CONERGY

10 years of Conergy

Conergy AG

Annual Report 2008

Key figures

		2008	2007
Sales	EUR million	1,006.2	719.0
Germany	EUR million	294.8	337.6
International	EUR million	711.4	381.4
EBIT	EUR million	–212.5	–213.3
EBIT-Margin	in percent	–21.1	–29.7
Results after tax from continued operations	EUR million	–253.5	–213.0
Total assets	EUR million	746.8	1,036.1
Total equity	EUR million	196.8	125.2
Equity ratio	in percent	26.4	12.1
Cashflow from investing activities[1]	EUR million	–21.2	–194.5
Cashflow from operating activities	EUR million	–131.8	–168.5
Earnings per share from continued operations	EUR	–3.86	–6.50
Average number of no-par shares issued (as of 31.12.)	in Thsd.	65,339	32,699
Number of employees FTE[2] (as of 31.12.)		1,773	2,494
Germany		1,050	1,506
International		723	988

[1] Numbers relate to continued operations and not discontinued operations

[2] Full time equivalents

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DEAR SHAREHOLDERS,

For Conergy, 2008 was a year marked by reorganisation and tough cutbacks. After many years of exponential and successful growth, by the end of 2007 Conergy found itself, owing to poor business decisions and potential breaches of duty, close to collapse. Without a capital increase at short notice in the fourth quarter of 2007, several liquidity injections in 2008, and a radical change of course last year, it would not have been possible to rescue the company.

Over the 15 months during which I have been at the helm at Conergy, we have also had three key challenges to solve simultaneously: we have considerably reduced the Group's complexity, we have focused our business on our core competence – the integration of solar energy systems – and we have secured a solid basis for our financing.

At the same time, we have increased our revenue and market share. In a year in which our radical reorientation was accompanied by the most severe financial crisis in many years, I regard this as a remarkable achievement, and one for which I am grateful to all our employees. This achievement is all the more notable when you take a moment to consider the concrete measures which are behind our reorganisation: we have parted with almost 40 percent of the workforce, which is around 1,000 employees; we have withdrawn from 13 small and unprofitable markets; we have divested a whole range of technological segments which are not part of our core business; and we have successfully completed two capital increases, one with a volume of EUR 400 million, in the midst of the meltdown of the global financial markets.

Where do we stand today? At Conergy we are once again concentrating on what we are best at and what has made us great: developing photovoltaic systems right up to their turnkey handover, and maintaining these systems, at the request of our customers, over their entire service life. We offer this service in those markets which promise high profitability today and in the future. These include Germany, the USA, and selected Southern European and Asian countries.

Our financing is much more solid than it was twelve months ago. We have significantly reduced liabilities, including the interim financing which protected us from an acute liquidity shortage, and we have increased our equity capital. At the end of 2008 our equity capital ratio stood at more than 26 percent.

In mid-2008, we successfully renegotiated very problematic supply contracts such as the one with MEMC to supply materials to our plant in Frankfurt (Oder), and we established new, stringent reporting structures and IT processes. We sold off or closed down numerous loss-making companies outside of our core area of activity, some of which had only been acquired or founded in 2006 and 2007, in some cases at a high loss. This was the case for the production activities in the wind sector in particular. We reduced the large number of legal entities, replacing them with clear, independent business units, whilst at the same time focusing our branding on the Conergy brand, thus increasing its impact.

Despite making massive personnel cuts, we were also able to fill positions, in the first and second levels of management in particular, with new and experienced people who have precisely the expertise that we will require in the rapidly changing markets of the coming years. It is in this context that the Supervisory Board decided to replace the entire Management Board.

Despite the massive reorganisation work going on, we did not neglect our operating business in photovoltaics last year either. In 2008 we added to our flagship photovoltaic projects with our solar parks “El Calaveron”, “Exxelon” and “SinAn”, the largest solar park in Asia. Our products and expertise not only convinced important existing customers to stick with us, they also helped us to win over a considerable number of new customers. With almost 40 percent fewer employees, we managed to increase our turnover by 40 percent – and thus attained our turnover target of EUR 1 billion. This development, which continued into the third quarter of 2008, strengthened our belief that the turnaround would also be reflected positively in other key performance indicators. Nevertheless, our year-end result was disappointing.

Why did we fail to achieve some of the financial targets we set ourselves? When the global financial crisis dragged the real economy under in the fourth quarter of 2008, the solar industry and our company also felt the full brunt. Massive price discounts, currency shifts and necessary value adjustments blighted our fourth quarter result. In the 2008 financial statements, these year-end effects obscured the achievements we had worked so hard for over the first three quarters. It is important to note, however, that a large majority of the overall negative results were due to restructuring effects and one-off effects which we do not expect to recur on the same scale in 2009. Equally important is the fact that we substantially reduced certain burdens in 2008, and this will be reflected positively in our 2009 figures.

In terms of discontinued operations alone, losses from sales and writedowns of EUR 50 million will not recur; our previous interest burden of EUR 71 million per year will be reduced to around EUR 20–25 million; and our high legal and consultancy costs due to restructuring measures in 2008 will decline drastically in 2009. In 2008, our result was influenced by high start-up and idle-time costs due to the very low capacity utilisation at this time and the limited supply of materials in Frankfurt (Oder). In terms of currency losses, too, the risks in 2009 will largely by limited to the US dollar. The large currency losses of EUR 30 million, which stemmed principally from the South Korean won, will not recur. The cost effects of the personnel cuts of around 1,000 employees will first become fully effective in 2009.

One essential milestone for 2009 is the dispute regarding the contract with our most important supplier, the American company MEMC. This contract, which was concluded in October 2007 by the former Conergy management, is not only very imbalanced but also, in our view, not enforceable in significant parts and partly anti-competitive. This is why we initiated talks with MEMC at the end of 2008, in order to find an amicable agreement acceptable to the both parties. If we are not able to reach an amicable agreement – and it looks as if this will be difficult – we will contest the contract by legal means. Against this background and as a precautionary measure, we have written down the payments already made to MEMC in the 2008 financial statements and taken the expected costs of a legal dispute into account as an expense. This has burdened our result with an additional one-off, cash-neutral effect of EUR 54 million.

Our path towards the goal of sustainable profitability has certainly been made longer by the turbulence of the market. Nevertheless, we are entering the current year as a significantly leaner company, and we have the structure and the stamina required to complete this journey. The development of our business in March of this year already shows that we are on the right track: after two weak months for the industry as a whole at the start of the year, in March we were able to increase our sales volume once more. In North America we are already seeing signals which we interpret as clearly indicating the changes which will find their way into the climate policies of this continent under the Obama presidency. Just a few days ago, Gainesville in Florida became the first US city to decide to introduce an attractive remuneration for solar electricity based on a feed-in tariff. The entire Canadian state of Ontario has significantly increased its feed-in tariffs, and thus now also offers a very attractive market environment for photovoltaics.

In the coming months we will benefit from the fundamental changes the market is currently going through. Whereas the market was previously marked by a surplus of demand, now that capacities have been greatly increased, we are looking at a massive oversupply of silicon, wafers, cells and modules. Furthermore, the overheated market has suddenly been reined in by the financial crisis. The transition from a seller's to a buyer's market was therefore completed not in a matter of months, but in a matter of weeks. We had been expecting this development. However, we – like the rest of the industry – were surprised by the speed at which it took hold.

What does this mean for the future? Looking ahead, the decisive factor for market participants will not be the availability of the products, but access to the customers. This is what we have now oriented our business model around. Thanks to our established global distribution network in 15 countries, and thanks to our customers, who have remained loyal to us even through the crisis, our access to the market is unique in the industry. Furthermore, as system integrators with our own production capacities, we are virtually unrivalled in our ability to offer customised, tried-and-tested solutions. Although we still have to battle against the fallout of the financial and economic crisis at present, I am confident that – as soon as the mist clears – we will face this year from a solid starting position, even though the first half of the year promises to be tough.

The market for renewable energy sources will continue to grow in the future. It has to – for renewable energies are the only answer we have to the energy problems of the coming decades. The financial and economic crisis may pose a more acute threat, but the energy crisis and climate change represent a more existential threat. It is therefore essential that photovoltaics make a substantial contribution to global energy provision.

With a reorganised Conergy 2.0 and a market that may have gone out of sync temporarily but still shows enormous fundamental growth potential, we are looking to the future with cautious optimism. Due to the turbulence of the market and the low visibility, it would be rash to make a forecast for the current year at this point in time. I expect we will be able to see more clearly by the second half of the year at the latest, and that we will then be able to specify our target for 2009.

My special thanks go to our employees. It was possible to steer Conergy through the rough seas of recent months only thanks to their contribution. Their loyalty and commitment were, and still are, the key to a successful turnaround.

In difficult times, good managers strengthen their position, create value with innovative ideas and win over new customers. My wish for our company, and of course for you, our shareholders, is that we keep this approach in mind and emerge from the crisis stronger than ever.

Yours sincerely,

Dieter Ammer

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

Monitoring activities of the Supervisory Board

The Supervisory Board advised the Management Board on the Company's management in the financial year just ended, duly and regularly monitoring the Management Board's conduct of business based on written and oral Management Board reports and joint meetings. In addition, both the Chairman of the Supervisory Board and the Chairman of the audit committee maintained regular contact with the Management Board outside the meetings. The Management Board regularly provided comprehensive information to the Supervisory Board about the Company's business policies; the relevant aspects of its planning, including its financial, investment and personnel planning; the development of business; current sales, earnings and liquidity developments; the economic situation of both the Company and the Group, including their exposure to risk and their risk management; intra-group compliance; the Group's strategic realignment in connection with the restructuring process that the Management Board designed and updates; as well as the decisions and business transactions pivotal to the Company and the Group. The Management Board reported to the Supervisory Board both on specific occasions at the request or explicit demand of the Supervisory Board and in regular intervals in accordance with the rules of procedure drawn up by the Supervisory Board for the Management Board. The Supervisory Board included accounting, controlling, treasury and internal auditing staff in its deliberations to the extent necessary in the 2008 financial year as well. The Supervisory Board was involved in a timely manner in all decisions that were of material significance for the Company. Furthermore, 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 shareholder representatives in the 2008 financial year: Eckhard Spoerr (Chairman of the Supervisory Board), Alexander Rauschenbusch (Deputy Chairman of the Supervisory Board), Dr. Dr. h. c. Andreas J. Büchting, Andreas Rüter, Oswald Metzger, Hans Johann Baptist Jetter (since 28 August 2008) and Dieter Ammer (until 31 July 2008). Dieter Ammer's appointment to the Supervisory Board was suspended until he resigned his office effective as of midnight on 31 July 2008 because he had been appointed to the Management Board as substitute (successor) for Hans-Martin Rüter (the Management Board member who had stepped down) pursuant to Section 105 para. 2 sent. 1 German Stock Corporation Act.

