. Trade payables	0	11
2. Other liabilities	0	28
	0	39

For information about the company's cash flow, see the "Consolidated statement of cash flows".

Other disclosures in accordance with Section 315a of the German Commercial Code (HGB)

Management board

The members of the Solar-Fabrik management board are as follows:

Günter Weinberger, engineer
Chief Executive Officer

Martin Schlenk, macroeconomist
Chief Operating Officer

Martin Friedrich, MBA, macroeconomist
Chief Financial Officer (until April 30, 2013)

Supervisory board

The members of the Solar-Fabrik supervisory board are as follows:

Dr. Winfried Hoffmann, consultant for applied solar energy
Chairman of the supervisory board

Gerhard Ernst Kulbe, sworn auditor/tax advisor
Deputy Chairman

Carolin Salvamoser, Deputy Director

Norbert Binder, lawyer

Alfred T. Ritter, entrepreneur

Klaus Grohe, entrepreneur

Dr. Winfried Hoffmann is a member of the supervisory board of SMA Solar Technology AG, Helmholtz Zentrum Berlin (HZB) and Institut für Solarenergieforschung Hameln (ISFH), and President of the European Photovoltaic Industry Association (EPIA). Dr. Hoffmann is also a member of the Scientific advisory board of Fraunhofer ISE and the NEXT Institute.

Gerhard Ernst Kulbe is a member of the advisory board of Alfred Ritter GmbH & Co. KG, Ritter Energie- und Umwelttechnik GmbH & Co. KG and Hock GmbH & Co. KG.

Carolin Salvamoser is a supervisory board member at Netzkauf EWS eG.

Alfred T. Ritter is Chairman of the executive board and a member of the advisory board of Alfred Ritter GmbH & Co. KG, and Chairman of the advisory board of Ritter Energie- und Umwelttechnik GmbH & Co. KG.

Klaus Grohe is Chairman of the supervisory board of Hansgrohe SE.

Total remuneration of the members of the management board

The total remuneration for members of the management board in 2013 was 496,000 euros (previous year: 701,000 euros). It is broken down as follows:

	Fixed remuneration '000	Other remuneration '000	**Total remuneration**
	EUR '000	EUR '000	**EUR '000**
Günter Weinberger	258	7	**265**
Martin Schlenk	156	7	**163**
Martin Friedrich	55	13	**68**
	469	27	**496**

The management board entered into an employment pact with IG Metall on July 10, 2013. Among other things, it calls for a voluntary reduction of remuneration in exchange for guaranteed employment for a limited time. It affects employees under collective agreements with up to half of the operational special payment (= 50 percent of one month's salary) in November 2013, and employees not under collective agreements (including the members of the management board) with 25 percent of one month's salary. In this context, the members of the management board waived the following (gross) remuneration, respectively at 25 percent of one month's salary:

Günter Weinberger: 5.500,00 euros
Martin Schlenk: 3.350,00 euros

Group EBIT is the measurement basis for calculating the performance-based elements of management board remuneration. The targets for 2013 defined in their employment contracts were not reached so that no variable remuneration was paid.

There are no promises of special payment upon termination of employment in any executive contracts.

Total remuneration for supervisory board members

The remuneration of the Solar-Fabrik AG supervisory board totaled 107,000 euros in 2013 (previous year: 127,000 euros).

Remuneration for members of the supervisory board is governed by Section 12.1 of the Solar-Fabrik bylaws. The members of the supervisory board receive 1,750.00 euros per month for each full month of membership on the supervisory board. The chairman receives twice that amount; the deputy chair, 150 percent of that amount. All supervisory board members additionally receive 1,000.00 euros per meeting. The total remuneration of the members of the supervisory board for 2013 was as follows:

Dr. Winfried Hoffmann: 42,000 euros
Gerhard Kulbe: 32,000 euros
Carolin Salvamoser: 4,000 euros
Norbert Binder: 23,000 euros
Alfred T. Ritter: 5,000 euros
Klaus Grohe: 1,000 euros

Not all members of the supervisory board claimed the remuneration to which they were entitled according to the Solar-Fabrik bylaws in financial year 2013. Remuneration of 70,000 euros was waived in 2013.

Transactions with related parties

The following transactions with related parties took place in the year under review:

SF AG

As of December 31, 2013, the company holds a liability of 17,000 euros to SFS. While this liability existed in the same amount on the reporting date for the previous year, it was not included in the consolidated financial statements due to the full consolidation of SFS.

