Conergy AG

Annual Report 2007

Key group data

		2007	2006[1]
Revenue	EUR million	706	682
Germany	EUR million	324	434
Abroad	EUR million	382	248
Gross profit	EUR million	94	108
Gross profit margin	in percent	13	16
EBITDA	EUR million	–168	7
EBITDA margin	in percent	–24	1
EBIT	EUR million	–210	2
EBIT margin	in percent	–30	0
Results after taxes from continued operations	EUR million	–210	0
Total assets	EUR million	1,036	698
Total equity	EUR million	125	151
Equity ratio	in percent	12	22
Cash generated from operating activities, continued operations	EUR million	–167	–229
Net cash generated from investing activities (total)	EUR million	–195	–101
Net cash generated from financing activities (total)	EUR million	422	237
Earnings per share from continued operations	EUR	–6.42	–0.01
Adjusted average number of no-par shares issued	in Thsd.	32,699	29,761
Number of employees FTE[2] (average)		2,317	1,125
Germany		1,403	795
Abroad		914	330

[1] Previous year's figures adjusted; see notes
[2] Full time equivalents

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Dear shareholders,

The past year was the most difficult one in our Company's history. After its foundation in December 1998, Conergy grew very dynamically from a start-up to a global corporation with nearly 3,000 employees. Our growth was based on entrepreneurial spirit, ideas and the courage to develop a market which did not yet exist. The growth of our new industry was driven by dwindling fossil fuels and the threat of climate change. The catalyst for our important market position was the realisation that renewable energies — in particular, the latest solar technology — had to play an increasingly important role in an intelligent energy mix.

Conergy became a leading global solar energy group because we spent many years focusing on the opportunities available to our business. But we wanted more. In order to further strengthen our position, we invested in other regenerative technologies and other levels of the value chain — in several different markets at once. In doing so, we took on too much, and we were brought up short by some unforeseen developments as well. While the photovoltaic market continued to expand, the previously strong demand in certain segments outside of photovoltaics collapsed in the past year. In Germany alone, the market for solar thermal energy declined by over 30 percent. The bioenergy market in which we were active also developed far worse than expected on account of poor harvests and shifts in producer prices. This is another reason the diversification of our technological portfolio failed to bear fruit in 2007.

But above all, we made some grave estimation errors. We had counted on additional revenue from our new business activities which did not materialise. The resources we had built up for this proved to be too large and led to considerable losses in the previous year. A second factor intensified the crisis in our Company: Since photovoltaic demand rose faster than expected while silicon capacity grew more slowly than we had anticipated, there were ongoing delivery bottlenecks for silicon and modules. As a consequence, revenues were lower than planned in our core business as well, leading to a liquidity crisis in the Group. We have learned from these mistakes. Since mid-November, we have been working to solve the problems associated with our overambitious strategy and the liquidity shortfall.

I would like to thank our employees, whose absolute dedication and loyalty did not waver during this crisis and who continue to stand by the Company, helping us to achieve a turnaround and grow once more.

We are now focusing on Conergy's core business, in which we have been economically successful for around ten years. The fundamental growth drivers in this sector remain intact, and independent studies forecast worldwide annual growth of around 50 percent from 2008 to 2010. But growth only pays off if it leads to sustainable earnings. The new management team, which is leading the Company since November 2007, has taken this as its maxim. Its most important goals are to refocus the Company on its core expertise in the field of photovoltaics, to improve the reliability of our business planning, and to deploy resources in a revenue-oriented way in order to position Conergy as a focused provider in the solar power market as quickly as possible so that we are successful once again.

The "Conergy 2.0" reorientation programme was launched in the middle of November with the aim of eliminating strategic and operational deficits. This package of measures has already achieved initial success.

In the first quarter of 2008, Conergy was able to sell some of its solar thermal activities, bringing the Group a step closer to concentrating solely on its core photovoltaics business. Furthermore, a new controlling system was introduced to improve internal and external reporting transparency.

In mid-February, the renowned accounting firm Ernst & Young Wirtschaftsprüfungsgesellschaft confirmed in a detailed report that we have introduced the right measures. The banks have also expressed their confidence in our repositioning in both word and deed: At the start of February, a syndicate consisting of Commerzbank AG and Dresdner Kleinwort granted us additional liquidity in the amount of EUR 240 million, which gives us sufficient room to manoeuvre once more.

These successes prove that Conergy is on the right track again.

In 2008, we will significantly increase our revenue and lay the foundation for sustainable growth in earnings. But the current year will still be a year of turnaround. For 2009, we expect further revenue growth and a positive operating result (EBIT) in the double-digit millions. Our new streamlined structure, which will work more quickly and efficiently, will then have been implemented. We will promptly dispose ourselves from less profitable or unprofitable activities. Then we will be able to focus all of our energies on our operating business and regain the confidence of our shareholders. I promise you that we will do everything in our power to reach this goal.

Sincerely,

Dieter Ammer

Report of the Supervisory Board

Ladies and Gentlemen,

Supervision of management
In the 2007 financial year, the Supervisory Board again assisted the Management Board in an advisory capacity in its management of the Company and continuously oversaw the Management Board's conduct of business on the basis of Management Board reports and joint meetings. In addition, the Chairman of the Supervisory Board maintained regular contact with the Management Board outside the meetings. In the 2007 financial year, the main focus of activities was on safeguarding liquidity, the further financing of growth and the investment financing of the plant in Frankfurt (Oder). In this context, the Supervisory Board closely monitored the implementation of the capital increase of approximately EUR 150 million in the first quarter of 2007, the conclusion of the syndicated loan agreement of EUR 600 million in July 2007 and the capital increase of around EUR 70 million in early November 2007. Other important issues were the establishment of and the status of investment in the solar plant in Frankfurt (Oder) as well as possible strategic partnerships for this plant, the sourcing of raw materials, the shortage of modules, further internationalisation including the acquisition strategy of the Conergy Group, the strategic realignment of the Group within the framework of the restructuring process developed by the Management Board and the appointment of new members to the Management Board. The Supervisory Board actively accompanied these processes through consultations and discussions with the Management Board. The Supervisory Board was presented with transactions requiring its approval, which it approved following detailed examinations and discussion with the Management Board.

Composition of the Supervisory Board
In accordance with Section 96 para. 1 and Section 101 para. 1 sent. 1 German Stock Corporation Act (Aktiengesetz) in conjunction with Article 10 (1) of the Articles of Association, the Supervisory Board had six members elected by the shareholders in the 2007 financial year: Dieter Ammer (Chairman of the Supervisory Board until 15 November 2007), Alexander Rauschenbusch (Deputy Chairman of the Supervisory Board), Eckhard Spoerr (Chairman of the Supervisory Board since 16 November 2007), Dr. Dr. h. c. Andreas J. Büchting, Andreas Rüter and Oswald Metzger. On 6 November 2007, in accordance with Section 105 para. 2 sent. 1 German Stock Corporation Act, the Supervisory Board resolved to appoint Dieter Ammer as a substitute for Hans-Martin Rüter, who had stepped down from the Management Board, from the end of 15 November 2007 until 14 May 2008. In connection with the resignation of Pepyn R. Dinandt from the Management Board of Conergy AG, the appointment of Dieter Ammer on 12 March 2008 was extended until the end of the statutory one-year term (14 November 2008). Mr. Ammer's appointment to the Supervisory Board is suspended for the duration of his appointment to the Management Board.

Supervisory Board meetings
In 2007, the Supervisory Board held five ordinary meetings to carry out its duties – on 22 March, 11 June, 29 June, 28 September and 4 December 2007 – as well as three extraordinary meetings – on 25 April, 23 October and 30 October 2007. These meetings required personal attendance. In addition, the Supervi-

sory Board convened for nine telephone consultations and resolutions – on 16 and 27 February, 7 and 8 March, 9 and 25 October, 6 and 9 November and 11 December 2007. A large number of telephone and written resolutions were also passed.

The Management Board submitted the budget and investment planning for the financial year to the Supervisory Board and regularly briefed the Supervisory Board on current revenue, earnings and liquidity developments, the situation of the Company and the Group including the risk position and risk management, as well as intra-group compliance, the strategic goals including possible further internationalisation of business and all key organisational and staffing changes.

The Management Board reported to the Supervisory Board both on specific occasions at the request or explicit demand of the Supervisory Board and in accordance with the rules of procedure drawn up by the Supervisory Board for the Management Board. The Supervisory Board also consulted employees from the areas of Controlling, Treasury and Internal Audit on an as-needed basis for its deliberations and resolutions. In connection with its consultations on the development of earnings and liquidity in the Company and the Group, the Supervisory Board also regularly consulted a well-known international audit firm which it had engaged in October 2007 as part of a special examination to review the forecast for 2007 as well as the development of the Company's liquidity. The Supervisory Board was furnished with detailed reports on the findings of this audit at its extraordinary meetings on 23 October and 30 October 2007. In addition, the chairman of the Supervisory Board maintained close contact at all times with the Management Board, which briefed him on current business transactions.

The Supervisory Board's advisory and supervisory activities in the first half of 2007 focused in particular on the capital increase planned since the start of 2007 to promote the Company's further growth and provide investment financing. Due to the unfavourable situation on the capital markets that emerged unexpectedly, the capital increase had to be postponed, which created a short-term liquidity bottleneck at the Company. This was cleared by the successful implementation of the capital increase of approximately EUR 150 million on 8 March 2007. As a consequence of the liquidity bottleneck, the Supervisory Board asked the Management Board to prepare short- and medium-term liquidity planning as a matter of urgency. Reporting was performed on a monthly basis as early as March, and its frequency increased to weekly reporting from April 2007. The Management Board followed up on the Supervisory Board's call for improved reporting. It was only after the termination of the syndicated loan agreement in July 2007 that the intensity of reporting was scaled back to a normal level again.

The Supervisory Board was also briefed periodically on the status of and progress made in eliminating the deficiencies identified by the auditor in the course of its audit of the annual and consolidated financial statements for the year ended 31 December 2006.

At its meeting on 22 March 2007, the Supervisory Board discussed the annual financial statements, the consolidated financial statements and the management reports for the year ended 31 December 2006 in the presence of the auditor. Its examinations focused in particular on the audit of the investment controlling, derivatives, cost management of major projects and human resources. Among other things, the auditor stated that the annual and consolidated financial statements of Conergy AG for the year ended 31 December 2006 provided a true and fair view of the net assets, financial position and results of operations. Hence,

an unqualified audit opinion had been issued for the single-entity and consolidated financial statements, and the prerequisites concerning the organisation and capital resources for achieving the 2007 business plan are in place, the auditor said.

The second half of 2007 was predominated by the negative development of the Group's results of operations, which led to the publication of revised revenue and earnings forecasts for 2007 on 25 October 2007 plus a further liquidity bottleneck and the strategic realignment of the Group.

Following initial indications that projections for operations might be missed, the Supervisory Board resolved on 9 October 2007 to have an external audit firm review the forecast for 2007 within the scope of a special examination. Shortly afterwards, the Supervisory Board resolved to extend the audit engagement to an examination of the liquidity planning. The subject of the examinations included the forecast for 2007 submitted to the Supervisory Board at the end of September 2007, the interim financial statements for the period ended 30 September 2007, and the liquidity plan as at 31 December 2007. The findings of the special examination were presented to the Supervisory Board at its meetings on 23 and 30 October 2007. This prompted the Supervisory Board to take immediate action, leading to the premature resignation of the former Chief Financial Officer of Conergy AG, Heiko Piossek, and the former Chief Executive Officer, Hans-Martin Rüter, with effect from the end of 31 October 2007 and 15 November 2007, respectively. Dieter Ammer's temporary move to the Management Board of Conergy AG and the appointment of Pepyn R. Dinandt as a Management Board member and COO (Chief Operating Officer) were resolved at the same time. Dr. Jörg Spiekerkötter was appointed to the Management Board with effect from 1 November. He is responsible for the areas of finance, IT, legal affairs and human resources.

The liquidity crisis that arose in late October 2007 was cleared by the further capital increase of approximately EUR 70 million implemented on 7 November. Following this, the Supervisory Board critically accompanied the restructuring process developed and initiated by the Company's Management Board including the strategic realignment of the Conergy Group and the resulting discontinuation of peripheral activities, taking all information available at the time and the foreseeable consequences into account, especially the advantages and disadvantages as well as the implications for the Company, its net assets, financial position and results of operations, and also for its shareholders, employees and business partners.

The Supervisory Board also discussed at length the default on the covenant of the syndicated loan amounting to EUR 600 million in the autumn of 2007 and the measures that became necessary as a result. Other topics were the sourcing of raw materials and the conclusion of a long-term general supply contract for wafers.

In view of the contraction in earnings at Conergy AG and in the Group during 2007 plus the liquidity bottlenecks, the Supervisory Board asked Ernst & Young Wirtschaftsprüfungsgesellschaft to critically review the reporting of the Management Board to the Supervisory Board. The law firm Freshfields Bruckhaus Deringer was engaged to conduct a legal evaluation of the results of this examination and carry out a legal review of this corporate body's observance of its duties. This firm concluded that there were no reasons to indicate a breach of duty by the Supervisory Board. The right to assert claims for damages and restitution against former members of the Management Board is reserved.

Supervisory Board members Alexander Rauschenbusch (Deputy Chairman) and Oswald Metzger attended all Supervisory Board meetings in the 2007 financial year. The Supervisory Board members Dieter Ammer (until 15 November 2007), Dr. Dr. h. c. Andreas J. Büchting and Andreas Rüter were excused from one meeting, while Supervisory Board member Eckhard Spoerr was excused from two meetings.

Committees

The task of the Supervisory Board to supervise and advise the Management Board is supported by its committees. In accordance with the recommendations of the German Corporate Governance Code, the Supervisory Board has formed a task force to prepare Supervisory Board meetings (chairman's committee) and an audit committee that are composed of Supervisory Board members.

In the year under review, the chairman's committee comprised Dieter Ammer (until 15 November 2007), Eckhard Spoerr (since 16 November 2007), Alexander Rauschenbusch and Andreas Rüter. Since 4 December 2007, the chairman's committee has also functioned as the nomination committee.

The audit committee included Alexander Rauschenbusch (chairman), Dieter Ammer (until 15 November 2007), Eckhard Spoerr and Oswald Metzger (since 20 December 2007).

In addition, by way of a resolution on 6 November 2007, the Supervisory Board formed a committee for Management Board matters (an ad hoc personnel committee) comprising Eckhard Spoerr, Alexander Rauschenbusch and Dr. Dr. h. c. Andreas J. Büchting that dealt with issues concerning the termination of the contract of employment with Management Board Chairman Hans-Martin Rüter and the appointment of Dieter Ammer as a delegate to the Management Board.

The committee for Management Board matters met three times in total (7, 8 and 14 November) and was dissolved by resolution of the Supervisory Board on 4 December 2007.

The chairman's committee met a total of four times in the 2007 financial year – on 11 September, 23 October, 22 November and 3 December 2007 – with one meeting (22 November 2007) conducted together with the audit committee. The main topics at these meetings were issues relating to the composition of the Management Board and the internal organisation of the Management Board as well as the explanation of the Company's economic, financial and strategic situation. Recommendations for Supervisory Board resolutions were also prepared. All committee members attended all meetings of the chairman's committee.

The tasks of the audit committee, which met six times during the year under review – on 8 March, 7 May, 8 August, 28 September, 8 November and 22 November 2007 (together with the chairman's committee) – included the preparation of the audit of the annual and consolidated financial statements together with the management reports, the engagement of the auditor of the annual and consolidated financial statements including deciding on the focal points of the audit, the auditor's fee and the independence of the auditor, questions on and the audit of the accounting, questions on and the audit of risk management, issues relating to compliance and the conducting of internal auditing as well as the audit and establishment of the principles of the short-, medium-, and long-term financial strategy.

At its meeting on 8 March 2007, the audit committee explained the annual financial statements, the consolidated financial statements and the management reports for the period ended 31 December 2006 in the presence of the auditor. In response to the report provided by the auditor on the audit of the annual and consolidated financial statements, the audit committee asked the Management Board to extend its reporting to the Supervisory Board. Also discussed were matters relating to the accounting for call orders and the Company's liquidity planning, which at the time the Supervisory Board believed to be secured with the implementation of the subsequent cash capital increase and the conclusion of the syndicated loan agreement amounting to EUR 600 million in July 2007. The other audit committee meetings discussed the status of the elimination of the deficiencies in controlling and reporting identified by the auditor in the course of the audit of the annual and consolidated financial statements for the period ended 31 December 2006 as well as the definition of the focal points of the audit of the 2007 financial statements and the status of the preliminary audit of the 2007 annual and consolidated financial statements by the Company's auditor. The committee members Alexander Rauschenbusch and Dieter Ammer (until his appointment as a member of the Company's Management Board) attended all audit committee meetings, while committee member Eckhard Spoerr was excused on one occasion.

The nomination committee did not have to meet in the 2007 financial year.

The committee chairmen each reported to the Supervisory Board in detail on the meetings and their outcome.

Corporate Governance

For information on the aspects of the Company's corporate governance that affect the Supervisory Board, please see the joint report on corporate governance by the Management Board and the Supervisory Board in this annual report. On 5 April 2008, the Management Board and the Supervisory Board issued an update to their Declaration of Compliance of 4 December 2007 regarding the implementation of the German Corporate Governance Code at Conergy AG in accordance with Section 4 German Stock Corporation Act, pursuant to which the Company is in compliance with all recommendations of the German Corporate Governance Code (as amended on 14 June 2007), with the exception only of Item 7.1.2. sentence 3, case 1. It was not possible to make the 2007 consolidated financial statements of Conergy AG publicly available within the 90-day period mentioned in this item. The declaration passed was made available to the general public on the Company's website. The compensation of the Supervisory Board members is itemised and broken down into the various components in the notes to the consolidated financial statements reproduced in this annual report. On account of the plans of Supervisory Board members Dieter Ammer, Andreas Rüter and Alexander Rauschenbusch to participate in the cash capital increase in early November 2007 and the conflict of interest which this could bring about, the above-mentioned Supervisory Board members abstained from voting in the resolution to approve the implementation of this corporate action.

The Conergy Group regularly reviews the efficiency of its Supervisory Board's work every two years as recommended in the German Corporate Governance Code. Testing was first carried out in the 2006 financial year. As this was also the year in which the efficiency of the Supervisory Board's activities was last reviewed, no review activities were conducted in the 2007 financial year.

Changes in the Management and Supervisory Boards

- The Supervisory Board appointed Christian Langen as a member of the Management Board with effect from 1 March 2007. Mr. Langen is responsible for sales and internationalisation.
- Dr. Jörg Spiekerkötter and Philip von Schmeling were appointed to the Management Board effective 1 November 2007. Dr. Spiekerkötter is responsible for the areas of finance, IT, legal affairs and human resources, while Mr. von Schmeling is in charge of sales & systems.
- With effect from the end of 15 November 2007, the Supervisory Board appointed Dieter Ammer as a member of the Management Board and Chief Executive Officer (CEO) of Conergy AG for the period until 14 May 2008 in accordance with Section 105 para. 2 sent. 1 German Stock Corporation Act. Pepyn R. Dinandt was appointed Chief Operating Officer (COO) as at the same date. By way of a resolution on 12 March 2008, the appointment of Dieter Ammer was extended until the end of 14 November 2008.
- Albert Edelmann, the Company's previous Chief Sales Officer, left the Company as at 28 February 2007.
- Heiko Piossek resigned from office and therefore left the Management Board of Conergy AG as of 31 October 2007. He was responsible for the areas of finance, IT, legal affairs and human resources.
- Hans-Martin Rüter resigned from office with effect from the end of 15 November 2007 and therefore left the Management Board of Conergy AG. Hans-Martin Rüter was responsible for the areas strategy, system construction and marketing.
- Dr. Edmund Stassen resigned from office with effect from 12 October 2007. Dr. Stassen was responsible for the areas of supply chain and products, as well as research and development.
- Christian Langen also left the Management Board as at 31 December 2007. Mr. Langen was responsible for sales and internationalisation.
- Pepyn R. Dinandt left the Management Board with effect from 17 March 2008.

Accounting

The Company's General Shareholders' Meeting appointed Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft Munich, Hamburg branch, to audit the annual and consolidated financial statements of Conergy AG for the 2007 financial year. The Supervisory Board then negotiated the audit engagement, stipulated the focal points of the audit and awarded the contract. The particular focal points of the audit agreed were the capitalisation of property, plant and equipment and intangible assets, compliance with regulations in connection with government subsidies and investment grants, the management of derivative financial instruments as well as revenue realisation and recognition (in particular accounting for project companies using the percentage-of-completion-method).

The annual financial statements of Conergy AG together with the management report for the 2007 financial year and the consolidated financial statements together with the Group management report for the 2007 financial year, both prepared by the Management Board, were each audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft and issued with an unqualified audit opinion. The auditor also audited the risk early warning system in place at Conergy AG in accordance with Section 317 para. 4 German Commercial Code (HGB) and found that the obligations of management in the areas of operations and strategy as set out in the German Control and Transparency in Business Act are essentially addressed.

The audit committee met on 12 March 2008 in the presence of the auditor and was briefed on the audit of the (preliminary) annual and consolidated financial statements together with the management reports. Following this meeting, the Supervisory Board received a detailed report on the deliberations in the audit committee. In addition, the Head of Accounting was consulted on individual questions and provided additional explanations.

The audit committee meeting took place on 5 April 2008. The documentation on the annual and consolidated financial statements and the auditor's audit reports as well as all other drafts and meeting reports were delivered to the Supervisory Board members in a timely manner prior to this meeting. The auditors attended the audit committee meeting, reported on the audit process and the audit findings, were available to answer questions and were also available for the discussion of the documentation. The Supervisory Board examined the annual and consolidated financial statements together with the management report and the Group management report with knowledge of the report of the audit committee and taking into account the audit reports prepared by the auditor, which were discussed at length with the latter. Notes by the auditor from the audit reports were recorded by the Supervisory Board, discussed with the Management Board and arrangements made for their consideration.

The Supervisory Board concurred with the findings of the audit by the auditor. On the basis of its own examination of the annual and consolidated financial statements together with the management report and the Group management report, the Supervisory Board determined that following the conclusive findings of its examination, no objections needed to be raised. The Supervisory Board approved the annual and consolidated financial statements, as well as the management report and the Group management report for the 2007 financial year at the audit committee meeting on 5 April 2008. The annual financial statements are hence adopted (Section 172 sent. 1 German Stock Corporation Act).

In the 2007 financial year, the Supervisory Board thus complied with its duties and obligations as stipulated by law and in the Articles of Association. The Supervisory Board would like to thank the present members of the Management Board for their hard work, particularly in the recent difficult months. It would also like to extend thanks in particular to Dieter Ammer for his unfailing dedication and willingness to assist the reorganisation of our Company through his delegation to the Management Board. Special thanks go to our employees for their high level of personal commitment, performance and readiness to support the efforts to realign Conergy.

Hamburg, 5 April 2008
The Supervisory Board

Eckhard Spoerr
Chairman of the Supervisory Board

The Supervisory Board

The Supervisory Board members and memberships
(as of 31 December 2007)

The members of the Supervisory Board hold the following positions on statutory Supervisory Boards and comparable corporate control committees:

Name	Member since	Positions on statutory Supervisory Boards and comparable control committees
Eckhard Spoerr (Chairman) Chairman of the Management Board of freenet AG	2005	Chairman of the Supervisory Board of financial advertising AG Chairman of the Supervisory Board of Strato AG Member of the Supervisory Board of aktiencheck.de AG
Alexander Rauschenbusch (Deputy Chairman) Managing Director of Grazia Equity GmbH	2000	Member of the Supervisory Board of WANZL Metallwaren-fabrik GmbH
Dieter Ammer (Membership on the Supervisory Board is sus-pended pursuant to Section 105 para. 2 German Stock Corporation Act) Currently Chairman of the Management Board of Conergy AG	2000	Chairman of the Supervisory Board of Beiersdorf AG Chairman of the Supervisory Board of Tchibo GmbH (until 15 June 2007) Member of the Supervisory Board of tesa AG Member of the Supervisory Board of GEA Group AG Member of the Supervisory Board of IKB Deutsche Industrie-bank AG Member of the Supervisory Board of Heraeus Holding GmbH
Dr. Dr. h. c. Andreas J. Büchting Spokesman of the Management Board of KWS SAAT AG (until 13 December 2007)	2005	Chairman of the Supervisory Board of KWS SAAT AG
Oswald Metzger Independent publicist and political consultant	2005	–
Andreas Rüter Partner of Grazia Equity GmbH	2000	Chairman of the Supervisory Board of Völcker Informatik AG Member of the Supervisory Board of Reldata Inc., USA Member of the Board of Directors of United Mobile AG, Switzerland

The Management Board

Dieter Ammer (CEO)
- Acting Chairman
- Strategy, Audit and Communication
- Delegated from the Supervisory Board since 16 November 2007

Pepyn R. Dinandt (COO)
- Deputy Chairman of the Management Board
- Technologies, Structures and Change Management
- Appointed on 15 November 2007, left the Management Board as of 17 March 2008

Dr. Jörg Spiekerkötter (CFO)
- Finance, IT, Legal Affairs and Human Resources
- Appointed from 1 November 2007 to 31 October 2010

Nikolaus Krane (CPO)
- Project Business
- Appointed from 4 August 2000 to 31 July 2010

Philip von Schmeling (CSO)
- Deputy Member of Management Board
- Sales & Systems
- Appointed from 1 November 2007 to 31 October 2010

Dieter Ammer (born 1950) graduated in business studies and is a professional auditor and tax adviser, as well as being one of the founding members of Conergy AG. After an education with a strong international focus, he held a number of key senior management positions in German industry. A native of Bremen, he has previously been the Chairman of Zucker AG and CEO of Brauerei Beck & Co, as well as holding the position of Chairman of the Management Board of the Hamburg-based Tchibo Holding AG.

Pepyn R. Dinandt (born 1961) studied economics in the UK. After working in sales at Hewlett Packard, he moved to McKinsey, the international management consulting firm. He subsequently held several executive management positions in different industrial companies. The Dutchman, who grew up in Turkey, Suriname, Ireland and the Netherlands, has amassed some 15 years of management experience in different industries from mechanical engineering to electrical engineering.

Dr. Jörg Spiekerkötter (born 1958), a native of Essen, studied law at Bielefeld, Lausanne and Freiburg. After acquiring his doctorate in law, subsequent appointments included work at Hoechst AG and Hoechst Schering AgrEvo GmbH. In 1999, he moved to work in finance at Schering AG. Appointed to the Management Board in 2002, he held the position of CFO there until 2006. Dr. Spiekerkötter's previous appointment was CFO at the Dutch firm Organon Biosciences N. V., based in the Netherlands.

Nikolaus Krane (born 1965) studied mechanical engineering at RWTH Aachen University. Following this, he spent six years as a management consultant at Bossard Consultants GmbH. While also advising German companies, this work generally involved international consulting for companies in Sweden, France, South Africa and the US, the focus being on business development and process re-engineering.

Philip von Schmeling (born 1967) studied mechanical engineering at TU Munich, and received his MBA from INSEAD in Fontainebleau, France. He began his career as a consultant with the Boston Consulting Group. Following this, von Schmeling was CFO at Dole Fresh Fruit North America in Los Angeles. His previous appointment involved the management of the Conergy Global Technology Photovoltaic Module Team. In this role, von Schmeling was responsible in particular for module buying, as well as the construction of Conergy's own solar energy facility at Frankfurt (Oder).

The members of the Management Board and their memberships
(as of 31 December 2007)

The members of the Management Board hold the following positions on statutory Supervisory Boards and comparable corporate control committees:

Name	Member since	Positions on statutory Supervisory Boards and comparable control committees
Dieter Ammer (Chairman)	2007	Chairman of the Supervisory Board of Beiersdorf AG Chairman of the Supervisory Board of Tchibo GmbH (until 15.06.2007) Member of the Supervisory Board of tesa AG Member of the Supervisory Board of GEA Group AG Member of the Supervisory Board of IKB Deutsche Industriebank AG Member of the Supervisory Board of Heraeus Holding GmbH
Pepyn R. Dinandt (Deputy Chairman)	2007	Member of the Supervisory Board of KUKA Aktiengesellschaft
Nikolaus Krane	2000	Member of the Supervisory Board of Innomotive AG
Philip von Schmeling (Deputy Member of the Management Board)	2007	–
Dr. Jörg Spiekerkötter	2007	Member of the Supervisory Board of PAION AG

Corporate Governance

Implementation of the Corporate Governance Code at Conergy AG
The term “corporate governance” refers to a system of company management that focuses on responsibility, transparency and sustainable value creation. It encompasses the entire management and monitoring system of the company, including its organisation, business principles and guidelines, as well as internal and external control and monitoring mechanisms. For domestic and international shareholders, business partners, financial markets, employees and the general public, corporate governance inspires trust in the management and monitoring systems in place at Conergy AG. Measures that underpin sound corporate governance include an effective, trusted partnership between the Management and Supervisory Boards, the respecting of shareholder interests, and corporate communication that is both open and up-to-date. The Management and Supervisory Boards of Conergy AG are committed to the principles of good corporate governance and they are convinced that it is an essential requirement for the success of the Company.

Conergy AG reviews and develops its corporate governance policies on a regular basis. Conergy AG complies unconditionally with the recommendations of the German Corporate Governance Code. Conergy’s Declaration of Compliance is published on the Company website at www.conergy.de.

Both the Management Board and the Supervisory Board of Conergy AG report on the implementation of the Corporate Governance Code at Conergy AG as follows, in accordance with Article 3.10 of the German Corporate Governance Code (Corporate Governance Report):

Service and information for the shareholders of Conergy AG
Conergy AG uses a financial calendar to inform its shareholders as well as analysts, shareholders' associations, the media and the interested public on a regular basis. This calendar is published in the annual report and in interim reports, and is also available on the Company website.

In preparation for the General Shareholders' Meeting, and to make it easier for them to exercise their rights, shareholders are informed comprehensively on the past financial year as well as the upcoming agenda prior to the meeting by way of the annual report and the invitation to the General Shareholders' Meeting itself. All documents and information referring to the General Shareholders' Meeting are also published on the Company website, including the annual report. To aid in the exercising of rights by shareholders who cannot or do not wish to exercise their rights in person, Conergy AG provides such shareholders with the opportunity to vote by proxy at the General Shareholders' Meeting.

Supervisory Board and Management Board
The Management Board and Supervisory Board of Conergy AG work in partnership for the benefit of the Company. They pursue the same goal, namely to contribute to the sustainable increase in value of the Company. The Management Board of Conergy AG is currently made up of the persons listed, following drastic personnel measures that were adopted after the liquidity crises in 2007: Mr. Dieter Ammer, Chairman of the Management Board; Mr. Pepyn R. Dinandt (appointed on 15 November 2007, left the Management Board as of 17 March 2008), Deputy Chairman of the Management Board; Mr. Nikolaus Krane, Mr. Philip von Schmeling and Dr. Jörg Spiekerkötter. The Management Board manages the Company and is responsible for its performance. The Management Board has briefed the Supervisory Board and its committees both orally and in written form on a regular basis, promptly and extensively, with special reference to all relevant issues of corporate planning, business development, strategic planning and risk, including the management of risk.

A special audit, commissioned by the Supervisory Board on 9 October 2007 from Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, uncovered significant deficiencies in the reporting submitted by the previous Management Board. The current Management Board has therefore decided to substantially improve its communication with the Supervisory Board. Placing particular emphasis on the reporting system, it intends to increase its consultation with the Supervisory Board concerning the orientation of Conergy AG, and involve the Supervisory Board more extensively in the decision-making process.

The Supervisory Board consists of six shareholder representatives. Dieter Ammer's appointment as Chairman of the Supervisory Board has been suspended since 16 November 2007, following his appointment as Chairman of the Management Board of Conergy AG. Eckhard Spoerr was voted in as the new Chairman effective as of the same date. The tasks of the Supervisory Board include the provision of support to the Management Board through advice and discussion, the execution of its duties in accordance with the law and the Articles of Association, and the monitoring of the Company's management (see Supervisory Board Report, pages 6 to 12).

Appropriate to the recommendations of the German Corporate Governance Code, the Supervisory Board has established a task force to prepare Supervisory Board meetings (chairman's committee), which also acts as a nomination committee, as well as an audit committee; both of these are staffed by Supervisory Board members. The Supervisory Board also appointed a committee for Management Board business to deal with the matter of terminating the appointment of Mr. Hans-Martin Rüter as a member of the Management Board, and the appointment of Mr. Dieter Ammer as acting Chairman. This committee has since been disbanded.

In compliance with the recommendations of the Corporate Governance Code, Supervisory Board members are selected according to the criteria of their professional experience and capabilities, as well as their independence. No member of the Supervisory Board has previously occupied a Management Board position within the Company.

Conflicts of interest affecting Management and Supervisory Board members are to be reported to the Supervisory Board without delay. Such conflicts did not occur in the report year.

Statutory requirements pertaining to the capital market were also implemented in the previous year under review. This was accomplished by forming an ad-hoc committee consisting of representatives from a number of core specialist departments. These committee members audited the ad-hoc relevance of insider information, ensuring that it was being handled in accordance with statutory requirements. All individuals with access to insider information as part of their duties were briefed on the obligations arising from the law on insider dealing and were then entered into an insider list.

The positions held by members of the Management and Supervisory Boards are published on pages 13 and 16 of the annual report, and are also listed on the Company's website.

General Shareholders' Meeting

To make participation in a General Shareholders' Meeting as easy as possible for its shareholders, Conergy AG uses the "record date" procedure for the purposes of registration and authentication. Eligibility to participate in the General Shareholders' Meeting and to exercise voting rights is granted by registration and the verification of share ownership; ownership must be entered into by the start of the 21st day prior to the meeting, and its proof must be submitted no later than the seventh day prior to the Company's General Shareholders' Meeting.

Accounting and audit of financial statements

The Conergy Group's accounting is conducted in accordance with the International Financial Reporting Standards (IFRS). The single-entity annual financial statements of Conergy AG are prepared in accordance with the provisions of the German Commercial Code. The auditors are appointed by the General Shareholders' Meeting in accordance with the regulations of the German Stock Corporation Act.

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, were appointed as auditors for the 2007 consolidated financial statements and the 2007 annual financial statements of Conergy AG according to the German Commercial Code.

Transparency
The Conergy Group complies with the principle of non-discrimination. In order to implement this policy, the same information must be available at the same time. Both institutional investors and private investors can use the Conergy website (www.conergy.de) to obtain information on significant dates and current corporate developments (including ad-hoc releases) in a timely manner. Relevant corporate news items are also announced by means of press releases, which are also published on the website.

In accordance with Article 15 a of the German Securities Trading Act, certain individuals must disclose the acquisition and disposal of Company shares and of any associated financial instruments. Such individuals include members of the Management and Supervisory Board for Conergy AG, as well as certain members of managerial staff and persons with whom they have close relationships.