Supervisory Board meetings

In the 2008 financial year, the Supervisory Board held a total of ten meetings to carry out its duties, specifically, on 1 February, 12 March, 5 April, 5 June, 26 June, 15 July, 28 August, 26 September, 13 November and 4 December 2008. With the exception of the meetings on 1 February and 26 June 2008, all meetings required members' personal attendance; in a few cases, Supervisory Board members participated in the deliberations and resolutions by telephone. In urgent cases, resolutions were also adopted by telephone and in writing outside of meetings. With the exception of Mr. Jetter, who was not appointed to the Supervisory Board until 28 August 2008, all Supervisory Board members participated in more than one half of the Supervisory Board's meetings; the Supervisory Board members Dr. Dr. h. c. Andreas J. Büchting and Andreas Rüter were excused on one occasion each.

Focal points of the deliberations and reviews of the full Supervisory Board

At all meetings, the Management Board briefed the Supervisory Board in detail on current sales, earnings and liquidity developments as well as on the Company's short and medium term cash flow projections and participated in the Supervisory Board's subsequent discussions. Monitoring the Company's ongoing restructuring process with a critical eye was one of the priorities of the Supervisory Board's advisory and supervisory activities, in particular the closing of a EUR 240 million bridge loan in early February 2008; the Company's liquidity and cash flow planning; the renegotiation of the contract with MEMC; the disposal of the business units previously reported as discontinued operations; the continued ramp-up of the solar factory in Frankfurt (Oder) including possible strategic or financial partnerships and; the preparations for the cash capital increase to repay the bridge loan, reviews of alternative recapitalisation measures and finding new investors. None of this gave rise to any doubts with respect to the Management Board's due and proper conduct of business.

At its extraordinary meeting on 1 February 2008, the Supervisory Board discussed and resolved to approve a EUR 240 million bridge loan and adopted a basic resolution regarding the execution of a cash capital increase subject to shareholders' subscription right for the purpose of repaying the loan. In adopting its resolutions, the Supervisory Board extensively considered potential alternative funding tools but came to the conclusion based on its deliberations that the bridge loan was the best and only realistic solution for the good of the Company, its shareholders, employees, creditors and partners – given the Company's urgent need for funding – even though it would significantly increase borrowings.

The Supervisory Board meeting on 12 March 2008 mainly concerned issues related to Management Board personnel in connection with the termination of Pepyn R. Dinandt's appointment and the extension of Dieter Ammer's appointment as substitute (successor) for Hans-Martin Rüter, the member who had stepped down; preparations for the Company's 2008 General Shareholders' Meeting; improving the management reporting system; as well as the current development of business in 2008 including strategic issues. Conergy's funding needs were discussed in connection with cash flow planning, taking existing credit lines and the importance of cash inflows from the project business for liquidity targets into account. The status of EPURON's project business and the likelihood that major projects would be implemented in timely fashion were other critical issues. Extensive discussions followed the Management Board's reports on the status of the restructuring programme as well as both the progress achieved to date and improvement potentials.

The annual financial statements of Conergy AG, which were audited and confirmed by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft ("Deloitte & Touche"), as well as the audited and confirmed consolidated financial statements along with the respective management reports as at 31 December 2007, were the main topics at the Supervisory Board meeting on 5 April 2008. The Supervisory Board discussed critical aspects of the annual and consolidated financial statements with both the Management Board and Deloitte & Touche based on the audit committee's preliminary reviews and deliberations. Both the Management Board and Deloitte & Touche answered all of the Supervisory Board's relevant questions. Furthermore, the Supervisory Board discussed the resolutions to be proposed to the 2008 General Shareholders' Meeting, in particular its recommendation regarding the election of the auditors for the 2008 annual and consolidated financial statements, the formal approval of the actions of the members of the Management Board and the Supervisory Board as well as the planned cash capital increase; the representatives of Deloitte & Touche did not participate in the discussion affecting the firm. The Supervisory Board adopted the resolutions to be proposed to the General Shareholders' Meeting. In addition, the Management Board reported on the development of business to date in 2008 as well as on strategic topics, which were discussed with the Supervisory Board in detail. The discussions centred on the continued expansion of the Frankfurt (Oder) solar factory as well as on the possibility of selling it or finding a joint venture for it, the MEMC contract, the Conergy Group's future legal structure, the planning for 2008 and the features of the Long Term Incentive Plan (LTIP) for the Company's executives. Finally, the Supervisory Board resolved to ask the Management Board and Supervisory Board members to reimburse the Company for overpayments in variable compensation, as determined in the review of the 2006 annual financial statements by Deutsche Prüfstelle für Rechnungslegung (German Financial Reporting Enforcement Panel – "DPR").

At the Supervisory Board meeting on 5 June 2008, the Management Board reported in particular on the start of negotiations concerning an adjustment of the MEMC contract; questions regarding the Management Board's future structure and composition; the current development of business; the Company's liquidity and liquidity targets; as well as the updated 2008 forecast along with the planning for 2009 and 2010. The Management Board answered the Supervisory Board's related questions in detail. The Supervisory Board also kept abreast of the preparations for the General Shareholders' Meeting and the planned capital increase, especially the potential structure of capital increases subject to shareholders' subscription right and the related questions. Finally, the Management Board reported on the status of the talks regarding a possible joint venture for the Frankfurt (Oder) solar factory as well as the progress being made in the plant's continued evolution.

The extraordinary Supervisory Board meeting on 26 June 2008 mainly concerned the composition of the Management Board against the backdrop of the planned capital measures.

The Supervisory Board meeting on 15 July 2008 focused on personnel matters related to the Management Board including compensation issues, specifically the possible appointment of Dieter Ammer to the Management Board as a regular member for a period of two years (1 August 2008 until 31 July 2010). Following intensive deliberations on the candidates, their strengths and weaknesses, the consequences of selecting a particular candidate for the Company's management as well as the reactions of other stakeholders, the Supervisory Board resolved unanimously to offer Dieter Ammer a contract as a member of the Management Board and at the same time to appoint him chairman of the Management Board. In that connection, the Supervisory Board also resolved key contractual issues (including financial terms) in accordance with the German Corporate Governance Code. The Supervisory Board also resolved unanimously to modify the status of the Management Board member, Philip von Schmeling, from that of a deputy member of the Management Board to that of a regular member. Preparations for the Company's General Shareholders' Meeting, especially the proposed resolution regarding the cash capital increase, were another key topic of discussion at this Supervisory Board meeting. The Management Board reported extensively on the Company's liquidity situation until the end of 2008, measures designed to boost liquidity, liquidity targets for both 2008 and 2009 as well as the status of the talks with the banks about lead managing the capital measure, particularly the terms of a volume underwriting agreement. The Supervisory Board asked a host of questions, which the Management Board answered in detail. They concerned particulars of the Management Board's report as well as the issue of the equity required in order to ensure the Company's funding through the end of 2009, the volume of the capital increase and its corresponding structure as well as the option of splitting the Company's capital requirements into a capital increase and mezzanine financing. Following intense deliberations, the Supervisory Board agreed with the Management Board's proposal to execute a cash capital increase. Finally, the Supervisory Board resolved both the agenda and the resolutions it would propose to the General Shareholders' Meeting on 28 August 2008.

Preparations for the Company's General Shareholders' Meeting as well as the Management Board's reports on the structure of the capital increase – including the status of the talks with the lead managing banks' in regards to their assuming the price and placement risks related to the new shares (so-called volume underwriting) were the main topic at the Supervisory Board meeting on 28 August 2008. This meeting also focused on a consultancy contract with Hans Johann Baptist Jetter, a new Supervisory Board member whose appointment was pending, in connection with the execution of the planned cash capital increase as well as on the status of the negotiations with LG Electronics Inc., Seoul, South Korea, concerning a possible joint venture related to the Frankfurt (Oder) solar factory.

At the Supervisory Board meeting on 26 September 2008, the status of and preparations for the planned cash capital increase once again were first and foremost among the issues addressed. The Supervisory Board and the Management Board exhaustively discussed the structure of the planned capital increase subject to shareholders' subscription right, including the likely issuing volume, against the backdrop of the market's current climate, ongoing discussions with investors and the lead managing banks' requirements. The Management Board reported on the status of the settlement talks with those shareholders who had filed objections to the resolution regarding the capital increase at the General Shareholders' Meeting on 28 August 2008, some of whom had also announced that they would file actions aimed at rescinding or voiding the resolution on the capital increase, among others. The implications of this development for both the structure of and the time window for the execution of the cash capital increase were discussed with the Management Board, which diligently answered the Supervisory Board's related questions. Further, the Management Board provided detailed reports on both the current and projected development of business in the Conergy PV and EPURON divisions and the progress achieved to date in the implementation of the restructuring programme. The Company's liquidity and liquidity projections were also explained in detail. The Management Board gave comprehensive answers to the questions the Supervisory Board raised in this connection. Management Board personnel issues as well as the Supervisory Board's efficiency review were additional topics. The Supervisory Board resolved to carry out a scheduled efficiency review of its activity. It also received a report on the status of the previously commissioned legal opinion regarding potential violations by (former) Management Board members of their responsibility to exercise due care in connection with the earnings and liquidity crisis that occurred at the end of the 2007 financial year.

Resolutions on the details of the execution of the cash capital increase took up the entire Supervisory Board meeting on 13 November 2008. The Management Board reported extensively on the planned details of its implementation as well as on the Company's key economic data, including liquidity projections, for 2008 and 2009 and the forecasts for EPURON's project business. It provided comprehensive answers to the questions the Supervisory Board raised in this connection. The Supervisory Board approved both the details of the cash capital increase as proposed by the Management Board and the stock tender agreement with the banking syndicate, Credit Suisse Securities (Europe) Ltd. and Dresdner Bank Aktiengesellschaft.

At its meeting on 4 December 2008, the Supervisory Board discussed its future composition against the backdrop of the changes in the Group's shareholder structure. Compensation issues related to the consultancy contract with the Supervisory Board member Hans Johann Baptist Jetter were discussed (in his absence), as were Management Board personnel matters. The Supervisory Board resolved furthermore to issue the Declaration of Compliance with the German Corporate Governance Code pursuant to Section 161 German Stock Corporation Act and invited Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft to present the findings of its review of the Group's interim consolidated financial statements as at 30 September 2008. Both the Management Board and Deloitte & Touche answered the Supervisory Board's relevant questions in detail. The meeting was also taken up by presentations on and discussions of the Company's liquidity as well as the risk management report for the third quarter of 2008; presentations on the planning for financial years 2009 through 2011, which the Supervisory Board approved after detailed discussions with the Management Board; the status of the Conergy Group's restructuring as well as the review of the Group's strategy for the Components division.

Report from the committees

The Supervisory Board has established two standing committees in accordance with the recommendations of the German Corporate Governance Code with the aim of ensuring efficient fulfillment of its responsibilities: a task force charged with preparing the Supervisory Board's meetings (chairman's committee) and an audit committee, both of which are staffed by Supervisory Board members. The Supervisory Board has delegated decision-making authority to these committees in individual cases, to the extent permissible in law. At Supervisory Board meetings, the committee chairmen reported in detail on the committees' meetings and work, thus facilitating a comprehensive exchange of information and good cooperation between the committees and the full Supervisory Board.