SSE

In 2013, the company generated revenue of 81,000 euros with a minority shareholder, GCS Capital Management GmbH (GCS GmbH), Stadtbergen, whose shareholder-director is also a director of SSE.

In 2013, SSE also generated revenue of 13,000 euros with GCS Solar GmbH & Co. KG (GCS KG), Stadtbergen, whose shareholder-director is also a director of SSE.

In the previous year, the company was issued a loan from a minority shareholder, GCS GmbH. The loan including interest totaled 16,000 euros on December 31, 2012 and was repaid in 2013.

No further transactions with related parties took place in the year under review.

Employees

The average number of Solar-Fabrik employees was as follows during the financial year:

	2013	2012
Manufacturing employees	148	153
Administrative employees	69	81
	217	234
Trainees	12	16
	229	250

Declaration pursuant to Section 314 no. 8 of the German Commercial Code (HGB)

Pursuant to the Law on Transparency and Publicity (Transparenz- und Publizitätsgesetzes), every company listed on the stock exchange is required to issue a declaration each year indicating (a) whether the company has complied with the guidelines of the German Corporate Governance Code (Deutscher Corporate Governance Kodex) and (b) which of these guidelines have not been and are not being adhered to. The management board and supervisory board of Solar-Fabrik issued the annual compliance declaration in this regard on March 7, 2014. It is constantly available for perusal by shareholders on the Solar-Fabrik web site.

Declaration pursuant to Section 314 no. 9 of the German Commercial Code (HGB)

These financial statements include 85,000 euros (previous year: 109,000 euros) in auditing fees, 4,000 euros of which was for the previous year. In addition, these financial statements contain 2,000 euros (previous year: 2,000 euros) in expenses for other certification/assessment services, 3,000 euros (previous year: 0) for tax consulting services and 3,000 euros (previous year: 15,000 euros) for other services.

Declaration pursuant to Section 160 (1) no. 8 of the German Stock Corporation Act (AktG)

On August 13, 2010, the voting interest of Alfred T. Ritter, Germany, in Solar-Fabrik, Freiburg, rose above the threshold of 15 percent to 19.03 percent. Since that declaration, Solar-Fabrik has not received any other voting rights declarations as specified in Sections 21 ff. of the German Securities Trading Act (WpHG).

On July 8, 2010, the voting interest of Maria Salvamoser, Germany, in Solar-Fabrik AG, Freiburg, fell below the threshold of 10 percent to 9.18 percent. Since that declaration, Solar-Fabrik has not received any other voting rights declarations as specified in Sections 21 ff. of the German Securities Trading Act (WpHG).

On November 27, 2012, the voting interest of Klaus Heinrich Dienes, Colombia, in Solar-Fabrik AG, Freiburg, exceeded the threshold of 10 percent and was 10.38 percent on the aforementioned date. Since that declaration, Solar-Fabrik has not received any other voting rights declarations as specified in Sections 21 ff. of the German Securities Trading Act (WpHG).

On February 29, 2012, the voting interest of Klaus Grohe of Germany in Solar-Fabrik AG, Freiburg, exceeded the threshold of 10 percent and was 10.032 percent on the aforementioned date. Since that declaration, Solar-Fabrik has not received any other voting rights declarations as specified in Sections 21 ff. of the German Securities Trading Act (WpHG).

On December 28, 2012, the voting interest of Carolin Salvamoser, Germany, in Solar-Fabrik AG, Freiburg, fell below the threshold of 3 percent to 0.21 percent. Since that declaration, Solar-Fabrik has not received any other voting rights declarations as specified in Section 21 (1) of the Securities Trade Act (WpHG).

Freiburg, March 21, 2014

Management board

Günter Weinberger Martin Schlenk

5.7 Auditor's opinion

We have audited the consolidated financial statements prepared of Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb von solartechnischen Produkten, Freiburg im Breisgau, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and the notes to the consolidated statements, together with the Group management report which is combined with the management report of Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb von solartechnischen Produkten, Freiburg im Breisgau for the financial year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Freiburg im Breisgau, March 21, 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Siegbert Weber
CPA

ppa. Marco Fortenbacher
CPA

5.8 Multiple year comparision – Group

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb von solartechnischen Produkten, Freiburg i. Br.