According to information provided to Conergy AG, the following acquisitions and disposals were recorded in the 2007 financial year:

- Mr. Dieter Ammer, the current Chairman of the Management Board, acquired 189,526 shares and sold 200,000 shares in the period from 30 March 2007 to 22 September 2007.
- Mr. Hans-Martin Rüter, the previous Chairman of the Management Board, acquired 119,369 shares, sold 300,000 shares and has assumed 2,999,999 shares on loan in the period from 15 March 2007 to 7 November 2007.
- Pepyn R. Dinandt, a former member of the Management Board, acquired 2,800 shares on 23 November 2007.
- Philip von Schmeling, a member of the Management Board, acquired 5,000 shares on 22 November 2007.
- Carrington Fonds SIF SICAVs, a legal entity related to a member of the management staff, acquired 175,470 shares on 7 November 2007.
- Grazia Equity, an entity related to members of the Supervisory Board, acquired 212,473 shares on 7 November 2007.
- Heiko Piossek, a former member of the Management Board, sold 2,000 shares on 23 April 2007.
- A&N Boa Management GmbH, an entity related to a member of the Management Board, sold 150,000 shares on 30 March 2007.
- Dr. Edmund Stassen, a former member of the Management Board, sold 15,000 shares between 13 and 14 March 2007.

A total of 4,119,207 shares were held by the members of the Management Board as of 31 December 2007. This equates to 11.74 percent of the shares issued by Conergy AG. A total of 4,909,418 shares were held by members of the Supervisory Board as of 31 December 2007. This equates to 13.99 percent of the shares issued by Conergy AG. Shares owned by Mr. Dieter Ammer have been added to the total amount of shares held by the Management Board.

Compensation for the Management Board and the Supervisory Board
The compensation report shows the compensation of the Management and Supervisory Boards in compliance with the recommendations of the German Corporate Governance Code (see pages 21 to 24), and is an integral part of this corporate governance report.

Code of Conduct

The Management Board has enacted a Code of Conduct for employees of the Conergy Group. This Code provides guidelines for dealing with business partners and government institutions, for assuring confidentiality, independence and objectivity, and for handling conflicts of interest. Compliance with these standards is monitored by a compliance committee organised by the legal department.

Declaration of Compliance as at 4 December 2007

Both the Management Board and the Supervisory Board of a company listed on a German stock exchange are required by law (Section 161 German Stock Corporation Act – Aktiengesetz) to declare once a year whether they are in compliance with the German Corporate Governance Code as amended and, if this is not the case, which recommendations were not satisfied. The Management Board and Supervisory Board issued this Declaration of Compliance pursuant to Section 161 German Stock Corporation Act on 4 December 2007.

Since the last Declaration of Compliance dated 5 December 2006, Conergy has complied with the recommendations of the Government Commission on the German Corporate Governance Code as amended on 12 June 2006.

Conergy AG will fulfil the recommendations of the Government Commission German Corporate Governance Code as stipulated in the Code as amended on 14 June 2007.

The current Declaration of Compliance is available on the website of Conergy AG (www.conergy.de) in the Investor Relations section. The Company also intends to adhere to the Code in the future.

Compensation report for the Management Board and the Supervisory Board of Conergy AG

The following compensation report explains the structure and the level of compensation applicable to the Management Board and the Supervisory Board. It was prepared in accordance with the recommendations of the German Corporate Governance Code and contains all disclosures that must be made an integral part of the notes and the management report pursuant to Section 314 and 315 German Commercial Code (Handelsgesetzbuch – HGB) and the Management Board Compensation Disclosure Act (Gesetz über die Offenlegung der Vorstandsvergütung – VorstOG). Information about the shareholdings of the Management Board and the Supervisory Board will also be presented in this compensation report.

Compensation of the Management Board

The total compensation paid to the members of the Management Board consists of both fixed and variable compensation. It is determined by the Supervisory Board based on performance appraisals, taking all payments from the Group into account. The responsibilities of the individual members of the Management Board and their personal contributions are the key criteria used to determine appropriate compensation. The size of the Company is also a factor in assessing compensation. In addition, all members of the Management Board are paid taxable compensation comprising company cars and contributions to their retirement plans.

In line with corporate strategy, the variable component of the Management Board's compensation has been made more dependent on the Management Board's performance, the Company's development and its long term increase in value. Compensation further depends on the extent to which fixed corporate targets have been attained. As a result, a long-term incentive plan (LTIP) was established in 2007 for the members of Conergy's Management Board, which replaced the previous bonus system. The corporate targets are based on revenue growth (adjusted for currency translation) and EVA® (Economic Value Added). In addition, specific personal goals have been established for each individual Management Board member.

The LTIP has two components:

- a long-term incentive (LTI) component spanning three years, which takes the form of a bonus plan with an inherent risk element and
- a short-term incentive component (STI) to be paid annually.

The LTIP is fed from a profit-sharing account, which is established annually for each individual member of the Management Board. The initial value of this annual account depends primarily on the extent to which financial targets are attained; it may also be increased or decreased depending on the extent to which personal targets have been achieved. These financial and personal goals are fixed by the chairman's committee before the commencement of each financial year, while also taking into account the Management Board's operational planning. Should the financial and personal targets be attained in full, then a target bonus is paid to the individual concerned, equal to the value of the profit-sharing account established for the respective financial year. Should the financial or personal targets be exceeded or not met, then the profit-sharing account for the respective year is increased or decreased appropriately.

A partial payment from the established profit-sharing account can be paid annually as an STI. Unpaid amounts are automatically retained in the profit-sharing account for the respective year. Accordingly, each calendar year sees the creation of a new profit-sharing account, whose balance remains in the Company and feeds the LTIP.

The profit-sharing account used as an instrument for the LTIP develops in relation to the Company's growth over three years (compound annual growth rate, or CAGR); the Company's growth is itself calculated based on revenue and EBIT multiples using a previously determined formula. These multiples can be re-established for each LTIP, but are held constant for the lifetime of each profit-sharing account.

Pepyn R. Dinandt and Dr. Jörg Spiekerkötter each hold Phantom Stock Options as an additional compensation component. These options have a total term of three years. Three exercise dates have been set; on each date, a third of the Phantom Stock Options granted can be exercised. After three years, all of the Phantom Stock Options are exercisable. The gross amount paid out is restricted to a fixed total amount, which may not be exceeded, even if the calculation principles used would technically have resulted in a higher amount. A total of TEUR 156 (previous year: TEUR 0) were expensed in the period under review in connection with the stock option programme. For more information regarding the stock option programme and the option rights granted to members of the Management Board, see notes 30 and 36 of the notes to the consolidated financial statements.

The compensation system applicable to Dieter Ammer has a variable portion that is not based on the LTIP, since his appointment to the Management Board of Conergy AG is of a temporary nature. In accordance with the Supervisory Board resolution of 22 November 2007, a fixed monthly compensation is paid, similar to the compensation previously paid to Management Board members. For a period of six months, a discretionary profit-sharing bonus will also be paid, which is linked to performance-based criteria. It has also been agreed that Conergy AG will pay certain costs for Ammer Partner GmbH, up to a set maximum and on condition that invoices submitted can be properly audited.

EUR	Fixed compensation	Variable compensation	Termination benefits	Other[1]	Total
Dieter Ammer[2] (Chairman)	40,888	0	0	0	40,888
Pepyn R. Dinandt[3] (Deputy chairman)	76,667	175,000	0	722	252,389
Nikolaus Krane	240,000	0	0	17,294	257,294
Philip von Schmeling[4] (Deputy member)	30,000	40,000	0	2,580	72,580
Dr. Jörg Spiekerkötter[4]	83,332	83,332	0	877	167,541
Albert Edelmann[5]	60,000	0	431,500	1,965	493,465
Christian Langen[6]	150,000	0	200,000	2,857	352,857
Heiko Piossek[7]	200,000	0	0	17,496	217,496
Hans-Martin Rüter[8] (Chairman)	293,333	0	0	26,351	319,684
Dr. Edmund Stassen[9]	180,000	120,000	500,000	13,067	813,067
					2,987,261

[1] The other compensation components primarily comprise non-cash compensation (e. g. company car, insurance, removal costs) and allowances for pension insurance (relief fund).
[2] On a temporary basis since 16 November 2007
[3] Since 15 November 2007
[4] Since 1 November 2007
[5] Until 28 February 2007
[6] From 1 March 2007 to 31 December 2007
[7] Until 31 October 2007
[8] Until 15 November 2007
[9] Until 12 October 2007

Compensation of the Supervisory Board

The policy for the compensation of the Supervisory Board was established by the General Shareholders' Meeting in 2004 based on the joint proposals of the Management Board and the Supervisory Board. The established policy calls for a fixed compensation of EUR 16,500 for the members of the Supervisory Board from the 2007 financial year onwards. The compensation of the Supervisory Board takes into consideration the responsibilities and duties of each of the Supervisory Board members as well as the Company's economic performance. Compensation includes a performance-based component in addition to the fixed component. In accordance with this, the members of the Supervisory Board are paid a performance-based compensation of EUR 500 per one-million euro increment of annual net income but no more than EUR 11,000. The Chairman of the Supervisory Board is paid two-and-a-half times and the Deputy Chairman one-and-a-half times the fixed and variable compensation paid to regular members of the Supervisory Board. Finally, committee members are paid EUR 500 for each day on which the relevant committee meets.

EUR	Fixed compensation	Variable compensation	Committee compensation	Total
Dieter Ammer (Chairman)[1]	38,131	0	3,500	41,631
Dr. Dr. h. c. Andreas J. Büchting	16,500	0	0	16,500
Oswald Metzger	16,500	0	500	17,000
Alexander Rauschenbusch (Deputy chairman)	24,750	0	4,500	29,250
Andreas Rüter	16,500	0	2,000	18,500
Eckhard Spoerr (Chairman)[2]	19,619	0	3,000	22,619
				145,500

[1] Chairman of the Supervisory Board until midnight, 15 November 2007, regular member from 16 November. Dieter Ammer waives Supervisory Board compensation while serving on the Management Board.

[2] Regular member until midnight, 15 November 2007, Chairman of the Supervisory Board from 16 November 2007.

Shareholdings of the Management Board and the Supervisory Board

A total of 4,119,207 shares were held by the members of the Management Board as of 31 December 2007. This equates to 11.74 percent of the shares issued by Conergy AG. A total of 4,909,418 shares were held by members of the Supervisory Board as of 31 December 2007. This equates to 13.99 percent of the shares issued by Conergy.

Name	Number of shares held as of 31.12.2007
Management Board	
Dieter Ammer	3,789,626
Pepyn R. Dinandt	2,800
Nikolaus Krane	321,750
Philip von Schmeling	5,031
Dr. Jörg Spiekerkötter	–
	4,119,207
Supervisory Board	
Dr. Dr. h. c. Andreas J. Büchting	–
Oswald Metzger	–
Alexander Rauschenbusch (5r Private Equity KG / Grazia Equity GmbH)	4,747,834
Andreas Rüter	161,584
Eckhard Spoerr	–
	4,909,418

The share of Conergy AG

Stock data Conergy AG

	2007	2006
Number of shares	35,088,928	30,000,000
Share price (31.12.) in EUR[1]	25.00	45.20
Closing price in EUR[1]		
High in EUR	68.72	64.33
Low in EUR	17.53	27.20
Market capitalisation in EUR million	877.2	1,443.6
Average traded volume per day (shares)[1]	564,657	223,555

[1] XETRA

Share: no-par-value shares	
Securities Identification Number (SIN)	604002
International Securities Identification Number (ISIN)	DE0006040025
Listings	Xetra
	Frankfurt (Main)
	Stuttgart
	Düsseldorf
	Hamburg
	Munich
	Hanover
	Berlin-Bremen

Share price development 2007

International stock markets developed very positively during 2007. The Japanese Nikkei Index was alone in showing a negative trend, losing around 11 percent. The DAX 30, comprised of the thirty largest German stocks, reached 8,151 points in the 2007 financial year, a new record high. It increased by a total of 22 percent from an initial 6,597 points, reaching 8,067 points by the end of 2007. The TecDAX, in which Conergy AG is listed, gained 33 percent and closed at 974 points – just under its annual high of 1,044 points.

Until October of the 2007 financial year, the Conergy AG share price had shown development similar to the DAX or the TecDAX. On 25 October 2007, the Management Board of Conergy AG published an ad-hoc release in which it reduced its revenue and earnings forecast as a result of excessive diversification in its business, delays in solar module deliveries and rising personnel costs. This communication severely depressed the Company's share price.

Following these developments, the Management Board was replaced. The accounting changes made for the consolidated financial statements according to IFRS and the necessary alterations to Conergy's corporate strategy made by the new Management Board led to an additional reduction of the revenue and earnings forecast, which was communicated in a further ad-hoc release on 12 December 2007.

Conergy's share price fell by a total of 45 percent, viewed over the entire year. Opening in 2007 at EUR 45.20, the share price fell to a closing price of EUR 25.00 on the last day of trading in the year. The low point was EUR 17.53, which was reached on 21 November 2007.

Development of the Conergy share in the 2007 financial year (indexed)

Two capital increases were made from authorised capital during the financial year for the purposes of Company funding; they occurred in March and November. These capital increases boosted the number of issued shares from 30,000,000 at the end of 2006 to 35,088,928 at the end of 2007. As part of the capital increase, 2,999,999 shares were issued in March 2007 at a price of EUR 50. They were purchased exclusively by domestic and foreign institutional investors. In November 2007, a further 2,088,928 shares were issued at a price of EUR 33.51. They were acquired by members of the Management and Supervisory Boards, with one institutional investor also being involved. In total, there was an influx of around EUR 220 million of new share capital into the Company in 2007.

As a result of the shares price development described above and taking into account the capital increases, Conergy's market capitalisation decreased by EUR 567 million (– 39 percent) to EUR 877 million by the end of 2007 (2006: EUR 1,444 million). With a market capitalisation of EUR 502 million in terms of its free float, Conergy AG was ranked 16th in the TecDAX by Deutsche Börse's share price ranking system. In terms of its trading volume, Conergy AG was ranked third. On average, 13.1 million shares were traded on a monthly basis.

Dividends

Conergy's Management Board and Supervisory Board propose to the Annual Shareholders' Meeting not to pay any dividend for the 2007 financial year.

Investor Relations in 2007

The Conergy Group conducted numerous investor meetings at their headquarters in Hamburg, while also presenting the Company to international investors at a number of road-show events. Conergy's Investor Relations team also paid regular visits to the world's foremost financial centres. Investors and analysts expressed a great deal of interest in the new facility at Frankfurt (Oder), which was presented to investors in 2007 as part of an Investor Day.

General Shareholders' Meeting

The General Shareholders' Meeting of Conergy AG was held in Hamburg on 11 June 2007; it was the second such meeting since the IPO. At the time of voting, 50.98 percent of the share capital was represented, comprising a total of 16,822,342 no-par shares. All of the agenda items presented to the General Shareholder's Meeting were approved with the required majority.

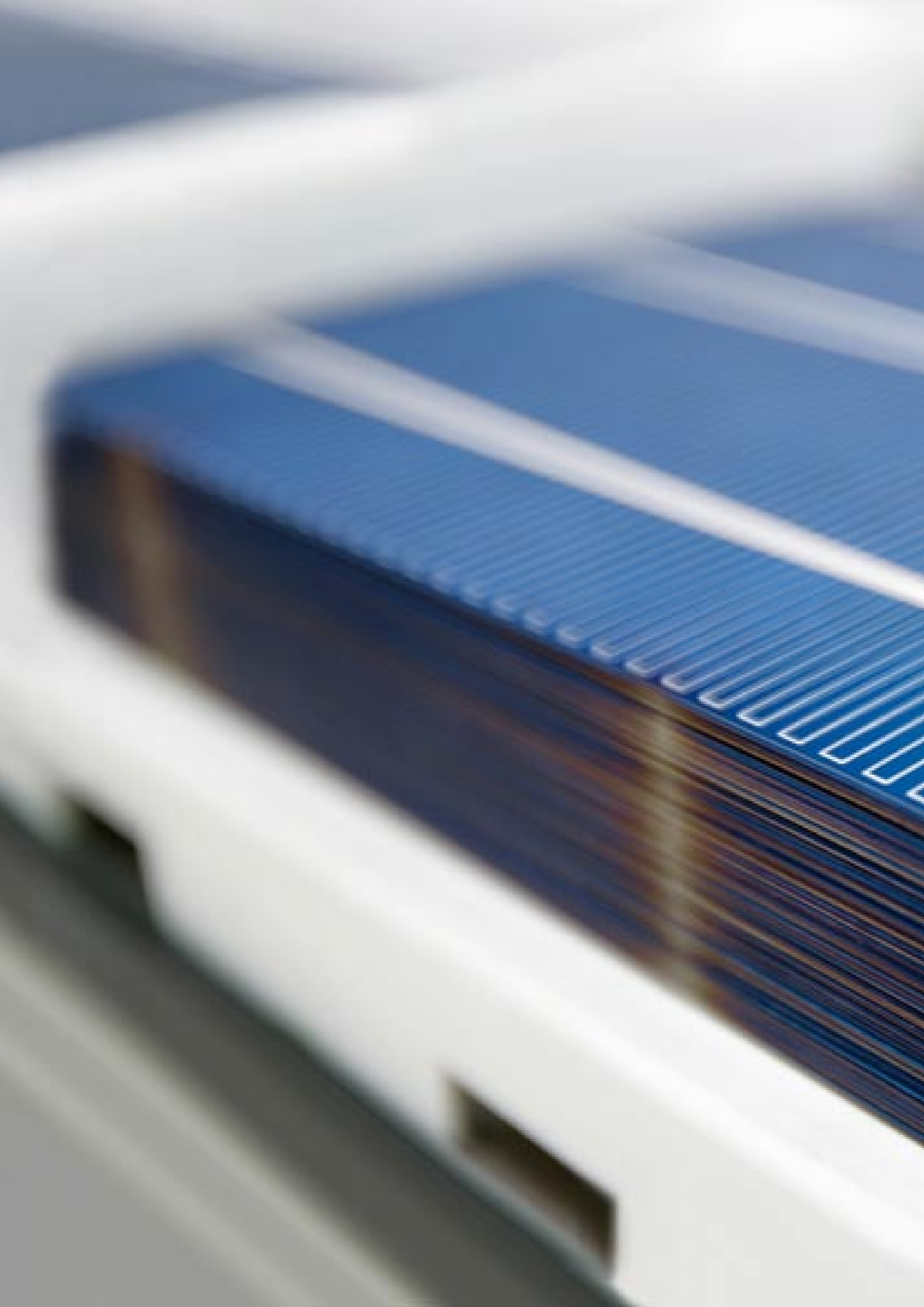
Information on the Internet

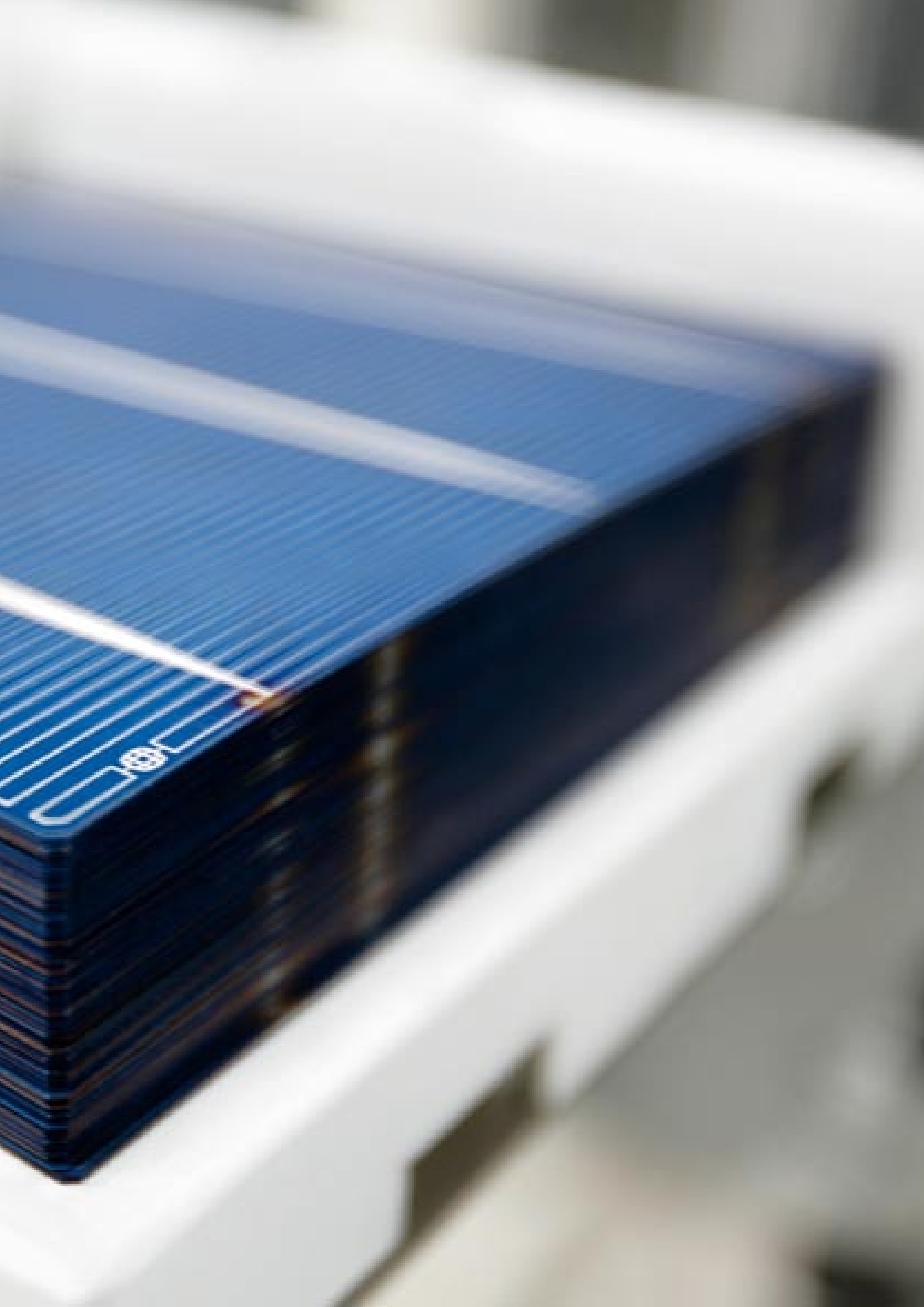
Up-to-date information about the Company can be viewed on the Investor Relations pages of the Conergy website; this material includes presentations, financial reports, press releases and ad-hoc releases. Information is also available for those interested in the Conergy share, the financial calendar, and details of the General Shareholders' Meeting.

Shareholder structure

The shareholder structure of Conergy AG as at 31 December 2007 was as follows. Of the 35,088,928 no-par shares, Hans-Martin Rüter held 13.47 percent, Grazia Equity GmbH, through 5r Private Equity KG, which is controlled by Alexander Rauschenbusch, held 10.93 percent, Dieter Ammer held 10.80 percent, and Leemaster Ltd. held 5.08 percent of the voting rights. Leemaster Ltd. retains options to acquire a further 20.89 percent of the Company's shares from the original shareholders of Conergy AG. Exercising these options would give Leemaster a stake of 25.97 percent in Conergy AG. In conclusion, no further shareholders are known to control more than 3.0 percent of the capital of Conergy AG.

The Group in overview





Conergy
Manufacturer and trading brand

Closes ties to customers worldwide
As an international manufacturer and trading brand, Conergy deals with international customers ranging from small, specialist workshops, to mid-sized installation companies and large wholesalers. Conergy's global sales operation relies on its own offices maintaining direct contact with its customers in some 20 countries across five continents. Account managers based in the office and in the field look after the special needs of each individual customer. Conergy also supplies product to its subsidiaries SunTechnics, which specialises in providing turnkey installations to end users worldwide, and EPURON, which operates in the project business. This high level of vertical integration enables the Conergy Group to offer systems that can truly be described as being "from a single source".

Our innovative sales and logistics centre improves customer satisfaction
The construction of a new sales and logistics centre in Zweibrücken in 2007 is enabling Conergy to get products to its customers faster than ever before. By concentrating all key functions in a single location, Conergy will be able to service the markets for its products more efficiently in the future. The building itself, with 25,000 square metres of storage space and a modern warehouse management system, provides all the room Conergy needs to ensure that orders are turned round quickly. Its location at the heart of Europe with easy access to several different types transport makes it an ideal hub for Conergy's European distribution operation.

A wide range of sales support activities
To improve customer satisfaction, the Group created a partner programme, which it intends to expand further in 2008. As well as organising training courses and specialist seminars, Conergy provides support for the marketing activities of its installation and wholesale distribution partners.

Conergy – the manufacturer brand
Conergy has expertise in every area of photovoltaics production, and because its production sites are all located in Germany, all Conergy products are genuinely „made in Germany“ and meet the highest possible quality standards. They also offer excellent longevity, plus ease of service and maintenance. During the past financial year, Conergy also made products under the Conergy brand name for the heat pump and solar thermal energy markets. These areas of operation will, however, be spun off as part of the Group's restructuring.

Modules
Conergy has constructed what is currently the world's most modern solar module factory in Frankfurt (Oder). A total of approximately EUR 250 million, including subsidies, has been invested in this project. When operating at full capacity, the factory can produce 250 peak megawatts of solar modules per annum. Work on the new building began in November 2006, and by the end of 2007, over 90 percent of the construction work was complete.

Electronic components
Conergy has extensive expertise in the production of electronic components for photovoltaic systems. Around 100 people are based in Hamburg and near Frankfurt (Main) carrying out research and development on state-of-the-art inverters, connection boxes, monitoring systems and tracker systems, which Conergy subcontracts to specialist OEM manufacturers.

Conergy has been supplying its new IPG series (Inverter Power on Grid – inverters for feeding solar electricity into the public grid) since 2007. This range of high-efficiency inverters with outputs from two kilowatts to several megawatts guarantees excellent yields and offers an ideal solution for every photovoltaic system – from private roof installations to giant solar parks. The quality components used in this series, together with its high-end design, are able to satisfy the most critical safety concerns of major photovoltaic projects worldwide.

Conergy is also a leading developer and manufacturer of tracking systems. The Conergy SolarOptimus is a tracking system for photovoltaic power plants, which optimally orients the two horizontal axes of the solar modules towards the incoming radiation. This results in yields that are up to 30 percent higher than those of fixed systems. The system was specifically developed for the high irradiation and high wind regions of southern Europe.

Mounting system technology
On 18 September 2007, Conergy laid the cornerstone for its new production and warehouse facility for frames and mounting systems in Rangsdorf near Berlin. This 11,000 square metres facility will now supply all the high quality aluminium frames used in the high performance modules produced at the new solar plant in Frankfurt (Oder).

This additional capacity has enabled Conergy to increase the total production of mounting systems to 150 megawatts by the end of the year. The SunTop III roof-mounting system is already one of the world's best-selling photovoltaic mounting systems.

To enable Conergy to serve markets which have very different customer needs, the company has developed an unparalleled portfolio of mounting system products. Over the next few years, 50 new jobs will be created at the Rangsdorf plant for specialists who will develop designs for roof- and wall-mounted systems, open terrain systems and framed and frameless modules.

Safe in the strongest storm – small wind power systems from Conergy
Conergy has more than 15 years of experience in designing and implementing small wind energy solutions. In 2006, Conergy developed the 6–7.5 kilowatt EasyWind 6 series of wind power systems, which has proved to be highly efficient and reliable. The passive pitch adjustment assures its storm resistance and ensures consistent energy yields in strong winds.

These systems are easy to install by hand and require a minimum of maintenance. One of the key benefits of small wind turbines is their great flexibility. Despite their small footprint, they produce high power outputs and enable independence from the public grid in off-grid operation. Not only that, but the energy they generate can be used to supply the home or the public power grid.

SunTechnics

Turnkey energy systems for the end user

SunTechnics is one of the world's leading suppliers of turnkey, self-contained renewable energy systems. The company specialises in selling to the end user. From consulting services, planning, tailored finance, efficient installation and system monitoring via the Internet – SunTechnics is a one-stop shop for solutions in photovoltaic, solar thermal, building services and biomass systems. In June 2007, this premium supplier became the world's first renewable energy company to be awarded the TÜV Rheinland's seal of quality for its service and working methods.

SunTechnics owes its success in markets with widely differing needs to the company's expert planning and installation procedures. The in-depth engineering expertise that SunTechnics has gathered during more than ten years of building thousands of systems in all parts of the world has enabled the company to configure its renewable energy systems to suit local conditions. That way, the company can be sure its solutions ideally meet the needs of each customer.

Electricity and heat from renewable energies

More and more customers are choosing photovoltaics because the technology is clean, and at the same time, financially attractive. After all, it is not only the environment that benefits when electricity is generated from sunlight. Many countries have introduced state-funded incentive programmes similar to the German Renewable Energy Sources Act (EEG), which guarantees attractive remuneration for those feeding solar power into the public electricity grid. Using a yield forecast individually prepared by SunTechnics, customers can build up a picture of the economic viability of their planned system. They can also request a specially prepared financing plan that takes full account of their particular financial position.

On top of this, in 2007 SunTechnics began offering its customers professional service support that goes beyond system design and installation in the fields of thermal solar energy, building services with heat pumps and pellet ovens, as well as in the bioenergy segment. Detailed site analyses and optimum system configuration ensure the trouble-free and profitable long-term operation of the installations.

International engineering know-how at the highest level

SunTechnics has unrivalled expertise in the installation of photovoltaic systems – particularly large solar power plants – in all parts of the world. Projects in the region of several megawatts demand a high degree of organisational and logistical skill. In 2007, SunTechnics successfully completed a large number of megawatt projects, thus consolidating its position as market leader in Spain, the second largest solar market after Germany. The German solar market continues to boom. In southern Germany alone, SunTechnics has connected several thin film plants with a total output in double-digit megawatts to the power grid. In neighbouring Switzerland, the company built the country's biggest thin film system during the past financial year as well as a number of special high-tech solutions including a solar noise barrier.

In addition to its reputation for planning and constructing photovoltaic systems, SunTechnics has gained an enviable reputation as a provider of system solutions involving complementary technologies. The company has developed a solar assisted cooling system especially for use in Spain, which it has installed in a number of locations. Solar cooling systems provide cooling during the summer and heating support at other times of the year. SunTechnics also completed several solar thermal projects in Belgium.

SunTechnics is also very well positioned outside Europe. In the USA, the company has now expanded its presence from the west coast to the east, and since 2007, has had offices in California, Pennsylvania and New Jersey. In their first year in the market, Conergy's American colleagues connected solar installations totalling more than seven megawatts to the grid, including the US army's biggest solar installation in the state of Colorado.

In the Asia-Pacific region, South Korea proved to be a particularly successful growth market. SunTechnics gained an enduring presence in this market when it was awarded the contract for Asia's largest solar power plant by Dong Yang Holding. Work began in June 2007 in SinAn, southwest of the South Korean capital of Seoul, on what is one of the world's largest solar power plants with a total peak power capacity of 19.6 megawatts. In terms of size, this tracking PV plant is unique in the whole of Asia. It therefore makes heavy demands on planning, schedule effectiveness, technical implementation and on the ecofriendliness of the installation of the steel posts and mounting systems. The first stage of 3.2 megawatts was completed in November 2007. SunTechnics connected two more large installations of over one megawatt to the grid in Korea during 2007 and has further installations at the planning stage with total capacities in double-digit megawatts.

In India, SunTechnics offers mainly hybrid solutions for electric power generation in regions where there is no connection to the power grid. SunTechnics engineers have developed energy solutions for oilrigs in the largest Indian oil and gas field, and are working on plans for five major projects in different parts of the subcontinent for the first half of the year alone. In addition, as a partner in a major project to electrify mountain villages in eastern India, SunTechnics supplied 2,000 off-grid systems to provide lighting for roads and homes.

EPURON

Investments for institutional investors

EPURON develops, finances and implements large-scale solar and wind energy projects worldwide. The company is also active in the bioenergy and solar thermal power plant sectors. EPURON acts as a one-stop shop for investors, providing reliable delivery of turnkey installations, attractively structured and individually tailored financial products and professional operational management.

With 17 subsidiaries and offices in twelve countries, EPURON has enjoyed dynamic growth that has made it a leader in the fast-growing renewable energy markets. This international presence enabled EPURON to develop solar project pipelines in Spain, Germany, Greece, South Korea, the USA and Italy during the past year. The company also secured project pipelines for wind power projects in Italy, France, Turkey and Australia. This expansion has greatly improved EPURON's opportunities for growth in these rapidly expanding markets.

The success continues

EPURON GmbH matches the requirements of customers with those of the market. The company was one of the first to recognise and meet the growing demand from institutional investors for renewable energy projects. Whilst in the previous year around half of its investors were institutional, in 2007 EPURON succeeded in placing all of its major projects with financial and strategic investors. The continued debate about climate change, together with the high accuracy of investment forecasts based on feed-in tariffs, have made renewable energy projects an attractive investment. EPURON has recognised a growing demand for solar park portfolios and wind energy projects from this customer group in particular. In fact, strategic investors, such as energy suppliers who wish to offer their customers clean power, have been entering the market in increasing numbers. The underlying political and economic conditions that have been boosting this trend in many countries mean that this growth is set to continue.

Photovoltaics and wind energy remain the key drivers of the business

The investors in EPURON energy parks benefit from the pioneering knowledge and economies of scale that have accrued from the development of 80 megawatts of photovoltaic systems during the past nine years, and especially from the 50+ large-scale solar installations carried out in the Mediterranean region.

At the end of 2007, construction of the El Calaverón solar park in Spain began. With 21 megawatts of peak power, the project in Castilla La Mancha is one of the largest of its kind in the world. It is expected to connect to the public grid in the summer of 2008. In Germany too, EPURON has carried out numerous free field solar installations, especially with thin film technology. The company built solar parks with a total of 15 megawatts peak power in Germany in the past financial year.

EPURON's wind power business was strongly international in makeup in 2007. The first two wind parks in Lusanger and Derval (both France) were connected to the public grid. An institutional investor secured Lusanger and a second French wind park by EPURON with a total output of 20 megawatts. In Australia, the EPURON subsidiary formed a joint venture with the Macquarie investment bank to develop a 1,000 megawatt wind park to be completed in New South Wales by 2014. Once Australia ratifies the Kyoto Protocol, the renewable energy market is expected to grow strongly.

Although its focus in 2007 was on expanding project pipelines in international markets, EPURON nevertheless installed a total of 26 megawatts of wind power in Germany during the year. These projects had already been sold to an institutional investor the year before.

In addition to its core photovoltaic and wind power technologies, EPURON continues to promote the development and financing of individual large-scale projects in the field of bioenergy and solar-thermal energy conversion (CSP: Concentrated Solar Power), with the building planning (engineering, procurement, construction) is supplied by strong external partners. These projects include the development of one of the most modern European bioethanol plants in Germany. EPURON also began the construction of a biogas plant in Mecklenburg-Western Pomerania in the last quarter. In the field of solar thermal energy, EPURON pushed ahead with the development of sites for 50 megawatts power plants in the most highly irradiated regions of Spain.

Assured cash flow for the operating lifetime of the installation

Customers of EPURON GmbH place great value on transparent risks and regular returns. To ensure that this requirement is met in each phase of every project, the company provides all relevant deliverables from a single source. For each of its markets, EPURON employs experienced project managers with extensive experience of local procedures such as, for example, obtaining licenses and connecting to the grid.

Technical and commercial operations management of the systems is also part of the service package that includes dependable maintenance and servicing and proven remote monitoring programmes. Investors can thus expect the systems to enjoy an effective operational capability over the long term.