Eckhard Spoerr (Chairman), Alexander Rauschenbusch and Andreas Rüter comprised the chairman's committee in the 2008 reporting year, which has also been serving as a nomination committee since 4 December 2007.

The audit committee was composed of Alexander Rauschenbusch (Chairman) as well as Eckhard Spoerr and Oswald Metzger in the 2008 reporting year.

In the 2008 financial year, the chairman's committee held a total of nine meetings, specifically, on 26 January, 11 February, 18 February, 3 March, 13 March, 16 April, 13 June, 14 July and 3 December 2008. 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. On 3 December 2008, the chairman's committee also met in its capacity as nomination committee, discussing issues related to the future composition of the Supervisor Board. All committee members attended all meetings of the chairman's committee.

The tasks of the audit committee, which during the year under review met four times for meetings requiring personal attendance – specifically on 7 March, 12 March, 5 April and 26 September 2008 – and for three meetings conducted by telephone – specifically on 29 April, 5 August and 7 November 2008 – included the preparation of the audit of the annual and consolidated financial statements together and the associated management reports, the engagement of the auditor of the annual and consolidated financial statements and the associated management reports, 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 7 March 2008, the audit committee and the Management Board discussed the status of the review by Deutsche Prüfstelle für Rechnungslegung (German Financial Reporting Enforcement Panel – "DPR") of the consolidated financial statements and the Group management report as at 31 December 2006 as well as of the interim report as at 30 June 2007 – including the review's ramifications in terms of scheduling and substance notably for the process of increasing the Company's capital. Preparations for the Supervisory Board's proposal to the General Shareholders' Meeting concerning the election of the auditors and the need to obtain their declaration of independence as well as regular audits of the Company's quarterly financial statements were additional important topics. The extensive discussions also centred on the Company's current liquidity and liquidity targets, taking any risks in relation to liquidity targets from its project business and questions of intra-group compliance into account.

The audit committee meeting on 12 March 2008 engaged in a detailed discussion – in the presence of the auditors, Deloitte & Touche – of the preliminary annual and consolidated financial statements for 2007 as well as the preliminary management and Group management report as at 31 December 2007; the audit committee asked the auditors to report on their audits and the relevant findings as well as on the status of both the groupwide implementation of risk management policies and the proceedings of the German Financial Reporting Enforcement Panel. Detailed discussions also focused on the deficiencies that the Deloitte & Touche auditors found in connection with cross-border transactions (OTW business), accounting / sales, liquidity and risk management as well as the management of associates. At this point, the audit committee engaged in an extensive discussion of potential improvements with both the Management Board and the auditors. It discussed the profitability of EPURON's projects among other things, especially in terms of prefinancing and performance, in connection with its report on the outcome of its review of key issues. Both the Management Board and the auditors provided detailed answers to the questions the Supervisory Board raised in this connection.

On 5 April 2008, in the presence of the Deloitte & Touche auditors, the audit committee – which was aware of the auditors' reports – dealt yet again with the audit of Conergy AG's annual and consolidated financial statements as well as its management and Group management reports and with supplementary questions, to which the auditors provided satisfactory answers. Based on its own review of Conergy AG's annual and consolidated financial statements, the management and Group management reports, the reports of the Deloitte & Touche auditors as well as the supplementary information provided by both the auditors and the Management Board, the audit committee concurred with the auditors' findings and declared unanimously without any abstentions that its conclusive review did not give rise to any objections. Hence the audit committee resolved to propose that the Supervisory Board of Conergy AG approve the annual financial statements, the consolidated financial statements as well as the management and Group management reports for the 2007 financial year.

Key topics at the audit committee meeting on 29 April 2008 included the quarterly report as at 31 March 2008, taking particular note of the project business in Spain, the Conergy Group's liquidity situation, the financing of its project business as well as the status of its recapitalisation measures. The Management Board answered the audit committee's relevant questions. The review of the risk management system, the improvement of the internal control system, the status of the compliance system as well as personnel issues were additional important topics.

At its meeting on 5 August 2008, the audit committee discussed the Company's half-yearly financial statements in the presence of both the Chief Executive Officer and the Chief Financial Officer and invited both to make presentations on the development of the Conergy Group's business in the first six months of 2008. This meeting focused especially on the negative cash flow in connection with the Conergy Group's wind activities and potential actions that could be taken as well as on the Group's current liquidity situation. The status of the preparations for the planned capital increase, current intra-group compliance issues, the preparation of the business plan for 2009, the status of both the internal control system and the risk management system as well as the status of DPR's proceedings were additional topics that were discussed in detail, both among the members of the audit committee and with the Management Board.

At the meeting on 26 September 2008, the audit committee's deliberations concerned the engagement of Deloitte & Touche, the auditors elected by the General Shareholders' Meeting, to perform the audit as well as the latter's focal points. The audit committee also asked the Management Board to report on the status of the disposal of the wind turbine factory as well as on the statement of changes in the equity of both the Conergy Group and Conergy AG in the quarter of 2008. Improvements of the ERP (Enterprise Resource Planning) systems, the status of the internal control and risk management system as well as issues of intra-group compliance were also addressed.

At its last meeting on 7 November 2008, the audit committee discussed the quarterly report as at 30 September 2008 with the Management Board and asked the latter to report on the development of business both in the third quarter and the financial year. The Management Board provided exhaustive answers to the questions that the audit committee raised in this connection. Deliberations also focused on the Conergy Group's liquidity targets in the short and medium term (including the status of actions taken to optimise cash flow in connection with the restructuring), the preparations for the capital increase, the status of the planning for 2009 as well as the status of the internal audit.

All committee members attended all meetings of the audit committee.

Discussion and audit of the annual and consolidated financial statements for 2008

The Company's General Shareholders' Meeting appointed Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft to audit the annual and consolidated financial statements and the associated management reports as at 31 December 2008 of Conergy AG for the 2008 financial year. The audit committee then negotiated the audit engagement and stipulated the focal points of the audit. Subsequently, the Supervisory Board awarded the audit engagement contract. It was stipulated that the audit should focus on the following in particular: Measurement of the inventories; consolidation and reconciliation with Group companies (receivables / liabilities); provisions for warranties; property, plant and equipment particularly with regard to the Frankfurt (Oder) factory; and the Group companies' equity situation.

Deloitte & Touche audited the annual financial statements of Conergy AG for 2008, which were prepared in accordance with the requirements of the German Commercial Code, as well as the management report and issued an unrestricted audit opinion for each of them. The same applies to the IFRS consolidated financial statements that were prepared in accordance with Section 315a German Commercial Code (HGB) and supplemented by a Group management report. The auditor also audited the risk early warning system in place at Conergy AG in accordance with Section 317 para. 4 German Commercial Code and found the at the obligations of management in the areas of operations and strategy as set out in the German Control and Transparency in Business Act are addressed.

Both the financial statement documentation and the auditors' reports had been made available to the audit committee and the full Supervisory Board in due time. They were initially reviewed by the audit committee on 25 March 2009 and discussed in the presence of the auditors. Subsequently, they were examined in detail by the full Supervisory Board at the financials meetings on 26 March 2009 and 20 April 2009 based on the latter's knowledge of the audit committee's report and duly considering the auditors' report and they were exhaustively discussed in the auditors' presence. The auditors reported on the conduct and material findings of their audit of the financial statements pursuant to the focal points stipulated with the audit committee for 2008 and were available for questions, discussions of the documentation and supplementary information. 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.

After its own examination of the annual financial statements of Conergy AG together with the management report and the consolidated financial statements together with 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 therefore concurred with the recommendation of the audit committee, agreed with the result of the auditors' audit and approved the annual financial statements, the consolidated financial statements as well as the management report and the Group management for the 2008 financial year at its financials meeting on 20 April 2009. The annual financial statements are hence adopted (Section 172 sent. 1 German Stock Corporation Act).

Declaration of Compliance and Corporate Governance

The Supervisory Board attaches high priority to issues of corporate governance. It reports thereon jointly with the Management Board in connection with the corporate governance report, which is a part of this annual report. Aforesaid report also contains information on aspects of the Company's corporate governance as they relate to the Supervisory Board.

On 20 April 2009, the Supervisory Board issued an updated Declaration of Compliance with the German Corporate Governance Code pursuant to Section 161 German Stock Corporation Act jointly with the Company's Management Board; it was made available to the 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. There were no conflicts of interest in the 2008 reporting period.

At its meeting on 26 September 2008, the Supervisory Board resolved to conduct the efficiency review of its work as recommended by the German Corporate Governance Code and subsequently performed the review. It was conducted on the basis of the questionnaire developed by Deutsche Schutzvereinigung für Wertpapierbesitz (German Association of Private Investors). The findings of the analysis of this questionnaire will be integrated into the work of both the Supervisory Board and its committees.

Changes on the Management Board and the Supervisory Board

Dieter Ammer resigned from the Company's Supervisory Board effective 31 July 2008. On 28 August 2008, the General Shareholders' Meeting elected Hans Johann Baptist Jetter to serve as the shareholders' representative on the Supervisory Board.

Pepyn R. Dinandt stepped down from the Management Board effective at midnight on 17 March 2008.

Effective 15 July 2008, the status of the Management Board member, Philip von Schmeling, was changed from that of a deputy member of the Management Board to that of a regular member.

Dieter Ammer was appointed both member and Chairman of the Company's Management Board for a period of two years effective 1 August 2008, subject to simultaneous termination of his delegation to the Management Board under Section 105 para. 2 sent. 1 German Stock Corporation Act. He is responsible for strategy, communications, legal affairs and human resources.

Dr. Andreas von Zitzewitz was appointed to the Management Board effective 1 January 2009. He is responsible for production, purchasing and supply chain as well as the components division.

Effective 31 January 2009, the Supervisory Board members Dr. Dr. h. c. Andreas J. Büchting, Alexander Rauschenbusch, Hans Johann Baptist Jetter and Andreas Rüter resigned their office against the backdrop of the successful capital increase and the attendant change in the composition of the Group's shareholder structure.

Upon application of the Company and by court order dated 5 February 2009, Klaus-Joachim Wolfgang Krauth, Norbert Schmelzle and Carl Ulrich Andreas de Maizière were appointed to Conergy AG's Supervisory Board as substitutes for its departed members in accordance with the German Corporate Governance Code until the end of the next General Shareholders' Meeting tasked with reviewing the 2008 financial year.

In a letter dated 14 April 2009, the Company applied for the appointment of a further candidate to its Supervisory Board at the relevant local court.

The Supervisory Board thanks the Company's management, the Supervisory Board members who have left the Board and all employees for their commitment and performance in the 2008 financial year.