		IFRS 31.12.13	IFRS 31.12.12	IFRS 31.12.11	IFRS 31.12.10	IFRS 31.12.09
Sales revenue[1)]	EUR '000	52,965	96,223	176,899	227,279	135,561
Overall performance[1)]	EUR '000	55,676	91,410	178,229	227,915	133,377
Cost of material[1)]	EUR '000	45,493	80,629	153,769	187,595	109,753
of overall performance[1)]	%	81.7	88.2	86.3	82.3	82.3
Personnel expenses[1)]	EUR '000	10,823	11,354	13,797	13,465	11,082
of overall performance[1)]	%	19.4	12.4	7.7	5.9	8.3
Number of employees (Section 267 para 5 German Commercial Code)		229	250	352	367	327
Revenue per employee[1)]	EUR '000	232	385	503	619	415
Operating income (= EBIT)[1)]	EUR '000	-7,993	-21,853	776	11,349	1,644
Financial result[1)]	EUR '000	26	-656	1,114	-1,548	-1,680
Earnings before taxes (= EBT)[1)]	EUR '000	-7,967	-22,509	337	9,801	-36
of overall performance[1)]	%	-14.3	-24.6	0.2	4.3	0.0
Net result for the period	EUR '000	-8,174	-22,134	-4,150	7,667	-4,214
thereof: continued operations	EUR '000	-7,979	-22,471	-360	8,428	-838
thereof: discontinued operations	EUR '000	-195	338	-3,790	-761	-3,376
Number of shares	'000	12,853	12,853	12,853	12,853	11,685
Net earnings per share	EUR	-0.58	-1.69	-0.28	0.64	-0.36
Cash flow from operating activities	EUR '000	-754	-1,547	3,099	13,047	18,160
of revenue	%	-1.4	-1.6	1.8	5.7	13.4
Depreciation on						
Intangible assets[1)]	EUR '000	406	3,979	716	513	297
Tangible assets[1)]	EUR '000	390	13,463	3,132	3,026	2,649
Total assets	EUR '000	28,425	39,696	82,428	82,586	63,297
Equity capital	EUR '000	21,767	29,756	52,143	56,440	42,537
Equity ratio	%	76.6	75.0	63.3	68.3	67.2
Profitability of equity capital[1)]	%	-31.7	-54.1	-7.6	15.5	-9.9
EBITDA[1)]	EUR '000	-7,196	-4,410	4,624	14,888	4,590
ROI[2)]	%	-24.0	-36.2	-5.0	10.5	-6.1

[1)] Figures only consider continued operations.
[2)] The return on investment (ROI) is calculated by dividing group performance with the average total assets of the year under review.

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb von solartechnischen Produkten, Freiburg i. Br.

The management and supervisory boards of Solar-Fabrik AG conduct their activities based on the recommendations of the German Corporate Government Code. This code includes essential legal guidelines in addition to nationally and internationally recognized management standards drawn up and further developed by governmental commissions and available on the web under www.corporate-governance-code.de. The German Corporate Government Code is intended to ensure sound management and controls. Our goal is to meet the constantly increasing information requirement of different interest groups by creating transparency and strengthening confidence in good, responsible corporate management.

Declaration of Corporate Governance according to sec. 289a German Commercial Code (HGB)

1. Declaration of conformity to the German Corporate Governance Code

Declaration of conformity from the management board and the supervisory board of Solar-Fabrik AG regarding the recommendations of the "Governmental commission for the German corporate governance code" in accordance with Section 161 of the German Stock Corporation Act:

The management and supervisory boards of Solar-Fabrik AG have approved the following declaration in accordance with Section 161 of the German Stock Corporation Law on March 7, 2014:

The management board and supervisory board at Solar-Fabrik AG declare that the recommendations of the "Governmental commission for the German corporate governance code" from May 13, 2013, ("Code") that were published by the German Justice Ministry on June 10, 2013, in the German Federal Gazette were and are complied with aside from the following exceptions:

- Subparagraph 3.8 of the Code recommends that D&O insurance policies for the supervisory board – commensurate with German law for D&O coverage for the management board – have a deductible of at least 10 percent of damage at least up to 150 percent of fixed annual compensation for the particular supervisory board member.

  There is still no deductible for members of the supervisory board. Due to the moderate remuneration and the nature of the role of the supervisory board, which is also clear from that board's different remuneration structure, this distinction in the treatment of the management board and the supervisory board for D&O insurance appeared advisable. Consequently, it did not appear proper to extend the deductible in the D&O insurance policy to members of the supervisory board.