A new direction for Conergy

Since its formation ten years ago, the Conergy Group has recorded strong revenue growth. Within a very short time, the Company now has evolved into an important player in the customer-focused photovoltaics sector. The Conergy brand is recognised and respected in many high-growth markets for renewable energy. Under the EPURON brand name, the Company has acquired substantial expertise in the area of project development and project financing, while the SunTechnics brand identifies Conergy as one of the leading global suppliers of customised all-in-one renewable energy solutions. Previously, Conergy diversified into additional technologies, with investments in several countries. Conergy further extended its value chain by constructing its own production facilities for photovoltaic modules and wind energy systems.

However, the chosen strategy of striving to become a full-service renewable energy company within a short period of time has proven to be too ambitious. In the second half of 2007, this strategy resulted in a liquidity shortfall and complexities that increasingly taxed the Company's management capabilities. This ultimately resulted in excessive costs, lower profitability and a significant rise in working capital. Consequently, Conergy increasingly failed to meet its own expectations and those of the financial markets. In November 2007, the Company experienced a liquidity bottleneck that was averted by a capital increase and additional credit lines, both measures being enacted by a new Management Board. The new Management Board also established an emergency programme designed to eliminate organisational, operational and liquidity-related issues, and to put the Company back on to the path of profitable growth. Conergy remains convinced that the overall market for renewable energy will continue to demonstrate a strong rate of growth in the next few years. However, Conergy's diversification into solar thermal energy, bioenergy and geothermal energy in addition to photovoltaics has not delivered the desired financial and strategic success. Consequently, the Company will focus on the photovoltaics segment in the future.

Strategy

The strategy for the future of the Conergy Group is to concentrate on its true strengths. This new strategic orientation also takes account of the latest market developments, and such that may occur in the future.

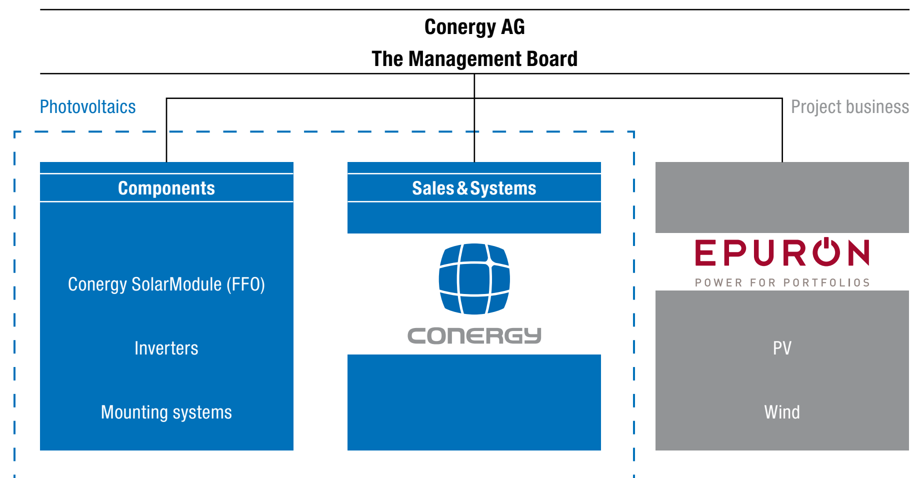
The central decision within the scope of the new strategic orientation is the focus on the core business of photovoltaics, and the retirement from non-core segments such as solar thermal energy, heat pumps and biomass. All future endeavours will thus be dedicated to the expansion of Conergy's market position and the increase in earnings as related to the photovoltaics sector and the EPURON brand. The EPURON brand will continue to develop, finance and implement major projects, chiefly in the solar energy sector (PV and CSP), but also in the area of wind power.

Restructuring

To ensure the improvement of earnings over the long term, effort will be made to reduce the complexity of the previous business model, streamline the cost structure, and improve working capital management. The Management Board has given the highest priority to these tasks, for which it has established a dedicated restructuring team that is supported by external consultants. A clear-cut restructuring programme has been put in place within a very short timeframe with the aim of restoring the Company's stability.

The programme, which began at the end of 2007, includes the following key components:

- Strategic orientation of Conergy AG as an integrated supplier in the solar energy business, combined with the disposal of non-strategic activities in the solar thermal, heat pump and biomass segments.
- Sustainable increase in margins via the establishment of new distribution policies focussing on high-growth and high-margin future markets, combined with a modified product mix (involving a greater proportion of self-manufactured PV modules and accessory products, higher-margin thin-film modules and a reduction in high-volume trading business).
- Implementation of staff and non-staff cost reductions via personnel reductions, service consolidation and appropriate cost management and cost control strategies.
- Strengthening of internal financing capacity by improving working capital management (clear allocation of responsibilities in relation to accounts receivable and their management, improvement in collection processes, renegotiation of payment periods).
- Improvements in management controls by implementing a unified, efficient IT architecture.
- Implementation of a Group structure based on the Photovoltaics division, which includes the Components and Sales & Systems units, plus the Project Business division.



(As of 1 January 2008)

The **Components** division combines the manufacturing capacities of the two former Global Technology Teams (GTTs) Electronics and Mounting Systems with the solar module facility in Frankfurt (Oder).

The **Sales & Systems** unit sees the unification of the two sales channels of SunTechnics (planning and installation) and Conergy Sales (sales to major distributors and installers).

The EPURON brand name will continue to represent the **Projects** division, with its core abilities in the development, financing and marketing of major projects.

The progress of the Company restructuring process is being closely monitored. Each sub-project has been allocated specific targets that are to be delivered on by management within the course of the project. Adherence to project planning is being monitored by a committee set up for this purpose – the Measurement-Controlling-Office (MCO) – which audits the progress of each project on a monthly basis.

With this strategy for a new corporate direction, the Company considers itself to be well-prepared to continue to take a leading role in the growing photovoltaics market.

Employees

The year 2007

The Company initially anticipated continued dynamic growth in 2007 and hired an additional 1,407 employees during the course of the 2007 financial year.

But as a result of the restructuring and reorientation measures initiated in the fourth quarter to reposition the Conergy Group as a focused provider in the solar power sector, it was decided to eliminate around 500 jobs in the Company's core business, 300 of them in Hamburg.

Conergy raised its staffing levels worldwide from 1,365 employees (full time equivalents – FTE) at the end of 2006 by 1,267 employees to 2,632 employees as at 31 December 2007. This corresponds to 2,139 employees on average in 2007 (2006: 1,081 employees). Including discontinued operations, at the end of 2007 Conergy had 2,887 employees worldwide (2006: 1,480 employees), corresponding to 2,317 employees on average (2006: 1,125 employees).

Employee development

The dedication, expertise and motivation of the employees in the Conergy Group are critical to the Group's future success. Conergy encourages its employees to share their international experiences, and it continually invests in employee training and further education.

Conergy employees have the opportunity to contribute to the achievement of the Group's strategic goals and to benefit from them as well. These strategic goals are broken down into the Group's individual business units and divisions. A portion of the employee bonus is linked to the achievement of these goals. In addition to this, individual goals are set with each employee.

During annual employee development meetings, managers discuss professional and personal development with their employees. On the basis of a Group-wide competence model, employee strengths and weaknesses are defined and measures are agreed upon to address them. Additionally, annual succession planning reviews are carried out to identify the high-potential employees who will fill key positions in the future. Management training sessions for specific target groups convey the basics of leadership in the Conergy Group.

The Conergy Group also offers its employees pension plans, occupational disability and health insurance, and benefits for surviving dependents, always ensuring that the most flexible solutions are provided.

Education

In the 2007 financial year, the Conergy Group stepped up its training activities and added new training positions for everyone from office clerks to industrial engineers. In connection with this, the Group intensified its cooperation with local universities and training institutions. Additionally, 123 interns were given the opportunity to gain an in-depth look at the Conergy Group and the renewable energy business.

Code of Conduct

In June 2007, Conergy AG introduced a Group-wide Code of Conduct. This Code is the ethical foundation of all business activities and describes the values, principles and practices of the Conergy Group. The Code of Conduct also outlines the fundamental ethical and legal obligations of the employees and boards of the Conergy Group.

Thank you

The 2007 financial year proved to be a turbulent and difficult one for the Conergy Group, prompting us to restructure and reposition our business. The Management Board would like to thank all of the employees of the Conergy Group for their dedication in this exceptional situation. The Board is convinced that with the expertise, commitment and, above all, the enthusiasm of every team, which has been the Company's trademark, we can look forward to success in the near future.

Group management report

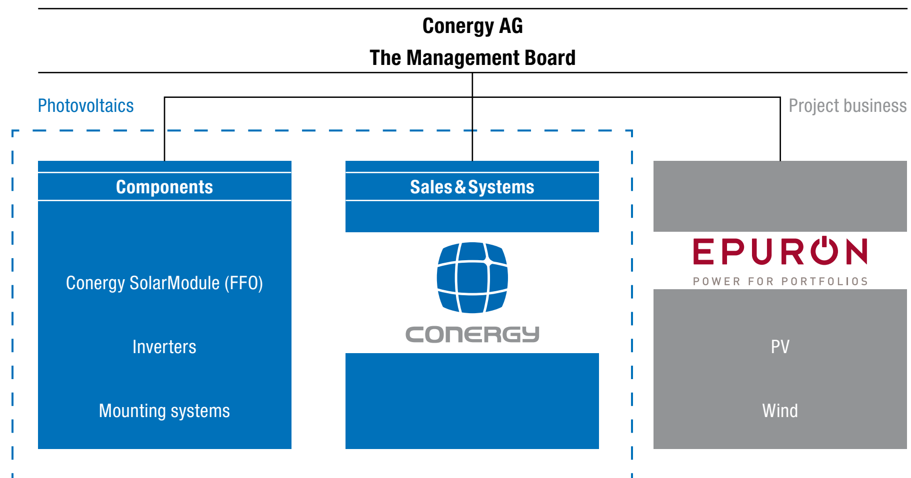
Group management report

Organisational and legal requirements

Conergy AG was founded in 1998 in Hamburg, Germany, and is domiciled in that city. All corporate departments of both Conergy and its subsidiaries are located in Hamburg. Other business premises of the Conergy Group in Germany include its Central European Warehouse in Zweibrücken (Saarland) and the solar module factory in Frankfurt (Oder), two other production sites in Rangsdorf (near Berlin) and Bad Vilbel (Hessen) as well as numerous regional sales offices. Currently, the Company has 1,471 employees in Germany alone. The Group is also active in 21 countries worldwide. In addition to Conergy AG, the parent company, the Conergy Group comprises 83 companies.

Conergy possesses highly developed know-how in photovoltaics (PV), established sales structures and customer relationships as well as independent brand worlds staffed with people who know precisely what the relevant target groups want. Our staff continuously monitors the development of demand and creates offers that are tailored to the relevant customers' needs. Conergy is also expanding its sales network in order to enhance customer proximity. The Company leverages its growing, bundled knowledge of regionally diverse customer needs with the aim of expanding its solar energy product line. It believes that this sales and customer-focused strategy puts it in a good position to develop new markets with matching products.

The Conergy Group has been in the midst of a broad restructuring process since mid-November 2007. The first step entailed combining its different core areas into autonomous units. Supported by a streamlined structure, the Company is now aligned for further growth in a dynamic market. The new structure has been effective since 1 January 2008.



(As of 1 January 2008)

The Company's activities are managed by means of the two divisions, Components and Sales & Systems that comprise the photovoltaics segment and by the Projects segment. The Components division encompasses all production, including the new solar factory in Frankfurt (Oder), and is managed by Dr. Andreas von Zitzewitz. The Sales & Systems division is managed by Philip von Schmeling (the company's CEO) and brings together the previously separate activities of both Conergy AG and SunTechnics. In his capacity as the CEO, Nikolaus Krane manages the Projects segment, which entails the development and financing of EPURON's major projects.

Companies included in the consolidated financial statements

Aside from Conergy AG, a total of 29 domestic and 54 foreign subsidiaries – the majority of whose voting shares are held by Conergy – were included in the consolidated financial statements of Conergy AG at the end of the reporting period (31 December 2007). A total of 22 companies were consolidated for the first time. Six companies were acquired and 16 were founded in the 2007 financial year, expanding the Conergy Group's portfolio of previously established companies. Seven companies were deconsolidated.

Internal control system and key performance indicators

The Management Board of the Conergy Group has established an internal management control system that includes groupwide planning, managing and reporting processes in order to ensure the development of the Company's business. Actual and target forecasts are a material part of the relevant information systems. The forecasts cover a period of three years and are revised annually as part of a comprehensive planning process. The groupwide reporting system requires all subsidiaries to prepare monthly IFRS financial statements that are consolidated for the purposes of both management reporting and the Company's published quarterly and annual financial statements. Likewise, the subsidiaries provide their own assessments of current business trends and the expected profit for the year at regular intervals. The extent of the Company's gains in market share, both nationally and internationally, as a result of its growth strategy as well as revenue and gross profit are the key performance indicators for determining its corporate success. But Conergy has also used the gross profit margin, which shows gross profit relative to revenue, in addition to gross profit to measure performance. Earnings before interest, taxes, depreciation and amortisation (EBITDA) and earnings before interest and taxes (EBIT) are two other critical performance indicators. Conergy AG uses EBIT and EBITDA to measure the success of its individual business units as well as the EBITDA and EBIT margins that show both EBITDA and EBIT compared to revenue. These relative performance indicators make it possible to compare the profitability of profit-oriented divisions of various sizes.

Nonetheless, the Conergy Group's dynamic growth and the evolving complexity of its business model sparked a temporary earnings and liquidity crisis in the second half of the 2007 financial year. The Management Board initiated new instruments of control in addition to its restructuring concept in order to increase transparency and thus effectively counter such developments in future.

Key performance indicators

		2007	2006[1]
Revenue	EUR million	**706**	**682**
Germany		324	434
Abroad		382	248
Gross profit	EUR million	**94**	**108**
Gross profit margin	in percent	**13**	**16**
EBITDA	EUR million	**–168**	**7**
EBITDA margin	in percent	**–24**	**1**
EBIT	EUR million	**–210**	**2**
EBIT margin	in percent	**–30**	**0**

[1] Previous year's figures adjusted; see notes

Global economic conditions

Further growth of the global economy in 2007
The global economy grew yet again in 2007 even though the momentum of the economic upswing slowed substantially against the backdrop of the US real estate crisis. As a result, in January 2008 the International Monetary Fund (IMF) lowered its growth forecast for world GDP growth in 2007 from previously 5.2 percent to 4.9 percent. Countries and companies alike were faced with some large financial burdens in 2007 arising from substantial price increases on international energy, commodities and agricultural markets. By year's end, the price of oil per barrel had risen by more than 50 percent year on year, reaching a new record high of more than USD 95. Between August 2007 and the end of January 2008, the US Federal Reserve cut the prime rate in five steps from 5.25 percent to 3.00 percent in order to cushion the repercussions of the credit crisis spawned by the subprime mortgage crisis. But the crisis also affected foreign exchange rates due to the weakness of the US dollar, which fell from USD 1.32 per euro at the end of 2006 to USD 1.47 per euro at the end of 2007.

While the economies of traditional industrial nations posted relatively moderate growth in the reporting year, the emerging economies in Asia maintained the strong economic momentum of previous years. According to the Organisation for Economic Cooperation and Development (OECD), the euro zone grew at a rate of 2.6 percent. The IMF expects 2.2 percent GDP growth in the United States for the 2007 financial year while the Japanese economy is thought to have grown by 1.9 percent.

Development of the industry

In terms of growth, the renewables market continued to outperform the global economy in 2007. According to estimates of the European Photovoltaic Industry Association (EPIA), worldwide solar electricity systems with a total output of about 2.3 gigawatts were newly installed in the year just ended. This translates into a year-on-year increase of 40 percent. The solar industry has thus attained a revenue volume of EUR 13 billion. As before, Germany remains the largest individual market for solar energy installations: Roughly one half of all new solar units worldwide were installed in Germany in the year just ended. Approximately 1,100 megawatt-peak (MWp) in solar energy output that were added in 2007 brought the number of solar electricity systems that are connected to the grid to the highest level ever. The market grew by 30 percent overall. But other markets also succeeded in intensifying their growth momentum. Solar energy systems with a total output of 9 gigawatts are in operation worldwide. The energy these systems produce corresponds to the consumption of three million average households in Europe. Annual production capacities worldwide for solar cells rose from 2.5 gigawatts by 16 percent to 2.9 gigawatts during the same period.

In turn, growing worldwide demand is providing an ever stronger base for the German photovoltaics industry. In 2007, its exports were valued at EUR 2 billion (2006: EUR 1.5 billion). The opening of markets in large areas of Southern Europe and North America helped to push the export rate by about 4 percentage points to 38 percent or roughly EUR 2 billion. At 65 percent, Germany accounts for a substantial portion of the value-added ratio, in turn buttressing the domestic industry and enabling it to profit at above average rates from strong growth prospects. The Bundesverband Solarwirtschaft (BSW-Solar), Germany's major solar industry association, expects the market to continue to grow in the double-digit range in 2008 as well.

With market growth to more than 300 megawatts, Spain posted the largest increase. This means that 85 percent of the Spanish government's targeted output of 371 megawatts installed was already reached in August 2007. All new customers have been given the assurance that the currently applicable fee for feeding electricity into the grid will remain in place for a transition period of twelve months as long as their installations are connected to the public grid by the end of September 2008. While the government is already discussing a follow-up law that is likely to take effect from October 2008, details regarding its design remain open at this time.

At about 80 percent, the United States (the world's third-largest solar electricity market) posted the second-largest growth rate. It is up to each individual state in the US to promote the use of regenerative energy. To date, a total of 31 US states have promulgated laws aimed at expanding these cutting-edge technologies. Installed solar energy output overall rose to about 260 megawatts, the greater part of it in California. Rising prices for conventional energy are one factor fuelling this growth. In some US states, electricity from photovoltaics already is more economical at peak times than electricity from conventional sources.

The wind energy industry also posted record growth in the year just ended. The Global Wind Energy Council (GWEC) reports that wind turbines with a total output of about 20 gigawatts (20,000 megawatts) were installed worldwide in 2007. This corresponds to growth of 30 percent, while the installed output worldwide rose by 27 percent. The largest increase occurred in the US where capacity was expanded by 5.2 gigawatts – an investment volume of EUR 6 billion. Overall, the US wind market grew by about 45 percent. With 3.5 gigawatts, Spain ranks second in the world, closely followed by China where systems with a total output of 3.4 gigawatts were installed.

Yet Europe – where capacities rose by 8.7 gigawatts in 2007 to 57 gigawatts or 61 percent of the world's overall installed wind energy output – remains the largest market for wind installations.

While Asian markets for wind power projects are generally smaller than the European ones, their growth momentum is much stronger. In 2007, already more than one fourth of all wind systems were installed in the Far East and in South Asia. In the People's Republic of China alone, capacities were expanded by 156 percent, after growth of 134 percent a year earlier. Wind units with an overall output of 6 gigawatts are now operational in China, while a total of 8 gigawatts are operational in India, given that another 1.8 gigawatts were installed in the year just ended.

A positive environment overall is enabling this strong growth in regenerative energies. Continued economic growth and the resulting increase in worldwide energy requirements drove the price of crude oil to new highs in 2007. At the end of the year, one barrel of crude oil cost more than USD 95, remaining just under the critical 100 US dollar mark. Oil prices have thus risen more than six-fold since 1996.

Oil price development (in US dollar)

The cost of renewables dropped by one fourth on average during the same period, in turn further narrowing the price gap between renewable and conventional energies. Experts believe that rising demand is fuelling this price development. While daily worldwide demand for crude oil in the past year was still 85.3 million barrels a day, it is expected to rise to 86.8 million barrels worldwide in 2008. This would translate into an increase of 1.7 percent.

Besides the development in oil prices, however, a growing number of climate protection programmes is also having a positive effect on the demand for renewables.

Many countries have committed to highly concrete climate protection targets. This arises from the growing awareness, first, that climate change is largely due to greenhouse gases that are generated in the process of producing conventional energy and, second, that the global economy could suffer considerable economic damage in consequence of this change.

Currently, renewables are already being promoted in close to 30 countries – including 21 EU member states, a growing number of US states and Asian countries such as South Korea – by means of fixed fees for feeding energy into the grid. Some governments have also initiated other types of market incentive programmes. Yet other countries are debating the introduction or expansion of programmes aimed at fostering regenerative energies. 31 US states (24 of which have adopted Renewable Portfolio Standards, California being the most important of these) and three Canadian provinces (Manitoba, Quebec and Ontario) have established ambitious targets for expanding the utilisation of renewables.

At the UN Climate Conference in Bali, Indonesia – at the start of which Australia ratified the Kyoto Protocol, one of the last industrial nations to do so – more than 180 countries agreed to a follow-up to Kyoto.

The European Union has also promulgated binding climate protection targets for all of its member states. The percentage of renewables in total energy consumption is to grow to 20 percent by 2020. Germany's Grand Coalition has decided to continue to play a leading role in this process. Indeed, the German government decided in its energy and climate package to raise the share of regenerative energy in total power supplies to between 25 and 30 percent by 2020. The initial minimum target had been 20 percent. The share of regenerative energy in total power supplies is to rise continually after 2020.

According to the Federal Ministry for the Environment (BMU), renewables accounted for about 14.3 percent of all electricity produced in the year just ended, up from 11.5 percent in 2006. This represents an increase of 24 percent. The BMU stated that Germany has thus already surpassed by a substantial margin its aim of raising the share of renewable energy in the consumption of electricity to at least 12.5 percent by 2010. Renewables accounted for 8.4 percent of total energy consumption, up from 7.8 percent a year ago. Overall, this means that the use of renewables in 2007 prevented more than 110 million tons of carbon dioxide (2006: about 100 million tons) and external costs of EUR 8.6 billion for environmental damage. At the same time, regenerative energies are also becoming increasingly significant to the economy as a whole. The dependence of the German power supply on imports continued to decline as a result. Imports of oil, gas, coal and uranium valued at EUR 5.9 billion were prevented by the utilisation of natural sources of energy.

Earnings, net assets and financial position

Earnings

Income statement of the Conergy Group (short version)

EUR million	2007	2006[1]
Revenue	706	682
Gross profit	**94**	**108**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**–168**	**7**
Earnings before interest and taxes (EBIT)	**–210**	**2**
Net finance income	**–22**	**–6**
Earnings before taxes (EBT)	**–232**	**–4**
Income taxes	22	4
Result after taxes from continued operations	**–210**	**0**
Result after taxes from discontinued operations	–38	–1
Result after taxes	**–248**	**–1**
Thereof attributable		
to the shareholders of Conergy AG	–247	–1
to minority shareholders	–1	0

[1] Previous year's figures adjusted; see notes

Revenue

Taking into account the restatements presented in the notes to the consolidated financial statements, the Conergy Group posted revenue of EUR 706 million in 2007, up from EUR 682 million in 2006. This corresponds to revenue growth of 4 percent. Photovoltaics accounted for close to 90 percent of this growth. Restatements made in 2007 concern the accounting method for ongoing major projects, which will push revenue into subsequent reporting periods as well as the derecognition of discontinued operations in connection with the realignment of Conergy AG. The changes in both the accounting method and the recognition were applied retroactively to the previous year. Discontinued operations include the biomass and the solar thermal business (including heat pumps) that are slated for disposal. In fact, the Company has already disposed of its thermal activities in Belgium, the Netherlands and Austria in February 2008.

Aside from price effects, our inability to procure required amounts of modules, particularly in the critical fourth quarter, also caused consolidated revenue to rise only moderately by 4 percent year on year. In contrast, the share of foreign revenue in the Conergy Group's total revenue continued to grow in the 2007 financial year, rising to 54 percent in 2007 from 37 percent in 2006. The above-average growth of the PV project business in Spain, where we achieved 22 percent of our foreign revenue, accounted in large part for this increase. Hence Conergy has been able to further enhance the share of its foreign revenue year on year.

In the **EPURON segment**, revenue fell by 28 percent to EUR 150 million, from EUR 208 million a year ago. This strong decline was due, in particular, to the fact that projects were shifted to subsequent reporting periods. Just as SunTechnics, in 2007 EPURON achieved far more than one half of its revenue abroad, 40 percent of it in Spain alone.

The **Conergy segment** succeeded in lifting its revenue by 17 percent year on year, from EUR 275 million in 2006 to EUR 321 million in 2007. Of this amount, 58 percent were achieved in Germany, the Company's most important market, thanks to both the expansion of the wholesale business in Germany and exports to Spain.

Revenue in the **SunTechnics segment** rose from EUR 199 million in 2006 by 18 percent (EUR 36 million) to EUR 235 million in 2007. This merely moderate improvement stems from a delay in the completion of projects in the last months of the reporting period. At the same time, SunTechnics achieved more than 64 percent of its revenue abroad – mainly in Spain but also outside of Europe.

Gross profit

In 2007, the gross profit of the Conergy Group declined by 13 percent to EUR 94 million, down from EUR 108 million a year earlier. The gross profit margin fell simultaneously by 3 percent to 13 percent. Among other things, this development was due to price declines in the German market for PV systems as well as to the shifting of high-margin projects from 2007 to subsequent reporting periods. This was compounded by the temporary liquidity bottleneck because it entailed focusing on large-volume, low-margin sales.

Staff costs

Conergy raised its staffing levels worldwide from 1,365 employees (full time equivalents – FTE) at the end of 2006 by 1,267 employees to 2,632 employees as at 31 December 2007. This corresponds to 2,139 employees on average in 2007 (2006: 1,081 employees). Including discontinued operations, at the end of 2007 Conergy had 2,887 employees worldwide (2006: 1,480 employees), corresponding to 2,317 employees on average (2006: 1,125 employees).

The number of employees worldwide in the Conergy segment almost doubled from 831 employees as at 31 December 2006 to 1,648 employees. This means that two-thirds of the personnel growth took place in this segment. The number of employees in the SunTechnics segment rose from 449 at the end of 2006 to 799 at the end of 2007. And the EPURON segment had 185 employees as at 31 December 2007, compared to 85 employees at the close of the 2006 financial year.

These increases in personnel are essentially linked to the Group's ongoing internationalisation strategy and the revenue growth that is expected for 2008 and 2009. Staff costs thus doubled in 2007 to EUR 110 million, up from EUR 55 million the previous year. However, because our expectations regarding targeted growth potentials were fulfilled only in part in 2007, the personnel structure will be adjusted accordingly in 2008 pursuant to the Conergy 2.0 restructuring concept.

Earnings before interest and taxes (EBIT)

We posted negative EBIT of EUR –210 million in 2007, compared to positive EBIT of EUR 2 million in 2006. An acute earnings crisis arose during the 2007 financial year against the backdrop of the Conergy Group's dynamic growth and the evolving complexity of its business model. The crisis was fuelled, in particular, by our focus on large-volume, yet low-margin sales in the field of photovoltaics and the simultaneous disproportionate increase in both staff and non-staff costs. Deficits in cost management as well as high expenses related to the start-up of the solar factory in Frankfurt (Oder) contributed to this development.

But substantial one-off effects also had an impact on operating income. Other operating costs of EUR 182 million (2006: EUR 63 million) were decisive to this negative development. All in all, negative currency translation effects reduced operating income by EUR 21 million. EUR 12 million (2006: EUR 1 million) in write-downs on inventories also contributed to this development. Furthermore, allowances of EUR 28 million (2006: EUR 1 million) on receivables as well as higher costs of EUR 15 million (2006: EUR 3 million) from possible claims under warranties impacted operating income. One-off effects arising from the strategic realignment of Conergy AG also had an impact on earnings. This includes the year-on-year increase in legal and consulting fees by EUR 13 million to EUR 22 million.

Aside from the start-up costs for the production of solar cells and modules in Frankfurt (Oder) in the amount of EUR 19 million, depreciation, amortisation and impairment losses of EUR 43 million (2006: EUR 5 million) affected operating income as well. A substantial portion of the depreciation, amortisation and impairment losses stems from impairment losses on purchased goodwill, capitalised development costs as well as property, plant and equipment.

Restatements pursuant to IAS 8.42 were made for both Conergy AG and its subsidiaries in the 2007 financial year. The restatements concern a land transaction which has to be viewed in connection with a sale-and-lease-back leasing transaction. The restatements also concern the accounting in connection with IFRS 3 (Business Combinations) and hedge accounting in accordance with IAS 39. The previous year's figures were adjusted accordingly. The details of these changes are given in the notes to these consolidated financial statements.

Earnings before taxes

Taking into account net finance losses of EUR 22 million (2006: loss of EUR 6 million), earnings before taxes were negative at EUR –232 million (2006: EUR –4 million). Finance income of EUR 11 million was offset by finance costs of EUR 33 million. These costs essentially resulted from rising interest payments on borrowings due to the high prefinancing rate at which we underwrote the Company's rapid growth; large investments in property, plant and equipment; and the prefinancing of major projects.

Result after taxes
After taking into account EUR 22 million in income taxes, which largely encompass deferred tax assets, the result after taxes from continued operations is EUR –210 million (2006: TEUR –48). The low tax rate of 9 percent essentially results from non-cash items such as the allowance on deferred tax assets on loss carryforwards as well as non-taxable costs that must be viewed in the light of the impairment of goodwill in 2007. Discontinued operations are shown as result after taxes. They reduced the result after taxes by EUR 38 million (2006: EUR 1 million). Including the results from discontinued operations, the overall result after taxes fell to EUR –248 million (2006: EUR –1 million).

Net assets

Consolidated balance sheet (short version)

EUR million	31.12.2007	31.12.2006[1]
Non-current assets	**310**	**150**
Current assets	**700**	**547**
Assets held for sale	26	–
Total current assets	**726**	**547**
Total assets	**1,036**	**698**
Total equity	**125**	**151**
Non-current borrowings	**168**	**44**
Current borrowings	**724**	**503**
Liabilities from assets held for sale	19	–
Total current borrowings	**743**	**503**
Total equity	**1,036**	**698**

[1] Previous year's figures adjusted; see notes

Structure of the balance sheet
Total assets of the Conergy Group climbed in 2007 by 48 percent or EUR 338 million to EUR 1,036 million, up from EUR 698 million in the 2006 financial year.

Non-current assets related to continued operations rose from EUR 150 million in 2006 by EUR 160 million (107 percent) to EUR 310 million. This increase stems, in particular, from the increase in property, plant and equipment by EUR 148 million to EUR 211 million (2006: EUR 63 million) as a result of the investments in the construction of the solar cell and module factory in Frankfurt (Oder).

Current assets climbed year on year by EUR 153 million or 28 percent to EUR 700 million (2006: EUR 547 million). The increase in current assets stemmed from the increase in inventories by EUR 207 million or 153 percent to EUR 342 million (2006: EUR 135 million). Inventories expanded, on the one hand, due to the rising need for raw materials and consumables at the Frankfurt (Oder) solar factory and, on the other hand, due to the increase in finished goods and products, especially solar modules, because projects were shifted from the fourth quarter of 2007 to the 2008 financial year. The reduction in trade receivables by EUR 115 million or 35 percent to EUR 213 million (2006: EUR 328 million) had a positive effect on the development of current assets. At the same time, cash and cash equivalents rose by EUR 36 million to EUR 62 million (2006: EUR 26 million).

Activities in the biomass and solar thermal business units are shown under discontinued operations. In contrast to the financial statements as at 31 December 2006, discontinued operations are no longer shown in individual balance sheet items but rather as a single item under „assets held for sale“ and recognised in the corresponding liabilities and equity item of the balance sheet.

Equity fell by EUR 26 million or 17 percent to EUR 125 million (2006: EUR 151 million) while capital reserves rose by EUR 212 million to EUR 307 million (2006: EUR 95 million). This involves the proceeds from the capital increases executed in the 2007 financial year. On 8 March 2007, 2,999,999 shares with an issuing volume of roughly EUR 150 million were floated in this connection. The additional EUR 70 million were generated through a capital increase that was resolved by both the Management Board and the Supervisory Board on 6 November 2007 and subscribed by members of the Management and Supervisory Boards and/or their relatives as well as by Leemaster Ltd., subject to the exclusion of shareholders' subscription right. Other reserves dropped by EUR 243 million to EUR –218 million (2006: EUR 25 million). The reduction in earnings in 2007 had a significant impact on equity.

Borrowings rose from EUR 547 million in 2006 by EUR 364 million to EUR 911 million in 2007. Non-current liabilities climbed by EUR 124 million to EUR 168 million (up from EUR 44 million in 2006) especially due to the financing of property, plant and equipment for the solar factory in Frankfurt (Oder). Current liabilities were EUR 724 million as at 31 December 2007 (2006: EUR 503 million), a year-on-year increase of EUR 221 million or 44 percent. This increase stems, in particular, from the increase of EUR 93 million or 49 percent to EUR 282 million in trade payables, up from EUR 189 million as at 31 December 2006.

While total liabilities and equity soared by 48 percent in the 2007 financial year, equity fell by 17 percent to EUR 125 million (2006: EUR 151 million). At the same time, the Group's equity ratio dropped to 12 percent from 22 percent in 2006. We plan to improve our capitalisation through a capital increase in 2008, which is expected to lift the equity ratio to substantially more than 20 percent.

Financial position

Consolidated cash flow statement (short version)

EUR million	2007	2006[1]
Result from operating activities before changes in net working capital	**–103**	**5**
Cash generated from operating activities		
Continued operations	**–168**	**–229**
Discontinued operations	**–21**	**–9**
Cash generated from operating activities (total)	**–189**	**–238**
Net cash generated from investing activities	**–195**	**–101**
Net cash generated from financing activities	**422**	**237**
Change in cash from operating activities (total)	**38**	**–102**
Cash and cash equivalents at beginning of period	26	127
Exchange rate changes	0	0
Cash and cash equivalents at end of period	**64**	**26**

[1] Previous year's figures adjusted; see notes

At EUR –103 million, operating income from continued operations was considerably lower than in the previous year (2006: EUR 5 million). The large outflow of funds is due primarily to the development of our business in 2007 and the large decline in operating income. Cash used for operating activities related to continued operations was EUR 168 million in 2007, compared to EUR 229 million in 2006. This development stems, in particular, from the cash increase in inventories by EUR 219 million (2006: EUR 74 million). At the same time, trade payables climbed by EUR 93 million to EUR 282 million (2006: EUR 189 million). Conergy succeeded in reducing trade receivables through received payments to EUR 86 million such that working capital was at the previous year's level. The cash flow used for operating activities related to discontinued operations (solar thermal and biomass) was EUR 21 million. The cash flow of EUR 189 million used for operating activities fell by EUR 49 million year on year.

Funds of EUR 195 million (2006: EUR 100 million) were used in connection with the Conergy Group's investing activities in 2007. This outflow of funds essentially resulted from the investments of EUR 150 million in the Frankfurt (Oder) solar factory. A total of EUR 10 million in cash and cash equivalents were expended in 2007 for acquiring subsidiaries.

In the year just ended, the Conergy Group received proceeds of EUR 422 million (2006: EUR 237 million) from financing activities. This inflow of funds resulted largely from the acquisition of EUR 220 million in equity (2006: EUR 11 million) as well as from borrowings of EUR 508 million (2006: EUR 236 million) under the syndicated credit facility. Payments of EUR 270 million were made in 2007 to discharge borrowings. Net borrowings thus were EUR 238 million.

Cash and cash equivalents and net liabilities

The Conergy Group had cash and cash equivalents of EUR 62 million as at 31 December 2007. Of this amount, EUR 1 million were deposited in special accounts. As of 31 December 2007, borrowings were EUR 469 million.