Hamburg, Germany, 20 April 2009
The Supervisory Board

Eckhard Spoerr
Chairman of the Supervisory Board

THE SUPERVISORY BOARD

The Supervisory Board members and memberships

(as of 31 December 2008)

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 corporate control committees
Eckhard Spoerr (Chairman) Self-employed management consultant, Chairman of the Management Board of freenet AG, Büdelsdorf (until 23 January 2009)	2005	Deputy 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 (each until 23 January 2009)
Alexander Rauschenbusch (Deputy Chairman) Managing Director of Grazia Equity GmbH, Stuttgart	2000	Member of the Supervisory Board of WANZL Metallwarenfabrik GmbH (until 19 December 2007)
Dr. Dr. h.c. Andreas J. Büchting Management consultant	2005	Chairman of the Supervisory Board of KWS SAAT AG, Einbeck
Oswald Metzger Self-employed publicist and political consultant, Member of the Parliament of Baden-Wurttemberg (until 8 February 2008)	2005	–
Andreas Rüter Partner Grazia Equity GmbH, Stuttgart	2000	Chairman of the Supervisory Board of Völcker Informatik AG, Berlin Member of the Supervisory Board of Reldata Inc., Parsippany, NJ, USA Member of the Board of Directors of United Mobile AG, Schaanwald, Liechtenstein
Hans Johann Baptist Jetter Self-employed management consultant	2008	Chairman of the Supervisory Board of Rodenstock GmbH, Munich Member of the Supervisory Board of JP Morgan AG, Frankfurt (Main) (until 15 December 2008) Non-Executive Member of the Board of Otto Energy Ltd., Perth, Australia
Dieter Ammer (until 31 July 2008 Membership on the Supervisory Board – due to the delegation to the Management Board – suspended pursuant section 105 para. 2 German Stock Corporation Act), Managing Director AMMER!PARTNERS GmbH	2000	Member of the Supervisory Board of Beiersdorf AG (until April 2008 Chairman of the Supervisory Board), Hamburg Member of the Supervisory Board of tesa AG (until April 2008), Hamburg Member of the Supervisory Board of GEA Group AG, Bochum Member of the Supervisory Board of IKB Deutsche Industriebank AG, Düsseldorf Member of the Supervisory Board of Heraeus Holding GmbH, Hanau

Changes on the Supervisory Board since 1 January 2009

Effective 31 January 2009, the Supervisory Board members Dr. Dr. h.c. Andreas J. Büchting, Alexander Rauschenbusch, Hans Johann Baptist Jetter and Andreas Rüter resigned their office against the backdrop of the successful capital increase and the attendant change in the composition of the Group's shareholder structure. Upon application of the Company and by court order dated 5 February 2009, Klaus-Joachim Wolfgang Krauth, Norbert Schmelzle and Carl Ulrich Andreas de Maizière were appointed to Conergy AG's Supervisory Board as substitutes for its departed members in accordance with the German Corporate Governance Code until the end of the next General Shareholders' Meeting tasked with reviewing the 2008 financial year. They hold the following positions on statutory Supervisory Boards and comparable corporate control committees:

Name	Member since	Positions on statutory Supervisory Boards and comparable corporate control committees
Klaus-Joachim Wolfgang Krauth Chief Financial Officer (CFO), ATHOS Service GmbH	2009	Chairman of the Supervisory Board of Hobnox AG, Munich Member of the Supervisory Board of InterComponentWare AG (ICW AG), Walldorf Member of the Supervisory Board of SÜDWESTBANK AG, Stuttgart
Norbert Schmelzle Self-employed management consultant	2009	Chairman of the Advisory Board of KAEFER Isoliertechnik GmbH & Co. KG, Bremen Deputy Chairman of the Supervisory Board of GBK Beteiligungen AG, Hamburg Chairman of the Advisory Board of Bühnen GmbH & Co. KG, Bremen Member of the Supervisory Board of J. Müller AG, Brake Member of the Supervisory Board of Detlef Hegemann AG, Bremen Deputy Chairman of the Board of Directors of Stulz Holding GmbH, Hamburg Member of the Supervisory Board of Gesundheit Nord gGmbH, Bremen
Carl Ulrich Andreas de Maizière Self-employed management consultant	2009	Chairman of the Supervisory Board of Arenberg-Schleiden GmbH, Düsseldorf Member of the Supervisory Board of Arenberg-Recklinghausen GmbH, Düsseldorf Chairman of the Supervisory Board of Rheinische Bodenverwaltung AG, Düsseldorf Member of the Supervisory Board of Fürstlich Castell'sche Bank, Credit-Casse AG, Würzburg Deputy Chairman of the Supervisory Board of Commerzbank (Budapest) Zrt, Budapest Second Deputy Chairman of the Supervisory Board of Commerz Real Spezialfondsgesellschaft mbH (CRS), Wiesbaden Chairman of the Supervisory Board of Jerini AG, Berlin

THE MANAGEMENT BOARD

Dieter Ammer (CEO)

| Chairman of the Management Board
| Appointed from 1 August 2008 to 31 July 2010
| Responsibilities: Strategy, Communications, Legal Affairs and Human Resources

Dr. Jörg Spiekerkötter (CFO)

| Appointed from 1 November 2007 to 31 October 2010
| Responsibilities: Controlling, Accounting, Treasury, Tax, IR and IT

Nikolaus Krane (CPO)

| Appointed from 4 August 2000 to 31 July 2010
| Responsibility: Project Business

Philip von Schmeling (CSO)

| Appointed from 1 November 2007 to 31 October 2010
| Responsibilities: PV Business, Sales, Marketing

Dr. Andreas von Zitzewitz (COO)

| Appointed from 1 January 2009 to 31 December 2011
| Responsibilities: Production, Purchasing, Logistics and the Components division

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.

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 as the head of Legal Affairs at Hoechst Schering AgrEvo GmbH. After a stint at the Harvard Business School (AMP) he joined Schering AG in 1999 to work in finance. In 2002, he was appointed to the Management Board of this DAX company and was responsible for Human Resources, Accounting, Controlling, Finance, IT, Tax and Legal Affairs 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) is a graduate engineer, who worked as a management consultant for Bossard Consultants GmbH for six years after completing his studies in metallurgy and materials at the RWTH Aachen. 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, strategy 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. The graduate engineer began his career as a consultant with the Boston Consulting Group. Most recently von Schmeling was CFO at Dole Fresh Fruit North America in Westlake Village (California). Prior to his appointment to the Management Board, he headed the Conergy Global Technology „Module“ team. In this capacity, Philip von Schmeling was responsible for procuring PV modules for the Conergy Group and for establishing the Group's own solar factory at Frankfurt (Oder).

Dr. Andreas von Zitzewitz (born 1960) holds a doctorate in electrical engineering. A native of Stuttgart, von Zitzewitz began his career in the research & development department of Siemens and took over the management of the memory products division at the age of 35. Four years later, he was appointed Chief Operating Officer (COO) and member of the Management Board of Infineon, a listed company manufacturing semiconductors, where he was responsible for operations.

Pepyn R. Dinandt (COO)
Appointed on 15 November 2007, left the Management Board as of 17 March 2008.

The members of the Management Board and their memberships

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 corporate control committees
Dieter Ammer (Chairman)	2007	Member of the Supervisory Board of Beiersdorf AG (until April 2008 Chairman of the Supervisory Board) Member of the Supervisory Board of tesa AG (until April 2008) 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
Dr. Jörg Spiekerkötter	2007	Deputy Chairman of the Supervisory Board of PAION AG
Nikolaus Krane	2000	Member of the Supervisory Board of Innomotive AG
Philip von Schmeling	2007	–
Pepyn R. Dinandt (until 17 March 2008)	2007	Member of the Supervisory Board of KUKA Aktiengesellschaft
Dr. Andreas von Zitzewitz	1.1.2009	–

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. In the 2008 financial year, Conergy AG has complied with the recommendations of the German Corporate Governance Code, with exceptions. These exceptions, we refer to the Declaration of Compliance which is disclosed later in this report (page 23) and has been published on the Company's website at www.conergy.de. In there 2009 financial year, Conergy AG intends to comply with the recommendations of the German Corporate Governance Code without exception. 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 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 informations 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 currently comprises of its Chairman, Mr. Dieter Ammer, and Messrs. Dr. Jörg Spiekerkötter, Nikolaus Krane, Philip von Schmeling and Dr. Andreas von Zitzewitz. Dr. Andreas von Zitzewitz was appointed to the Management Board effective 1 January 2009. He is responsible for Production, Purchasing, Supply Chain and the Components division. Pepyn R. Dinandt left the Company's Management Board effective at midnight on 17 March 2008. The Management Board runs the Company and is responsible for managing its business. 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. Communications between the Management Board and the Supervisory Board – especially the reporting system as well as the integration of the Supervisory Board into the Management Board's decision making – were substantially improved in the reporting year. The Supervisory Board consists of six shareholder representatives overall. Four members of the Company's Supervisory Board – Hans Johann Baptist Jetter, Dr. Dr. h.c. Andreas J. Büchting, Andreas Rüter as well as Alexander Rauschenbusch – resigned from the Supervisory Board effective 31 January 2009, given the successful capital increase and the attendant change in the composition of the Group's shareholder structure. Upon application of the Management Board, by court order dated 5 February 2009 three new persons – Klaus-Joachim Wolfgang Krauth, Norbert Schmelzle and Carl Ulrich Andreas de Maizière – were appointed to the Company's Supervisory Board as replacements for the departed Supervisory Board members in accordance with the German Corporate Governance Code until the end of the next General Shareholders' Meeting.

In a letter dated 14 April 2009, the Company applied for the appointment of a further candidate to its Supervisory Board at the relevant local court.

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, on pages 8 – 14). 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. 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. An ad-hoc committee consisting of representatives from a number of core specialist departments audits the ad-hoc relevance of insider information, ensuring that it is 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 page 15 and 20 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 were appointed by the General Shareholders' Meeting in accordance with the regulations of the German Stock Corporation Act. Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, regional branch Hamburg, were appointed as auditors for the 2008 consolidated financial statements and the 2008 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 Section 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 2008 financial year:

The Chairman of the Company's Management Board, Dieter Ammer, purchased 1,284,450 shares, sold 3,789,626 shares, purchased 256,801 stock options and sold 3,917,982 stock options during the period from 13 November 2008 to 1 December 2008. CoCo Beteiligungs GmbH & Co. KG, a legal entity closely related to a member of the management staff (Dieter Ammer), purchased 13,789,632 shares and 1,171,850 stock options during the period from 25 November 2008 to 1 December 2008. Grazia Equity GmbH, an entity closely related to a member of the Supervisory Board (Andreas Rüter), purchased 5,484,240 shares and sold 1,751,503 shares and 3,286,947 stock options during the period from 13 November 2008 to 1 December 2008. A & N Boa Management GmbH, a legal entity closely related to a member of the management staff (Nikolaus Krane), purchased 300,000 shares and sold 321,750 shares and

191,750 stock options during the period from 14 November 2008 to 1 December 2008. 5r Private Equity KG, an entity closely related to a member of the Supervisory Board (Alexander Rauschenbusch), purchased 608,220 shares, sold 387,099 shares, purchased 60,822 stock options and sold 911,568 stock options during the period from 13 November 2008 to 1 December 2008. Andreas Rüter, who had left the Management Board effective 31 January 2009, sold 159,784 stock options during the period from 18 November 2008 to 28 November 2008. The Board member Philip von Schmeling purchased 10,000 shares in December 2008.