- In Section 4.2.2 sentence 6, the Code contains the new recommendation that supervisory boards take into consideration the level of compensation for management board members in relation to compensation for upper management and overall staff members, including how the compensation relationship has developed over time, when determining total compensation for individual management board members within the criteria for appropriate compensation; for this comparison, the supervisory board shall define demarcation lines for upper management and staff members.

  When one board member's contract was extended in July 2013 and his total compensation specified, the amount was not yet explicitly compared to compensation for top management and staff because negotiations had largely taken place before the amended Code was published; in addition, the supervisory board had not yet finished specifying categories for top management and staff members due to the short period since the amended Code was published.

  However, the supervisory board intends to take the ratio of executive compensation and compensation for top management and staff into account when determining total compensation for individual board members in the future.

- In the employment contracts for current management board members, there are no upper limits for compensation either in terms of the total amount or for variable components, which is not compliant with Section 4.2.3 of the Code. The employment contracts currently do still not contain severance pay clauses and thus contain no agreements pertaining to the limitation of severance pay in the event of a premature termination of the management

position for a non-compelling reason – for instance, as a result of a change of control (indemnification cap). Because of the structure of these contracts, especially their term, the Company believes that such clauses are not needed. The supervisory board will strive to include such clauses in future contractual negotiations, to a reasonable extent.

- There is no long-term planning of successors for individual management positions as described in subparagraph 5.1.2 of the Code. Because of the Company's size, the management believes that an internal succession planning is limited. Furthermore, the supervisory board does not see any need to act soon because the current management board is relatively young. For this reason, no age limit was imposed for management board members.

  In accordance with point 5.1.2 of the Code, the supervisory board shall take account of diversity in appointing new management board members, especially with respect to gender.

  The supervisory board will focus on diversity in appointing chief officers; however, the supervisory board primarily appoints members based on their knowledge, abilities, and professional experience needed to perform their tasks. An age limit and/or a gender quota would result in restrictions on recruitment, which could detrimentally affect the Company's interests.

- The supervisory board did not form any committees, contrary to the recommendations in Section 5.3 of the Code, which recommends – relative to the company's specific situation and the number of employees – that expert committees be created to increase the supervisory board's efficiency. The supervisory board's current composition, relatively small size with only six members, and regular meetings ensure that the board works efficiently and is able to discuss strategic issues and details. The creation of committees in particular is not expected to increase efficiency, so the supervisory board does not plan to create any.

- In accordance with subparagraph 5.4.1 of the Code, the supervisory board is to specify specific targets for its membership, with the proper respect paid to the Company's international business, possible conflicts of interest, the age limit for supervisory board members, and – in particular – diversity (especially with respect to gender) with consideration of the Company's specific situation. The supervisory board's targets and the degree to which these targets are fulfilled shall be published in the Corporate Governance Report.

  The supervisory board has not yet specified any specific targets for its composition and does not see any need to do so based on the Group's current situation. In appointing members to the supervisory board, the priority is on finding the greatest professional competence in the interest of the Company. The Company therefore sees no reason to specify an age limit for supervisory board members, as the expertise of experienced supervisory board members is to remain available to the company, so that the forced retirement based on age does not seem proper.

- Subparagraph 5.4.5 of the Code specifies that the Company shall properly support supervisory board members in any training courses required. The Company has always provided its complete assistance whenever supervisory board members have made such requests. At the moment, it is not clear, however, which criteria must be met for the Company to claim that it appropriately supports supervisory board members in further training; therefore, this item is reported as a deviation from the Code.

The declaration of conformity is permanently accessible to Company shareholders on the Company website (www.solarfabrik.de). The declarations of conformity for previous years are also available on the same site.

2. Information on Corporate Governance Practices

Mission statement

The equal commitment to our customers, investors, suppliers and employees and sustainability in doing business give distinction to our mission statement as well as we regard compliance with the law and all applicable rules and regulations as fundamental. In the context of the strategic focusing of Solar-Fabrik AG the management board commits itself to annual business objectives, which are communicated and regularly checked on achievement. The complete corporate philosophy of Solar-Fabrik AG can be found on our website www.solar-fabrik.de. In addition, there is a "Code of Conduct" which contains general rules of behavior for managers and employees of Solar-Fabrik AG. This Code includes rules both for behavior towards each other and when dealing with third parties like suppliers, customers and other business partners as well as with public authorities and governmental institutions. The Code of conduct is also available on our website under Investor Relations/Corporate Governance.