Net liabilities

EUR million	2007	2006[1]
Non-current borrowings	**120**	**1**
Current borrowings	**349**	**241**
Borrowings	**469**	**242**
Cash and cash equivalents	62	26
Net liabilities related to continued operations	**407**	**216**

[1] Previous year's figures adjusted; see notes

In a deviation from the presentation in the consolidated balance sheet, the cash holdings shown in the cash flow statement as at 31 December 2007 contain EUR 2 million in cash and cash equivalents attributable to discontinued operations.

To ensure sufficient liquidity, on 31 July 2007 Conergy negotiated a revolving credit facility and a EUR 600 million syndicated loan with fixed terms of, respectively, 3 and 4.7 years. The Group's financing needs are also being covered by recourse to a variety of financial market instruments (including overnight money and term deposits) as well as bilateral loans. The interest rate adjustment dates are essentially based on the 1, 2, 3 and 6-month Euribor plus a margin that is tied to a debt/equity ratio. The syndicated credit facility consists of a term loan of EUR 150 million, guarantee and documentary credit facilities of up to EUR 200 million each and a revolving facility of EUR 250 million. Bilateral loans were refinanced in full on 3 August 2007. Currently, all financial liabilities under the syndicated loan dated 31 July 2007 are subject to variable interest rates.

Six fixed-rate swaps were entered into for variable interest rate loans to hedge rising interest rates. Five fixed-rate swaps (at EUR 30 million), including redemption for securing the Term Loan and one fixed-rate swap for EUR 100 million were entered into for purposes of hedging the interest rate risk from the revolving facility. No interest rate risk arises because changes in the value of both the loans and the hedging transaction due to interest rates offset each other almost entirely during the period presented in the income statement.

A temporary liquidity crisis arose during the 2007 financial year against the previously described backdrop of the Conergy Group's dynamic growth and the evolving complexity of its business model. This crisis was driven essentially by the Company's primary focus on revenue growth, insufficient cost and working capital management, and excessive prefinancing of the Company's growth. Taken together, these factors resulted in a situation that threatened the Conergy Group's continued existence in November 2007.

Groupwide financial planning tools are intended to ensure early detection of the Company's complex liquidity situation resulting from the execution of corporate processes related to strategy and planning. Based on the insights gained with respect to the liquidity situation from groupwide financial planning tools, we now utilise liquidity planning that covers a period of 13 weeks and is rolled over from week to week as well as monthly planning that covers twelve months and is regularly updated and adjusted. These planning systems include all consolidated companies. Enhanced controlling tools and IT systems will be used to support the planning process.

The EUR 600 million syndicated loan requires compliance with specific liquidity and capital structure ratios (Financial Covenants). Non-compliance with these Financial Covenants gives the lenders the right to terminate the loan for cause. As of the end of September 2007, Conergy failed to abide by the Financial Covenants stipulated in the syndicated loan. In talks with the banks, the banks waived the assertion of rights arising from breach of the Covenants as of 30 September 2007 and 31 December 2007. Given the development of Conergy's earnings and liquidity, prestigious banks granted the Company additional liquidity of EUR 240 million at the beginning of February 2008 by means of further interim financing. The Financial Covenants for the syndicated loan were suspended for the 2008 financial year. The parties intend to agree new covenants for the years after 2008 in due time. If no agreement is reached in due time, the originally stipulated Financial Covenants will become effective again as of 1 January 2009. However, they will be modified by a 20 percent leeway with regard to the business plan laid down in the restructuring and realignment report of Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, dated 14 February 2008. The EUR 30 million credit line that had been made available in November 2007 until the end of February 2008 was not used and is now included in the EUR 240 million interim financing.

Other

Non-financial performance indicators

The Conergy Group's success in future will be rooted in the non-financial performance indicators described below:

Employee qualifications
The employees of the Conergy Group are a decisive component of its capital. Indeed, the degree to which they identify with the Company as well as their competence and their commitment to the Company and its aims make decisive contributions to its success. We identify each individual's professional and personal development in the context of the annual employee development review and dialogue and foster it through measures both on and off the job. This helps the Conergy Group to secure qualified personnel for key positions.

Market presence in growth markets
Detailed knowledge of the international core photovoltaics markets is an important element in Conergy's future success. Conergy's on-site customer relations in more than 20 countries serve both to deepen its knowledge of these markets and offer solutions that are tailored to individual customers' needs. It is precisely this capacity that has enabled Conergy to evolve into a worldwide systems integrator whose strong brands give the Company its position in important growth markets.

Technology neutrality
Conergy maintains long-term business relationships with key module suppliers, in addition to producing modules itself at its Frankfurt (Oder) plant. The aim is to ensure that the Company can make both different PV technologies and the state of the art – particularly in module technology – available to its customers worldwide. All of this enables Conergy as a systems integrator to always offer the best solution for locally highly divergent requirements.

Engineering expertise
The engineers working for the Conergy Group have gathered unique experience from the construction of thousands of solar energy installations worldwide in the past ten years. From planning and building small off-grid facilities for the electrification of remote regions, to special architectural solutions, all the way to multi-megawatt PV farms: Conergy's staff always identifies the best solution for energy needs that vary widely by region. A broad installation and services network ensures optimal operation of the installations over their entire useful life, thus maximising the production of energy for our customers.

Research and development

The employees of the “Conergy Components” division regularly develop new solutions designed to enable increasingly efficient uses of solar energy. Modules, inverters and mounting systems are manufactured and continuously improved at three sites in Germany; the production of some inverters is outsourced. This makes Conergy AG the only company worldwide to combine the production of these three key components of a solar energy system under one roof in order to ensure the products’ optimal fit. Our central aim is to develop innovative solutions that enable ever more efficient uses of regenerative energy and translate them into suitable products. To that end, our experienced employees collaborate closely with each other in the development and construction of solar energy systems. Furthermore, the valuable experience our own plant management company has gained in operating solar electricity systems of varying sizes at varying locations worldwide flows back to the Company, in turn engendering yet more improvements. This unique combination of production, solar facility construction, plant management and product development makes it possible to always offer our customers the best solutions for the use of solar energy worldwide.

Inverters

In the financial year just ended, additional innovations were implemented with respect to central inverters, thus further improving the performance of these key components. Improved individual components have helped to increase the efficiency of inverters for major projects by 1.5 percent. An efficiency rating of 96.2 percent now makes it possible to convert even more electricity from solar energy systems into alternating current that meets grid requirements. In turn, this enhances the profitability of major plants and reduces their amortisation period. We also succeeded in developing a new MPP tracking system for all inverter types that further improves efficiency and thus the electricity yield.

Conergy’s IPG series inverters also underwent and passed a demanding field test. In a testing programme conducted jointly with the world’s leading manufacturer of thin film modules, an independent research institute tested the compatibility of transformerless inverter topology for purposes of its application in thin layer modules over a period of two years using a variety of testing procedures. Subsequently, First Solar developed inverter topology that does not require transformers using the Conergy IPG series for application in connection with its thin film modules.

Solar modules

Our solar module factory has been operational since the summer of 2007. We paid particular attention to both efficiency and durability in the development of our “Conergy PowerPlus” solar module. The innovative three busbar technology has allowed us to further enhance the efficiency of the modules compared to cells that utilise two busbars while particularly robust materials have helped to make them extremely durable. Our modules are thus suitable for demanding environments. Conergy uses its own systems for analysing its wafer, cell and module production on the basis of both standardised and additional new testing procedures in order to guarantee high quality and continuously improve the processes. The ongoing development of cell efficiency is executed in collaboration with various prestigious research institutes in the field of solar energy, such as ECN.

Wind
Starting in 2008, Conergy AG will launch serial production of wind units once the manufacturing plant in Bremerhaven, Germany, has been completed. A new wind unit with an output of 900 kilowatts was developed and successfully tested at different European locations to this end. Conergy PowerWind 56 is a state-of-the-art wind turbine that is optimally tailored to the requirements of emerging wind markets. The unit can be operated in difficult climatic conditions and at temperatures ranging from minus 20 to plus 45 degrees centigrade thanks to the trailblazing cooling design that comprises three independent cooling circuits but its greatest selling point is its ingenious approach to logistics. This is because the uncovered nacelle fits into customary freight containers and can thus be shipped as a complete unit and subsequently transported by lorry to sites that are difficult to access or not at all when using larger wind turbines.

Disclosures related to acquisitions

The following disclosures are made pursuant to Section 315 para. 4 German Commercial Code:

There are direct shareholdings in the Company's capital that exceed 10 percent of its voting shares. Hans-Martin Rüter notified us on 7 November 2007 in accordance with statutory requirements that, as at said date, he was holding 13.47 percent of the voting shares in Conergy AG. Dieter Ammer notified us on 7 November 2007 in accordance with statutory requirements that, as at said date, he was holding 10.80 percent of the voting shares in Conergy AG. Grazia Equity GmbH notified us on 7 November 2007 in accordance with statutory requirements that, as at said date, it was holding 13.53 percent of the voting shares in Conergy AG. On 25 November 2007, Leemaster Ltd.[1] notified the Company that it was now holding 5.08 percent of the voting shares in Conergy AG.

The Company's share capital was increased by a total of EUR 5,088,928 through two capital increases in March and November 2007. Currently, its share capital is EUR 35,088,928, denominated in 35,088,928 no-par bearer shares with a pro-rata interest in capital of EUR 1.00 per share. Each share grants identical rights and one vote at the Annual Shareholders' Meeting. New shares are issued as bearer shares unless the Annual Shareholders' Meeting resolves otherwise.

Under Article 6 para. 1 of Conergy's Articles of Association, the Management Board must comprise at least two members. Both the appointment and the removal of Management Board members follow from Sections 84 and 85 German Stock Corporation Act and Section 31 German Co-Determination Act.

The Management Board is authorised, pursuant to Article 5 para. 3 of the Articles of Association, subject to the approval of the Supervisory Board, to increase the Company's share capital until 10 June 2012, once or repeatedly, by a total of up to EUR 16,450,000 by issuing new no-par bearer shares in return for contributions in cash and / or in kind (Authorised Capital 2007).

[1] Leemaster Ltd. has an option to purchase another 20.89 percent of the Company's shares. Exercising these options would give Leemaster Ltd. a stake of 25.97 percent in Conergy AG.

The shareholders must be granted a subscription right in connection with any capital increase in return for cash contributions. The Management Board is authorised, however, to exclude fractional shares from shareholders' subscription right with the approval of the Supervisory Board. It is also authorised to exclude shareholders' subscription right with the Supervisory Board's approval if the issue price of the new shares is not significantly lower than the stock market price of Conergy's shares of the same class and structure at the time the issue price is fixed and if the shares issued under Section 186 para. 3 sentence 4 German Stock Corporation Act do not exceed 10 percent of the Company's share capital. This limitation also applies to shares disposed of or issued pursuant to other authorisations in direct or analogous application of Section 186 para. 3 sentence 4 German Stock Corporation Act, subject to the exclusion of shareholders' subscription right. By resolution dated 6 November 2007, the Management Board increased Conergy's share capital with the Supervisory Board's approval of the same date – utilising the authorisation to exclude shareholders' subscription right as long as the issue price of the new shares is close to the stock market price – from EUR 32,999,999.00 by EUR 2,088,929.00 to EUR 35,088,928.00 by issuing 2,088,929 new no-par bearer shares with a pro-rata interest in capital of EUR 1.00 per share in return for cash contributions. Once this cash capital increase had been recorded in the Commercial Register applicable to the Company, the remaining authorised capital pursuant to Article 5 para. 3 of the Company's Articles of Association is EUR 14,361,071.00. The authorisation to exclude shareholders' subscription right if the issue price of the new shares is close to the stock market price now concerns a pro-rata amount of the share capital of up to EUR 1,211,070.00, denominated in up to 1,211,070 new shares.

In addition, the Management Board is authorised pursuant to Article 5 para. 3 of the Company's Articles of Association to exclude shareholders' subscription right with the approval of the Supervisory Board in connection with in-kind capital increases especially if they entail the acquisition of companies, interests in companies, or economic assets.

The Management Board is authorised, furthermore, subject to the approval of the Supervisory Board, to determine the other details of the capital increase, the additional content of the rights embodied in the shares and the conditions of the share issue, in particular, to fix a date from which the newly issued no-par bearer shares shall participate in profits that is different from the date on which the contributions were made and, if necessary, to do so retroactively for the previous financial year.

The Supervisory Board is authorised to amend Conergy's Articles of Association to reflect the execution of the capital increase or upon expiration of this authorisation deadline.

Pursuant to Section 119 no. 1 sentence 5 German Stock Corporation Act, the Annual Shareholders' Meeting is charged with resolving amendments of the Articles of Association. Unless required otherwise by mandatory law or the Articles of Association, the resolutions of the Annual Shareholders' Meeting are adopted by the simple majority of all votes cast and, to the extent that the law requires a majority of the capital, by the simple majority of the share capital represented.

In the event of a takeover of more than 50 percent of the Company's share capital by a third-party investor (change of control), any and all loans granted to Conergy AG will be called in. This affects both the EUR 240 million bridge facility („Bridge Facility") granted in February 2008 and the EUR 600 million syndicated loan that was extended in July 2007.

All investors that are not known as existent major shareholders as defined in the syndicated loan or under the Bridge Facility, including Dr. Otto Happel, are considered third-party investors.

A supplementary agreement currently applies to the members of the Company's Management Board in the event of a defined change of control of Conergy AG. In such a case, the Management Board members subject to the aforementioned agreement will have the right to unilaterally terminate their employment contracts.

The Conergy share

Regarding the development of Conergy's share in the 2007 financial year, we refer to pages 25 to 27 of this annual report.

Compensation report for the Management Board and the Supervisory Board of Conergy

Please see the compensation report on the pages 21 to 24 for disclosures regarding the compensation of both the Management Board and the Supervisory Board.

Supplementary report

The Conergy Group has been in the midst of a broad restructuring process since mid-November 2007. The first step entails combining its different core areas into autonomous units as of 1 January 2008. The Company's activities are managed by means of the two divisions, Components and Sales & Systems that comprise the photovoltaics segment and by the Projects segment. While the Components division covers all production-related activities, Sales & Systems brings together the previous activities of Conergy and SunTechnics. The Projects segment entails the development and financing of EPURON's major projects.

Conergy AG has secured follow-up financing with the help of a banking syndicate. Commerzbank AG as well as Dresdner Kleinwort are providing the Company with additional liquidity of EUR 240 million under the Bridge Facility. Conergy intends to utilise these additional funds chiefly for necessary investments, for ensuring early on that commodities are available for its solar factory in Frankfurt (Oder) as well and for prefinancing projects undertaken by its subsidiary, EPURON GmbH, Hamburg. An expert opinion by the auditing firm, Ernst & Young, in mid-February 2008 previously confirmed that the Management Board had initiated a realignment. The EUR 30 million credit line that had been made available in November 2007 until the end of February 2008 was not used and is now included in the EUR 240 million interim financing.

Conergy has successfully disposed of its thermal activities in Belgium, the Netherlands and Austria in connection with its realignment as a dedicated provider in the solar industry. The sale comprises the Belgian company, Conergy bvba, which is domiciled in Lille, as well as its production of solar heat collectors and the related B2B distribution structure for both Belgium and the Netherlands. Conergy also is disposing of Redenko bv, a company that is domiciled in the Dutch city of Breda and sells heat pumps and district heating systems to its regional customers. Conergy GmbH domiciled in Althofen, Austria, was also sold.

Risk and opportunity report

Risk management

All entrepreneurial activity is inextricably bound to risks and rewards. This is why effective risk management is critical to success.

The Management Board of the Conergy Group has established a management control system within groupwide risk management for purposes of early detection, assessment and management of relevant risks and for purposes of fulfilling statutory requirements. It is an integral part of groupwide planning, managing and reporting processes. Risks are assessed based on both the probability of their occurring and the possible loss amount. New risks are analysed and included in risk management if they are relevant. Individually adjusted strategies and measures designed to avoid, reduce, or hedge risks are initiated. The Management Board and Corporate Risk Management, in collaboration with individual risk officers designated as Group Risk Monitors, regularly assess and adjust the risk situation in addition to fulfilling their obligation to file ad-hoc releases in the event of new, relevant risks.

Nonetheless, the Conergy Group was exposed to a temporary earnings and liquidity crisis during the 2007 financial year against the backdrop of its dynamic growth and the evolving complexity of its business model. This crisis was driven essentially by the Company's primary focus on revenue growth, insufficient cost and working capital management, and excessive prefinancing of the Company's growth. Taken together, these factors resulted in a situation that threatened the Conergy Group's continued existence in November 2007.

Aside from preparing an appropriate restructuring and realignment concept, the Management Board also refined the Company's existing risk management system in cooperation with the internal auditing department and other core Group departments, on short notice, in order to effectively counter such developments in future. This refined system further integrates risk management into the Company's business processes, ensuring, in particular, that it dovetails with Group Controlling and is made part and parcel of the project business. Based on standardised project management for the project business, risks are recorded and analysed with the help of a "risk register" using case examples of the relevant risks. The "risk register" is continuously updated based on experience from completed projects.

In Conergy's view, the risk management system is a process that is adjusted on an ongoing basis to the Company's structural and process organisation, markets and current developments, with the result that it is continuously improved. We will continue refining the risk management system in 2008.

The Management Board prepares budgets and forecasts for managing the Conergy Group. There were significant shortcomings in the accuracy of our forecasting and the planning process itself because we had failed to implement an integrated planning system before the earnings and liquidity crisis occurred in November 2007. Our aim is to eliminate these shortcomings as part of the restructuring concept that the new Management Board has developed, especially by streamlining internal processes, aligning the IT structure and improving management tools.

Significant earnings and liquidity risks

The following constitute significant individual risks to the earnings and liquidity of the Conergy Group:

- Lower than expected supplies of raw materials and preproducts (wafers, ingots, cells) for the solar factory in Frankfurt (Oder) could result in gross losses in the Components division.
- The availability of additionally required modules in quantities less than planned (which can not be offset due to time limitations or specifications) could result in both revenue and gross losses in the Sales & Systems and the Projects division.
- Any increase in the procurement costs of raw materials or finished products in the Electronics and Mounting Systems sub-segments could result in gross losses in the Components division.
- Any failure to increase the "balance of systems" (BoS) ratio – i. e. the delivery of complete systems – as planned could cause us to miss margin improvement targets in the Sales & Systems division.
- A greater need for (pre)financing than planned, especially in connection with major projects in the Projects division, could threaten the targeted completion of the projects. Any delay in the completion particularly of the Spanish photovoltaics projects could cause us to significantly miss revenue targets and thus generate significant gross losses, given the pending amendment of the relevant law at the end of September 2008.
- Any delay in cash inflows from equity or borrowings related to major projects in the Projects division, especially in the absence of binding contractual arrangements, could spark a significant deterioration in the Company's liquidity due to specific projects' large (pre)financing needs.
- Finally, there is a risk that the envisioned capital increase will not be executed as planned, particularly if we miss restructuring targets by a wide margin in the coming months.

Significant fields of risk

Industry-specific risks
As a rule, changes in the regulatory environment can affect both markets and Conergy's technologies. For example, the statutes promoting regenerative energy in Spain will be amended in mid-2008 and amendments of the current German Renewable Energy Sources Act are planned for 2009. Any resulting effects on the profitability of or demand for PV units, for instance, but also other products and services of the Conergy Group, could be substantial and thus have a considerable positive or negative impact on the Group's success in individual markets.

Additionally, any change in the demand for our products and services or any disadvantageous price development, particularly against the backdrop of long-term delivery contracts, could cause margins or earnings to erode. The Conergy Group expects the generally positive conditions and the industry's ongoing professionalisation to intensify competition in growing markets. In turn, this could put the Group under increased pressures to adjust.

We expect to be able to offset this risk through adjustments of internal cost structures and margin improvements by focusing on high-margin products and enhancing the depth of the value chain.

Generally speaking, Conergy expects renewables projects to be expanded to an ever-increasing number of regions and range of technologies. Moreover, market incentive programmes should create additional demand for regenerative energy systems. Conergy is essentially focusing on high-margin markets in growth regions, given the Group's realignment as a provider in the photovoltaics market.

R&D

The ability to adjust the product and services portfolio on an ongoing basis to current trends, developments and customer needs in individual markets is an important component in the Group's future success. Our research and development projects serve to continuously improve our product portfolio, thus responding to the market's steadily rising requirements.

Conergy performs extensive analyses of markets, customers and competitors in order to make certain that it does not miss trends and developments in individual markets and applies the findings to the development and sale of its products and projects.

Legal risks

Comprehensive industrial property rights are an important element in the success of the Conergy Group. Nonetheless, we can not preclude that unauthorised third parties might copy or use the Company's products and services. Likewise, patents and copyrights belonging to the Conergy Group, or other rights, could be challenged, declared null and void, or circumvented. There also is the potential risk that we might breach the industrial property rights of third parties.

Because Conergy operates in the most diverse markets internationally that differ widely in terms of both laws and rules, there is the possibility, theoretically speaking, that the Company might fail to comply with relevant laws or misinterpret them, as the case may be, or that applicable requirements are modified to the detriment of the Conergy Group.

All legally relevant activities are buttressed by both internal and external know-how in order to minimise this risk to the greatest extent possible. We file patent applications early and use statutory provisions regarding copyrights and trade secrets to protect our industrial property rights. No relevant actions are pending.

The project business of Conergy AG generally entails risk that customers might sue due to defects in our products, plants, or services. A significant suit was filed on 4 February 2008 against SunTechnics GmbH; it is pending. The claimants are suing for repayment of previously paid compensation after the existing work-for-hire contracts were rescinded due to defects and for the unwinding of the contracts. They would bring claims for damages if they were to prevail. However, in the assessment of both internal and external jurists, the claimants' chances of prevailing are remote.

Transactional risks
In connection with the measurement of large-scale projects, revenue is realised based on the percentage-of-completion (PoC) method (IAS 11), in accordance with the project's progress or the date on which the project is sold. Delays in the progress or sale of projects result in delays regarding revenue and earnings.

Procurement risks
Conergy depends on the procurement of materials, both as a manufacturer and as a seller of individual components as well as in the project business. At present, silicon, in particular, can give rise to bottlenecks in the manufacture of PV modules. Lower than expected supplies of raw materials and preproducts (wafers, ingots, cells) for the solar factory in Frankfurt (Oder) or the availability of additionally required modules in quantities less than planned, which can not be offset due to time limitations or specifications, could have a negative impact on gross profits.

We have taken many measures to ensure smooth procurement of silicon. Conergy has undertaken to purchase solar wafers and solar modules from suppliers. These contracts have terms of between one and ten years. The Company's obligations to accept goods essentially arise from a delivery contract between MEMC Electronic Materials, Inc. and Conergy AG. This contract gives rise to fixed obligations to accept goods until 2018. It provides Conergy with a measure of security regarding its supply of wafers yet at the same time entails the risk of tying the Company to contractual arrangements that could have substantial financial repercussions in the event of negative developments in the prices of PV modules and wafers.

Conergy tries to ensure as much as possible in connection with the procurement of components and preproducts that it does not become excessively dependent on suppliers. The Group thus maintains business relationships with a large number of prestigious international manufacturers. For the most part, Conergy maintains business relationships with several suppliers for the same product group in order to minimise risks from delays or shortfalls in deliveries. This allows us to turn to other suppliers if a supplier defaults, at least to some extent.

However, as experience has shown, a cascading chain of delays in product deliveries or shortfalls in deliveries of raw materials and thus delays in or disruptions of operating processes is conceivable and could have a negative impact on both revenue and earnings. This problem generally applies in equal measure to production, commercial transactions and the project business.

In the current seller's market, delivery shortfalls and delays generally arise in procurement. The concentration of a handful of suppliers, especially in the PV module market, could possibly make the Company dependent on their willingness to stick to their delivery commitments. There is the additional risk that shortfalls in deliveries of PV modules can not be offset in a timely fashion because alternative providers frequently do not have the required modules on hand. Conergy has maintained long and trusting business relationships with its main suppliers. It is standard practice to stipulate fines with suppliers but this tool is not always enforceable in the current environment.

Establishing Conergy's own solar wafer, cell and module factory serves to substantially enhance our planning security for direct just-in-time deliveries to construction sites in the Company's core PV business.

Product and production risks

Conergy acts as both a manufacturer and a seller of individual components and as a service provider for complete solutions. This gives rise to guarantee risks because the Company provides warranties for its products. As a buyer of products, Conergy is exposed to the risk that it might purchase counterfeit goods. In addition, it is Conergy as a manufacturer that bears the general risk of production losses.

These potential risks are lowered through quality management that is integrated into production. In the 2007 financial year, quality standards in the plants were improved such that production facilities of the Conergy Group – for example, its plant for producing aluminium frames for solar modules – were certified under ISO 9001. Additional certifications of other production facilities, such as the solar factory in Frankfurt (Oder) and the production of wind units in Bremerhaven, will probably follow in 2008.

The ramp up of the Frankfurt (Oder) solar factory could give rise to higher than expected costs if we fail to introduce and execute timely and efficient quality management immediately.

Guarantee risks are also limited by the fact that Conergy has stipulated guarantees with its suppliers essentially in accordance with the agreements it makes with its customers. Provisions have recognised up to fulfil claims under warranties. The market for photovoltaics modules is inundated with counterfeit goods. Conergy will counter this risk by introducing a new standardised purchasing and product control process that serves to verify both performance and quality.

Our production facilities maintain high safety and security standards. The use of environmentally hazardous substances in the Frankfurt (Oder) solar factory is subject to extensive requirements under environmental protection laws, among other things. Minimising production risks such as, for example, production losses is greatly facilitated by providing ongoing training to the Company's employees on site.

The Conergy Group engages in proactive insurance management in order to cover all significant risks. This comprises property, business interruption, liability and transport insurance policies as well as insurance policies that cover losses of goods and buildings.

Project risks

The project business of Conergy's subsidiary, EPURON, which develops and sells major projects, entails the customary risks of a general contractor. As part of its project business, EPURON provides advance services that are not compensated if a project is cancelled. Financing major projects entails risks, given the need for comprehensive prefinancing and high equity requirements.

A greater need for (pre)financing than planned, especially in connection with major projects in the Projects division, could threaten the targeted completion of the projects. Any delay in the completion particularly of the Spanish photovoltaics projects could cause us to significantly miss revenue targets and thus generate significant gross losses, given the pending amendment of the relevant law at the end of September 2008.

Any delay in cash inflows from equity or borrowings related to major projects in the Projects division, especially in the absence of binding contractual arrangements, could spark a significant deterioration in the Company's liquidity due to specific projects' large (pre)financing needs.

The project business of Conergy's subsidiaries also gives rise to customary guarantee risks. As a rule, the project business is subject to completion and project performance requirements, the non-fulfillment of which can have negative financial repercussions.

EPURON enters into general agreements with banks and investors in order to hedge its financing risk. For example, the Company concluded a general agreement with the Macquarie Capital Group, a leading bank and finance / investment firm that is based in Australia and New Zealand, for the development, financing and construction of Australia's largest wind project. Every project undergoes a fixed decision-making process in order to ensure that all parameters critical to its success have been considered in the project selection process. But we also issued a directive for EPURON's project management in the 2007 financial year, which establishes binding guidelines with respect to processes, decision making and controlling during individual project phases.

Currency and interest rate risks, among others, can put the success of EPURON's project business at risk. Hence currency changes or rising interest rates can cause actual earnings to differ significantly from budgeted earnings forecasts.

Personnel risks

Strong market growth in the renewable energies industry and the resulting increase in competition can lead to a dearth of professional personnel in the market. The restructuring process and the uncertainty it may spark among employees in 2008 might cause rising numbers of staff in key positions to terminate their contracts.

Ongoing measures aimed at training and enhancing the skills of employees and executives alike is critical to the success of the Conergy Group's personnel management. This is why we continued to offer extensive training and qualification programmes in 2007. We have developed successor planning based on the identification of key functions with the aim of preparing high achievers already in the Company's employ for subsequent leadership positions. This also helps to ensure that employees are capable of fulfilling job requirement profiles arising from the realignment. Internal personnel programmes support the process.

Finally, “round tables” between employees and management enhance both internal communications and transparency.

There is always a risk that access to confidential information arising from this corporate culture might be abused. Conergy has thus included suitable provisions in all employees’ contracts to prevent any such abuse. Persons possessing insider information as defined in the German Stock Corporation Act are listed in a register of insiders; they are also advised of their legal duties and they undertake to comply with related requirements.

Information technology risks

In general, breakdowns of the Company’s IT systems can interrupt workflows and thus impinge on its ability to do business.

Conergy shifted its central server to an external service provider in 2007 in order to minimise relevant risks of loss. This ensures that the IT infrastructure is maintained at a high standard at all times and that all requirements regarding both the security and the availability of data have been satisfied. A project aimed at integrating the existing IT environment into SAP as an ERP system was launched during the 2007 financial year in order to improve the Company’s transparency. The plan is to implement this system in 2008/2009 in Conergy’s significant national companies.

Financial risks

Liquidity risks

The liquidity bottleneck that occurred in November 2007 was resolved by means of a capital increase for the 2007 financial year. The Bridge Facility that was made available by prestigious banks in early February 2008 covers our expected financing needs for 2008. The Bridge Facility has been made available until 30 September 2008 and can be extended until 31 December 2008 if the banks agree to such extension. But this does not mean that liquidity risks have been eliminated in their entirety; the follow-up financing subsequent to the bridge loan is not ensured if the capital increase falls through, for instance, due to a weak capital market environment.

At the end of September 2007, Conergy failed to abide by the Financial Covenants stipulated in the syndicated loan. In talks with the banks, the banks waived the assertion of rights arising from breach of the Covenants as of 30 September 2007 and 31 December 2007. The Financial Covenants for the syndicated loan were suspended for the 2008 financial year.

With respect to the liquidity risks arising in connection with the development and settlement of major projects, please see the disclosures concerning project risks.

Based on the insights gained with respect to the liquidity situation from group-wide financial planning tools, we now utilise liquidity planning that covers a period of 13 weeks and is rolled over from week to week as well as monthly planning that covers twelve months and is regularly updated and adjusted. Controlling tools and IT systems designed to support the planning process will be introduced.

Interest rate and currency risks
The greater part of the Conergy Group's procurement volume in 2007 was effected in various currencies – in particular, euros, the US dollar, the Japanese yen and the South Korean won. The Company is thus exposed to substantial currency risks. The extensive use of loans also exposes the Company to interest rate fluctuations.

Continuous monitoring of the capital markets enables early detection and measurement of interest rate and currency risks. Hedging strategies and precepts are fixed and adjusted in close coordination with the Management Board.

The Corporate Treasury department hedges both interest rate and currency risks in close collaboration with the operating units using hedges that involve derivative financial instruments as set out in the Company's "Treasury Guideline". Treasury also hedges currency and interest rate risks related to the project business, as necessary. Furthermore, the Conergy Group optimises its currency risks by pushing natural hedging measures – i. e. by matching cash outflows under delivery contracts with cash inflows from external revenue in the same currency. Interest rate swaps and options are the primary means of hedging interest rate risks.

The interim financing (bridge loan) that was stipulated in early February 2008 provides for incremental increases of the interest rates. The loan is to be repaid mainly by means of a capital increase. Any failure on the part of Conergy AG to discharge the bridge loan as soon as possible – for whatever reason – would substantially undermine its net finance income due to rising interest rates and payments and thus have an additional impact on its net income for the year.

Default risks
Default risks from trade or financial receivables entail the risk that the receivables are paid late or not at all.

All customers wanting to do business with the Conergy Group are subject to credit checks. In addition, the Company's central working capital management continuously monitors all receivables balances. Business with major customers is subject to separate credit monitoring in connection with the Group's central working capital management as part of receivables management.

Risks related to the utilisation of government subsidies
Conergy Group companies received government subsidies in the 2007 reporting period. Government subsidies are tied to specific projects subject to certain requirements and conditions. The subsidies must be repaid in the event of non-compliance with the requirements. At the time the consolidated financial statements were prepared, these requirements had essentially been met.

However, we can not preclude non-compliance with requirements and conditions even if future projects go as planned. Conergy stays in touch with the responsible government agencies in order to reduce the risk of demands for restitution even in the event of breaches of government requirements and conditions. The Company believes that the repayment risk is very low at this time.

For further details regarding financial risks, please see the notes to the consolidated financial statements.

Other risks

Just as other companies, Conergy too is exposed to risks arising from potential radical changes in the political, legal and social environment. Likewise, possible terror attacks or natural disasters theoretically pose a risk to the Company's net assets, financial position and profit or loss.

Restructuring risks

The Conergy Group launched a comprehensive restructuring programme at the end of the 2007 financial year with the aim of overcoming its liquidity and earnings crisis. This programme requires the execution of extensive financial, operational and structural measures. The execution of these measures – such as, for example, the implementation of a capital increase by approximately EUR 250 million in 2008 – depends, in part, on the conduct of third parties as well as on circumstances that are beyond the Company's control (e.g. general conditions in the capital markets). Hence there is no guarantee that the envisioned measures will actually bring about the desired restructuring targets.

Finally, there is a risk that the envisioned capital increase will not be executed as planned, particularly if we miss restructuring targets by a wide margin in the coming months.

The risk in this connection is that planned measures can not be executed or that the envisioned outcome is not realised to the extent expected or only at a later point in time. Any occurrence of such risks, individually or in conjunction with each other, could cause actual financing needs to differ substantially from planned financing needs.

An office established specifically for this purpose monitors the implementation of individual restructuring measures and adjusts them as necessary. Both the introduction of a new IT-based controlling system and our focus on efficient finance controlling enable current reviews of the Company's earnings. Yet deviations from plan due to insufficient execution of required measures under the restructuring programme and/or insufficient application of controlling instruments might occur nonetheless.

Risks from potential breaches of requirements applicable to exchange-listed companies

As described in the interim financial report for the third quarter of 2007, Deutsche Prüfstelle für Rechnungslegung e.V. ("DPR" – Financial Reporting Enforcement Panel) notified Conergy AG that there was cause for it to examine both the consolidated financial statements and the group management report of Conergy AG as at 31 December 2006 in accordance with Section 342b para. 2 sentence 3 no. 1 German Commercial Code. The examination resulted in a restatement of earnings from a land transaction as well as two more restatements in connection with the 2006 consolidated financial statements, which are explained in the notes to the consolidated financial statements. Moreover, the lowered revenue and earnings forecast that was published on 25 October 2007 in the half-yearly financial report for 2007 is also being examined pursuant to Section 342b para. 2 sentence 3 no. 1 German Commercial Code.

The Federal Financial Supervisory Authority (BaFin) requested information regarding the publication of the ad-hoc release dated 25 October 2007 in connection with the publication of the interim report as at 30 June 2007 as well as regarding the correction of the revenue and earnings forecasts for 2007; Conergy AG has provided the relevant information. There are no indications at the present time that the Company breached its disclosure obligations under capital market laws.

Management risks

Conergy operates in more than 20 of the world's most important solar markets. The Company generally pursues its business through subsidiaries whose managing directors are given extensive decision-making authority in order to be able to act and react autonomously in proximity to the relevant market. Hence Conergy's corporate structure ensures that its strategic units are run by entrepreneurs within corporate confines.

These executives are committed to responsible management. Nevertheless, given the responsibility and latitude that is granted to these executives, the risk of abuse can not be fully precluded despite fully developed and multi-stage review and controlling mechanisms.