A total of 15,389,113 shares were held by the members of the Management Board as of 31 December 2008. This equates to 3.87 percent of the shares issued by Conergy AG. A total of 8,863,231 shares were held by members of the Supervisory Board as of 31 December 2008. This equates to 2.23 percent of the shares issued by Conergy AG. Shares owned by 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 24–29), 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 December 2008

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) 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. Both the Supervisory Board and the Management Board of Conergy AG are committed to corporate governance practices that are aimed at creating value in a responsible, transparent and sustainable manner. The Management Board and Supervisory Board issued the following Declaration of Compliance pursuant to Section 161 German Stock Corporation Act on 20 April 2009:

“In the business year 2008 Conergy AG was and is in accordance with all recommendations of the Government Commission German Corporate Governance Code in its respective effective version of 14 June 2007 and 6 June 2008 with the following exceptions:

With regard to the Code recommendation there was deviance from figure 7.1.2 sentence 3, 1. case of the German Corporate Governance Code in its version of 14 June 2007. It was not possible to give public access to the annual consolidated financial statements 2007 of Conergy AG within the there mentioned 90 day time-limit – the publication took place on 9 April 2008.

The 90 day time-limit could also not be met for the publication of the Conergy AG annual consolidated financial statement 2008. The report will be publicly available in April 2009. In this respect there is a deviance from figure 7.1.2 sentence 3, 1. case of the German Corporate Governance Code in its version of 6 June 2008.

In deviance from figure 5.4.6 sentence 3 of the German Corporate Governance Code in its version of 14 June 2007 and 6 June 2008 respectively, no separate compensation was defined for the chair in the individual committees.

Even though the recommendation was an will be complied with, the Supervisory Board and the Management Board of Conergy AG regard the rule in figure 4.2.3 clause 3 (sentence 6) of the German Corporate Governance Code as not adequate. In times of bigger turbulences and insecurities the strict compliance with this rule would lead to the situation that the Management Board follows certain targets under no longer valid parameters and assumptions, which are not in the interest of the company and its shareholders.“

The current Declaration of Compliance for Conergy AG is available on the Company’s website (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 is part of both the Group management report and the corporate governance report. The report explains the structure and the level of compensation applicable to the Management Board and the Supervisory Board. The compensation report 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 pursuant to Section 314 para. 1 no. 6 German Commercial Code and the management report pursuant to Section 315 para. 2 no. 4 German Commercial Code 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

Pursuant to the recommendations of the German Corporate Governance Code, the total compensation paid to the members of the Management Board comprises both fixed and variable components. Besides components that offer short- and long-term incentives, the variable compensation also contains share-based elements in the form of stock appreciation rights (phantom stock options).

The appropriate amount of compensation paid to the individual members of the Management Board is determined by the Supervisory Board based on performance appraisals, taking all payments from the Group into account. Criteria for determining the appropriateness of compensation are, in particular, the tasks of the respective member of the Management Board, his personal performance, the performance of the Management Board as well as the economic situation, the performance and outlook of the enterprise taking into account its peer companies.

The fixed component largely comprises compensation that is paid monthly as a salary and is not based on performance. In addition, all members of the Management Board receive benefits in the form of non-cash compensation such as the option to use company cars for private purposes as well as contributions to their retirement plans as well as to insurance and relocation expenses; these benefits are part of their compensation and thus taxable. As a rule, all members of the Management Board are entitled equally to these benefits but the amounts vary according to personal needs. Just as in previous years, no Management Board member was granted loans or advances in the reporting year, nor did the Company incur any contingent liabilities on their behalf.

The variable component of the Management Board's compensation with short- and long-term incentives has been made more dependent on the Management Board's performance, the Company's development and its long term increase in value and depends on the extent to which fixed corporate targets have been attained. As part of the Long Term Incentive Plan (LTIP) that was introduced for the Management Board in 2007, personal goals for each member of the Management Board and corporate goals are taken into account which are based on sales growth and EVA® (Economic Value Added).

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 (STI) component 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 sales 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.

Management Board members Nikolaus Krane, Philip von Schmeling and Dr. Jörg Spiekerkötter are currently participating in the LTIP. Pepyn R. Dinandt also participated in the LTIP until he resigned from the Management Board effective at midnight on 17 March 2008. Pepyn R. Dinandt cannot bring any claims under the LTIP since his resignation from the Management Board.

The Chairman of the Management Board, Dieter Ammer, is not participating in the LTIP at the present time nor did he do so for the duration of his appointment to the Management Board (16 November 2007 until 31 July 2008) as substitute (successor) for the departed member, Hans-Martin Rüter. Pursuant to a resolution of the Supervisory Board dated 22 November 2007, Dieter Ammer was paid monthly fixed compensation of TEUR 27 (which corresponded to the salary of the previous chairman of the Management Board) as well as a discretionary profit-sharing bonus of TEUR 300 that was tied to performance-based criteria. In addition, Conergy AG reimbursed AMMER!PARTNERS GmbH for certain ongoing costs up to a maximum of TEUR 30 per month plus VAT based on verifiable evidence. On the whole, AMMER!PARTNERS GmbH was paid TEUR 220 including VAT under this agreement.

Following his appointment to the Management Board as its regular member and Chairman, effective 1 August 2008 Dieter Ammer's fixed gross monthly compensation was raised to TEUR 42. Dieter Ammer is also paid an annual performance bonus, the amount of which is contingent on the achievement of goals that the Supervisory Board fixes in advance at its discretion. He is entitled to an annual performance bonus of TEUR 500 if the goals are met in full. His annual performance bonus is raised in increments of TEUR 50 for each additional 10 percent by which goal achievement surpasses the baseline, up to a maximum of TEUR 750; it is reduced in increments of TEUR 50 for each 10 percent by which goal achievement falls short of the baseline.

In addition, Dieter Ammer has also been participating in a share-based compensation programme in the form of stock appreciation rights with a three-year term starting 1 September 2008. These stock appreciation rights were divided into two tranches of 50 percent each. The first tranche may be exercised at the earliest upon expiration of a waiting period of six months, and the second tranche at the earliest upon expiration of a waiting period of one year and six months from 1 September 2008. Furthermore, the exercisability of stock appreciation rights is also tied to the positive development of Conergy AG's share price. The first tranche may be exercised only if and as soon as the Company's share exceeds a price of EUR 1.27 (which was fixed as the base price) by at least 10 percent, on the thirtieth trading day, at the earliest, at the Frankfurt (Main) Stock Exchange prior to expiration of the waiting period of the stock appreciation rights and no later than prior to the expiration of the overall maturity. The second tranche may only be exercised if the share price exceeds the base price by at least 20 percent under the same conditions. Any exercise of the stock appreciation rights is ineffective absent the fulfillment of these performance targets. Stock appreciation rights must be exercised no later than by the stock's final maturity; if not, they will be forfeited outright without compensation. For every stock appreciation right exercised to legal effect, Dieter Ammer has a claim against the Company for payment in cash of an amount corresponding to the difference between the unweighted closing price of Conergy AG's share in Deutsche Börse AG's, Frankfurt (Main), XETRA trading on the last 30 consecutive trading days preceding the exercise date of the stock appreciation right (limited to a specific maximum price) and the base price. The fair value of the share-based payments as at the 31 December 2008 balance sheet date was around TEUR 297.

Dr. Jörg Spiekerkötter participates in a share-based compensation programme entailing stock appreciation rights embodied in phantom stock options with a term of three years overall. Pepyn R. Dinandt also participated in this compensation programme but he is not entitled to any benefits under the Phantom Stock Option Programme for his service on the Management Board of Conergy AG because he resigned. These phantom options are divided into three tranches with terms of one, two and 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. Unexercised options may be carried over to the next two tranches. 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 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. Expenses of TEUR 78 per participant were recognised in the 2007 financial year for a total of TEUR 156. The costs declined by TEUR 148 overall owing to the resignation of Pepyn R. Dinandt (TEUR 78) and the development of the Company's share price (TEUR –70).

Dr. Jörg Spiekerkötter is entitled to be paid a special bonus of up to TEUR 500 gross for the 2008 calendar year, provided the Company's finances and liquidity relax in the medium term and its earnings improve in the long term. The Supervisory Board decides at its discretion whether or not the aforementioned goals have been achieved and whether the special bonus will be paid and in what amount.

The contracts with Philip von Schmeling and Dr. Jörg Spiekerkötter as Management Board members provide for compensation corresponding to no more than the severance pay cap specified in item 4.2.3 of the German Corporate Governance Code in case of early termination of their respective activities as such. In a deviation from the foregoing sentence however, maximum severance pay corresponding to the higher level under item 4.2.3 of the German Corporate Governance Code has been stipulated with Dr. Jörg Spiekerkötter if he terminates his contract in the event of a change of control. With the exception of the aforementioned cases, no member of the Management Board was promised additional payments in the event of termination. Nor did any member of the Management Board receive bonus payments or corresponding commitments from a third party in the reporting year with respect to their activity as Management Board members.

The Company has not made any additional promises above and beyond the aforementioned payments with respect to corporate contributions toward retirement plans.

TEUR	Dieter Ammer[1]	Pepyn R. Dinandt[2]	Nikolaus Krane	Philip von Schmeling[3]	Dr. Jörg Spiekerkötter	Total
Fixed annual compensation	395	200	240	180	500	1.515
Compensation in kind/other benefits[4]	10	2	14	19	11	56
Non-performance-based compensation	**405**	**202**	**254**	**199**	**511**	**1,571**
Short-term variable compensation[5]	300	233	–	–	200	733
Directly paid compensation	**705**	**435**	**254**	**199**	**711**	**2,304**
Fair value of newly granted share-based payment (SAR)	297	–	–	–	–	297
Total compensation according to HGB	**1,002**	**435**	**254**	**199**	**711**	**2,601**
Long-term variable compensation (benefits vested in the current year)	33	–	–	–	–	33
Change in value of existing benefits	–	–	–	–	–70	–70
Share-based payment	**33**	**–**	**–**	**–**	**–70**	**–37**
Total directly paid compensation	705	435	254	199	711	2.304
Long-term variable compensation (benefits vested in the current year)	33	–	–	–	–	33
Change in value of existing benefits	–	–	–	–	–70	–70
Total compensation according to IFRS	**738**	**435**	**254**	**199**	**641**	**2,267**

[1] On a temporary basis until 31 July 2008; regular Chairman of the Management Board since 1 August 2008.

[2] Member of the Management Board until 17 March 2008; left the Board on 30 April 2008.

[3] Deputy member of the Management Board until 15 July 2008; regular member from 16 July 2008.

[4] The other compensation components primarily comprise non-cash compensation (e.g. company car, insurance, removal costs) and allowances for pension insurance (relief fund); the table does not include the assumption of costs under the agreement between Conergy AG and AMMER!PARTNERS.