Communication and transparency

In its annual reports and on the website www.solar-fabrik.de, the Solar-Fabrik AG has published a financial calendar containing all of the important dates for shareholders. At the annual general meeting of shareholders, we allow shareholders to exercise their voting rights or to have a proxy of their own choice exercise this right or to have it transferred to a proxy appointed by the Company and given instructions by the Company.

At our website www.solar-fabrik.de, under Investor Relations, we immediately publish all of the Group's ad hoc press releases as well as other announcement relevant to the capital market, like Directors' Dealings announcements according to section 15a of the German Securities Trading Act (WpHG) and voting rights announcements according to section 26 of the German Securities Trading Act (WpHG). Under the Investor Relations link, we also provide additional information on Solar-Fabrik AG relevant to the capital market like current or older annual and quarterly reports as well as information to the share price. All of this information is published in German and English if possible. For an overview of the mandates held by the members of the management board and the supervisory board in the supervisory bodies of other organizations, see this annual report. Thus, we enable our German and international shareholders as well as other interested parties to build an accurate and up-to-date picture of our company and the corporate governance practices.

Risk management

We fulfill the requirements for good corporate governance by paying special attention to potential risks for the Company. The goal of our strategic risk management is to detect risks and minimize risk positions. In a dynamic process, Solar-Fabrik's risk management system is continually adapted to changing general conditions. The chapter on "Risk Management" in the consolidated financial statements describes the risk management system of Solar-Fabrik AG in detail.

3. Management and supervisory board procedures

Solar-Fabrik AG has got a dual structure of management and supervision. The management board of Solar-Fabrik AG manages the company on its own responsibility and is supervised and advised by the supervisory board. The members of the management board are appointed by the supervisory board. The management board of Solar-Fabrik AG consists currently of two members after the retirement of Mr. Martin Friedrich in April 2013. The activities of the management board are regulated in its Standing Orders, which contains the schedule of responsibilities as well as a catalogue of businesses, which need to be approved by the supervisory board. The Standing Orders were enacted by the supervisory board. The management board convenes to weekly meetings. The meetings of the management board are chaired by the Chief Executive Officer, who also coordinates the areas of responsibility. Brief minutes have to be made of material discussions and resolutions. The meetings of the management board are regularly joined in an advising way by persons, who are not members of the management board, like authorized officers and department managers.

The management board reports regularly in a timely and complete manner – both in written and in oral form – about all issues relevant to business development in particular to the income and financial situation as well as the net worth position, strategy implementation, corporate planning (to include risk exposure and risk management), and compliance organization. Information and documentation relevant to decision-making is presented to supervisory board members within a reasonable time prior to their meetings. If required, the supervisory board holds its meetings without the management board. To perform its tasks, the supervisory board can consult external advisors like certified public accountants and legal advisors. The supervisory board consists of six members at present. The Chairmen of the supervisory board coordinates the tasks within the supervisory board and also chairs the meetings. The supervisory board's current composition, relatively small size with only six members, and regular meetings ensure that the board works efficiently and is able to discuss all strategic issues and details. Therefore, the supervisory board did not form any committees, as additional committees would not be expected to increase efficiency further. Further information on these requirements can be found in the "Report of the supervisory board" of the annual reports.

The members of the management and the supervisory board can be found on our website www.solar-fabrik.de under "Company".

Compensation for the management and supervisory boards

The law specifies that compensation for all management board members has to be reported individually unless the general meeting of shareholders resolves otherwise. The administration at Solar-Fabrik AG did not propose any such resolution to the meeting of shareholders, so each management board member's compensation is separately reported. In addition, the German Corporate Governance Code recommendation of individually indicating the compensation of every member of the management and supervisory boards is complied with in its entirety. This compliance increases transparency with regard to compensation arrangements in accordance with the goals of the German Corporate Governance Code.

The compensation report complies with the recommendations of the German Corporate Governance Code and provides information in accordance with the German Commercial Code and the Act on the Disclosure of Executive Compensation (VorstOG), a component of the annex drawn up in accordance with Sections 285 and 314 of the German Commercial Code and the management report in accordance with Sections 289 and 315 of the German Commercial Code.

In addition, the compensation report summarizes the principles applied for the determination of the management board's compensation at Solar-Fabrik AG; the report also explains the amount and structure of executive incomes.

Compensation of the management board

It is the supervisory board's task to determine compensation for the management board. The supervisory board discusses, adopts, and regularly reviews the compensation system for the management board at Solar-Fabrik AG.