Directors & Officers insurance policies (D&O insurance) that provide for suitable deductibles as defined in the German Corporate Governance Code have been purchased on behalf of all Group companies' Management and Supervisory Board members as well as executives for the purpose of hedging the risk of liability claims against the Group's management.

Opportunities

Aside from resulting in the risks described above, the relevant scenarios can also give rise to opportunities. As part of its ongoing realignment, the Conergy Group is positioning itself as a provider in the photovoltaics market. Its Management Board believes that this process could engender the following opportunities that might have a positive effect on the Company's revenue, earnings, or liquidity:

- Additional sales potentials could arise from additional production volumes if production at the solar factory in Frankfurt (Oder) proceeds as planned once the ramp-up phase has been brought to a successful conclusion.
- Similarly, any relaxation of the silicon procurement market could result in higher production capacities and the availability of additional solar modules and thus generate additional sales potentials.
- Gross profits could improve as a result of efficiency gains in the Components division's use of materials, particularly at its Frankfurt (Oder) solar factory.
- The introduction and consistent application of improved management tools could give rise to additional margin potentials not yet identified in the restructuring process.
- The Conergy Group might realise additional market opportunities in attractive PV markets, given its advanced international line-up compared to its main competitors, particularly after 2008.
- Our restructuring concept comprises selling the Company's activities in the solar thermal, heat pump and biomass segments. We are unable to fully assess the financial effects of these disposals at the present time. The successful sale of our thermal activities in Austria, Belgium and the Netherlands was the first important step in this connection.

We also plan to look for a partner for Conergy Wind GmbH, which started operating a factory for small wind turbines in Bremerhaven in January 2008. The business plan that was prepared pursuant to the Conergy restructuring concept does not take any additional effects from these activities into account.

Outlook

Global economic growth expected to continue in 2008 and 2009

Economic experts expect 2008 and 2009 to produce solid growth rates for the global economy yet again despite the possibility of a recession in North America and its potentially negative impact on global development. The IMF forecasts global economic growth of 4.1 percent. It also believes that US GDP should be able to rise by 1.5 percent. Growth of 1.6 percent is expected for the euro zone in 2008 while Japan's economy should expand by about 1.5 percent.

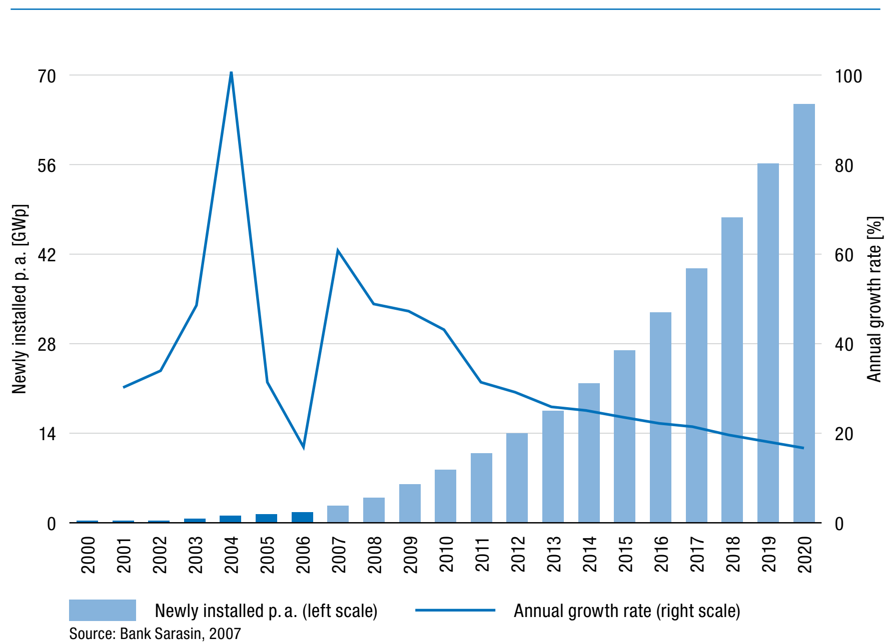
Emerging countries should once again be able to help maintain the momentum of the global economy in the 2008 financial year even though they too are likely to suffer from the consequences of the subprime mortgage crisis in the United States. The OECD predicts that China's GDP will grow by 10.7 percent, and India's by 8.6 percent.

It also expects the effects of the US subprime mortgage crisis on the global economy to lessen considerably in 2009. Economists consider a growth forecast of 2.2 percent for the United States in subsequent years to be realistic. Euro zone GDP is expected to rise by 2.0 percent. And Japan's economy could expand by 1.8 percent. Countries in South, Southeast and East Asia are expected to be instrumental to global economic growth in 2009 as well. The OECD expects China's economy to gain 10.1 percent and India's 8.4 percent.

Further dynamic growth of the PV market

Experts expect the market volume for solar technology to expand by about 7 to 9 gigawatts by 2010. Some experts predict even higher growth rates. This would correspond to average annual growth of about 50 percent in the next three years. According to the analyses, by that time the US market will have surpassed the one-gigawatt threshold, becoming the second-largest market after Germany, followed by Spain in third place.

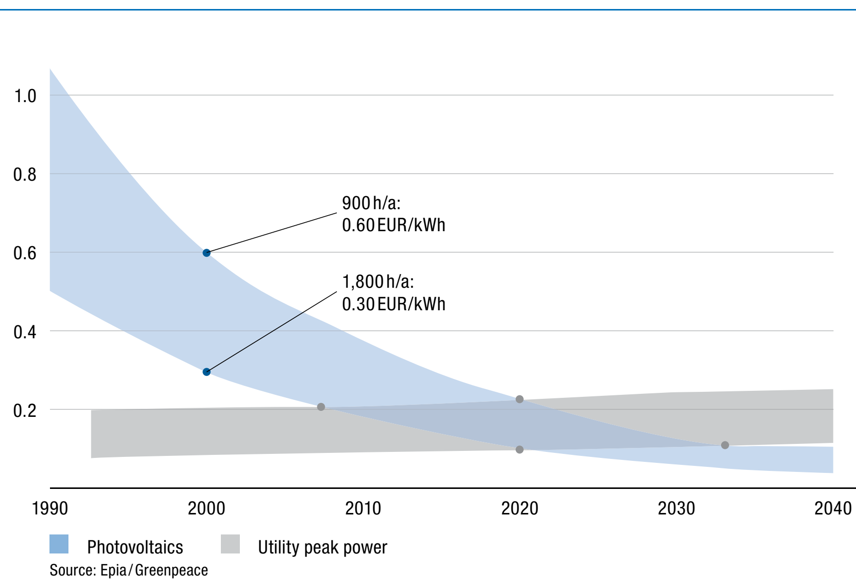
Sarasin's long-term forecast for the global PV market



Source: Bank Sarasin, 2007

This growth on the demand side will be countered by growth to approximately 13 gigawatts on the supply side. While silicon shortages dominated market developments in years past, many market analyses expect the supply-side bottlenecks to disappear in the near future. Silicon supplies would thus exceed demand, eliminating the dampening effect of bottlenecks in the supply of silicon. This would have a positive effect on prices and further reduce the cost of generating power from renewable energy. Germany's major solar industry association expects the retail price of electricity from solar energy to fall below the price of electricity from conventional sources in 2017. In turn, this would give demand for solar electricity yet another boost, further stimulating worldwide markets.

Development of utility prices and PV generation costs (in EUR/kWh)



Source: Epia / Greenpeace

Yet all of this also means that until then political support is crucial to renewables, in general, and solar energy, in particular. Germany is currently debating what the changes of its Renewable Energy Sources Act from 2009 onward might look like. Plans call for a reduction in the fee for feeding electricity into the grid and a larger annual degression. However, Germany will remain an attractive market for PV. We also expect a one-off early effect for 2008. A sense of uncertainty continues to pervade the Spanish market because the country's government is currently debating the follow-up law. Any reduction in the fee for feeding solar electricity into the grid could affect the market's growth momentum even though we may expect a slight one-off early effect for 2008. The volume of the US solar market is expected to grow to more than 1.4 gigawatts by 2010 thanks to the market's unbroken momentum, particularly in California. As a result, the United States will become the world's second-largest market. According to market analysts, the South Korean market might expand tenfold by 2010 due to attractive incentive programmes. These same experts expect market volumes of about 400 and 300 megawatts, respectively, for Italy and France.

Conergy: Outlook for 2008 and 2009

The 2008 financial year will still be characterised by the turnaround and the restructuring measures. The Management Board of Conergy AG expects revenue growth from operating activities to rise to more than EUR 1 billion. It also plans to achieve a clear improvement in gross profits and a substantial improvement in EBITDA to breakeven in 2008 before one-off effects.

Large one-off consulting and financing fees will continue to be incurred in 2008 as a result of the Company's refinancing. Excluding these fees and other one-off effects but including depreciation, amortisation, write-downs and finance charges, the Management Board consequently expects Conergy to post substantially negative EBT in the double digits once again.

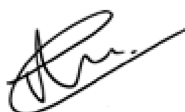
The Management Board plans to bring about continued sharp increases in revenue from operating activities in 2009 as well as operating income (EBIT) in the double-digit million range. Conergy will aim for a positive return on equity in line with the industry along with full capacity utilisation at its Frankfurt (Oder) solar factory beginning in the second half of 2009.

However, actual results might differ substantially from these estimates of likely developments if one or more risks addressed in the Risk Report were to occur, if other uncertainties were to arise, or if the assumptions underlying the foregoing statements turn out to be incorrect.

Hamburg, Germany, 11 March 2008

Conergy AG
The Management Board

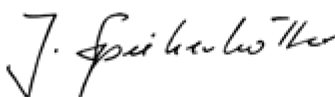
Dieter Ammer



Pepyn R. Dinandt

Nikolaus Krane

Philip von Schmeling



Dr. Jörg Spiekerkötter

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Consolidated income statement of the Conergy Group

TEUR	Note	2007	2006[1]
Revenue	10	705,531	682,333
Changes in inventories of finished goods and work in progress		71,329	28,084
Cost of materials		−683,292	−602,484
Gross profit		**93,568**	**107,933**
Staff costs	12	−109,900	−55,354
Other own work capitalised		14,251	9,543
Other operating income	11	16,351	7,807
Other operating expenses	14	−181,906	−63,203
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**−167,636**	**6,726**
Depreciation and amortisation	13	−42,646	−4,540
Earnings before interest and taxes (EBIT)		**−210,282**	**2,186**
Finance income		11,132	1,092
Finance costs		−32,858	−7,128
Net finance income	16	**−21,726**	**−6,036**
Earnings before taxes (EBT)[2]		**−232,008**	**−3,850**
Income taxes	17	21,521	3,802
Result after taxes from continued operations		**−210,487**	**−48**
Result after taxes from discontinued operations	8	−37,572	−592
Result after taxes		**−248,059**	**−640**
Thereof attributable to:			
Shareholders of Conergy AG (Group profit or loss)		−247,558	−1,021
Minority shareholders		−501	381
Earnings per share (in EUR)	18		
Basic		−7.57	−0.03
Diluted		−7.57	−0.03
Earnings per share (in EUR) from continued operations	18		
Basic		−6.42	−0.01
Diluted		−6.42	−0.01

[1] Previous year's figures adjusted; see notes 3, 4 and 5
[2] Corresponds to earnings from ordinary activities

Consolidated balance sheet of the Conergy Group

TEUR	Note	31.12.2007	31.12.2006[1]
Non-current assets			
Goodwill	19	20,676	29,394
Intangible assets	19	23,380	21,667
Property, plant and equipment	20	210,925	63,227
Financial assets	22	4,421	2,285
Other assets	25	574	708
Deferred tax assets	17	49,870	33,218
		309,846	**150,499**
Current assets			
Inventories	26	342,364	135,196
Trade receivables	24	212,650	328,457
Financial assets	22	9,928	7,656
Other assets	25	73,214	50,463
Cash and cash equivalents	27	61,832	25,563
		699,988	**547,335**
Assets held for sale	8	26,233	–
		726,221	**547,335**
Total assets		**1,036,067**	**697,834**
Equity attributable to the shareholders of Conergy AG			
Share capital		35,089	30,000
Capital reserve		307,222	94,889
Other reserves		–217,831	25,305
		124,480	**150,194**
Non-controlling interests		**667**	**1,255**
Total equity	28	**125,147**	**151,449**
Non-current liabilities			
Reserves	29	14,391	2,152
Borrowings	31	120,029	590
Other liabilities	33	13,057	17,418
Deferred tax liabilities	17	20,204	23,369
		167,681	**43,529**
Current liabilities			
Reserves	29	6,009	145
Current portion of non-current borrowings	31	30,000	–
Borrowings	31	318,598	241,317
Trade payables	32	282,233	189,465
Other liabilities	33	87,714	69,829
Current income tax liabilities	17	–	2,100
		724,554	**502,856**
Liabilities from assets held for sale	8	18,685	–
		743,239	**502,856**
Total equity and liabilities		**1,036,067**	**697,834**

[1] Previous year's figures adjusted; see notes 3, 4 and 5

Consolidated cash flow statement of the Conergy Group

TEUR	Note	2007	2006[1]
Operating result from continued operations		**−210,282**	**2,186**
Depreciation and amortisation		42,646	4,540
Change in non-current provisions		12,240	1,215
Other non-cash income (–)/expenses (+)		51,809	1,478
Gains (–)/losses (+) from disposal of fixed assets		629	−3,986
Result from operating activities before changes in net working capital		**−102,958**	**5,433**
Increase (–)/decrease (+) in inventories		−219,124	−74,434
Increase (–)/decrease (+) in trade receivables		86,443	−196,369
Increase (–)/decrease (+) in trade payables		92,768	51,821
Change in other net assets/Other non-cash items		−22,851	14,666
Income taxes paid (–)/received (+)		−1,751	−30,033
Cash generated from operating activities, continued operations		**−167,473**	**−228,916**
Cash generated from operating activities, discontinued operations	8	−21,146	−9,150
Cash generated from operating activities (total)	34	**−188,619**	**−238,066**
Cash receipts from disposal of property, plant and equipment and other assets		8,692	665
Cash payments for investments in property, plant and equipment and intangible assets		−198,518	−60,526
Acquisition of subsidiaries less cash acquired		−9,530	−40,125
Other cash payments for investments in financial assets		−2,224	−2,060
Interest received		7,034	1,079
Net cash generated from investing activities (total)	34	**−194,546**	**−100,967**
Cash receipts from issuance of share capital		219,947	11,198
Cash payments in connection with the acquisition of equity		−2,451	–
Cash receipts from borrowings		508,090	236,031
Cash payments for repayment of borrowings		−270,000	–
Interest paid		−30,778	−7,121
Cash payments for dividends		−3,300	−3,012
Net cash generated from financing activities (total)	34	**421,508**	**237,096**
Change in cash from operating activities (total)		**38,343**	**−101,937**
Cash and cash equivalents			
As of 01.01.		25,563	126,940
Change from exchange rate changes		−181	560
As of 31.12.		63,725	25,563
Cash and cash equivalents as of 31.12.	27	**63,725**	**25,563**

[1] Previous year's figures adjusted; see notes 3, 4 and 5

Statement of changes in equity of the Conergy Group

	Equity attributable to the shareholders of Conergy AG								
			Other reserves						
			Retained earnings		Cumulative other comprehensive income				
TEUR	**Share capital**	**Capital reserve**	**Other retained earnings**	**Cumulative net income/loss for the periods**	**Currency changes**	**Cash flow Hedges**	**Total**	**Non-controlling interests**	**Total equity[1]**
As of 01.01.2006	**10,000**	**103,691**	**25,864**	**9,373**	**75**	**–1,446**	**147,557**	**852**	**148,409**
Change in equity not recognised in profit or loss									
Cash flow hedges						–11,487	–11,487		–11,487
Exchange differences from the translation of foreign subsidiaries					144		144		144
Taxes on items recognised directly in equity						4,159	4,159		4,159
Transfer recognised in profit or loss						2,635	2,635		2,635
	10,000	**103,691**	**25,864**	**9,373**	**219**	**–6,139**	**143,008**	**852**	**143,860**
Other changes				20			20	22	42
Capital contributions	20,000	–20,000							
Dividend payments				–3,012			–3,012		–3,012
Transfers to/withdrawals from reserves			17,693	–17,693					
Sale of treasury shares		11,198					11,198		11,198
Change in equity recognised in profit or loss									
Result after taxes				–1,021			–1,021	381	–640
As of 31.12.2006/01.01.2007	**30,000**	**94,889**	**43,557**	**–12,333**	**219**	**–6,139**	**150,194**	**1,255**	**151,449**
Change in equity not recognised in profit or loss									
Cash flow hedges									
Exchange differences from the translation of foreign subsidiaries					1,585		1,585		1,585
Taxes on items recognised directly in equity									
Transfer recognised in profit or loss						6,139	6,139		6,139
	30,000	**94,889**	**43,557**	**–12,333**	**1,804**	**–**	**157,917**	**1,255**	**159,173**
Other changes				–2			–2	–88	–90
Capital contributions	5,089	212,407					217,496		217,496
Dividend payments				–3,300			–3,300		–3,300
Transfers to/withdrawals from reserves		–74	–1,479	1,479			–74		–74
Sale of treasury shares									
Change in equity recognised in profit or loss									
Result after taxes				–247,558			–247,558	–501	–248,059
As of 31.12.2007	**35,089**	**307,222**	**42,078**	**–261,714**	**1,804**	**–**	**124,480**	**667**	**125,147**

[1] See note 28

Notes to the consolidated financial statements of the Conergy Group

1. Key figures by segment and region

Segments	Conergy		SunTechnics	
TEUR	2007	2006	2007	2006
External revenue	320,545	275,332	234,935	199,183
Intersegment revenue	324,796	197,737	130,558	96,930
Segment revenue (total)	**645,341**	**473,069**	**365,493**	**296,113**
Other operating income	39,707	32,059	2,915	3,510
Segment result (EBIT)	−127,271	−14,790	−48,892	5,385
Segment assets	1,325,349	596,691	514,375	203,986
Segment liabilities	765,648	284,692	597,919	209,888
Segment investments	188,710	62,921	7,551	4,947
Depreciation / amortisation / impairment losses	−27,715	−3,236	−5,342	−977
thereof impairment losses	−23,757	–	−4,225	–
Employees FTE[1] (as of 31.12.)	1,648	831	799	449

[1] Full time equivalents

Regions	Germany		Rest of Europe	
TEUR	2007	2006	2007	2006
External revenue	324,103	433,672	247,532	201,910
Intersegment revenue	303,374	219,707	88,632	−23,923
Segment revenue (total)	**627,477**	**653,379**	**336,164**	**177,987**
Segment assets	1,019,750	699,780	436,988	190,628
Segment investments	179,535	68,000	14,131	7,170

EPURON		Reconciliation		Continued operations	
2007	2006	2007	2006	2007	2006
150,051	207,818	–	–	705,531	682,333
94,416	1,224	–549,770	–295,891	–	–
244,467	**209,042**	**–549,770**	**–295,891**	**705,531**	**682,333**
5,590	1,201	–31,860	–28,965	16,352	7,806
–34,118	11,591	–	–	–210,281	2,186
394,212	270,165	–1,224,101	–401,593	1,009,834	669,249
341,946	210,467	–813,278	–164,526	892,235	540,520
7,247	26,705	–	–	203,508	94,572
–9,588	–326	–	–	–42,646	–4,540
–6,616	–	–	–	–34,598	–
185	85			2,632	1,365

Rest of world		Reconciliation		Continued operations	
2007	2006	2007	2006	2007	2006
133,897	46,751	–	–	705,531	682,333
4,770	206	–396,776	–195,990	–	–
138,667	**46,957**	**–396,776**	**–195,990**	**705,531**	**682,333**
116,557	67,774	–563,461	–288,933	1,009,834	669,249
9,842	19,403	–	–	203,508	94,573

2. General comments

Conergy AG (hereinafter also referred to as "Conergy" or the "Company") along with its subsidiaries (the "Conergy Group") is an integrated systems supplier in the field of renewable energy. The Conergy Group develops, produces and sells plants and plant components for renewables. In addition, Conergy is also a market leader in the field of project development and structured finance for major renewable energies projects.

Conergy is a listed German stock corporation. Its shares are traded on the Frankfurt (Main) Stock Exchange in Deutsche Börse's Prime Standard, which is subject to additional listing requirements. The Company, which is registered with the Commercial Registry of the Hamburg Local Court under the number HRB 77717, has its headquarters at Anckelmannsplatz 1, 20537 Hamburg, Germany. Its consolidated financial statements are available at the Company's seat and/or are published in the electronic Federal Gazette.

On 11 March 2008, the Management Board of Conergy released the Company's consolidated financial statements for purposes of submitting them to its Supervisory Board (release for publication). The Supervisory Board's audit committee dealt with the consolidated financial statements on 12 March 2008 and 5 April 2008.; they were approved by the Supervisory Board at its meeting on 5 April 2008. Under German law, the consolidated financial statements according to IFRS may be changed only in exceptional cases and subject to the approval of the Supervisory Board.

Conergy is obligated under Section 315 a German Commercial Code (Handelsgesetzbuch) to prepare consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as applied within the European Union, as well as a management report.

3. Key accounting policies

Accounting principles

Conergy prepared its consolidated financial statements in accordance with the IFRS of the International Accounting Standards Board (IASB), London, as applicable within the EU, and the additionally applicable provisions of Section 315 a para. 1 German Commercial Code.

All requirements under the standards and interpretations adopted by the EU that had to be applied at 31 December 2007 were satisfied in full. There were no changes in the periods presented to the consolidated accounting principles underlying recognition and measurement as well as the explanations and disclosures related to the IFRS consolidated financial statements.

In order to make the presentation more precise, items in the consolidated balance sheet and in the consolidated income statement were combined and explained as necessary in these notes. The income statement is structured according to the nature of expense format. Assets and liabilities are classified as non-current (for maturities of more than one year) and current (for maturities of less than one year). Deferred taxes are generally treated as non-current.

The items in the balance sheet, the income statement, the cash flow statement and the statement of equity changes were reclassified in order to make the presentation more precise, especially in connection with the first-time application of IFRS 7, Financial Instruments: Disclosures. The previous year's figures were adjusted accordingly.

We distinguish between continued and discontinued operations in accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations. Discontinued operations are combined in the balance sheet, the income statement and the cash flow statement as separate line items. Unless stated otherwise, the disclosures in the notes concern the Company's continued operations. Discontinued operations are described in note 8.

Conergy's financial year corresponds to the calendar year. Its annual financial statements are generally prepared using the historical cost system. This does not apply, however, to derivative financial instruments, which are measured at fair value.

Recognition and measurement methods correspond to the methods applied a year ago unless indicated otherwise. The annual financial statements of the consolidated companies are based on consistent and uniform accounting principles and methods.

The euro is the Group currency. All amounts, including previous year's figures, are stated in thousands of euros (TEUR), unless indicated otherwise, and commercially rounded. Rounding may result in rounding differences.

The following new standards and interpretations had to be applied for the first time to annual periods beginning on or after 1 January 2007:

- **IAS 1 (Amendment), Presentation of Financial Statements: Capital Disclosures (1 January 2007)**
  The amendment of IAS 1, which was published in August 2005, requires disclosures of the objectives, policies and processes for managing capital as well as specific quantitative data regarding the Company's capital structure. The first-time application of this standard did not affect the Conergy Group's profit/loss, cash flow and financial position.
- **IFRS 7, Financial Instruments: Disclosures (1 January 2007)**
  This standard requires extensive disclosures regarding the significance of financial instruments to the Company's financial position and performance as well as both qualitative and quantitative data relating to the type and scope of the risks arising from the relevant financial instruments. The disclosure obligations under both IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, were combined and expanded by new disclosure obligations. The revised standard must be applied to annual periods beginning on or after 1 January 2007. Conergy's comparative figures for 2006 are also being shown in accordance with IFRS 7. The changes in IFRS 7 were considered when preparing both the consolidated balance sheet and the consolidated income statement. The resulting new disclosures are given throughout these financial statements.

- **IFRIC 10, Interim Financial Reporting and Impairment (1 November 2006)**
  The new interpretation addresses impairment losses on goodwill that have been recognised in an interim financial statement. It clarifies that the prohibition on reversals under IAS 36 also applies if an impairment loss had to be recognised in an interim financial statement even if the reason for the impairment loss no longer exists at the close of the financial year.

In addition, the following interpretations also had to be applied to the 2007 financial year for the first time but they did not give rise to any changes in the Conergy Group's recognition and measurement methods:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (1 March 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (1 June 2006); and
- IFRIC 8, Scope of IFRS 2 (1 May 2006).

The following revised and new standards and interpretations, which had taken effect by the time the annual financial statements were prepared, must be applied for the first time in subsequent financial years:

- **IAS 23 (Amendment), Borrowing Costs (1 January 2009)**
  This revision of IAS 23 eliminates the currently available option to choose between capitalising and expensing borrowing costs related to the acquisition or production of qualifying assets and to permit capitalisation as the sole option in future. Conergy does not believe that this change will have a material impact on its consolidated financial statements because it already applies the alternative method permitted under IAS 23.
- **IFRS 8, Operating Segments (1 January 2009)**
  This new segment reporting standard requires applying the management approach to future segment reporting. Accordingly, both the identification of operating segments and the data related to those segments must be based on the information management uses to manage the Company. The Conergy Group is currently reviewing the possible effects the changes could have on segment reporting.
- **IFRS 3 rev. 2008, Business Combination and IAS 27 rev. 2008, Consolidated and Separate Financial Statements (1 July 2009)**
  Revised IFRS 3 now governs accounting for business combinations. Material changes under the revised standard concern the option also to measure non-controlling interests at fair value in future. In addition, acquisition-related costs may no longer be included in the acquisition cost but must normally be expensed instead. Qualified components of the acquisition cost must be recognised at the acquisition-date fair value while subsequent changes in estimates must be recognised in income. Acquisitions of non-controlling interests and disposals of ownership interests that do not result in a loss of control must be accounted for as equity transactions pursuant to IAS 27 rev. 2008. The Conergy Group is currently reviewing the possible effects on future business combinations and the presentation of the consolidated financial statements.
- **IAS 32 rev. 2008, Financial Instruments: Presentation (1 January 2009)**
  The revision of IAS 32, which was adopted in February 2008, requires the issuer to classify certain financial instruments that the holder can put back to the issuer as equity. To date, these financial instruments had to be treated as liabilities. The Conergy Group is currently reviewing what effects the application of this interpretation could have on its assets, liabilities, financial position and profit or loss.

- **IFRS 2 rev. 2008, Share-based Payments (1 January 2009)**
  The revision of this standard clarifies the delineation of exercise conditions and other conditions in share-based payment arrangements. Pursuant to the revision of IFRS 2, performance conditions shall be the sole criterion governing exercise terms. The Conergy Group is currently reviewing what effects the application of this interpretation could have on its assets, liabilities, financial position and profit or loss.

The following interpretations that are not relevant to the Conergy Group were also published:

- IFRIC 11, IFRS 2: Group and Treasury Share Transactions (1 March 2007);
- IFRIC 12, Service Concession Arrangements (1 January 2008);
- IFRIC 14, IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (1 July 2008).

With the exception of IFRIC 11 and IFRS 8, these revised and new standards and interpretations had not yet been adopted by the EU by the time the Company's annual financial statements were completed. No voluntary early application of these standards and interpretations was made.

Consolidation principles

All significant subsidiaries are included in the consolidated financial statements. The Conergy Group does not have any significant joint ventures or associated companies.

Subsidiaries
All companies (including special purpose entities), whose financial and business policies are controlled by the Conergy Group, are considered subsidiaries. As a rule, an ownership interest of more than 50 percent of the voting shares entails control. Currently exercisable or convertible potential voting shares are considered in any assessment of whether or not an enterprise holds a controlling interest. Subsidiaries are fully consolidated from the date on which control is transferred to the controlling group entity and deconsolidated at the time the control ends.

An acquired subsidiary is accounted for using the purchase method under IFRS 3 by offsetting the cost of the ownership interest against the pro rata remeasured equity of the subsidiary. Accordingly, the cost of the ownership interest corresponds to the fair value of the assets acquired, the equity instruments issued and the liabilities created or assumed at the transaction date plus the costs directly attributable to the acquisition. On initial consolidation, identifiable assets, liabilities and contingent liabilities that were acquired in connection with a business combination are recognised at their acquisition-date fair value, irrespective of the scope of the non-controlling interests. Goodwill is recognised if the acquisition cost of the ownership interest exceeds the pro rata net assets measured at fair value. It is not amortised but subject to an annual impairment test instead. Any excess of the acquired subsidiary's pro rata net assets that have been measured at fair value over the acquisition cost is recognised directly in income.

Intragroup profits and losses, sales, expenses, and income as well as receivables and payables between the consolidated companies are eliminated. Unrealised losses are also eliminated unless the transaction indicates an impairment of the assets transferred. Deferred tax assets or liabilities are recognised pursuant to IAS 12 in the event of consolidation measures that are recognised to profit or loss. The recognition and measurement methods used by subsidiaries were adjusted as necessary to the Conergy Group's uniform accounting methods.

Acquisition and sale of non-controlling interests

The Company treats transactions with non-controlling interests (NCI) as transactions with third parties. Disposals of an ownership interest in a subsidiary that do not result in a loss of control thus generate a gain or loss on disposal that is recognised in the Group's net profit or loss for the period. Acquisitions of NCIs in subsidiaries lead to the recognition of goodwill corresponding to the difference between the cost of the ownership interest and the corresponding carrying amount of the acquired pro rata net assets of the subsidiary.

Associated companies

Companies over which the Group generally exercises a significant influence based on its ownership interest of between 20 percent and 50 percent are accounted for using the equity method. Just as in the previous year, Conergy AG did not have significant shareholdings as at 31 December 2007.

Companies included in the consolidated financial statements

Besides Conergy AG as the parent company, the consolidated financial statements also comprise 29 domestic and 54 foreign subsidiaries. Pursuant to Section 313 para. 2 German Commercial Code, the required disclosures regarding shareholdings are published in the electronic Federal Gazette along with the consolidated financial statements and the group management report. In the 2007 financial year, the following changes occurred with respect to the companies included in Conergy's consolidated financial statements:

	2007			2006
Number of fully consolidated subsidiaries	**Germany**	**Abroad**	**Total**	**Total**
As of 01.01.	**22**	**46**	**68**	**37**
Additions through acquisition	1	5	6	12
Additions through formation	6	10	16	19
Disposals from sale	0	0	0	0
Disposals from change in the basis of consolidation	0	7	7	0
As of 31.12.	**29**	**54**	**83**	**68**

The following table lists the significant subsidiaries included in consolidation:

	Domicile	Percentage of shares owned
Germany		
Conergy Vertriebs GmbH & Co. KG	Sulzbach-Neuweiler (Germany)	100
SunTechnics GmbH	Hamburg (Germany)	100
EPURON GmbH	Hamburg (Germany)	100
Conergy SolarModule GmbH & Co. KG	Frankfurt (Oder) (Germany)	100
Rest of Europe		
SUNTECHNICS SISTEMAS DE ENERGIA, SLU	Madrid (Spain)	100
EPURON Spanien SLU	Madrid (Spain)	100
EPURON S.A.R.L.	Paris (France)	100
Rest of world		
Conergy Inc.	Santa Fe (USA)	100
SunTechnics Limited	Seoul (South Korea)	100

The number of project companies existent as at 31 December 2007 developed as follows during the financial year:

	2007		
Number of project companies	**Germany**	**Abroad**	**Total**
As of 01.01.	**183**	**214**	**397**
Additions through acquisition	0	0	0
Additions through formation	53	6	59
Disposals from sale	8	6	14
Disposals from change in the basis of consolidation	0	0	0
As of 31.12.	**228**	**214**	**442**
thereof fully consolidated	29	84	113

Fifty-five out of 397 project companies had been consolidated as at 31 December 2006. The remaining project companies were not consolidated given their insignificance to the assets, liabilities, financial position and profit or loss of the Conergy Group.

See note 8 with respect to the changes arising from acquisitions and disposals by sales.

SunTechnics GmbH, Hamburg, Conergy Vertriebs GmbH & Co. KG, Hamburg, and Conergy SolarModule GmbH & Co. KG, Frankfurt (Oder) utilise the exemption rules pursuant to Section 264 para. 3 as well as Section 264 b of the German Commercial Code (exemption from the preparation, auditing and disclosure of annual financial statements).

The following companies were not included in the consolidated financial statements for reasons of materiality:

Subsidiaries	Domicile	Shareholding in percent
Conergy Products & Services Pte. Ltd. Singapore	Singapore	100
Lunepower GmbH	Germany	50
Sunpower Solartechnik GmbH	Germany	100
EOS Energy Management E.P.E.	Greece	100
Conergy Estonia OÜ	Estonia	100

Currency translation
All receivables and liabilities in a currency other than the functional currency are recognised in the single-entity financial statements of the Group companies at the reporting-date exchange rate regardless of whether or not they are hedged through foreign exchange contracts. Foreign currency translation differences arising from the measurement of foreign currency positions are recognised in income. Derivatives are recognised at fair value. The functional currency of the Conergy Group companies corresponds to the relevant local currency because they run their businesses independently in financial, economic and organisational terms.

Assets and liabilities of the foreign subsidiaries are translated into euros both at the start and end of the year using the relevant end of period exchange rate while all changes during the year as well as expenses and income are translated into euros at average annual exchange rates. Equity components are translated at historical rates at the time they are deemed to have been acquired from the Group's viewpoint.

The differences relative to the translation at end of period exchange rates are recognised separately as "currency changes" in equity and in the other comprehensive income as well as in the tables in the notes. Differences from currency translation previously recognised in equity while a Group company was consolidated are reversed to income at the time the relevant entity is deconsolidated.

The following significant exchange rates were material to currency translation:

	Closing rate		Average exchange rate	
1 Euro	31.12.2007	31.12.2006	2007	2006
USD (USA)	1.47	1.32	1.37	1.26
AUD (Australia)	1.68	1.67	1.63	1.67
JPY (Japan)	164.93	156.70	161.25	145.99
KRW (South Korea)	1,377.46	1,225.45	1,276.03	1,198.73

Accounting policies

Intangible assets
Purchased intangible assets with a determinable useful life are recognised at cost, less pro rata straight-line amortisation based on their estimated useful life. The loss of value or wear and tear is recognised in the income statement under amortisation and depreciation of intangible assets and property, plant and equipment. Impairment losses are recognised where necessary.

The following useful lives were applied to the amortisation of intangible assets:

	Useful life
Industrial property rights	4 – 20 years
Capitalised development costs	5 years
Software	3 – 5 years

Intangible assets whose estimated useful life can not be determined are not subject to amortisation; an annual impairment test is conducted instead. The Conergy Group does not possess such assets.

Development costs are capitalised if it is sufficiently probable that the development activity will lead to future inflows of funds that cover not only current costs but also the respective development costs. Directly attributable staff costs and related expenses as well as the pro-rata cost of materials such as rent, electricity and insurance are only capitalised at the time the technical and economic feasibility of the project can be demonstrated and the costs can be reliably assessed.

Conergy monitors and manages its development projects based on close project management, which makes it possible to determine, on the basis of milestones achieved, whether or not current development costs are eligible for capitalisation. Development costs arising before all requirements applicable to capitalisation have been satisfied are expensed in the year they are incurred.