[5] On 15 July 2008, the Supervisory Board resolved to pay a performance-based bonus of TEUR 200 to Dr. Jörg Spiekerkötter for 2007 and TEUR 300 to Dieter Ammer for the time he served on the Management Board in 2007 and 2008. The bonuses were paid in the 2008 reporting period.

Given the findings of the German Financial Reporting Enforcement Panel in regards to the 2006 consolidated financial statements (Group pre-tax profit overstated by EUR 51.1 million), all members of the Management Board repaid all or at least some of the performance-based bonuses granted to them for the 2006 financial year once settlement agreements were reached with them in 2008. A total of around EUR 445 was repaid. The agreement with Mr. Krane provides for repayment of the amounts he must reimburse to the Company by withholding his fixed monthly compensation instead of immediate repayment. His final instalment was paid as at the January 2009 payroll date.

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 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. Accordingly, Supervisory Board members have been paid fixed compensation of around TEUR 17 per annum since the 2007 financial year. They also receive performance-based components in addition to this fixed compensation. Members of the Supervisory Board are thus paid an additional EUR 500 per one-million euro increment of annual net income up to a maximum of TEUR 11 in performance-based compensation. 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.

TEUR	Fixed compensation	Committee compensation	Variable compensation	Total
Eckhard Spoerr (Chairman)	41	8	–	49
Alexander Rauschenbusch (Deputy Chairman)	25	8	–	33
Dr. Dr. h. c. Andreas J. Büchting	17	–	–	17
Oswald Metzger	17	4	–	21
Andreas Rüter	17	5	–	22
Hans Johann Baptist Jetter[1]	6	–	–	6
Dieter Ammer[2]	–	–	–	–
	123	**25**	**–**	**148**

[1] Since 28 August 2008.
[2] Until 31 July 2008; the former chairman of the Supervisory Board Dieter Ammer waived his entitled Supervisory Board compensation while serving on the Management Board.

Given the findings of the German Financial Reporting Enforcement Panel in regards to the 2006 consolidated financial statements (Group pre-tax profit overstated by EUR 51.1 million), all members of the Supervisory Board in 2008 repaid the performance-based bonuses granted to them for the 2006 financial year. A total of around TEUR 91 was repaid.

Shareholdings of the Management Board and the Supervisory Board Members

A total of 15,389,113 shares were held by the members of the Management Board as of 31 December 2008. This equates to 3.87 percent of the shares issued by Conergy AG. A total of 8,863,231 shares were held by members of the Supervisory Board as of 31 December 2008. This equates to 2.23 percent of the shares issued by Conergy AG.

	Number of shares held as of 31.12.2008
Management Board	**15,389,113**
Dieter Ammer	15,074,082
Dr. Jörg Spiekerkötter	–
Nikolaus Krane	300,000
Philip von Schmeling	15,031
Supervisory Board	**8,863,231**
Eckhard Spoerr (Chairman)	–
Alexander Rauschenbusch (Deputy Chairman)	8,701,647
Dr. Dr. h.c. Andreas J. Büchting	–
Oswald Metzger	–
Andreas Rüter	161,584
Hans Johann Baptist Jetter	–

THE CONERGY SHARE

It was hoped at the start of the 2008 financial year that the international stock indices would develop along a positive trajectory overall. Yet the international crisis of the financial markets, which began in the United States around that time, and the economic anxiety it caused had a significant impact on the world's stock markets in the 2008 financial year. In September 2008, the financial crisis reached yet another high when the US investment bank Lehman Brothers went bankrupt, sparking widespread uncertainty in the financial markets and triggering yet more financial difficulties for numerous insurance companies and banks. In many cases, financial institutions could only be saved through state intervention. Worldwide, investors reacted to fresh economic data and the looming recession by dumping their holdings in panic sales – triggering tremendous drops at all stock exchanges in the autumn of 2008.

Trends of the German stock indices reflect the negative developments in the international financial markets. The DAX (Germany's leading stock index) closed the year at 4,810 points, plunging 40 percent from its opening at the start of the year. And the TecDAX, an index of technology stocks, closed at 508 points, 48 percent below its level in early 2008. Conergy AG's stock closed the financial year at EUR 1.00 – down 96 percent compared to its opening price at the start of 2008. But this development also reflects the impact of the new shares issued and the resulting dilution. Based on the Company's market capitalisation (number of shares multiplied by the share price), the share price dropped by 55 percent and thus in line with general developments.

Key figures for the Conergy share

	2008	2007
Number of shares	398,088,928	35,088,928
Share price (31.12.) in EUR[1]	1.00	25.00
Share price in EUR[1]		
High	24.23	68.72
Low	0.85	17.53
Market capitalisation (31.12.) in EUR million[1]	398.1	877.2
Daily average trading volume (shares)[1]	846,171	564,657

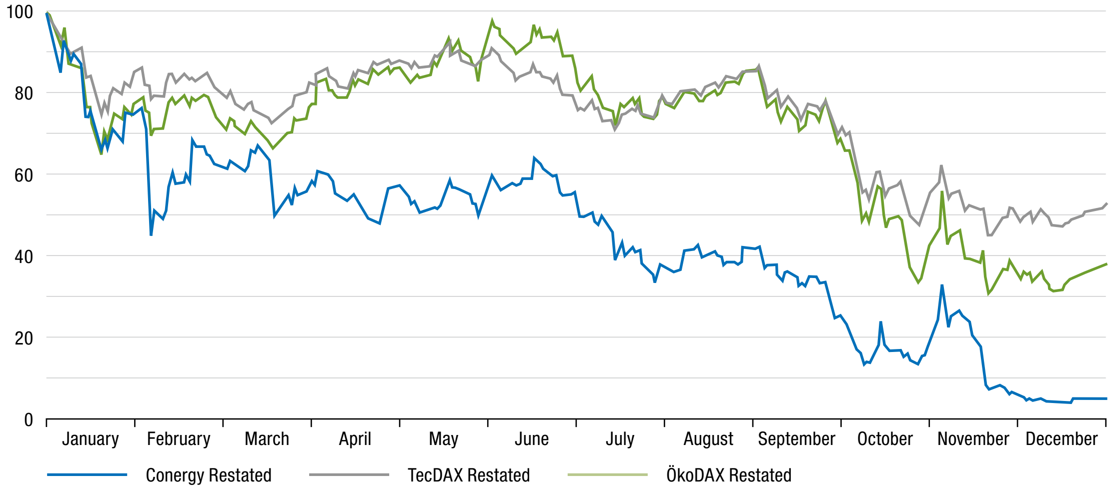
[1] XETRA

Share: no-par value share	
Securities identification number	604002
International Securities Identification Number (ISIN)	DE0006040025
Reuters symbol	CGYG.DE
Bloomberg symbol	CGY GR
Stock exchanges	Xetra
	Frankfurt (Main)
	Stuttgart
	Düsseldorf
	Hamburg
	Munich
	Hanover
	Berlin-Bremen

Capital increase

Conergy AG executed the capital increase it had announced at the start of 2008 in early December. A total of 363,000,000 new shares were issued at a subscription price of EUR 1.10 per share. The subscription period for the capital increase started on 18 November and ended on 2 December 2008. During this period, the subscription rights were also traded on the stock exchange. The subscription ratio was 1:10, i.e. shareholders were able to subscribe ten new shares for each existing share. Total proceeds from the issue were around EUR 399.3 million. As a result, Conergy raised its share capital from EUR 35,088,928 by EUR 363,000,000 to EUR 398,088,928 in return for cash contributions. The joint lead managers and bookrunners, Credit Suisse und Dresdner Kleinwort, guaranteed that the capital increase would be floated in full. Conergy used the proceeds to discharge financial liabilities, among them a bridge loan that had been granted in the spring of 2008; the proceeds will also be used to continue its restructuring and underwrite its future growth.

Share price development (chart)



Investor relations activities

For Conergy AG, the 2008 financial year was taken up by its restructuring, which brought many changes with it. We continued to seek an open dialogue with our investors nonetheless and were always available to answer their questions.

Quarterly, half-yearly and annual reports serve to inform our investors and shareholders of the Group's development as well as of the progress of our restructuring. Shareholders can also inspect current information pertaining to the Company such as reports, presentations and share price data on Conergy's investor relations website.

This past year, Conergy AG presented itself to national and international investors and shareholders during talks at the Company's Hamburg headquarters as well as through road shows and at trade fairs.

General Shareholders' Meeting

During the financial year, the General Shareholders' Meeting is the most important platform for discussions with our shareholders. Conergy AG held its General Shareholders' Meeting in the Hamburg CCH on 28 August 2008. At the meeting, Conergy's Management Board and Supervisory Board gave shareholders and their representatives an account of developments at the Company during the 2007 financial year and reported on the restructuring measures that had been initiated. A total of around 600 shareholders accepted the invitation to attend the meeting in Hamburg, representing 16,974,031 shares and 48.37 percent of the Company's share capital. All agenda items were adopted with the required majorities.