Compensation for members of the management board at Solar-Fabrik AG is based on the size of the Company and its global business, its economic and financial situation, and the amount and structure of compensation for executives at comparable companies in Germany and abroad; In addition, the compensation structure within the Company is taken into account. In addition, the tasks and contribution of each member of the management board are taken into consideration. Compensation is designed to be competitive on the international market for highly qualified executives and to provide an incentive for success.

Compensation for management consists of two components: (a) fixed compensation and (b) performance-based bonuses:

(ad a) Fixed compensation is paid as a monthly salary.

(ad b) Performance-based bonuses are paid as a variable component of management compensation relative to consolidated EBIT. The contractual rules specify that consolidated EBIT has to reach a certain level before variable compensation can be paid.

The supervisory board can also opt to provide variable bonuses in addition.

Should a member of the management board step down before his employment contract has expired, no severance pay is expressly promised. However, individual agreements for severance pay may be signed.

The members of the management board received total fixed compensation of 469,000 euros (previous year 649,000 euros) in 2013, as follows:

	EUR `000
Günter Weinberger	258 (previous year: 272)
Martin Schlenk	156 (previous year: 166)
Martin Friedrich (up to April 30, 2013)	55 (previous year: 178)

In 2013, members of the management board did not receive any variable compensation (previous year: 0 euros) because the target for consolidated EBIT was not reached.

In addition, Mr. Günter Weinberger received 7,000 euros (previous year: 19,000 euros), Mr. Martin Friedrich 13,000 (previous year: 14,000 euros), and Mr. Martin Schlenk 7,000 euros (previous year: 19,000 euros) in other compensation.

The management board entered into an employment pact with IG Metall on July 10, 2013. Among other things, it calls for a voluntary reduction of remuneration in exchange for guaranteed employment for a limited time. It affects employees under collective agreements with up to half of the operational special payment (= 50 percent of one month's salary) in November 2013, and employees not under collective agreements (including the members of the management board) with 25 percent of one month's salary. In this context, the members of the management board waived the following (gross) remuneration, respectively at 25 percent of one month's salary:

	EUR `000
Günter Weinberger	6
Martin Schlenk	3

Compensation of the supervisory board

The general meeting of shareholders resolves compensation for the supervisory board. This compensation is based on the size of the Company, the tasks and responsibilities of the members of the supervisory board, and the Company's economic situation. The chairman and deputy chairman are also taken into account.

The current compensation system for the supervisory board was adopted at the general meeting of shareholders on July 5, 2011 and is included in Section 12 of the bylaws.

The rules adopted by the general meeting of shareholders specify that each supervisory board member receives 1,750.00 euros per month for each full month of membership on the supervisory board. The chairman receives twice that amount; the deputy chairman 150 percent. All supervisory board members additionally receive 1,000.00 euros per meeting.

Total compensation for the supervisory board in 2013 amounted to 107,000 euros (previous year: 127,000 euros) composed of the following sums:

	EUR `000
Dr. Winfried Hoffmann (chairmen of the supervisory board)	42 (prev. year: 21)
Gerhard Kulbe (deputy chairman of the supervisory board)	32 (prev. year: 36)
Carolin Salvamoser	4 (prev. year: 25)
Norbert Binder	23 (prev. year: 37)
Alfred T. Ritter	5 (prev. year: 4)
Klaus Grohe	1 (prev. year: 4)

Not all members of the supervisory board claimed the remuneration to which they were entitled according to the SolarFabrik bylaws in financial year 2013. Remuneration of 70,000 euros was waived in 2013.

Stock tradings and holdings of the management and supervisory boards

Directors´ Dealings

In accordance with Section 15a of the German Securities Trading Act, members of the management board and the supervisory board are legally obligated to disclose ("directors´ dealings") the purchase or sale of shares of Solar-Fabrik AG and of financial instruments based on them if the value of the transactions that the organization member or related parties completed during a calendar year reaches or exceeds a total of 5,000 euros. Solar-Fabrik AG publishes directors´ dealings reports on its website www.solar-fabrik.de and elsewhere immediately after they are filed.

Over fiscal year 2013 no trades of board members or related parties of them were reported to Solar-Fabrik AG.

Directors´ Holdings

As of December 31, 2013, members of the management and supervisory boards of Solar-Fabrik AG possessed a total of 29.10 percent of all of the shares of the Company. Share holdings are distributed as follows:

Members of the management board:	0 shares (= 0.00 percent voting rights)
Members of the supervisory board:	3,740,012 shares (= 29.10 percent voting rights)

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb
von solartechnischen Produkten, Freiburg i. Br.