All capitalised development costs are subjected to an impairment test at least once a year and more often if certain indications of impairment are present until the relevant development project has been completed. Following the project's completion, they are subject to straight-line depreciation based on their estimated useful life from the completion date. An impairment loss on the intangible assets is recognised if there is any indication of impairment and if the recoverable amount is less than the adjusted cost. The loss of value or wear and tear is recognised in the income statement under amortisation and depreciation of intangible assets and property, plant and equipment.

Pursuant to IAS 38.54, research costs are expensed in the period in which they are incurred. An insignificant amount of research costs were expensed in the 2007 financial year.

Goodwill

The excess of the cost of an acquisition over the value of the Group's pro rata share in the acquired net assets – which arises from the remeasurement of the assets acquired and the liabilities assumed in connection with the business combination – is recognised as goodwill. In subsequent periods, goodwill is recognised at cost less cumulative impairment losses. Reversals of impairment losses in periods after the balance sheet date are not recognised.

Goodwill is not subject to amortisation; instead, it is tested for impairment at least once a year and more often if certain indications of impairment are present. To this end, the goodwill is allocated to those cash generating units at the acquisition date that are expected to benefit from the business combination. The Conergy Group's strategic units (subsidiaries) that are classified as reporting units under the operating segments are always defined as the cash generating unit for purposes of testing goodwill for impairment.

Upon disposal of a business unit of a cash generating unit to which goodwill was allocated, the goodwill attributable to such departing business unit is treated as a disposal and thus recognised in income from disposals. The disposal value is always determined at the ratio of the value of the business unit being sold to the value of the entire cash generating unit.

If the impairment of the cash generating unit exceeds the carrying amount of the goodwill allocated to it, then the excess impairment loss must be recognised by writing down the carrying amounts of the assets allocated to the cash generating unit on a pro rata basis.

The recoverable amount of a cash generating unit is defined as the value in use or the realisable value, whichever is greater. It is determined using the discounted cash flow method based on planned future cash flows that are discounted using a weighted average of the cost of capital. These calculations are based on detailed plans for the next three annual periods of the type that are also used for internal purposes. Thereafter, the net present value (NPV) is determined based on sustained income achievable on average in the form of a perpetual yield discounted by one percent for growth.

The discount rate is applied to net income after taxes and reflects the cost of capital. Capital costs are calculated as the weighted average of the equity and borrowing costs, their share in total capital being the decisive factor. Equity costs correspond to the yields our shareholders expect us to generate. The borrowing costs used reflect the terms and conditions that govern the Company's long-term financing. An interest rate of 12 percent is utilised to discount the estimated series of payments.

Goodwill capitalised on acquisition is allocated among the Conergy Group's cash generating units under the operating segments.

The following schedule provides a summary of the goodwill classified according to segments and regions:

	2007			
TEUR	**Conergy**	**SunTechnics**	**EPURON**	**Total**
Germany	411	2,470	–	2,881
Rest of Europe	7,075	2,527	–	9,602
Rest of world	6,231	1,402	560	8,193
	13,717	**6,399**	**560**	**20,676**

	2006			
TEUR	**Conergy**	**SunTechnics**	**EPURON**	**Total**
Germany	4,177	2,458	1,176	7,811
Rest of Europe	8,894	2,070	354	11,318
Rest of world	7,958	2,102	205	10,265
	21,029	**6,630**	**1,735**	**29,394**

An impairment loss of TEUR 28,625 was recognised on existing goodwill as a result of the impairment test that was conducted during the financial year. Discontinued operations account for TEUR 12,355 of this amount. In addition, impairment losses of TEUR 1,159 and TEUR 2,707 were recognised, respectively, on intangible assets and property, plant and equipment solely for discontinued operations.

Property, plant and equipment

Property, plant and equipment are capitalised at cost less pro-rata straight-line depreciation over their estimated useful life. The cost of an item of property, plant and equipment comprises its purchase price, including all directly attributable costs of bringing the asset to a location and working condition for purposes of its intended use.

Subsequent purchase or production costs are recognised as part of the cost of the respective asset or as a separate asset if it is probable that the Company will derive economic benefits from such subsequent costs and if they can be reliably estimated. Ongoing maintenance costs are recognised as an expense when they arise.

Depreciation on property, plant and equipment is essentially based on the following planned useful lives:

	Useful life
Machinery and tools	3 – 20 years
Motor vehicles	5 – 6 years
Furniture, fixtures and office equipment	4 – 10 years
IT equipment	3 – 5 years

The carrying amounts and the useful lives of items of property, plant and equipment are reviewed at the given balance sheet date and adjusted as necessary. An impairment loss on the items of property, plant and equipment is recognised if there is any indication of impairment and if the recoverable amount is less than the amortised cost. Corresponding write-ups are made if the reasons for the impairment no longer exist. The loss of value or wear and tear is recognised in the income statement under amortisation and depreciation of intangible assets and property, plant and equipment.

If the property, plant or equipment is disposed of or scrapped, then any gain or loss arising on its disposal is recognised in the income statement.

Borrowing costs

Borrowing costs are generally recognised as expenses in the period in which they have incurred. Using the allowed alternative treatment under IAS 23.11 (Borrowing Costs), directly attributable borrowing costs are shown as part of the costs if the relevant asset is considered a qualifying asset. Financing costs not directly attributable to the assets are included in the costs of the manufactured or acquired asset on a pro-rated basis. In the 2007 financial year, TEUR 28,059 in borrowing costs (previous year: TEUR 7,121) were recognised as an expense and TEUR 3,779 (previous year: TEUR 568) were capitalised. A capitalisation rate of 5.6 percent was utilised to determine the borrowing costs eligible for capitalisation.

Leases

Pursuant to IAS 17, leases must be classified as finance leases or operating leases. This classification is essentially contingent on who has the significant risks and rewards of the leased property. Conergy AG is the lessee in all leases maintained by the Conergy Group.

Assets utilised under operating leases are not capitalised because significant benefits and risks of the leased property remain with the lessor. Payments made under an operating lease are recognised in the income statement for the relevant period as they are incurred.

A finance lease is a lease where essentially all risks and rewards arising from ownership of an asset are transferred to the lessee. Assets subject to finance leases are capitalised at the lower of the fair value or the present value of the minimum lease payments. Lease payments to be made must be divided into principal and interest. The resulting leasing liability is shown under the borrowings and is subject to a fixed interest rate. The interest element of the lease payment is recognised in net financial income. Depreciation is taken based on the useful life of the leased assets or the lease term, whichever is shorter. The Conergy Group does not maintain any leases assumed to be finance leases.

Financial instruments

A financial instrument is an agreement simultaneously giving rise to a financial asset in one company and a financial liability or an equity instrument in another company. In particular, financial assets include cash and cash equivalents, trade receivables, loans and receivables, financial assets held to maturity as well as original and derivative financial assets held for trading. Financial liabilities always give rise to a claim for repayment in cash or by means of another financial asset, in particular, bonds and other securitised liabilities, liabilities to banks,

liabilities under finance leases, borrower's note loans and derivative financial liabilities. Financial instruments are always recognised as soon as Conergy becomes a party to the terms governing the financial instrument. The settlement date, i.e. the date on which the asset is delivered to or by Conergy, is relevant to both initial recognition and derecognition of purchases or sales made at market rates. As a rule, financial assets and financial liabilities are not offset; they are offset only if there is a right to set off the amounts at the present time and if there is a plan to settle on a net basis.

Financial assets
Financial assets are divided into the following categories:

- Financial assets measured at fair value to profit and loss;
- Financial assets held to maturity;
- Loans and receivables;
- Available-for-sale financial assets.

The classification depends on the reason for purchasing a given financial asset.

Financial assets measured at fair value to profit and loss
For one, this comprises financial assets held for trading and, for another, financial assets designated on initial recognition as financial assets measured at fair value to profit and loss. Derivative financial assets must be allocated to this category unless they are treated as hedging transactions (see note 22).

Money market funds and other listed securities are categorised as held for trading, recognised as at the contract date and measured at their fair value on both initial recognition and subsequent measurements. Transaction and other additional costs as well as gains and losses on subsequent measurements at fair value are posted to other operating income or other operating expenses. The fair value of shares in funds corresponds to the market price that is determined on each market trading day and to the offering price of other securities.

Financial assets held to maturity
This concerns non-derivative financial assets with fixed or determinable payments and fixed maturities, which the enterprise wants and can hold to maturity. They are recognised at adjusted cost. Conergy's portfolios currently do not contain any significant financial assets of this nature.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on any active market. On initial recognition, they are recognised at their fair value as at the contract date plus transaction costs directly attributable to the purchase of the financial asset. Subsequent measurements are made at amortised costs using the effective interest method. This includes, in particular, trade receivables as well as other financial assets.

If the recoverability of receivables is doubtful, an impairment is recognised on the basis of the difference between the carrying amount of the respective receivables and the present value of the expected future cash flows, discounted at the initial effective interest rate. A flat rate method is used in connection with insignificant receivables.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are classified as such or not allocated to any of the foregoing categories. On initial recognition, they are recognised at their fair value plus transaction costs directly attributable to the purchase of the financial asset. Subsequent measurements are executed at fair value and unrealised gains and losses are recognised directly in other provisions under equity. The Conergy Group did not have any material inventories of such financial assets at the balance sheet date.

Derecognition of financial assets
The Group derecognises a financial asset if contractual rights to cash flows from the financial asset expire or if all significant risks and rewards arising from ownership of the financial asset were transferred to a third party.

If the Conergy Group does not transfer essentially all risks and rewards arising from ownership, nor retains and continues to control the right to dispose of the transferred asset, then both its remaining share in the asset and a corresponding liability equivalent to the amounts that might have to be paid are recognised. In cases where the Group essentially retains all risks and rewards arising from ownership of a transferred financial asset, it must continue to recognise the financial asset as well as a secured loan for the consideration received.

Derivative financial instruments and hedge accounting
Derivative financial instruments are recognised as at the contract date and measured at fair value, both at the time they are posted and thereafter. Any resulting transaction costs are expensed at the time they arise. Recognition of any changes in value is contingent on whether or not there is a hedging relationship and which hedging relationship is concerned.

Both the hedging relationship and the Company's risk management objectives and strategies are formally designated and documented with respect to the hedge at its inception. The documentation contains the determination of the hedging instrument, the underlying transaction or the transaction being hedged as well as the type of risk hedged and a description of how Conergy determines the effectiveness of the hedging instrument when offsetting risks from changes in the fair values of or cash flows from the hedged underlying transaction. Such hedging relationships are considered highly effective in offsetting risks from fair value or cash flow changes. Continuous assessments are made to determine whether or not they actually were highly effective during the entire reporting period for which the hedging relationship was designated.

The Conergy Group utilises hedging relationships solely to hedge foreign exchange and interest rate risks from firm commitments or highly probable transactions. Exchange rate risks related to firm commitments are treated as cash flow hedges or fair value hedges, depending on the hedging relationship.

The effective portion of the change in the fair value of the hedging instrument is recognised in a separate item in equity.

All amounts recognised in equity are transferred to the income statement in the period during which the hedged transaction has an impact on the profit or loss for the period, e. g. at the time hedged financial income or expenses are recognised or an expected sale is executed. If a hedge results in the recognition of a non-financial asset or a non-financial liability, then the amounts recognised in equity are allocated to the cost of the non-financial asset or non-financial liability as of the acquisition date.

These cash flow hedges are derecognised upon expiration, disposal, termination, or exercise of the hedging instrument. This also applies if the conditions requiring hedge accounting no longer exist or if the (intended) transaction underlying the requirement is no longer expected to occur. All gains or losses from subsequent fair value measurements of derivatives not designated as hedges are recognised in income.

The market value of interest rate swaps follows from the discounting of expected future cash flows over the residual maturity of the contract based on current market rates or interest rate curves.

The fair values of derivative financial instruments with residual maturities of less than twelve months are recognised in current financial assets or financial liabilities whereas those with residual maturities of more than twelve months are recognised in non-current financial assets or financial liabilities. Derivative financial instruments held for trading are always treated as current assets.

Inventories

Inventories are recognised at the lower of cost or net realisable value. The first-in, first-out (FIFO) method is used to determine the cost of raw materials, consumables and merchandise. The cost of completed work and work in progress comprises expenses directly attributable to the manufacturing process (direct production costs) as well as appropriate portions of general overheads related to manufacturing. The presumably realisable proceeds from a sale less any costs incurred until such sale is the realisable selling price.

Construction contracts

Contracts providing for the planning, design, production and assembly of complex solar or wind energy installations in accordance with customer specifications are accounted for as construction contracts pursuant to IAS 11 (Construction Contracts). The percentage-of-completion (PoC) to be recognised is determined in two ways depending on the different business models.

In case of major projects (sales volume at least TEUR 1,000), the percentage of completion is always determined on the basis of the completion of pre-defined project segments (milestone method). The milestones are defined by the responsible engineers based on construction and production processes. Revenue and partial profits are recognised depending on the degree of completion. Profits are recognised only if the result of the contract work can be reliably estimated. If not, revenue in amount of the contract costs is recognised.

In case of small and medium orders (sales volume less than TEUR 1,000), the percentage of completion is always determined by the ratio of the cost incurred to the projected total cost (cost-to-cost method).

The contract costs incurred – which encompass the directly attributable costs of labour and materials as well as both production-related overhead costs and estimated costs for follow-up work and warranties – are recognised as sales revenue based on the pro rata share of the revenue corresponding to the estimated stage of completion. Losses from construction contracts are immediately recognised in full in the financial year during which the losses become apparent, irrespective of the stage of completion achieved.

The construction contracts are shown in trade receivables or payables. Contract work is recognised as trade receivables to the extent that in individual cases the cumulative performance (order costs and income) is higher than the payments received on invoices for partial deliveries. Any negative balance remaining after deduction of the advances is recognised in trade payables as a liability from construction contracts.

Cash and cash equivalents
Cash and cash equivalents include cash, sight deposits and financial assets that can be converted into cash and cash equivalents at any time and are subject to only minor fluctuations in value.

Non-current assets (or disposal groups) held for sale
Non-current assets (or disposal groups) are classified as held for sale and recognised at the lower of the carrying amount or fair value less disposal costs if the respective carrying amount will be realised largely from a disposal transaction and not from ongoing use. Such assets are no longer amortised. If the carrying amount of the non-current assets and asset groups held for sale exceeds their fair value less disposal costs, then an impairment loss corresponding to the difference must be recognised. The previously recognised impairment loss must be reversed if the fair value less disposal costs increases at a later date. Such a write-up must be limited to the impairment loss previously recognised for the relevant assets.

Discontinued operations
Discontinued operations (see note 8) concern business units that were disposed of or are being classified as held-for-sale and (a) represent a separate, material division or geographic segment; (b) are an integral part of an individual, coordinated plan to dispose of a separate, material division or geographic segment; or (c) constitute a subsidiary acquired solely for resale purposes.

Equity
The Company's no-par bearer shares must be classified as equity. Costs incurred in connection with the issuing of new shares are recognised directly in equity once related taxes have been offset, reducing the issuing proceeds.

Treasury shares purchased by Conergy AG itself or by one of its subsidiaries are deducted directly from equity. Costs arising from the acquisition of treasury shares are added to the consideration paid once related taxes have been offset. The consideration received in connection with the issuing of new shares less related after-tax costs is recognised in equity. No gain or loss is generated by the purchase or issuance of treasury shares.

Borrowings

On initial recognition, borrowings are measured at their fair value, which normally corresponds to the amount of funds received. In subsequent periods, borrowings are measured at adjusted cost using the effective interest method. Subsequently, every difference between the issue amount less transaction costs and the repayment amount are recognised in the income statement under net financial income over the relevant term of the loan using the effective interest method. The effective interest rate is the interest rate where estimated future in- and outflows related to the borrowings are discounted exactly to the issue amount over the expected term of the loan.

A financial liability is derecognised upon satisfaction, termination, or expiration of the underlying obligation.

Provisions

Provisions are liabilities of uncertain timing or amount. They are recognised if the Group currently has a legal or constructive obligation toward third parties and if it is probable that settling the obligation will lead to an outflow of resources and if the amount of the provision can be reliably determined.

Other provisions are measured in accordance with IAS 37 using the best estimate of the scope of the obligation. In each case, this amount is the most likely for individual risks. Provisions with a residual maturity of more than one year are discounted at an interest rate appropriate to both the risk and the maturity.

A provision for restructuring expenses is recognised if the Group has prepared a detailed formal restructuring plan which, in turn, has raised a valid expectation in the minds of the affected individuals that the restructuring measures will be executed, and starts to implement the plan or announces its material components. Solely direct expenditures arising from the restructuring are considered in the measurement of a restructuring provision, i. e. those that are entailed by the restructuring and are not associated with the Company's continuing business operations.

Deferred taxes

Using the liabilities method, deferred tax assets and liabilities are recognised for all temporary differences between the tax basis of the assets/liabilities and their carrying amounts in the IFRS financial statements. Deferred tax assets for temporary differences as well as for tax loss carryforwards are recognised at the amount at which it is probable that the temporary difference or the tax losses not yet used can be offset against future taxable income.

Deferred tax assets and liabilities are measured in accordance with both the tax rates and tax regulations that were applicable at the balance sheet date or have essentially been adopted into law and that are expected to apply at the time the deferred tax asset is realised or the deferred tax liability is settled. A tax rate of 31.5 percent applies to the German Group companies; aside from the uniform corporate tax rate and the solidarity surtax, this rate also includes the average trade tax rate.

Contingent liabilities

Contingent liabilities are possible obligations arising from past events, the existence of which will only be confirmed by the occurrence or non-occurrence of uncertain future events, or current obligations arising from past events that are unlikely to result in an outflow of resources or the amount of which can not be measured with sufficient reliability. Pursuant to IAS 37, contingent liabilities are generally not recognised.

Recognition of revenue

Revenue is measured at the fair value of the consideration received or receivable. Bonuses, cash discounts, or rebates reduce revenue.

Conergy recognises revenue from the sale of goods at the time the significant risks and rewards of ownership to the goods have been transferred to the buyer, the amount of the revenue can be reliably determined and if it is probable that economic benefits associated with the transaction will flow to the Company as well as if the costs incurred or to be incurred in connection with the sale can be reliably determined. No revenue is recognised if there are significant risks in connection with receipt of the consideration or a possible return of the goods.

Revenue from service contracts is recognised in accordance with the stage of completion. Consideration for services that is included in the price of the product sold is recognised at the ratio of its share in the total service attributable to the product sold, based on past trends regarding the services provided in connection with products sold. Revenue from contracts settled on the basis of time or materials is recognised at the contractually stipulated rates for hours worked and costs directly incurred. Income in connection with construction contracts is recognised according to the stage of completion, provided all requirements under IAS 11 have been met, particularly when the revenue, total cost and stage of completion can be reliably measured. For further details, please see the disclosures in the section discussing construction contracts.

Employee benefits

Postemployment benefits

The Group's pension plan largely is a defined contribution plan. This means that Conergy makes statutory, contractual, or voluntary contributions to statutory and private pension insurance entities. Conergy AG does not have any other material payment obligations above and beyond these contributions. The contributions are recognised as at the due date in the income statement under the item "personnel expenses". Prepayments of contributions are recognised as assets to the extent that there is a right to repayment or reduction of future payments.

Share-based payments

Conergy maintains a share-based payment system for members of its Management Board based on stock appreciation rights on shares of Conergy AG ("Phantom Stock Options"). All work obtained in return for the Phantom Stock Options is recognised in staff costs. The expense to be recognised is calculated based on the fair value of the Phantom Stock Options at the balance sheet date, multiplied by the best estimate of the number of options exercisable at the end of the service period. The fair value of the Phantom Stock Options is determined at every balance sheet date on the basis of option pricing models. All market conditions that are tied to the exercise flow into the calculation of the fair value. However, exercise conditions are not considered at the time the fair value of the options is determined but instead at the time the number of exercisable options is estimated. The amount to be expensed thus determined is distributed over the service period. A liability corresponding to the expense incurred is recognised because the Phantom Stock Options entail a cash settlement. Adjustments resulting from changes in the estimates of the number of exercisable options or changes in their fair values are recognised in income in the period during which the estimate was changed by adjusting the liability item accordingly.

Government grants

Government grants received in connection with investments in property, plant and equipment are deducted from the cost of the asset in accordance with IAS 20.24 Government Grants Related to Assets.

4. Adjustment in the treatment of major projects

Conergy changed its method of accounting for project companies in the 2007 financial year. A significant portion of EPURON's business is transacted via long-term project development. Project development encompasses both the planning for and the technical execution of energy farms, as well as marketing them to investors that invest in project companies established specifically for project development from a certain point in time.

It is Conergy's view that the measurement of project companies must be based – in legal terms (IAS 27), as well as in terms of their economic risks and rewards (SIC 12) – on whether or not they are controlled by the Company and thus must be included in its consolidated financial statements. In the 2007 financial year, Conergy made the catalogue of criteria used to assess economic risks and rewards [SIC 12.10 (c) and (d)] more restrictive in that third-party investors must satisfy higher capital requirements. Compared to the catalogue of criteria used in 2006, in the final analysis this means that project companies are deconsolidated at a later point in time. Conergy's management is convinced that the new accounting method for project companies represents a more conservative accounting that better reflects actual changes in the economic environment during the given financial year and thus helps to provide greater insight into the Company's financial position and performance.

The new accounting method was applied retroactively to previous years. Adjustments made in accordance with IAS 8.42 would have the same effects on the Group's assets, liabilities, financial position and profit or loss. Compared to the accounting and measurement methods previously applied, the new method has the following effects on individual items in the income statement, the balance sheet and earnings per share in the periods presented in these financial statements:

TEUR	2007	2006
Income statement		
Revenue	−94,602	−58,981
Changes in inventories of finished goods and work in progress	59,495	25,310
Gross profit	**−35,107**	**−33,671**
Earnings before interest and taxes (EBIT)	**−35,107**	**−33,671**
Earnings before taxes (EBT)	**−35,107**	**−33,671**
Income taxes	11,059	13,600
Result after taxes from continued operations	**−24,048**	**−20,071**
Result after taxes from discontinued operations	–	–
Result after taxes	**−24,048**	**−20,071**
Thereof attributable to		
Shareholders of Conergy AG (Group profit or loss)	−24,048	−20,071
Minority shareholders	–	–
Earnings per share (in EUR) from continued operations		
Basic	−0.74	−0.67
Diluted	−0.74	−0.67

TEUR	31.12.2007	31.12.2006
Balance sheet – Assets		
Current assets		
Inventories	87,847	28,694
Trade receivables	–117,370	–42,209
Other assets	4,691	2,479
Total assets	**–24,832**	**–11,036**

Balance sheet – Equity and liabilities		
Equity attributable to the shareholders of Conergy AG		
Other reserves	–47,041	–22,993
Non-controlling interests	–	–
Total equity	**–47,041**	**–22,993**
Non-current liabilities		
Deferred tax liabilities	–26,638	–15,579
Current liabilities		
Trade payables	–	–
Borrowings	44,624	17,610
Other liabilities	4,223	9,926
	48,847	**27,536**
Total equity and liabilities	**–24,832**	**–11,036**

The cumulative effect on earnings after taxes in periods that are not shown is TEUR –2,922. This amount was offset against retained earnings as at 1 January 2006.

5. Restatements regarding the 2006 annual financial statements

Restatements pursuant to IAS 8.42 were made for both Conergy AG and one of its subsidiaries in the 2007 financial year.

The restatements concern a land transaction which has to be viewed in connection with a sale-and-lease-back leasing transaction. The restatements also concern the accounting in connection with IFRS 3 (Business Combinations) and hedge accounting in accordance with IAS 39.

The land transaction was based on a leasehold agreement, which made it possible to transfer the land at a selling price that was higher than the land's fair value. In accordance with IAS 17.61, the difference between the land's selling price and its fair value is expensed over the period during which the land is expected to be utilised. The income of TEUR 14,782 that was recognised in other operating income in connection with the property transaction in the 2006 financial year was reversed, leading to income of TEUR 3,854.

In connection with the accounting treatment of an intangible asset arising from project rights related to the construction of a wind farm from the initial consolidation of SAGAP ELEKTRIK ÜRETIM ANONIM ŞIRKETI (Turkey) an intangible asset of TEUR 6,898 was recognised in the 2006 consolidated financial statements of Conergy AG and can thus be recognised separately from goodwill. Negative goodwill of TEUR 3,279 was recognised as operating income in the 2006 financial year due to the aforementioned separation.

Taking the chain of circumstantial evidence in accordance with IFRS 3.56 as the premise and based on the uncertainties in measuring the project rights, the intangible asset was recognised at TEUR 3,619. The income of TEUR 3,279 that was recognised in the 2006 financial year was reversed.

Conergy engaged in hedge accounting as at 31 December 2006 in that it used cash flow hedges in connection with currency risks from highly probable payments in Japanese yen and US dollars. The relevant cash flow hedges served to hedge the risk of fluctuating future cash flows through derivative financial instruments.

In the 2007 financial year, a retrospective restatement was made with regard to the accounting for cash flow hedges of currency risks in the 2006 financial year. Now, all changes in value that go beyond the currency risk based on the spot rate are recognised in income. This has resulted in the recognition of expenses in the amount of TEUR 1,907 (after taxes) that were previously recognised in equity.

Compared to the amounts recognised in the 2006 financial statements, this triggered a retrospective restatement based on the facts outlined above, which had the following effects on individual items in the income statement, the balance sheet and the earnings per share:

TEUR	2006
Income statement	
Other operating income	–14,207
Other operating expenses	–3,199
Earnings before interest and taxes (EBIT)	**–17,406**
Earnings before taxes (EBT)	**–17,406**
Income taxes	6,251
Result after taxes from continued operations	**–11,155**
Result after taxes from discontinued operations	–
Result after taxes	**–11,155**
Thereof attributable to	
Shareholders of Conergy AG (Group profit or loss)	–11,155
Minority shareholders	–
Earnings per share (in EUR) from continued operations	
Basic	–0.37
Diluted	–0.37

TEUR	31.12.2006
Balance sheet – Assets	
Non-current assets	
Intangible assets	–4,315
Total assets	**–4,315**

Balance sheet – Equity and liabilities	
Equity attributable to the shareholders of Conergy AG	
Other reserves	–9,248
Non-controlling interests	–173
Total equity	**–9,421**
Non-current liabilities	
Other liabilities	10,928
Deferred tax liabilities	–863
Current liabilities	
Current income tax liabilities	–4,959
Total equity and liabilities	**–4,315**

6. Assumptions and exercise in judgment

Management's material margin in judgment
Application of the aforementioned accounting principles requires the Management Board to assess facts, perform estimates and make assumptions with respect to the carrying amounts of assets and liabilities that cannot be readily determined from other sources. Both the estimates and their underlying assumptions are based on past experience as well as on other factors deemed to be relevant. Actual results may vary from these estimates, however. This also applies to contracts that raise the question whether they should be treated as derivatives or as pending transactions. The assumptions underlying the estimates are regularly reviewed. Changes in the estimates that occur in a specific period are considered solely in that period; if the change concerns both the current and subsequent reporting periods, then it is considered in all relevant periods.

Estimates and assumptions
Below is a description of the judgment the Management Board exercised in decisions concerning the application of the Company's accounting principles which, in turn, raised issues of the amount to be recognised in the annual financial statements for the year just ended. The following provides a summary of key forward-looking assumptions as well as the other main causes for uncertainties in estimates at the balance sheet date which can trigger a considerable risk that the assets and liabilities recognised might have to be adjusted during the subsequent financial year.

- **Construction contracts**
  The business of SunTechnics and EPURON is based in part on customer-specific construction contracts. In these cases, revenue is recognised pursuant to the percentage of completion method (PoC). Under this method, the assessment of the stage of completion, total contract costs, total revenues and contract risks substantially affect both the amount of revenue that is recognised and pro rata earnings. Changes in planned costs and the profitability of the individual construction contracts lead to modifications of the estimates that are recognised in the period during which they occur. As of 31 December 2007, TEUR 100,458 (previous year: TEUR 54,487) in receivables from construction contracts were recognised in trade receivables.
- **Impairment of goodwill**
  The Group tests goodwill for impairment at least once a year (see note 13). This requires estimating the value in use of those cash generating units to which the goodwill has been allocated. The Group must estimate the expected future cash flows from the cash generating unit in order to estimate the value in use and, furthermore, select a reasonable discount rate in order to determine the present value of these cash flows. As of 31 December 2007, the carrying amount of the goodwill was TEUR 20,676 (previous year: TEUR 29,394).

- **Development costs**
  The Group reviews the carrying amount of capitalised development costs at least once a year. The Management Board usually bases write-downs of capitalised development costs on a useful life of five years. In addition, the probable economic benefit of the development is determined by estimating the values in use of the cash generating units to which the capitalised development costs were allocated. Costs related to past development activities that have become obsolete are written down. The Group capitalised TEUR 14,239 (previous year: TEUR 8,584) in additions to development costs as at 31 December 2007. A total of TEUR 9,067 (previous year: TEUR 0) in capitalised development costs from previous years were written off in the financial year just ended due to technical adjustments and the restructuring decisions that were made.
- **Assets held for sale**
  Assets slated for disposal require determinations as to whether they can be sold in their current condition and whether their sale is highly probable. If this is the case, then the assets and the related liabilities must be measured and recognised as assets held for sale or as liabilities related to assets held for sale.
- **Income taxes**
  Corporate income taxes must be estimated for every tax jurisdiction where the Group engages in business activities. This entails calculating the expected actual income tax for each taxpayer and the temporary differences from the divergent treatment of specific balance sheet items in the IFRS consolidated financial statements and the tax accounts. Temporary differences, if any, generally lead to the recognition of tax assets and tax liabilities in the consolidated financial statements. Management must make assessments in calculating current and deferred taxes. Deferred tax assets are recognised to the extent that it is probable that they can be used. Whether deferred tax assets are used depends on the Group's ability to earn sufficient taxable income under the relevant tax type and jurisdiction, if necessary, taking into account statutory limits on the maximum periods allowed for tax loss carryforwards. Various factors must be considered to assess the likelihood that deferred tax assets will be used in future, such as, for instance, past earnings, operational plans, tax loss carryforward periods and tax planning strategies. Any difference between actual results and these estimates or any need to adjust these estimates in future periods could have negative effects on the Company's profit/loss, cash flows and financial position. The deferred tax assets previously recognised must be written down to profit and loss if they are impaired. As of 31 December 2007, recognised tax loss carryforwards for corporate and municipal trade tax purposes, respectively, were TEUR 159,991 and TEUR 95,965 (previous year: TEUR 44,942 and TEUR 36,386, respectively). No deferred tax assets were recognised for tax loss carryforwards of TEUR 140,712 (previous year: TEUR 7,270) in corporate taxes and TEUR 153,009 (previous year: TEUR 0) in municipal trade tax because it is unlikely that the tax loss carryforwards can be utilised within the framework of the Company's medium-term, tax-related earnings planning. These loss carryforwards can essentially be utilised for an unlimited period of time.

Provisions

The determination of provisions for warranties and litigation substantially depends on assessments. Recognition and measurement of provisions and the amount of contingent liabilities related to pending litigation or other outstanding claims under settlement, mediation, arbitral, or statutory proceedings and other contingent liabilities are substantially tied to assessments. Hence any assessment of the likelihood that pending litigation will be successful or give rise to a liability, or any quantification of the possible amount of the payment obligation, depends on the evaluation of the given situation. Provisions are recognised for liabilities if losses are anticipated from pending transactions, a loss is probable and such loss can be reliably determined. Owing to the uncertainties arising from such assessments, actual losses might deviate from the initial estimates and thus from the amount of the provision. Moreover, determining provisions for taxes, environmental liabilities and legal risks require substantial estimates that can change over time as a result of new information. The Company avails itself of internal experts as well as of the services of external advisors to obtain new information. Changes in estimates can have a substantial impact on future profits or losses. In this connection, please see the disclosures in the risk report of Conergy's management report.

Estimate of the fair value of financial assets and liabilities

The fair value of financial assets and liabilities that were recognised in the balance sheet at adjusted cost or the fair value were determined as follows:
The fair value of financial assets and liabilities with standard maturities and conditions that are traded in active liquid markets is determined by reference to the listed market prices. The fair value of other financial assets and liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted measurement methods based on discounted cash flow analyses using prices achieved in observable current market transactions. The fair value of derivative instruments is calculated based on listed prices. Absent such prices, discounted cash flow analyses are applied to derivatives without optional components using the corresponding interest rate curves applicable to the instruments' maturity and option pricing models are applied to derivatives with optional components. These estimates, including the methods used, can influence the fair value determination.

7. Management of financial risks

Financial risk factors
The international nature of the Conergy Group's activities and its financing exposes it to a variety of financial risks, in particular, market, credit and liquidity risks. Its groupwide risk management focuses on the unforeseeability of developments in the financial markets and aims to minimise their potentially negative impact on the Group's cash flows. In order to hedge risks arising from changes in interest rates and foreign exchange rates, Conergy utilises specific derivative financial instruments that make it possible to raise capital from third parties in any publicly accessible capital market, irrespective of where the funding is needed.

Financial risks are managed by the Corporate Treasury department in accordance with the Management Board's groupwide guidelines. Corporate Treasury identifies, measures and hedges financial risks in close collaboration with the Conergy Group's operating units. A front office system that enables daily analyses of all open interest and currency risks and that can perform simulations of worst case scenarios is available to our employees in this connection. Maximum amounts that greatly limit the risk from hedging transactions are defined as part of interest and currency risk management. The Management Board provides risk management guidelines and precepts for specific divisions in connection with, for example, currency risks, interest rate risks and credit risks as well as the utilisation of derivative and non-derivative financial instruments. In addition, solely derivative financial instruments that can be mapped and measured in the risk management system are used for hedging purposes. Both the Management Board and the Supervisory Board are regularly apprised of the financial risk factors to which the Group is exposed. The Company's internal auditing department verifies compliance with these guidelines.

Nonetheless, the Conergy Group was exposed to temporary earnings risks and liquidity risks during the 2007 financial year against the backdrop of its dynamic growth and the evolving complexity of its business model. Aside from preparing an appropriate restructuring and realignment concept, the Management Board also refined the existing risk management system in cooperation with the Group's internal auditing department and other core departments, on short notice, in order to be able to detect and effectively counter such developments early on in future. This refined system further integrates risk management into the Company's business processes, ensuring, in particular, that it dovetails with Group Controlling and is made part and parcel of the project business. In this connection, please see the disclosures in the risk report of Conergy's management report.

Market risks

Currency risks
The Group's international activities expose it to currency risks arising mainly from changes in the exchange rates between the euro (EUR) and the US dollar (USD) or the Japanese yen (JPY), and the USD against the South Korean won (KRW). The Corporate Treasury department is generally responsible for managing currency risks. Currency risks arise when future transactions are based on a currency other than the euro, the functional currency. Hence USD and JPY risks arise from long-term procurement contracts in the relevant currency. The Conergy Group is obligated under these contracts to purchase and pay for goods in USD or JPY. The KRW risk occurs chiefly in transactions with local subsidiaries that are paid in KRW, which are subsequently converted into USD.

The Conergy Group optimises its currency risks by pushing natural hedging measures. This entails offsetting outflows under delivery contracts against inflows from external sales in the same currency. Corporate Treasury monitors currency developments in the capital markets on a daily basis in order to be able to react to short-term fluctuations and track the Group's medium to long-term currency strategies. Hedging strategies using currency derivatives are executed to this end. Futures and currency options are the most frequently used derivatives in this connection.