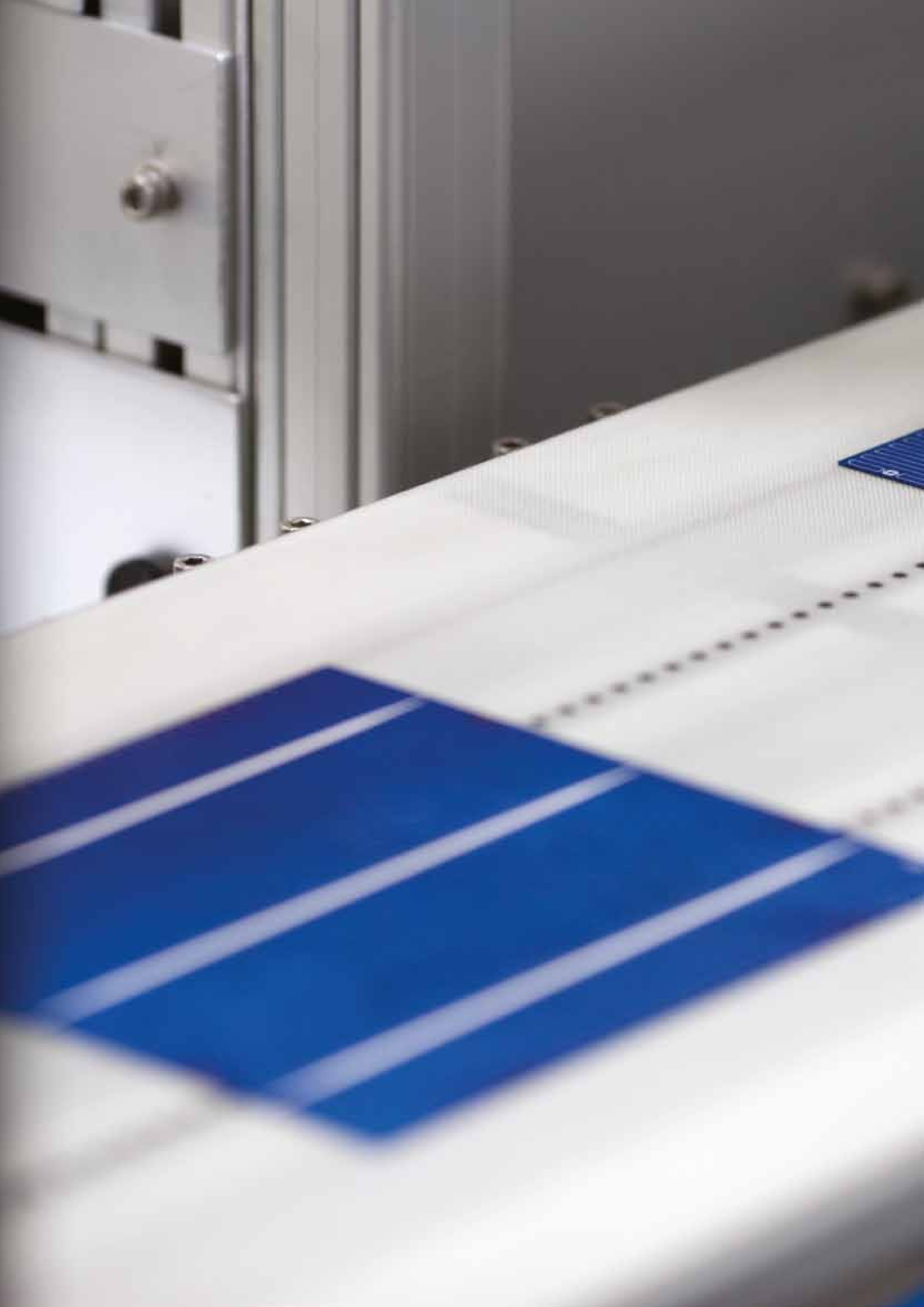
Shareholder structure

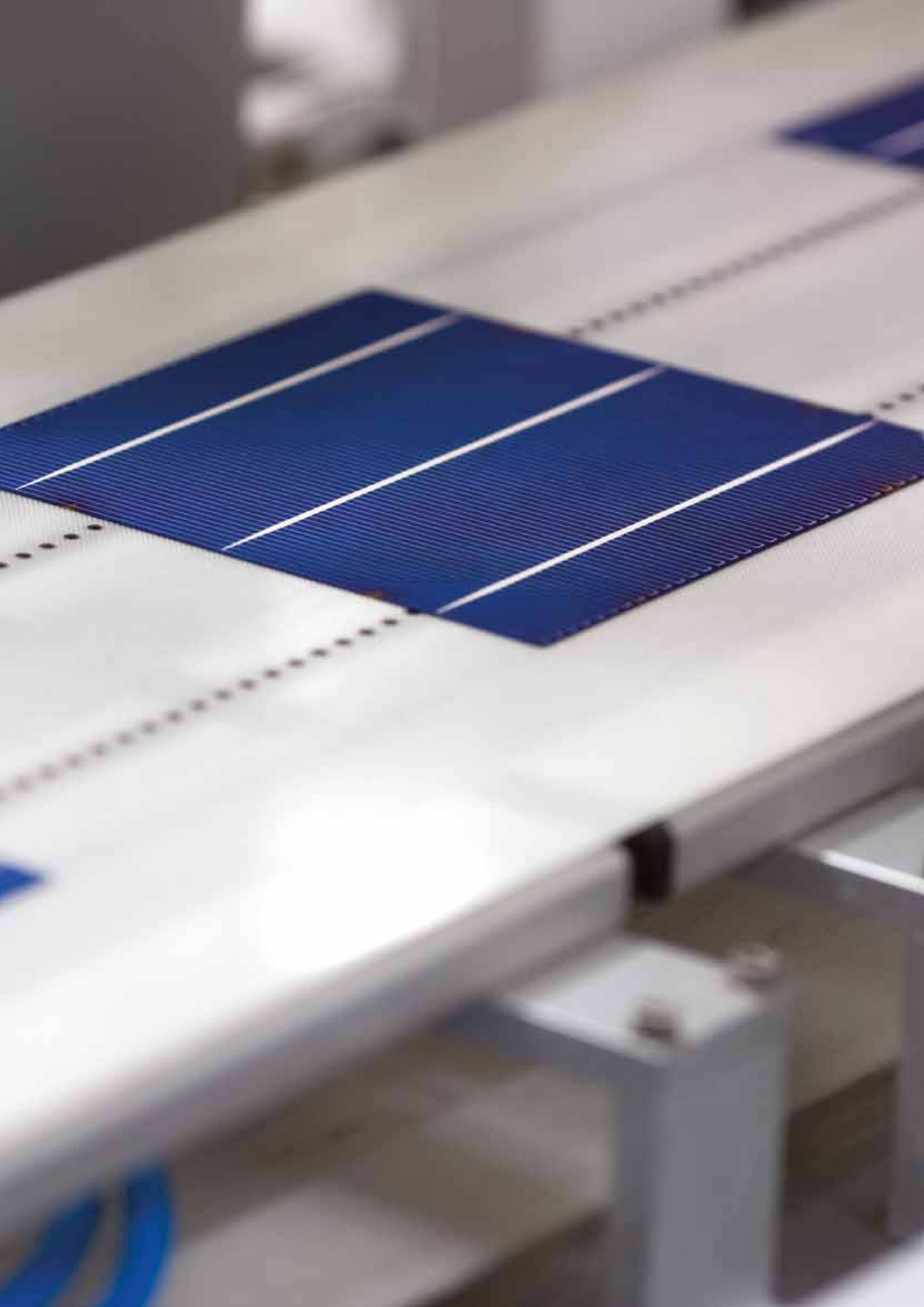
The shareholder structure of Conergy AG as at 31 December 2008 was as follows: Of the 398,088,928 no-par shares, Dresdner Bank AG held 38.99 percent, Athos Service GmbH held 14.95 percent, Leemaster Ltd. held 14.13 percent and Dieter Ammer held 3.79 percent of the voting rights. The remaining 28.14 percent are classified as free-floating shares. Leemaster Ltd. retains options to acquire a further 1.84 percent of the Company's shares from the original shareholders of Conergy AG. With these additional shares, Leemaster would hold a stake of 15.97 percent in Conergy AG. In addition to the shareholders mentioned above, no further shareholders are known to control more than 3.0 percent of the capital of Conergy AG.

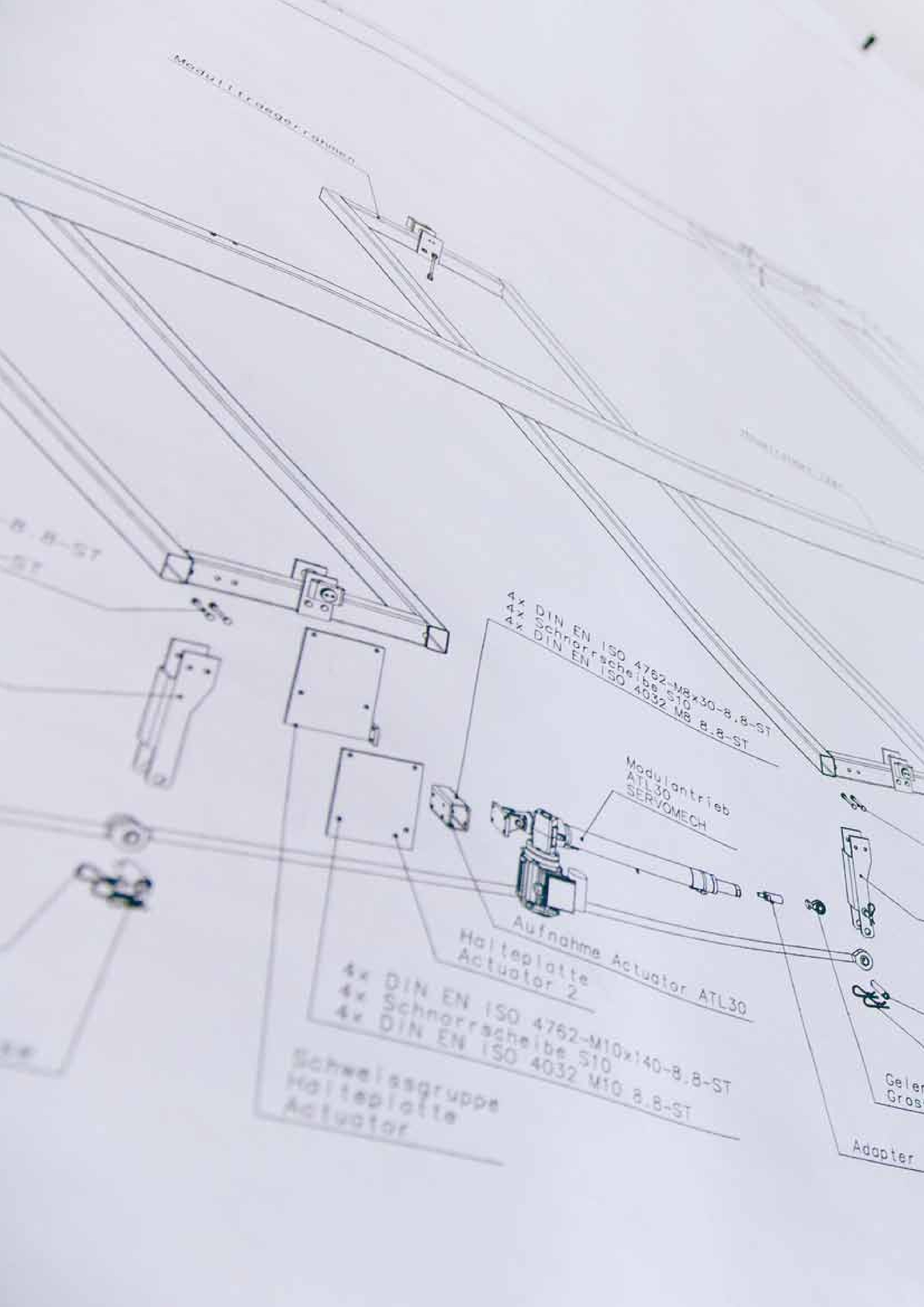
Annual Document pursuant to Section 10 of the German Securities Prospectus Act

Section 10 of the German Securities Prospectus Act requires Conergy AG to publish an annual document that contains or refers to all information which has been published by Conergy in the previous 12 months. This document is available on our website at www.conergy.de in the Investor Relations section. If you are unable to download or view the document, we will be happy to send you a copy.

An overview of the Group






Modulträgerrahmen
8.8-ST
-ST
4x DIN EN ISO 4762-M8x30-8.8-ST
4x Schnorrscheibe S10
4x DIN EN ISO 4032 M8 8.8-ST
Modulantrieb
ATL30
SERVOMECH
Aufnahme Actuator ATL30
Halteplatte
Actuator 2
4x DIN EN ISO 4762-M10x140-8.8-ST
4x Schnorrscheibe S10
4x DIN EN ISO 4032 M10 8.8-ST
Schweissgruppe
Halteplatte
Actuator
Gelen
Gros
Adapter

Antriebsnabe
Stanzbiegeteil
Gelenkkopfachse
Federstecker DIN 11024
nkkopf DIN ISO 12240-4
se 6 mit Ausengewinde
Actuator

An overview of the Group

Our areas of operation are divided into the Conergy PV and EPURON segments. In the Conergy PV segment we produce and distribute photovoltaic products and system solutions (using solar energy to generate electricity). Through the EPURON segment we develop, finance, implement, and operate large projects in the area of renewable energy. Effective 1 January 2009 however, EPURON's PV project business was transferred to the Conergy PV segment in order to group all photovoltaics activities in this segment.