Responsibility Statement 2013

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

Freiburg, March 21, 2014

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb
von solartechnischen Produkten

The management board

Günter Weinberger Martin Schlenk

8 Single Financial Statements (German Commercial Code (HGB))

8.1 Balance sheet as of December 31, 2013

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb
von solartechnischen Produkten, Freiburg i. Br.

Assets

			31.12.2013		31.12.2012
		EUR '000	EUR '000	EUR '000	EUR '000
A.	**Fixed assets**				
I.	Intangible assets				
1.	Licences, industrial property rights and similar rights and values	72			19
			72		19
II.	Property, plant and equipment				
1.	Technical equipment and machinery	1,112			952
2.	Other equipment, fixtures and furnishings	249			231
			1,361		1,183
III.	Financial assets				
1.	Shares in affiliated companies	169			569
			169		569
				1,602	1,771
B.	**Current assets**				
I.	Inventories				
1.	Raw materials and consumables	2,609			3,673
2.	Work in progress	281			161
3.	Finished goods and goods for resale	1,556			1,565
4.	Advance payments	302			0
			4,747		5,399
II.	Receivables and other current assets				
1.	Trade receivables	2,303			2,743
2.	Accounts receivable due from affiliated companies	2,965			14,098
3.	Other current assets	470			430
			5,738		17,271
III.	Cash at bank and in hand		15,314		13,699
				25,799	36,369
C.	**Prepaid expenses**			88	108
				27,489	38,248

Liabilities

			31.12.2013	31.12.2012
		EUR '000	EUR '000	EUR '000
A.	**Shareholder's equity**			
I.	Subscribed share capital	12,853		12,853
II.	Capital reserve	42,124		42,124
III.	Accumulated loss	-33,056		-23,198
			21,921	31,779
B.	**Provisions**			
1.	Other provisions	3,175		1,689
			3,175	1,689
C.	**Liabilities**			
1.	Financial liabilities	1,125		2,625
2.	Advance payments received	89		506
3.	Trade payables	741		904
4.	Accounts payable due to affiliated companies	78		348
5.	Other liabilities	360		395
			2,393	4,778
D.	**Deferred income**		0	2
			27,489	38,248

8.2 Profit and loss accounts

from January 1 to December 31, 2013

Solar-Fabrik Aktiengesellschaft für Produktion und Vertrieb von solartechnischen Produkten, Freiburg i. Br.

			2013		2012
		EUR '000	EUR '000	EUR '000	EUR '000
1.	Sales revenue	53,577			83,841
2.	Change in finished goods and work in progress	385			-1,119
3.	Overall performance		53,962		82,722
4.	Other operating income		545		4,001
				54,507	86,723
5.	Cost of materials				
a)	Expenses for raw materials and consumables	43,492			74,224
b)	Expenses for purchased services	16			50
			43,508		74,274
6.	Personnel expenses				
a)	Wages and salaries	8,840			8,980
b)	Social security, pension and other benefit costs	1,649			2,035
			10,489		11,015
7.	Depreciation				
a)	on intangible and tangible assets	366			15,814
b)	on current assets, as far as they exceed the common depreciation in the company	3,336			0
			3,702		15,814
8.	Other operating expenses		6,772		6,166
				64,471	107,269
				-9,964	-20,546
9.	Income from associated companies		20		0
10.	Expenses from associated companies		0		6
11.	Interest and similar income		562		870
12.	Depreciation on financial assets		400		0
13.	Interest and similar expenses		74		812
				108	52
14.	**Earnings before taxes (= EBT)**			**-9,855**	**-20,494**
15.	Tax expenses on income			0	-36
16.	Other tax expenses			3	3
17.	**Loss for the financial year**			**-9,858**	**-20,461**
18.	Loss carried forward			-23,198	-2,737
19.	**Retained losses**			**-33,056**	**-23,198**


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Contact

Solar-Fabrik AG
Munzinger Str. 10
79111 Freiburg, Germany

Phone +49 (0)761 / 4000 - 0
Fax +49 (0)761 / 4000 - 199
Mail info@solar-fabrik.de
Internet www.solar-fabrik.de

For further questions please contact:
Investor Relations
Phone +49 (0)761 / 4000 - 0
Mail investor@solar-fabrik.de