IFRS 7 requires a sensitivity analysis, which examines the effects of hypothetical changes in foreign exchange rates at the balance sheet date on the Group's profit/loss, cash flows and financial position. The effects of hypothetical changes in foreign exchange rates on the translation risk are not subject to IFRS 7. A hypothetical negative five percent change in foreign exchange rates was used to determine the sensitivities, positing a simultaneous gain in all currencies against the euro based on each currency's year-end exchange rate. The hypothetical loss from derivatives and original financial instruments as at 31 December 2007 would have been TEUR –625. The Japanese yen and the US dollar account, respectively, for TEUR –148 and TEUR –3,062 of this amount while derivatives account for TEUR 2,585. There were no effects on equity because no derivatives were used as at 31 December 2007 to hedge anticipated exposures to risk from planned transactions in foreign currencies.

Interest rate risks
Risks from changes in interest rates arise from interest rate fluctuations due to market conditions. Such fluctuations give rise to changes in the interest expense related to liabilities subject to variable interest rates and to changes in the fair value related to liabilities subject to fixed interest rates. The aim is to minimise the future risk of fluctuating interest expenses.

Currently, all financial liabilities under the syndicated loan dated 31 July 2007 are subject to variable interest rates. All financial liabilities in the 2007 financial year were structured in euros. The Conergy Group is exposed to additional interest rate risks in connection with EPURON's project business. Here, Corporate Treasury's responsibility is to monitor current interest rate trends and adjust the interest portfolio as necessary. This entails monitoring all critical interest rate curves in order to be able to react to short-term changes or shifts in the relevant interest rate curve as well, focusing mainly on the United States and Europe. Corporate Treasury develops additional short, medium and long-term interest rate forecasts to this end and subsequently aligns the relevant hedging strate-

gies to these forecasts. Primarily interest rate derivatives – in particular, interest rate swaps and interest rate options – are used to implement these hedges.

Six fixed-rate swaps were entered into for variable interest rate loans to hedge rising interest rates. Five fixed-rate swaps (at EUR 30 million), including redemption for securing the term loan, and one fixed-rate swap for EUR 100 million were entered into to hedge the interest rate risk from the Company's revolving facility. No interest rate risk arises because changes in the value of both the loans and the hedging transaction due to interest rates offset each other almost entirely during the period presented in the income statement.

Liquidity risks

A temporary liquidity crisis arose during the 2007 financial year against the previously described backdrop of the Conergy Group's dynamic growth and the evolving complexity of its business model. This crisis was driven essentially by the Company's primary focus on revenue growth, insufficient cost and working capital management, and excessive prefinancing of the Company's growth. Taken together, these factors resulted in a situation that threatened the Conergy Group's continued existence in November 2007.

Groupwide financial planning tools are intended to ensure early detection of the Company's complex liquidity situation resulting from the execution of corporate processes related to strategy and planning. Based on the insights gained with respect to the liquidity situation from groupwide financial planning tools, we now utilise liquidity planning that covers a period of 13 weeks and is rolled over from week to week as well as monthly planning that covers twelve months and is regularly updated and adjusted. These planning systems include all consolidated companies. Enhanced controlling tools and IT systems will be used to support the planning process.

To ensure sufficient liquidity, on 31 July 2007 Conergy negotiated a revolving credit facility and a EUR 600 million syndicated loan with fixed terms of, respectively, 3 and 4,7 years. The Group's financing needs are also being covered by recourse to a variety of financial market instruments (including overnight money and term deposits) as well as bilateral loans.

The EUR 600 million syndicated loan requires compliance with specific liquidity and capital structure ratios ("Financial Covenants"). Non-compliance with these Financial Covenants gives the lenders the right to terminate the loan for cause. As of the end of September 2007, Conergy failed to abide by the Financial Covenants stipulated in the syndicated loan. In talks with the banks, the banks waived the assertion of rights arising from breach of the Covenants as of 30 September 2007 and 31 December 2007. Given the development of Conergy's earnings and liquidity, prestigious banks granted the Company additional liquidity of EUR 240 million at the beginning of February 2008 by means of further interim financing. The Financial Covenants for the syndicated loan were suspended for the 2008 financial year. The parties intend to agree new Covenants for the years after 2008 in due time. If no agreement is reached in due time, the originally stipulated Financial Covenants will become effective again as of 1 January 2009. However, they will be modified by a 20 percent leeway with regard to the business plan laid down in the restructuring and realignment report of Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, dated 14 February 2008. The EUR 30 million credit line that had been made available in November 2007 until the end of February 2008 was not used and is now included in the EUR 240 million interim financing.

The Group's liquidity planning for the next three years is as follows:

TEUR	2008	2009–2010
Cash expected from operating activities	–80,575	177,513
Cash expected from investing activities	–112,233	–39,649
Cash expected from financing activities	212,500	75,000
	19,692	**212,864**

The following table shows the sum total of the contractually stipulated undiscounted payments on interest and principal in connection with the financial liabilities and derivative financial instruments, broken down by maturities:

TEUR	up to 1 year	1 to 5 years	more than 5 years
As of 31.12.2007			
Borrowings	335,447	120,029	–
Derivative financial instruments	13,151	–	–
Trade payables	282,233	–	–
Leasing liabilities	11,106	29,027	953
As of 31.12.2006			
Borrowings	224,617	590	–
Derivative financial instruments	16,700	–	–
Trade payables	189,465	–	–
Leasing liabilities	6,779	16,370	1,144

The variable interest payments related to the liabilities were determined based on the interest rates last fixed prior to 31 December 2007. Foreign currency holdings were converted at the reporting date exchange rate. Changes in cash flows can arise, in particular, from changes in interest rates and foreign exchange rates, prepayments, extensions as well as new financing obtained in future.

The following tables analyse the stipulated due dates for derivative financial instruments. The figures comprise the contractually stipulated undiscounted payment streams.

TEUR	up to 1 year	1 to 5 years
As of 31.12.2007		
Forward foreign exchange contracts – cash flow hedges		
Payments made	5,241	–
Payments received	–	–
Forward foreign exchange contracts – held for trading		
Payments made	7,862	–
Payments received	298	–

TEUR	up to 1 year	1 to 5 years
As of 31.12.2006		
Forward foreign exchange contracts – cash flow hedges		
Payments made	13,837	–
Payments received	–	–
Forward foreign exchange contracts – held for trading		
Payments made	2,009	–
Payments received	–	–

Credit risks

Credit risks from trade receivables or financial assets arise when one party fails to honour its obligations, in whole or in part, and can result in the loss of cash or income. Such risks generally arise up to the carrying amounts of the financial assets recognised in the balance sheet (see note 22).

Insufficient working capital management was one element in the earnings and liquidity crisis that arose during the 2007 financial year. In order to be able to effectively counter such developments in future, all customers wanting to do business with the Conergy Group on credit will be subject to credit checks. The Group's central department responsible for the management of working capital will monitor receivables balances on an ongoing basis with the aim of ensuring that the Group is not exposed to significant credit risks. These measures notwithstanding, non-payment risks can never be fully precluded. Business with major customers is subject to separate credit monitoring in connection with the Group's central working capital management as part of receivables management. However, relative to the Group's entire risk exposure from default risks, the receivables from these counterparties are not so large as to create extraordinary concentrations of risk.

Risks arising from the capital structure

Equity and borrowings as at 31 December 2007 and 31 December 2006 were:

TEUR	31.12.2007	31.12.2006
Equity	125,147	151,449
As a percentage of equity and borrowings	21	39
Current borrowings	348,598	241,317
Non-current borrowings	120,029	590
Total borrowings	468,627	241,907
As a percentage of equity and borrowings	79	61
Equity and borrowings	**593,774**	**393,356**

In the 2007 financial year, equity fell by 18 percent year on year against the backdrop of the Conergy Group's dynamic growth as well as the evolving complexity of its business model and the resulting earnings and liquidity crisis. Borrowings rose by 94 percent over the previous year. Overall, this triggered a year-on-year decline in shareholders' equity from 39 percent in the 2006 financial year to 21 percent in the 2007 financial year. The ratio of borrowings to the sum of equity and borrowings rose from 61 percent in 2006 to 79 percent in 2007. Conergy is not subject to capital requirements under its Articles of Association.

8. Changes in the consolidated group

Acquisitions
Shares in the following companies were acquired in the financial year just ended:

Company	Division	Acquisition date	Percentage of shares acquired	Purchase price	Total percentage of shares owned as of 31.12.2007
ENERGY, LLC, Philadelphia (USA)	SunTechnics	09.02.2007	100	3,000	100
Panergia S. L., Madrid (Spain)	EPURON	31.07.2007	100	5,608	100
Conergy Inc., Alberta (Canada)	Conergy	01.02.2007	80	2,847	100
Conergy IT Support & Services GmbH, Hamburg (Germany)	Conergy	01.01.2007	100	313	100
Schapenkamp Beheer B. V., Breda (The Netherlands)	Conergy	30.09.2007	100	3,270	100
Redenko B. V., Breda (The Netherlands)	Conergy	30.09.2007	100	–	100
				15,038	

Acquiring all companies effective 1 January 2007 would not have had any material effects on consolidated earnings and profits.

The cost of these acquisitions is comprised of the following:

TEUR	2007	2006
Cash purchase price, acquisition of companies	9,530	40,125
Transaction costs	82	360
Future earn-out payments from the acquisition of companies	5,426	2,974
	15,038	**43,459**

The acquisition-date fair values of the acquired companies' identifiable assets and liabilities thus are as follows:

TEUR	Carrying amount after acquisition	Carrying amount on acquisition date
Non-current assets		
Goodwill	12,935	–
Intangible assets	0	0
Property, plant and equipment	252	252
Financial assets	–	–
Other assets	1,096	1,096
Deferred tax assets	–	–
	14,283	**1,348**

TEUR	Carrying amount after acquisition	Carrying amount on acquisition date
Current assets		
Inventories	1,627	1,627
Trade receivables	5,075	5,075
Financial assets	13	13
Other assets	1,560	1,560
Cash and cash equivalents	905	905
	9,180	**9,180**
Non-current liabilities		
Reserves	–	–
Borrowings	–140	–140
Other liabilities	–	–
Deferred tax liabilities	–	–
	–140	**–140**
Current liabilities		
Reserves	–	–
Current portion of non-current borrowings	–	–
Borrowings	–890	–890
Trade payables	–3,271	–3,271
Other liabilities	–3,452	–3,452
Current income tax liabilities	–	–
	–7,613	**–7,613**
Net assets	**15,710**	**2,775**

Initial consideration of the disclosure of hidden reserves and liabilities, as well as of contingent liabilities, and recognition of the aforementioned assets, results in goodwill of TEUR 12,935, which reflects the earnings the acquired companies are expected to generate in future. The allocation of the purchase price to the individual assets and liabilities might change during the course of the final purchase price allocation.

Discontinued operations

In December 2007, the Management Board decided to dispose of the Group's solar thermal business unit (including heat pumps) and the biomass business unit. The disposal of the solar thermal business unit (including heat pumps) and the biomass business unit is part and parcel of the Group's strategic realignment as an integrated provider of systems solutions in the solar industry. We plan to conclude the disposals within the next twelve months. As of 31 December 2007, final negotiations concerning the disposal of the Company's non-strategic operations were pending. Both business units – solar thermal (including heat pumps) and biomass – thus were classified as non-current assets held for sale as at 31 December 2007.

Non-current assets and related liabilities slated for disposal are categorised as follows:

TEUR	31.12.2007	31.12.2006
Assets		
Goodwill	–	11,693
Intangible assets	604	742
Property, plant and equipment	1,600	3,179
Inventories	11,223	6,955
Other current assets	10,913	4,967
Cash and cash equivalents	1,893	1,050
	26,233	**28,586**
Liabilities		
Borrowings	442	600
Trade payables	6,968	1,266
Other liabilities	11,275	4,002
	18,685	**5,868**

Depreciation, amortisation and write-downs of TEUR 16,221 to the lower fair values less disposal costs were taken on the assets. They are contained in the net income for the year from discontinued operations.

The net income from discontinued operations is as follows:

TEUR	2007	2006
Revenue	43,083	10,845
Expenses	–79,461	–12,688
Result before taxes from discontinued operations	**–36,378**	**–1,843**
Income taxes	–1,194	1,251
Result after taxes from discontinued operations	**–37,572**	**–592**
Thereof valuation gains/losses from value adjustments of assets and liabilities	–16,221	–

Discontinued operations account for the following net cash flows:

TEUR	2007	2006
Cash flow from operating activities	–21,146	–9,150
Cash flow from investing activities	–4,482	–5,750
Cash flow from financing activities	15	98
Cash flow from discontinued operations	**–25,613**	**–14,802**

The previous year's figures were adjusted such that they contain all operations that were discontinued at the balance sheet date.

9. Segment disclosures

Segment reporting was prepared in accordance with IAS 14 (Segment Reporting). Individual consolidated data are reported by business units referring to the Group's internal reporting and organisational structure. Segment reporting aims to lend greater transparency to both the performance and the assets of the Group's individual divisions or regions (see note 1).

Primary segment reporting is based on the organisational structure of the Conergy Group. The Group differentiates among the following segments:

Primary segments: Divisions
As of 31 December 2007, the Conergy Group was managed via three divisions operating worldwide that will be discussed separately given their economic features, type of customer relationships and the characteristics of their sales organisation.

These divisions engage in the following activities:

Division	Activities
Conergy	Production and development of all photovoltaic components and small wind turbines. Conergy's customers include wholesalers and installing firms as well as its subsidiaries SunTechnics and EPURON.
SunTechnics	Installation of turnkey complete systems for using renewable energies. SunTechnics is specialised in sales to end customers and offers everything from a single source – including consulting services, planning, customised financing, professional installation and system monitoring.
EPURON	Project development and structured financing in the field of renewable energies. EPURON develops, finances and implements solar and wind farms as well as solar thermal power plants and bioenergy systems. Its customers are mainly institutional investors but also private investors.

Segment classification was changed relative to the 2006 consolidated financial statements. Both DMS & CS and Wholesale were combined to form the Conergy Division while the Engineering and Projects units were renamed SunTechnics and EPURON. The segment table solely shows the Company's continued operations. Comments on its discontinued operations are contained in note 8. Previous year's figures were adjusted accordingly.

A separate column shows the intercompany transactions that were eliminated as well as corporate activities that are not attributable to individual segments.

The assignment of expenses between segments was based on the third-party comparative method in accordance with direct assignability.

Segment revenue, expenses and results comprise transfers primarily between the business segments as well as secondarily between the geographical segments. The transfers are accounted for at intersegment transfer prices and are eliminated during consolidation.

The investments contain the additions to property, plant and equipment as well as intangible assets, including additions from acquisitions.

Secondary segmentation: Geographically
This segmentation is based on a geographic classification. Germany, Europe and Rest of the World, were categorised as regions to this end.

Disclosures and comments on the income statement

10. Revenue

Revenue is comprised of the following:

TEUR	2007	2006
Revenue from the sale of goods	406,237	341,569
Revenue from services rendered	261,517	263,230
Services realised under construction contracts (PoC)	37,777	77,534
	705,531	**682,333**

The 2006 revenue of TEUR 682,333 is TEUR 69,825 lower than reported in the 2006 annual report due to the reclassification of discontinued operations and the change in the accounting method used for major projects.

For further details, please see the disclosures in the section entitled “adjustment in the treatment of major projects” (see note 4) and the explanations on the changes in the consolidated group (see note 8).

Sales of TEUR 237,192 (previous year: TEUR 216,269) were recognised on a total of 49 settled projects. Revenue of TEUR 37,777 (previous year: TEUR 77,534) was recognised using the PoC method.

11. Other operating income

The other operating income is comprised of the following:

TEUR	2007	2006
Currency changes	11,506	3,128
Deconsolidation income	902	–
Income from the disposal of non-current assets	–	4,081
Other operating income	3,943	598
	16,351	**7,807**

Overall, other operating income encompasses a multitude of elements, each of which by itself is immaterial.

12. Staff costs

TEUR	2007	2006
Wages and salaries	–93,812	–46,912
Social security costs	–16,088	–8,442
	–109,900	**–55,354**

Wages and salaries contain total bonuses of TEUR 11,494 (previous year: TEUR 5,200) and severance pay of TEUR 2,299 (previous year: TEUR 397).

13. Amortisation and depreciation of intangible assets and property, plant and equipment

Amortisation of intangible assets and depreciation of property, plant and equipment is comprised of the following:

TEUR	2007	2006
Impairment of goodwill	–16,270	–
Impairment of own development services	–9,067	–
Impairment of property, plant and equipment	–9,260	–
Depreciation and amortisation	–8,049	–4,540
	–42,646	**–4,540**

For further details on the adjustments to goodwill, please see the comments in note 6. Impairment losses on property, plant and equipment concern assets at the Frankfurt (Oder) production facility. The fair values of the corresponding assets less disposal costs were adjusted in this connection.

14. Other operating expenses

The other operating expenses are comprised of the following:

TEUR	2007	2006
Bad debt allowance	–28,332	–1,370
Legal and consulting expenses	–22,341	–8,995
Currency changes	–20,608	–4,807
Selling costs	–19,693	–12,974
Warranty costs	–14,715	–2,555
Rental and lease contracts	–11,520	–6,339
Other staff costs	–10,997	–6,289
Production-related expenses	–7,869	–3,906
Other operating expenses	–45,831	–15,968
	–181,906	**–63,203**

The cost of sales contains travel and advertising costs.

A large number of elements, each of which by itself is immaterial, were expensed in the remaining other operating costs.

15. Net gains and losses from financial instruments

Net gains and losses are influenced by fair value changes recognised to profit or loss, impairment losses, adjusting events recognised to profit or loss, changes in foreign exchange rates, as well as derecognitions, and are recognised in other operating income/expenses.

TEUR	2007	2006
Net profit or loss by measurement category		
Loans and receivables	–28,179	–1,304
Financial investments held to maturity	–	–
Available-for-sale financial assets	–	–
Financial instruments held for trading	–11,304	–4,395
Borrowings measured at amortised cost	2,772	2,931
	–36,711	**–2,768**

A total of TEUR 28,179 in losses from loans and receivables (previous year: TEUR 1,304) result from the adjustments as well as from write-downs on trade receivables.

The net losses of TEUR 11,304 (previous year: TEUR 4,395) from financial instruments held for trading essentially comprise the result of the measurement of the derivative financial instruments.

The net gains of TEUR 2,772 (previous year: TEUR 2,931) from financial liabilities measured at adjusted cost essentially resulted from currency translation.

16. Net finance income

Net finance income is comprised of the following elements:

TEUR	2007	2006
Finance income	11,132	1,092
Finance costs	–32,858	–7,128
	–21,726	**–6,036**
Thereof financial instruments in measurement categories pursuant to IAS 39		
Loans and receivables	2,701	605
Financial investments held to maturity	20	0
Available-for-sale financial assets	0	0
Borrowing measured at amortised cost	–28,059	–7,121
	–25,338	**–6,516**

Net finance income contains net gains of TEUR 2,524 (previous year: TEUR 474) from financial instruments recognised in profit or loss at fair value.

No interest income from impaired financial assets was recognised during the reporting period.

17. Income taxes

Income taxes comprise taxes paid and owed on income and earnings, as well as the deferred tax assets and liabilities recognised by the Group. The income taxes shown include:

TEUR	2007	2006
Current income taxes	–2,381	–588
Deferred income taxes	23,902	4,390
	21,521	**3,802**

The following table shows the reconciliation of tax expense expected on the basis of the IFRS earnings before taxes (EBT) with actual tax expense:

TEUR	2007	2006
Result before taxes from continued operations	**–232,008**	**–3,850**
Result before taxes from discontinued operations	–36,378	–1,843
Earnings before taxes (total)	**–268,386**	**–5,693**
Theoretical income tax rate for the Company in percent	40.4	40.4
Expected tax income (+) / expense (–)	**108,401**	**2,299**
Effects of tax rate changes in future years	–17,519	0
Municipal trade tax additions / deductions	–1,249	0
Effects of previous years' taxes recognised in the financial year	2,673	1,590
Effects due to tax rates deviating from the theoretical income tax rate	2,008	610
Effects of non-taxable income	2,622	0
Permanent effects	–9,862	–297
Effects of non-deductible expenses	–1,728	0
Effects of non-recognition and subsequent recognition of deferred tax assets	–59,543	–883
Other differences	–5,476	1,734
Current income taxes (total)	**20,327**	**5,053**
Effective income tax rate in percent	7.6	88.8
Thereof current income taxes from discontinued operations	–1,194	1,251
Current income taxes from continued operations	**21,521**	**3,802**
Effective income tax rate in percent	9.3	98.8

A corporate income tax rate of 25 percent and a solidarity surcharge of 5.5 percent on the corporate income tax rate, as well as trade tax rates between 12 percent and 19 percent, are applied to domestic tax calculations in accordance with applicable taxation rates. Foreign income taxes are calculated on the basis of the laws and regulations applicable in the respective countries.

The following income tax rates apply in the various countries: 32.5 percent in Spain; 25 percent in Austria; 33.3 percent in France; 38.8 percent in the USA; 30 percent in Australia; 37.3 percent in Italy; and 23.3 percent in Switzerland.

In 2007, the Conergy Group posted deferred tax expenses of TEUR 17,519 due to changes in tax rates. This essentially contains an extraordinary deferred tax expense arising from Germany's corporate tax reform. It results essentially from the remeasurement of deferred tax assets from loss carryforwards based on the reduced nominal tax rates applicable in Germany from 2008 onward.

Deferred taxes recognised in the balance sheet stem from the following temporary differences:

	Deferred tax assets		Deferred tax liabilities	
TEUR	**2007**	**2006**	**2007**	**2006**
Intangible assets	78	10	4,071	5,825
Property, plant and equipment	690	0	345	348
Receivables and other financial assets	5,391	0	3,408	2,468
Inventories	0	0	14,192	3,948
Provisions	1,111	6,757	814	121
Other liabilities	468	1,937	26,635	16,433
Trade payables	25,457	13,365	718	0
Capitalised tax loss carryforwards	46,654	16,923	0	0
	79,849	**38,992**	**50,183**	**29,143**
Netting	29,979	5,774	29,979	5,774
Deferred taxes recognised	**49,870**	**33,218**	**20,204**	**23,369**

Deferred tax assets and liabilities are offset at the level of individual Group companies and within tax units if there is a right to offset actual tax assets against current tax liabilities and if the deferred tax assets and liabilities are due from or to the same tax authority.

Total corporate and municipal trade tax losses at the reporting date were TEUR 159,991 and TEUR 95,965 (previous year: TEUR 44,942 and TEUR 36,386). Deferred tax assets were recognised for these carryforwards because it is probable that the Group will have sufficient taxable temporary differences; in turn, these will give rise to taxable income to which these loss carryforwards can be applied before they expire. The maturity structure of the recognised tax loss carryforwards is as follows:

TEUR	**2007**	**2006**
Up to 1 year	19,724	0
1 to 5 years	8,565	0
More than 5 years	227,667	81,328
	255,956	**81,328**

No deferred tax assets were recognised for corporate tax and municipal trade tax loss carryforwards of TEUR 140,712 and TEUR 153,009 (previous year: TEUR 7,270 and TEUR 0). The maturity structure of unrecognised tax loss carryforwards is as follows:

TEUR	2007	2006
Up to 1 year	2,533	0
1 to 5 years	264	0
More than 5 years	290,924	7,270
	293,721	**7,270**

Deferred tax liabilities of TEUR 55,507 (previous year: TEUR 87,259) for taxes on subsidiaries' retained earnings, which would trigger actual tax payments if they were distributed, were not recognised. If deferred tax assets or liabilities were recognised for these timing differences, only the withholding tax rate applicable in the given case would apply, if necessary taking the German tax rate of 5 percent of the dividends paid into account. There is no plan to pay out the retained profits.

18. Earnings per share

	2007	2006
Result from continued operations applicable to shareholders of Conergy AG in TEUR	−209,986	−429
Result applicable to shareholders of Conergy AG in TEUR	−247,558	−1,021
Adjustment of results for finance costs for diluting instruments in TEUR	–	–
Adjusted result from continued operations in TEUR	−209,986	−429
Adjusted result applicable to shareholders of Conergy AG in TEUR	−247,558	−1,021
Weighted average number of shares issued	32,699,203	29,760,588
Potential effect of diluting instruments (number)	–	–
Adjusted average number of no-par shares issued	32,699,203	29,760,588
Basic earnings per share from continued operations in EUR	−6.42	−0.01
Earnings per share applicable to the shareholders of Conergy AG in EUR	**−7.57**	**−0.03**
Diluted earnings per share from continued operations in EUR	−6.42	−0.01
Earnings per share applicable to the shareholders of Conergy AG in EUR	**−7.57**	**−0.03**

Under the German Stock Corporation Act (Aktiengesetz), dividends eligible for distribution are calculated based on the unappropriated surplus pursuant to the annual financial statements of Conergy AG that were prepared in accordance with the German Commercial Code.

The Annual Shareholders’ Meeting on 11 June 2007 resolved to pay a dividend of TEUR 3,300 for the 2006 financial year, which corresponded to a dividend of EUR 0.10 per share, from Conergy’s unappropriated surplus of TEUR 3,456 as at 31 December 2006. The accumulated deficit pursuant to the annual financial statements of Conergy AG as at 31 December 2007 was TEUR 138,635.

Conergy’s Management Board and Supervisory Board propose to the Annual Shareholders’ Meeting not to pay any dividend for the 2007 financial year.

Disclosures and comments on the consolidated balance sheet

19. Intangible assets and goodwill

TEUR	Goodwill	Industrial property rights	Development services	Other intangible assets and advance payments made	Total
As of 01.01.2006					
Cost	6,777	3,882	4,505	–	15,164
Cumulative amortisation and impairment losses	–	–1,194	–1,383	–	–2,577
Net carrying amount	**6,777**	**2,688**	**3,122**	**–**	**12,587**
Development in 2006					
Net carrying amount as of 01.01.2006	6,777	2,688	3,122	–	12,587
Currency changes	–	–8	–	–	–8
Acquisitions	13,344	4,424	6	–	17,774
Investments	9,273	4,444	8,584	276	22,577
Disposals	–	–170	–141	–	–311
Reclassification to current assets	–	–	–	–	–
Amortisation	–	–1,119	–439	–	–1,558
Impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Net carrying amount as of 31.12.2006	**29,394**	**10,259**	**11,132**	**276**	**51,061**
As of 31.12.2006					
Cost	29,394	12,572	12,954	276	55,196
Cumulative amortisation and impairment losses	–	–2,313	–1,822	–	–4,135
Net carrying amount	**29,394**	**10,259**	**11,132**	**276**	**51,061**
Development in 2007					
Net carrying amount as of 01.01.2007	29,394	10,259	11,132	276	51,061
Currency changes	–4	–22	–5	–	–31
Acquisitions	12,935	–	–	–	12,935
Investments	6,946	3,938	14,239	4,532	29,655
Disposals	–638	–2,730	–2,819	–	–6,187
Reclassification to current assets	–11,679	–5,018	–114	–	–16,811
Amortisation	–	–280	–845	–	–1,125
Impairment losses	–16,270	–	–9,067	–	–25,337
Reclassifications	–8	666	–	–762	–104
Net carrying amount as of 31.12.2007	**20,676**	**6,813**	**12,521**	**4,046**	**44,056**
As of 31.12.2007					
Cost	20,676	12,411	24,418	4,046	61,551
Cumulative amortisation and impairment losses	–	–5,598	–11,897	–	–17,495
Net carrying amount	**20,676**	**6,813**	**12,521**	**4,046**	**44,056**

The line item “reclassification to current assets” shows the relevant disposals of the assets attributable to discontinued operations pursuant to IFRS 5.

20. Property, plant and equipment

TEUR	Land and buildings	Machinery	Other plant and equipment	Advance payments made and assets under construction	Total
As of 01.01.2006					
Cost	4,390	1,463	4,976	855	11,684
Cumulative depreciation and impairment losses	−53	−256	−1,476	–	−1,785
Net carrying amount	**4,337**	**1,207**	**3,500**	**855**	**9,899**
Development in 2006					
Net carrying amount as of 01.01.2006	4,337	1,207	3,500	855	9,899
Currency changes	−2	–	−39	−8	−49
Acquisitions	2,205	–	1,511	7	3,723
Investments	3,152	1,832	6,659	48,395	60,038
Disposals	−4,622	−313	−2,153	−87	−7,175
Reclassification to current assets	–	–	–	–	–
Depreciation	−514	−250	−2,445	–	−3,209
Impairment losses	–	–	–	–	–
Reclassifications	120	–	1,732	−1,852	0
Net carrying amount as of 31.12.2006	**4,676**	**2,476**	**8,765**	**47,310**	**63,227**
As of 31.12.2006					
Acquisition and production cost	5,243	3,340	12,328	47,310	68,221
Cumulative depreciation and impairment losses	−567	−864	−3,563	–	−4,994
Net carrying amount	**4,676**	**2,476**	**8,765**	**47,310**	**63,227**
Development in 2007					
Net carrying amount as of 01.01.2007	4,676	2,476	8,765	47,310	63,227
Currency changes	–	−1	−76	–	−77
Acquisitions	–	19	83	–	102
Investments	49,911	102,411	8,147	15,340	175,809
Disposals	–	−341	−1,288	−8,147	−9,776
Reclassification to current assets	−1,779	−201	−301	–	−2,281
Depreciation	−161	−2,991	−3,771	–	−6,923
Impairment losses	–	–	–	−9,260	−9,260
Reclassifications	–	1,388	229	−1,513	104
Net carrying amount as of 31.12.2007	**52,647**	**102,760**	**11,788**	**43,730**	**210,925**
As of 31.12.2007					
Acquisition and production cost	53,392	106,169	16,548	52,990	229,099
Cumulative depreciation and impairment losses	−745	−3,409	−4,760	−9,260	−18,174
Net carrying amount	**52,647**	**102,760**	**11,788**	**43,730**	**210,925**

The line item "reclassification to current assets" shows the relevant disposals of the assets attributable to discontinued operations pursuant to IFRS 5.

Investments of TEUR 175,809 (previous year: TEUR 60,038) in property, plant and equipment largely concern the factory in Frankfurt (Oder).

21. Subsidies received

During the 2007 reporting period, Conergy Group companies received a total of TEUR 10,117 in non-reimbursable government grants and supplements (actual inflow of funds). In addition, Conergy also obtained binding promises of subsidies for a total of TEUR 5,888 (subsidy notifications) in 2007. Government grants are tied to specific projects subject to certain requirements and conditions. For instance, Conergy is obligated to leave subsidised assets in the subsidised plant for a period of 5 years (from the project's completion date) and / or to guarantee jobs for specific plants during the same period. These requirements were satisfied during the period presented in these financial statements and until the point in time at which the consolidated financial statements were prepared; and we expect to fulfil them in future as well.

The following subsidies were disbursed in the reporting period:

TEUR	2007	2006
Investment subsidy	3,241	3,989
Investment grants	6,876	230
	10,117	**4,219**

The subsidies and supplements were granted in connection with the construction of a factory in Frankfurt (Oder) as well as with the expansion of the existing production facility in Rangsdorf.

22. Financial assets

The carrying amounts and fair values of financial assets subject to different classes and measurement categories follow from the overview below:

TEUR	Loans and receivables	Financial instruments held for trading	Derivatives with a hedging relationship	Financial investments held to maturity	Carrying amount	Fair value
As of 31.12.2006						
Assets						
Non-current financial assets	2,284	–	–	1	2,285	2,285
Trade receivables	328,457	–	–	–	328,457	328,457
Current financial assets	6,250	1,406	–	–	7,656	7,656
Cash and cash equivalents	25,563	–	–	–	25,563	25,563
	362,554	**1,406**	**–**	**1**	**363,961**	**363,961**
As of 31.12.2007						
Assets						
Non-current financial assets	4,420	–	–	1	4,421	4,421
Trade receivables	212,650	–	–	–	212,650	212,650
Current financial assets	9,505	423	–	–	9,928	9,928
Cash and cash equivalents	61,832	–	–	–	61,832	61,832
	288,407	**423**	**–**	**1**	**288,831**	**288,831**

Cash and cash equivalents, trade receivables and current financial assets largely have short residual lives. Hence the carrying amounts correspond to the fair values at the balance sheet date.

The fair value of non-current financial assets with residual lives of more than one year corresponds to the present value of the payments related to these assets, taking current interest rate parameters into account.

23. Derivative financial instruments

The Group held the following derivative financial instruments at the balance sheet date:

	31.12.2007		31.12.2006	
TEUR	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps Fair value recognised in profit or loss	339	41	–	2,009
Forward foreign exchange contracts Fair value recognised in equity	–	–	–	10,296
Forward foreign exchange contracts Fair value recognised in profit or loss	–	13,110	–	4,395
	339	**13,151**	**–**	**16,700**

The value of assets from interest rate swaps entered into in 2007 comprises the instruments' positive fair values. The negative fair value of the EUR/JPY foreign exchange futures was recognised as a liability and broken down according to negative fair values in the cash flow hedge and negative fair values recognised in the income statement.

The fair value of the derivative financial instruments at the balance sheet date constitutes the Company's maximum exposure to lending risks at such date.

24. Trade receivables

TEUR	31.12.2007	31.12.2006
Trade receivables before impairment losses	232,062	329,669
Less impairment losses	–19,412	–1,212
Trade receivables	212,650	328,457
Thereof		
Receivables from production contracts	123,457	85,661
Advance payments received	–22,999	–31,174
Non-current	–	–
	100,458	**54,487**

Trade receivables largely have short residual lives; hence their carrying amounts correspond to their fair values at the balance sheet date.

The item, trade receivables, also contains the contracts recognised pursuant to the percentage of completion method under IAS 11. This item comprises the contract costs accrued at the reporting date and the profits from the relevant order, pro-rated according to the stage of completion. Advances received on the contracts recognised were deducted. Orders resulting in a net loss were considered in connection with a loss-free measurement.

Receivables from construction contracts developed as follows year on year:

TEUR	31.12.2007	31.12.2006
Accrued contract costs	104,937	85,661
Contract gains realised pro-rata incl. carryforward effect	18,520	–
Less recognised contract losses	–	–
Less advance payments received	–22,999	–31,174
	100,458	**54,487**

TEUR 48,543 (previous year: TEUR 72,586) in trade receivables were due as at 31 December 2007 but they were not adjusted because they represented claims against customers that had never defaulted in the past. The aging structure of the unadjusted trade receivables due is as follows:

TEUR	31.12.2007	31.12.2006
Trade receivables	212,650	328,457
Thereof		
Neither impaired nor past due as of the balance sheet date	164,107	255,871
Not impaired as of the balance sheet date and past due within the following periods:		
Less than 1 month	22,962	23,235
Between 1 and 2 months	8,421	4,188
Between 2 and 3 months	7,818	13,966
Between 3 and 6 months	8,936	19,129
Between 6 and 12 months	79	12,061
More than 12 months	326	7
	48,543	**72,586**

TEUR 286 in trade receivables in a foreign currency solely comprise USD (previous year: TEUR 1,778).