Financial calendar 2014

Fiscal 2014

March 31, 2014
Consolidated Accounts 2013

May 15, 2014
Quarterly Report QI/2014

July 2, 2014
Annual General Meeting
Konzerthaus Freiburg

August 14, 2014
Quarterly Report QII/2014

November 13, 2014
Quarterly Report QIII/2014

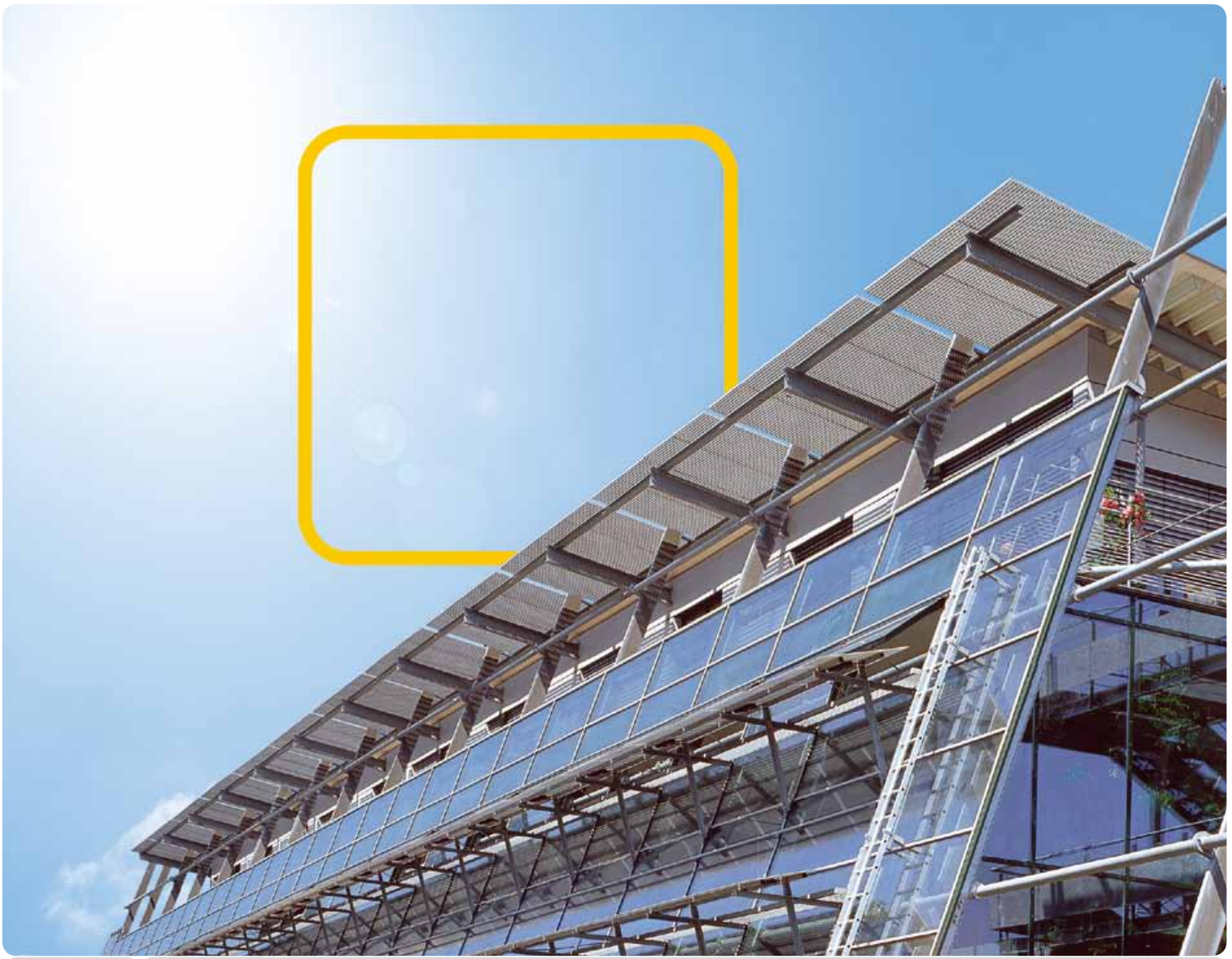
November 2014
Analyst conference

Imprint

Editorial office
Günter Weinberger
Martin Schlenk

Photography
Thomas Dix
Michael Eckmann
Axel Killian
Lothar Neumann
triolog

Layout
triolog-freiburg



Solar-Fabrik AG
Munzinger Str. 10
79111 Freiburg
Germany
Phone +49 (0)761 4000-0
Fax +49 (0)761 4000-199
info@solar-Fabrik.de
www.solar-fabrik.de