The following impairment losses were recognised in the reporting year:

TEUR	2007	2006
As of 01.01.	**1,212**	**234**
Currency changes	0	5
Additions	28,179	1,304
Use	–139	0
Reversals	–209	–71
Disposal	–9,490	–260
Reclassification to current assets	–141	0
As of 31.12.	**19,412**	**1,212**

Appropriations to individual and lump-sum allowances are recognised in the income statement under other operating expenses while reversals are recognised under other operating income.

The fair value of the trade receivables at the balance sheet date constitutes the maximum exposure to lending risks at such date.

25. Other assets

TEUR	31.12.2007	31.12.2006
Other assets	73,788	51,171
Thereof		
Receivables from the tax office	45,118	14,395
Prepaid expenses	8,105	2,203
Other current assets	20,565	34,573
Non-current	574	708

TEUR 45,118 (previous year: TEUR 14,395) in receivables from the tax authority primarily concern input VAT receivables and are due within one year.

Other assets in the amount of TEUR 20,565 (previous year: TEUR 34,573) essentially comprise other receivables from suppliers.

26. Inventories

TEUR	31.12.2007	31.12.2006
Raw materials and consumables	25,440	4,109
Work in progress	53,932	25,924
Finished goods	225,703	76,942
Advance payments made	37,289	28,221
	342,364	**135,196**

The increase in raw materials and consumables from TEUR 4,109 TEUR to TEUR 25,440 TEUR essentially resulted from the construction of the solar module factory in Frankfurt (Oder).

In 2007, the following inventories were recognised at their lower fair values net of sale expenses:

TEUR	31.12.2007	31.12.2006
Raw materials and consumables		
Carrying amount before impairment	27,007	4,109
Less impairment	–1,567	–
Carrying amount	**25,440**	**4,109**
Work in progress		
Carrying amount before impairment	54,352	25,924
Less impairment	–420	–
Carrying amount	**53,932**	**25,924**
Finished goods		
Carrying amount before impairment	235,672	77,384
Less impairment	–9,969	–442
Carrying amount	**225,703**	**76,942**

27. Cash and cash equivalents

TEUR	31.12.2007	31.12.2006
Cash on hand/checks	436	410
Bank balances	61,396	25,153
	61,832	**25,563**
thereof deposited in special accounts	967	–

Cash and cash equivalents include checks, cash on hand and bank credit balances. As a rule, this item also contains financial instruments with initial maturities of up to three months. In a deviation from the presentation in the consolidated balance sheet, the cash holdings shown in the cash flow statement as at 31 December 2007 contain TEUR 1,893 in cash and cash equivalents attributable to discontinued operations.

28. Equity

The individual components of equity as well as their development in 2006 and 2007 follow from the statement of changes in equity of the Conergy Group.

Share capital
The subscribed capital of Conergy AG as at 31 December 2007 was TEUR 35,089 (31 December 2006: TEUR 30,000). It is denominated in 35,088,928 no-par bearer shares with a pro-rata interest in capital of EUR 1.00 per share.

A total of 2,999,999 shares – corresponding to approximately 10 percent of the previous share capital – were successfully placed with German and international investors in connection with a capital increase on 8 March 2007 from the Authorised Capital 2006 of Conergy using an accelerated offering procedure. Conergy's subscribed capital rose by TEUR 3,000 as a result. The placement price was EUR 50 per share and the issuing volume was about EUR 150 million. Commerzbank Corporates & Markets and J. P. Morgan Securities Ltd. served as joint lead manager and joint bookrunner in this transaction.

Another capital increase subject to the exclusion of shareholders' subscription right was executed on 6 November 2007 by resolution of the Management Board and the Supervisory Board of Conergy AG. The total of 2,088,929 new shares that were issued at a price of EUR 33.51 per share in an issuing volume of roughly EUR 70 million were subscribed by members of the Management and Supervisory Boards and their relatives, as well as by Leemaster Ltd., in accordance with the weighted average share price on the preceding five trading days. As a result, the subscribed capital rose by TEUR 2,089.

TEUR	Number of shares
As of 01.01.2007	**30,000,000**
Addition from capital increase	5,088,928
Repurchase of own shares	–
Disposal through sale of treasury shares	–
As of 31.12.2007	**35,088,928**

The Management Board is authorised, subject to the approval of the Supervisory Board, to increase the Company's share capital until 10 June 2012, once or repeatedly, by a total of up to TEUR 16,450 by issuing new no-par value shares in return for contributions in cash and/or in kind (2007 Authorised Capital) and to exclude shareholders' subscription rights with the approval of the Supervisory Board. After the capital increase, authorised Capital totals TEUR 14,361.

On 11 June 2007, the General Shareholders' Meeting authorised Conergy AG to purchase treasury shares representing up to 10 percent of its share capital. This authorisation is effective until 10 December 2008. The treasury shares will be purchased, at the discretion of Conergy AG, (i) on the stock exchange, or (ii) by means of a public purchase offer sent to all shareholders or a public notice to submit such an offer or (iii) by means of a public offer sent to all shareholders to exchange their shares for shares in a listed company as defined in Section 3 para. 2 German Stock Corporation Act or a public notice to submit such an offer. The Management Board was also authorised to sell and/or use shares of Conergy AG – which Conergy AG purchases in accordance with the foregoing authorisation – on the stock exchange or by means of an offer to all shareholders for all other statutory purposes.

The Management Board, subject to the approval of the Supervisory Board, decides on the exercise of the authorisation to purchase treasury shares and the latter's subsequent use.

Capital reserve

The capital reserve comprises the excess of the issue price over the par value of the Conergy shares issued. It is not normally available to the shareholders for distribution. In addition, the excess of the amounts paid or received in connection with the buyback or sale of treasury shares over their par value is also recognised in this item.

After deducting the capital acquisition cost, the capital reserves climbed by TEUR 212,333 to TEUR 307,222 (previous year: TEUR 94,889) as a result of the capital increases during the 2007 reporting period.

Other reserves

Aside from appropriations from cumulative prior-period net income/losses, the expense and income items to be recognised directly in equity from the fair value measurement of the available-for-sale financial instruments, the effective portion of changes in the value of hedging instruments in a cash flow hedge and the reconciling items from currency translation are also recognised in other reserves. The cumulative prior-period net income/losses contain the undistributed net income generated by both Conergy and the consolidated companies that were not allocated to capital reserves.

Non-controlling interests
The Group has non-controlling interests in Conergy GmbH (Austria), Conergy Pty Limited (Australia), Conergy Inc. (Canada), Conergy Mexico S. de R.L. de C.V. (Mexico), Conergy Services Ost GmbH (Germany), Conergy Contracting GmbH (Germany), SunTechnics Energy Systems E.P.E. (Greece), SunTechnics Energy Systems Co., Ltd. (Thailand), EPURON Pty Ltd. (Australia), EPURON Project Financing Solutions E.P.E. (Greece), Forturon S.rl. (Italy) as well as Compagnie des Énergies Renouvelables S.A.R.L. (LaCER) (France).

29. Provisions

The provisions developed as follows in the financial year:

TEUR	Warranties	Re-structuring	Legal disputes	Other	Total
As of 01.01.2007	**2,152**	**–**	**–**	**145**	**2,297**
thereof non-current	2,152	–	–	–	2,152
Change in the basis of consolidation	–	–	–	–	–
Addition	15,930	3,027	2,572	805	22,334
Use	−118	–	–	−145	−263
Reversal	−1,000	–	–	–	−1,000
Reclassification to current liabilities	−2,551	–	−252	−132	−2,935
Currency changes	−22	–	–	−11	−33
As of 31.12.2007	**14,391**	**3,027**	**2,320**	**662**	**20,400**
thereof non-current	14,391	–	–	–	14,391

Provisions for warranties were recognised for expected follow-up work in connection with major projects previously concluded and warranties under statutory product warranties for the Company's own products.

The line item "reclassification to current liabilities" shows the relevant disposals of the liabilities attributable to discontinued operations pursuant to IFRS 5.

Obligations to personnel, such as, for example, charges for variable and individual one-off payments, vacation claims as well as other personnel costs are recognised under other liabilities.

30. Stock options programme

Effective 15 November 2007, two members of the Management Board were permitted to participate for the first time in a share based payment system rooted in a stock appreciation right (Phantom Stock Options). These phantom options are divided into three tranches with terms of one, two and three years. In each case, they may be exercised within a fixed time window of 21 days in the first quarter of the financial year that follows the expiration of the service period. Unexercised options may be carried over to the next scheduled tranche. At the time the Phantom Stock Options are exercised, Conergy AG is obligated to pay the difference between the base price that is fixed at the inception of the stock option programme and the volume-weighted average share price during the last 85 trading days prior to the end of the relevant service period. The difference will be increased or decreased by 10 to 20 percent depending on the development of Conergy's share relative to the "Öko-Dax" reference index.

The following table shows the change in the Phantom Stock Options outstanding and their weighted average exercise prices:

	2007		2006	
	Number	**Weighted average exercise price**	**Number**	**Weighted average exercise price**
As of 01.01.				
Granted	168,000	–	–	–
Forfeited	–	–	–	–
Exercised	–	–	–	–
Expired	–	–	–	–
As of 31.12.	**168,000**	**–**	**–**	**–**

None of the 168,000 outstanding Phantom Stock Options were exercisable at 31 December 2007.

The options outstanding at the end of the reporting period have the following maturities and exercise prices:

	Exercise price in EUR	2007 in shares	2006 in shares
Maturity date 14.11.2008	–	56,000	–
Maturity date 14.11.2009	–	56,000	–
Maturity date 14.11.2010	–	56,000	–
As of 31.12.	**–**	**168,000**	**–**

The fair values of the stock options were determined using the Black-scholes Option Pricing Model, subject to the following measurement parameters:

	2007
Risk-free interest rate (term dependent) in percent	3.9 – 4.0
Dividend yield in percent	0
Volatility of the Conergy AG share (historical, 252 days) in percent	85.2
Beta factor of the Conergy AG in relation to the Öko-Dax	1.1

The fair values of the Phantom Stock Options outstanding at the balance sheet date were as follows:

	Number as of 31.12.2007 in shares	Intrinsic value per option (=payment amount) in EUR	Fair value per option in EUR	Payment obligation in TEUR	Provi-sion as of 31.12.2007 in TEUR
Tranche 2007	168,000	–	12.1	–	156

A total of TEUR 156 (previous year: TEUR 0) were expensed in the annual period in connection with the stock option programme and shown under staff costs. Regarding the options granted, please also see note 3.

31. Borrowings

Both the carrying amounts and the fair values of the financial assets allocated to different classes and measurement categories follow from the overview below:

TEUR	Borrowings measured at amortised cost	Derivatives with a hedging relationship	Liabilities held for trading	Carrying amount	Fair value
As of 31.12.2006					
Liabilities					
Non-current borrowings	590	–	–	590	590
Current portion of non-current borrowings	–	–	–	–	–
Current borrowings	224,617	14,691	2,009	241,317	241,317
Trade payables	189,465	–	–	189,465	189,465
	414,672	**14,691**	**2,009**	**431,372**	**431,372**
As of 31.12.2007					
Liabilities					
Non-current borrowings	120,029	–	–	120,029	120,029
Current portion of non-current borrowings	30,000	–	–	30,000	30,000
Current borrowings	305,447	–	13,151	318,598	318,598
Trade payables	282,233	–	–	282,233	282,233
	737,709	**–**	**13,151**	**750,860**	**750,860**

Trade payables as well as current financial liabilities generally have short residual lives. Their carrying amounts thus correspond to their fair values.

The fair value of non-current borrowings with a residual life of more than one year corresponds to the present value of the payments related to the liabilities based on current interest rate parameters.

The nominal and carrying amounts of liabilities to banks subject to variable and fixed interest rates are in the following currencies:

	31.12.2007 Nominal value in TEUR	Effective interest rate in percent	31.12.2007 Carrying amount in TEUR	31.12.2006 Carrying amount in TEUR
Liabilities to banks	455,476	7.6	455,476	241,907

The maturities of liabilities to banks subject to variable and fixed interest rates are as follows:

	31.12.2007			31.12.2006	
	Total liabilities subject to variable interest rates in TEUR	Total liabilities subject to fixed interest rates in TEUR	Weighted interest rate (fixed-interest loan) in percent	Total liabilities subject to variable interest rates in TEUR	Total liabilities subject to fixed interest rates in TEUR
Up to 1 year	335,447	–	–	241,317	–
1 to 5 years	120,029	–	–	590	–
More than 5 years	–	–	–	–	–
Carrying amount total	**455,476**	**–**	**–**	**241,907**	**–**
Fair values	**455,476**	**–**	**–**	**241,907**	**–**

The liabilities subject to variable interest rates arise from drawdowns under the syndicated credit facility dated 31 July 2007. The interest rate adjustment dates are essentially based on the 1, 2, 3 and 6-month Euribor plus a margin that is tied to a debt/equity ratio. The syndicated credit facility consists of term loan for EUR 150 million, guarantee and documentary credit facilities for up to EUR 200 million each and a revolving facility of EUR 250 million. Bilateral loans were refinanced in full on 3 August 2007. Most drawdowns were in euros. There were no significant loan liabilities in foreign currencies at the balance sheet date.

Conergy's interests in several fully consolidated subsidiaries were pledged as security for the loan liabilities.

32. Trade payables

Trade payables generally have short residual lives. The carrying amounts essentially correspond to the fair values of these liabilities.

TEUR	31.12.2007	31.12.2006
Trade payables	282,233	189,465
Thereof		
Receivables from production contracts (PoC)	–	–
Advance payments received	67,731	22,496
	67,731	**22,496**

33. Other liabilities

TEUR	31.12.2007	31.12.2006
Other liabilities	100,771	87,247
Thereof		
Liabilities arising from salary or wage settlement for employees	13,374	6,144
Accrued expenses	18,115	4,964
Liabilities to the tax office	10,775	23,740
Purchase price liabilities in connection with the acquisition of companies	7,591	14,935
Deferred income	4,970	5,611
Liabilities related to social security	1,084	452
Miscellaneous other liabilities	44,862	31,401
Non-current	13,057	17,418

Liabilities arising from salary or wage settlement for employees include, among others, obligations to personnel, such as, for example, charges for variable and individual one-off payments, vacation claims as well as other personnel costs.

An amount of TEUR 10,775 (previous year: TEUR 23,740) in liabilities to the tax authority primarily concerns VAT liabilities due within one year.

Liabilities of TEUR 7,591 (previous year: TEUR 14,935) related to the acquisitions mostly have a residual life of less than one year.

Deferred income of TEUR 4,970 (previous year: TEUR 5,611) largely concern advances on subsidies in connection with the GA subsidy for the factory in Frankfurt (Oder), TEUR 2,588 of which are classified as current.

The remaining other liabilities in the amount of TEUR 44,862 (previous year: TEUR 31,401) cover a multitude of elements in subsidiaries, each of which by itself is immaterial.

Other disclosures

34. In- and outflow of cash and cash equivalents

The cash flow statement shows the changes in the Group's cash and cash equivalents resulting from the in- and outflow of funds during the 2007 financial year. The cash flow statement was prepared in accordance with the requirements of IAS 7. Payment streams are allocated to three areas: operating activities, investing activities and financing activities.

The indirect method is used to show payment streams related to operating activities such that the surplus cash flows from operating activities are determined by adding all non-cash expenses and subtracting all non-cash income from operating income related to continued operations (EBIT). The cash flow related to investing and financing activities is determined directly on the basis of in- and outflows. In contrast to the 2006 annual report, interest received is allocated to investing activities and interest paid is allocated to financing activities.

Under IFRS 5, cash flows from operating, investing and financing activities must be disclosed separately according to continued and discontinued operations. Payment streams related to investing and financing activities in connection with discontinued operations are separately disclosed in note 8.

Operating activities
The negative cash flow of TEUR 167,473 (previous year: negative TEUR 228,916) from operating activities related to continued operations includes the changes in working capital and other net assets as well as other non-cash transactions. The negative cash flow of TEUR 21,146 (previous year: negative TEUR 9,150) from discontinued operations includes the operating cash flows related to the solar thermal business unit (including heat pumps) and the biomass unit.

Investing activities
A total of TEUR 194,546 (previous year: TEUR 100,967) were used for investing activities in 2007. This outflow of funds is essentially due to investments in the Frankfurt (Oder) production facility.

Financing activities
The inflow of TEUR 421,508 (previous year: TEUR 237,097) in funds from financing activities results from the acquisition of capital as well as from additional borrowings under the syndicated credit facility.

Beginning with the 2007 annual financial statements, the cash flow statement is no longer based on the net profit/loss for the period but instead on operating income from continued operations. The previous year's figures were adjusted accordingly.

Cash and cash equivalents include cash on hand as well as bank credit balances that are available at any time and are not subject to significant fluctuations in value. In a deviation from the presentation in the consolidated balance sheet, the cash holdings shown in the cash flow statement as at 31 December 2007 contain TEUR 1,893 in cash and cash equivalents attributable to discontinued operations.

35. Contingent liabilities and other financial liabilities

Contingent liabilities
Contingent liabilities concern potential future events, the occurrence of which would give rise to an obligation. As of the reporting date, these are considered improbable yet they can not be precluded.

Conergy has assumed a total of TEUR 141,468 in bank guarantees and documentary credits as part of the syndicated credit facility. The Company also had liabilities to other banks from TEUR 28,997 in drawdowns from bilateral guarantee facilities.

Conergy also provides warranties for its products and is exposed to guarantee risks. Appropriate provisions were recognised (see note 29) to the extent that payment obligations are expected to arise from the guarantees issued.

Rental and lease contracts
The Group essentially maintains operating leases for offices and passenger cars. These leases have terms of 1 to 108 months and do not contain specific extension or purchase options. The monthly lease payments are recognised on a straight-line basis in the income statement under other operating expenses (see note 14).

Conergy has the following obligations under existent long-term rentals and lease contracts:

TEUR	31.12.2007	31.12.2006
Up to 1 year	11,106	6,779
1 to 5 years	29,027	16,370
More than 5 years	953	1,144
	41,086	**24,293**

Purchase commitment and obligations to accept goods
Conergy has undertaken to purchase solar wafers and solar modules from suppliers. These contracts have terms of between one and ten years. The Company's obligations to accept goods essentially arise from a delivery contract between MEMC Electronic Materials, Inc. and Conergy AG. This contract gives rise to fixed obligations to accept goods until 2018. It provides Conergy with a measure of security regarding its supply of wafers yet at the same time entails the risk of tying the Company to contractual arrangements that could have substantial financial repercussions in the event of negative developments in the prices of PV modules and wafers.

TEUR	31.12.2007	31.12.2006
Up to 1 year	192,934	136,986
1 to 5 years	2,042,021	–
More than 5 years	4,617,010	–
	6,851,965	**136,986**

Repurchase obligations
Conergy Services GmbH has undertaken vis-à-vis operators to repurchase installations under the relevant sale and assignment agreements. This will give rise to total financial obligations of TEUR 5,885 (previous year: TEUR 7,451). However, these repurchase obligations must be fulfilled from 2023 at the earliest.

Other
Financial obligations of TEUR 5,200 exist under cooperation agreements pertaining to the production of wind turbines and installations for producing biogenic fuels. Financial obligations under the cooperation agreement for manufacturing wind turbines are expected to come due in 2010 while the financial obligations under the cooperation agreement for manufacturing installations used to produce biogenic fuels are anticipated from 2009 onward. These cooperation agreements constitute contractual arrangements between the parties that govern their collaboration in the execution of projects.

There are also annual financial obligations of TEUR 1,333 for a term of 99 years in connection with the land at the production sites in Rangsdorf and Frankfurt (Oder). These properties carry heritable building rights.

TEUR	31.12.2007	31.12.2006
Up to 1 year	2,515	2,507
1 to 5 years	11,714	12,964
More than 5 years	123,969	125,158
	138,198	**140,629**

36. Related parties

The members of the Management Board and the Supervisory Board (including their relatives) as well as companies upon which Conergy and the members of its Management and Supervisory Boards (including close relatives) can exercise significant influence are considered related parties of Conergy. There were no significant transactions between Conergy and/or Group companies and members of its Management and Supervisory Boards or persons or companies related to them in the financial year just ended. Neither Management Board members nor Supervisory Board members had conflicts of interest.

The compensation report in this annual report summarises the standards applicable to the determination of the compensation paid to Conergy's Management Board. It also describes the standards applicable to the compensation paid to its Supervisory Board pursuant to the disclosures under Section 314 no. 6a sentence 5 through 9 German Commercial Code.

Total compensation paid to the Management Board was TEUR 2,987 (previous year: TEUR 1,795). Conergy's Management Board is comprised of the following individuals, whose compensation is allocated as follows:

EUR	Fixed compensation	Variable compensation	Other	Total
Dieter Ammer (Chairman since November 2007)	40,888	–	–	40,888
Pepyn R. Dinandt (since November 2007)	76,667	175,000	722	252,389
Nikolaus Krane	240,000	–	17,294	257,294
Philip von Schmeling (since November 2007)	30,000	40,000	2,580	72,580
Dr. Jörg Spiekerkötter (since November 2007)	83,332	83,332	877	167,541
	470,887	**298,332**	**21,473**	**790,692**

In addition, the following persons belonged to the Management Board during the 2007 financial year:

EUR	Fixed compensation	Variable compensation	Other	Termination benefits	Total
Albert Edelmann (until February 2007)	60,000	–	1,965	431,500	493,465
Christian Langen (from March until December 2007)	150,000	–	2,857	200,000	352,857
Heiko Piossek (until October 2007)	200,000	–	17,496	–	217,496
Hans-Martin Rüter (until November 2007)	293,333	–	26,351	–	319,684
Dr. Edmund Stassen (until October 2007)	180,000	120,000	13,067	500,000	813,067
	883,333	**120,000**	**61,736**	**1,131,500**	**2,196,569**

The portfolio of Phantom Stock Options granted to the members of the Company's Management Board has developed as follows:

	Number as of 1.1.2007	Issued in 2007	Exercised in 2007	Expired / forfeited in 2007	Number as of 31.12.2007	Change in fair value of Phantom Stock Options in EUR
Dieter Ammer (Chairman)	–	–	–	–	–	–
Pepyn R. Dinandt	–	84,000	–	–	84,000	78,000
Nikolaus Krane	–	–	–	–	–	–
Philip von Schmeling	–	–	–	–	–	–
Dr. Jörg Spiekerkötter	–	84,000	–	–	84,000	78,000
	–	**168,000**	**–**	**–**	**168,000**	**156,000**

Conergy's Supervisory Board is comprised of the following individuals, whose compensation is classified as follows:

EUR	Fixed compensation	Variable compensation	Committee compensation	Total
Eckhard Spoerr (Chairman since November 2007)	19,619	–	3,000	22,619
Dieter Ammer (Chairman until November 2007)	38,131	–	3,500	41,631
Dr. Dr. h. c. Andreas J. Büchting	16,500	–	–	16,500
Oswald Metzger	16,500	–	500	17,000
Alexander Rauschenbusch (Deputy chairman)	24,750	–	4,500	29,250
Andreas Rüter	16,500	–	2,000	18,500
	132,000	**–**	**13,500**	**145,500**

By Supervisory Board resolution, Mr. Dieter Ammer was appointed the deputy of Mr. Hans-Martin Rüter, the Management Board member who has resigned, effective 15 November 2007 until 14 May 2008. Mr. Ammer's appointment to the Supervisory Board is suspended for the duration of his appointment to the Management Board.

37. Number of employees

The Group had 2,887 employees (expressed in full time equivalents), including managing directors and Management Board members, as of 31 December 2007 (previous year: 1,480). Of these, 2,632 (previous year: 1,365) were employed in the Company's continued operations as of 31 December 2007.

The average number of employees (expressed in full time equivalents) of the companies included in the consolidated financial statements was:

	2007	2006
Germany	1,403	795
Europe	520	203
Rest of world	394	127
	2,317	**1,125**
Thereof		
Production	225	78
Administrative / technical area	1,989	970
Trainees and interns	103	77
	2,317	**1,125**

38. Auditing fees

The following fees for the auditor of the consolidated financial statements were expensed for the 2007 financial year:

TEUR	2007	2006
Audits of financial statements	446	181
Tax consultancy services	129	133
Other services	203	84
	778	**398**

These fees primarily include the fees for the audit of the consolidated financial statements as well as for the audit of the annual financial statements of Conergy and its significant domestic subsidiaries.

Fees for other services mainly concern special audits performed at the behest of the Supervisory Board.

39. Declaration of compliance

The Management Board and the Supervisory Board issued the Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act and made this declaration available to its shareholders on the Company's website.

40. Events after the balance sheet date

The Conergy Group has been in the midst of a broad restructuring since mid-November 2007. The first step entails combining its different core areas into autonomous units as of 1 January 2008.. The Company's activities are managed by means of the two divisions, Components and Sales & Systems that comprise the photovoltaics segment and by the Projects segment. While the Components division covers all production-related activities, Sales & Systems brings together the previous activities of Conergy and SunTechnics. The Projects segment entails the development and financing of EPURON's major projects.

Conergy AG has secured its follow-up financing with the help of a banking syndicate. Commerzbank AG as well as Dresdner Kleinwort are providing the Company with additional liquidity of EUR 240 million. Conergy intends to utilise these additional funds chiefly for necessary investments, for ensuring early on that commodities are available for its solar factory in Frankfurt (Oder) as well and for prefinancing projects undertaken by its subsidiary, EPURON GmbH, Hamburg. An expert opinion by the auditing firm, Ernst & Young, in mid-February 2008 previously confirmed that the Management Board had initiated a realignment. The EUR 30 million credit line that had been made available in November 2007 until the end of February 2008 was not used and is now included in the EUR 240 million interim financing.

Conergy has successfully disposed of its thermal activities in Belgium, the Netherlands and Austria in connection with its realignment as a dedicated provider in the solar industry. The sale comprises the Belgian company, Conergy bvba, which is domiciled in Lille, as well as its production of solar heat collectors and the related B2B distribution structure for both Belgium and the Netherlands. Conergy also disposed of Redenko bv, a company that is domiciled in the Dutch city of Breda and sells heat pumps and district heating systems to its regional customers. It was bought by ZEN International bv (Netherlands). Conergy GmbH domiciled in Althofen, Austria, was also sold.

Hamburg, Germany, 11 March 2008

Conergy Aktiengesellschaft
The Management Board

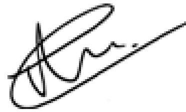
Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the 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.

Hamburg, Germany, 11 March 2008

Conergy Aktiengesellschaft
The Management Board

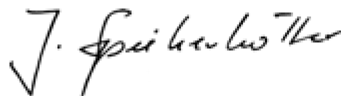
Dieter Ammer



Pepyn R. Dinandt

Nikolaus Krane

Philip von Schmeling



Dr. Jörg Spiekerkötter

Auditor's report

We have audited the consolidated financial statements of Conergy AG, Hamburg – consisting of the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the consolidated notes – as well as the Group management report for the financial year from 1 January to 31 December 2007. The preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU and the supplementary provisions that are applicable under Section 315 a para. 1 German Commercial Code (HGB) are the responsibility of the company's legal representatives. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and on the Group management report.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. These standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations with a material impact on the presentation of net assets, financial position and results of operations conveyed by the consolidated financial statements with due regard to the applicable accounting principles, and by the Group management report are identified. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible errors 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 annual financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in consolidation, the definition of the scope of consolidation, the accounting and consolidation principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on the findings of the audit, the consolidated financial statements of Conergy AG, Hamburg, are in compliance with IFRS as applicable in the EU and with the supplementary provisions applicable under Section 315 a para. 1 HGB, and in accordance with these provisions give a true and fair view of the net assets, financial position and results of the operations of the company. The Group management report is consistent with the consolidated financial statements, provides a suitable understanding of the Group's situation and suitably presents the risks of future development.

Hamburg, 14 March 2008

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Tesch)	(Ohlsen)
Auditor	Auditor

Further information

Glossary

Ambient heat
By using a heat pump, energy is drained from the soil or from the outside air.

CO_2
Carbon dioxide.

Control unit
Microprocessor-controlled unit for controlling solar thermal system functions.

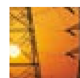
Drain-Back
A technology that drains the collector to prevent it from damage when the temperature is too hot or too cold.

ECJ
European Court of Justice.

EEG
German Act on Granting Priority to Renewable Energies (Erneuerbare-Energien-Gesetz).

Efficiency
In energy conversion processes, efficiency is defined as the ratio of useful energy produced to energy or power used.

Full Time Equivalents (FTE)
The number of full-time employees calculated by converting part-time employees to full-time employees.



Grid-connected systems
Photovoltaic systems connected to a public energy supply network.

Grid operator
Electrical utility that operates power grids for the general supply of electricity.

Heat pumps
Heat pumps utilise the energy present in the outside air, water or soil to generate warmth for heating.

Inverter
Solar modules generate direct current (DC), and inverters are used to convert DC into AC (alternating current). This enables the electricity generated from solar energy to be utilised by end users at 230 volts AC or to be fed into the public grid. Central inverters are used in large systems, and string inverters in small systems.

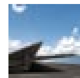
Kilowatt (kW)
1,000 Watt. Unit of power used to measure the capacity of solar energy systems.

Kilowatt hour (kWh)
Unit of energy. Electricity consumption is stated in kilowatt hours. 1 kWh = 1,000 watts over a period of one hour.

kW
Abbreviation of “kilowatt”.

kWh
Abbreviation of “kilowatt hour”.

kWp
Abbreviation of “peak kilowatt”.



Large-scale system
Photovoltaic power plant with a rated output of over 100 kWp.

Liquidity risk
Risk of being unable to meet current or future payment obligations in due time or in the full amount.

Megawatt (MW)
Unit of energy: 1 MW = 1,000 kW.

Megawatt hour (MWh)
Unit of energy. Electricity consumption is stated in megawatt hours. 1 MWh = 1,000 kilowatts or 1,000,000 watts over a period of one hour.

Module
Connected cells. See also “Photovoltaic module”.

MW
Abbreviation of “megawatt”.

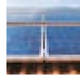
MWh
Abbreviation of “megawatt hour”.

MWp
Abbreviation of “peak megawatt”.

Peak kilowatt (kp)
Unit used to measure the standardised power output (rated output) of solar cells and photovoltaic modules. The rated output of the module reflects the output produced under special testing conditions that do not correspond to normal conditions. The testing conditions serve to standardise and compare solar cells and modules. The testing conditions are at 25 °C module temperature and 1,000 W/m^2 solar radiation (STC conditions; STC stands for standard test conditions).

Peak Megawatt (MWp)
1,000 peak kilowatts = 1 peak megawatt.

Peak watt (Wp)
Unit used to measure the standardised power output (nominal output) of solar cells and photovoltaic modules. 1,000 peak watts = 1 peak kilowatt.



Photovoltaic module

A solar or photovoltaic module is made up of several connected solar cells that are sandwiched between two glass or plastic panes to make them weatherproof. In the most common cells (crystalline silicon cells) voltage lies at about 0.5 volts. To achieve voltages that can be better exploited, solar cells are connected to each other in a solar module. Solar modules are usually mounted in a frame on a roof or on a mounting system.

Photovoltaics

Photovoltaics involves the conversion of radiation, primarily solar radiation, into electrical power, and has been used to supply energy since 1958 (initially to satellites). The name is a combination of the Greek word for light, or "photo", and "Volta", after Alessandro Volta, the pioneer of electricity.

Photovoltaic system

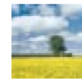
System (power plant) for generating electrical power from solar energy. Direct current generated by photovoltaic modules can be used to run motors or charge batteries, for example. If it is fed into the public supply grid or used for the operation of common electric loaders, an inverter is required to convert direct current to alternating current.

Primary energy consumption

Primary energy consumption, abbreviated PEC, indicates how much energy can be used in an economy to render all energy related services such as production, heating, moving, electronic data processing, telecommunication or lighting. It is also the total amount of energy supplied to an economy. Sources of energy in use to date mainly include oil, gas, coal, brown coal, nuclear power, hydropower and wind energy.

Pump componentry

Components of a solar thermal system. Connection between flat collector and storage unit controlling the conducting of heat between these components.



Renewable Energy

Renewable energy, or sometimes called regenerative energy, refers to the supply of energy from sustainable sources that are either regenerated or – based on human standards – are inexhaustible. Renewable energy is largely tapped in the form of biomass, solar energy, hydropower and wind energy.

Silicon

Raw material for the production of solar cells. Silicon accounts for about 25.8 percent of the weight of the earth's crust, which makes it the second most common chemical element after oxygen.

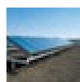
Solar cell

Solar cells are a photovoltaic application that convert light (usually sunlight) into direct current by exploiting the photovoltaic effect. The photons being emitted generate an electric voltage which, by connecting an electric loader, allow electricity to flow to the solar cell.

Solar collector
In solar collectors, heat conducting materials are heated by the sun, providing energy for the production of warm water, for instance for heating systems.

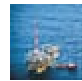
Solar collector (flat collector)
A solar collector is a device for collecting heat. It absorbs the warmth of the sun and utilises the absorbed heat relatively efficiently to heat a heat-conductor which is usually liquid.

Solar cooling
The use of the sun's energy to cool buildings or devices.



Solar energy systems
Photovoltaic systems and solar thermal systems.

Solar thermal
Heat generation from sunlight, particularly for the purpose of heating water.



Stand-alone system
Solar energy system that does not feed power into the grid, but instead provides electricity locally at a particular site.

Storage unit
Serves to store energy collected by a flat collector.

SunCheck
Measurement and documentation system developed by Conergy for the installation and maintenance of photovoltaic systems.

SunReader
Device developed by Conergy to monitor photovoltaic systems.

Tracker
Mounting system enabling solar modules to track the sun, which increases the amount of solar electricity gained.

W
Abbreviation of “watt”, a unit of power.

Wafer
Silicon disc used to manufacture solar cells.

Watt (W)
Unit of power with which the output of photovoltaic systems can be precisely measured.

Wp
Abbreviation of “watt peak”.

Disclaimer

This Annual Report contains forward-looking statements and information – that is, statements related to future, not past, events. These statements may be identified by words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “will” or words of similar meaning. Such statements are based on our current expectations and certain assumptions, and are, therefore, subject to certain risks and uncertainties.

A variety of factors, many of which are beyond Conergy’s control, affect its operations, performance, business strategy and results and could cause the actual results, performance or achievements of Conergy to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. For us, particular uncertainties arise, among others, from changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products or technologies by other companies, lack of acceptance of new products or services by customers targeted by Conergy, changes in business strategy and various other factors.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Conergy does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.

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Imprint

Published by
Conergy AG
Anckelmannsplatz 1
20537 Hamburg
Germany

Concept and editor
Ulrike Kretschmer, Christoph Marx

Layout and production
Thaya Schroeder

Printer
W. Zertani, Druckerei und Verlag, Bremen, Germany

This report was printed on environmentally friendly paper.

This report is also available in German. Both versions are available for download on the Internet.

We will be pleased to send you additional information about the Conergy Group upon request.

2008 Financial calendar

9 April 2008

Publication of the 2007 financial statements
Financial statements press conference, Frankfurt (Main)
Analyst conference, Frankfurt (Main)

9 May 2008

Publication of the interim report
First quarter 2008 (January to March)
Conference call with analysts and investors

8 August 2008

Publication of the interim report
First half 2008 (January to June)
Conference call with analysts and investors

14 November 2008

Publication of the interim report
Third quarter 2008 (July to September)
Conference call with analysts and investors

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