CONERGY PV SEGMENT

The Conergy PV segment is divided into two divisions: The Components division develops and manufactures system components such as solar cells, solar modules, module frames, and mounting systems, as well as electronic components. In our production facility in Frankfurt (Oder), we are entering additional parts of the photovoltaic value chain by manufacturing wafers, solar cells and solar modules, which in the past had to be purchased from outside suppliers. Conergy develops electronic components such as inverters, connection boxes, monitoring systems, and tracking systems in Hamburg and Bad Vilbel, and has these built to order by various companies, most of them European. Mounting systems are developed and manufactured in Rangsdorf near Berlin. The Sales & Systems division sells the products we make (along with purchased components and complete systems) to wholesalers, installers and end customers. Our distribution activities also include the construction, planning, and installation of photovoltaic systems (known as EPC activities: engineering, procurement, and construction).

Components

Our Components division encompasses many of the development, production, and manufacturing steps in the photovoltaics segment. We manufacture wafers, solar cells, solar modules, and module frames; develop electronic components such as inverters, connection boxes, monitoring systems, and tracking systems; and develop and produce mounting systems.

Conergy AG has erected one of the world's state-of-the-art production facilities for solar modules in Frankfurt (Oder). The plant is currently engaged in volume ramp up. At full capacity, it can produce up to 250 MWp of modules per year. The Conergy PowerPlus modules that were manufactured in 2008 were delivered to major projects in Spain and South Korea among others.

Manufacturing processes are continuously optimised to boost efficiency in parallel with the ongoing production of solar wafers, cells and modules. Already at the start of the year, TÜV Rheinland (German Certification Organisation) responded enthusiastically to the properly thought-out production process and the scope of the quality assurance when they inspected the plant in connection with TÜV certification.

Delivery contracts with several suppliers ensure the raw materials supply for the production of solar modules. We have also entered into short-term delivery contracts for silicon blocks, wafers and cells in addition to the ten-year contract with US wafer manufacturer MEMC. Please see the disclosures regarding events after the balance sheet date for information on the status of the contractual relationship with MEMC.

In Bad Vilbel and Hamburg, we develop electronic components for photovoltaic systems, such as inverters, connection boxes, monitoring systems, and tracking systems, and have them built to order by various companies, most of them European.

This makes the Company one of the few manufacturers worldwide that offers most components for PV systems such as solar modules, inverters, connection boxes, monitoring systems and tracking systems from a single source. Customers benefit from the advantages of this systems approach in several ways. Their projects' yield overall rises because the coordinated system components deliver maximum sales and efficiency. Planning, purchasing and assembly times drop dramatically, and the matched components reduce the risk of installation and operating defects.

Conergy's Electronics segment was spun off into a separate entity, voltwerk electronics GmbH, effective 1 September 2008. Whereas our electronic products were available solely via the Conergy Group's sales channels to date, major external customer groups can now order directly from the manufacturer. Experience gained in connection with 500 MW of installed output, products that have garnered numerous awards, highest efficiencies and state-of-the-art technologies are but a few of the competitive advantages that voltwerk offers its customers.

Conergy Mounting Systems, previously a subdivision of Conergy AG, started operating as a separate entity named Mounting Systems GmbH on 1 September 2008. This will enable it to actively expand its own sales activities, enlarge its customer base significantly and continue its profitable growth course. Conergy AG is one of its largest customers. Conergy Mounting Systems GmbH delivers high-quality module frames for the Conergy PowerPlus modules that are manufactured at the Frankfurt (Oder) factory.

This company is now producing module and collector frames besides PV and solar thermal mounting systems and components on 12,000 square meters of production and storage space in Rangsdorf. An experienced engineering team is available to customers for the development of state-of-the-art products and individual solutions. Conergy Mounting Systems GmbH has more than 100 employees overall.

Its manufacturing processes and quality management in Rangsdorf were already certified pursuant to DIN ISO 9001 back in 2007. A repeat audit in September 2008 confirmed this certification, specifically mentioning the performance indicator system used in frame manufacturing and consistently high production standards.

Sales & Systems

The Sales & Systems division of the Conergy PV segment sells the products that we manufacture, as well as purchased complete systems and components, to wholesalers, installers and end customers (primarily farmers, private households, and companies). We offer three different types of service: the sale of individual components, the sale of complete systems with coordinated components, and turnkey construction of a plant. The services that we offer range from construction planning to component procurement, all the way to the construction of photovoltaic plants.

The integration of the SunTechnics end customer brand into the Conergy brand was executed as planned in 2008 as part of the Conergy Group's restructuring. This entailed combining the sales channels of the end customer and partner business that had been operated separately to date; as a result, the Group's entire photovoltaics business is now to a large extent conducted under the name Conergy PV. In its capacity both as a dedicated PV provider and worldwide market leader in systems integration, this segment now maintains separate sales offices in the main markets on four continents. Its customers include businesses and investors, utility companies, farmers as well as installers of solar and electrical systems.

Photovoltaics solutions tailored to every need

As leading downstream player in the photovoltaics market, Conergy offers installers and wholesalers a broad range of products for the construction of PV units from a variety of manufacturers. The Company also operates one of the industry's largest international sales networks and collaborates worldwide with solar installers and electrical specialists that perform professional on-site installation work for its customers. Conergy has always employed the most efficient technologies in systems installation. It provides its customers with individual components as well as complete systems to that end – always from a single source and fully produced in house upon request.

International state-of-the-art engineering know-how

Conergy PV owes its success in markets with widely differing needs to the expert planning and installation experience of Conergy' employees. Conergy is a global player and as such, it possesses extensive know-how and long-standing market knowledge grounded in more than ten years of work in the industry and the construction of more than 70,000 solar energy systems worldwide. The outstanding technical and commercial competence of its employees and project partners enable the Company to plan and build high-quality solar energy systems for the most diverse needs.

EPURON SEGMENT

In the EPURON segment we develop, finance, implement, and operate major renewable energy projects through our subsidiaries in the EPURON. The emphasis in the past was on projects in the area of photovoltaics and wind energy. Our range of products and services includes site inspection and development; contracting for, coordinating, and monitoring plant construction; negotiation of project agreements; the creation of project-based operating companies; and commercial and technical management of the plants. EPURON also arranges for debt and equity financing of the operating companies and the marketing of equity interests to investors. Customers primarily include institutional investors that invest in renewable energy projects. Effective 1 January 2009 however, EPURON's PV project business was transferred to the Conergy PV segment in order to group all photovoltaics activities in this segment. EPURON, which will then focus predominantly on wind energy projects, will also continue to pursue other renewable energy projects, such as biogas and CSP, if they offer attractive margins. The segment is represented in the main markets through branches and offices, which has enabled it to leverage significant growth opportunities in relevant markets.

Through the EPURON segment, we are meeting the increasing demand of institutional investors for renewable energy projects. All of the major projects launched by EPURON have been placed 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 in our view made renewable energy projects an attractive investment. The cash flows from such plant products continue to be secure both with regard to input (sun/wind) and output (power/electricity). Sun and wind are essentially available without limitation. Solar radiation can be very accurately predicted in specific regions, subject to certain fluctuations; wind is subject to a greater forecast risk, but it offers potentially higher margins. The output sides are generally sufficiently covered by long-term purchase agreements. This means that investing in the generation of cash flows based on the operation of photovoltaic systems and wind energy plants offers highly reliable forecasts and through a hardly existent correlation form an independent asset class to other forms of investment (such as stocks, commodities, currency, and real estate).

In addition to its core photovoltaic and wind power technologies, EPURON has continued to promote the development and financing of individual large-scale projects in the field of bioenergy and solar thermal energy systems (concentrated solar power); services in the areas of building planning, component procurement, and construction (engineering, procurement, construction) are provided by external partners.

CORPORATE STRATEGY

Conergy has redefined its corporate strategy in light of the company's crisis in 2007. Since then the strategy concentrates on the downstream segment of the core business of photovoltaics, attractive key markets as well as profitable growth. Conergy's strategy in its core PV business entails offering its customers added value through manufacturer-independent, high-quality solutions.

Focus on downstream segment of the photovoltaic business
Whereas in the past Conergy's business policies were aimed at developing as many divisions as possible in the field of regenerative energies, during its crisis it found its way back to its core competence – photovoltaics business and here focussing on the so called downstream segment, the business close to the customer. The Company basically serves three customer groups: wholesalers and major B2B installing firms, B2C installing partners and investors in major projects.

Conergy enjoys an advantage in its core business over manufacturers that are expanding into the downstream business in that its independence allows it to always offer its customers the best high-quality solution for their needs. The Company will continue to optimise its portfolio of products and services in order to create real benefits for its customers above and beyond just the hardware. We are convinced that Conergy will remain very well positioned among its customers in an evolving market given its technical competence and its lengthy track record in designing and constructing major solar projects.

Outside its project business, Conergy has mainly completely withdrawn from all non-PV areas such as solar thermal, wind turbine production and biomass. The heat pumps business has been spun off and is now being operated independently by a company called Güstrower Wärmepumpen GmbH. In the future, we intend to concentrate all of our financial and human resources on the expansion and optimization of earnings in the key business of photovoltaics.

Focus on attractive key markets
Conergy is focusing its international presence on attractive key markets. We do not see the international nature of our business as an objective in and of itself, but rather as an instrument for tapping mature growth markets. In that respect, we analyse the extent to which the individual markets in which we are developing or plan to develop our activities can make a sufficient contribution to our long-term success. Within each different geographic market, we examine local conditions such as regulatory background conditions, customer needs, and the competitive situation. On that basis, we distinguish among three market categories: established markets, markets with potential, and markets from which we will withdraw. From the last mentioned category we pulled out in the last year.

Focus on profitable growth

By focusing on our core business, attractive key markets, and the downstream sector, there is also a simultaneous focus on profitability. Our future corporate strategy will be based on earnings, not mainly on sales growth.

RESTRUCTURING

Conergy used its earnings and liquidity crisis at the end of 2007 to launch a comprehensive restructuring programme that has been largely realised by now and is being continued. To ensure a sustainable improvement of earnings, effort has been and will be made to reduce the complexity of the previous business model, streamline the cost structure, and improve working capital management.

The programme, which began at the end of 2007, included the following key components and targets:

- Concentration on our core photovoltaics business and discontinuation of non-strategic production operations in the areas of solar thermal energy, heat pumps and, in our PV segment, the disposal of wind power plant production operations. This goal was partly achieved in the first six months of 2008 when the solar thermal production plants in Belgium, the Netherlands and Austria were sold. But the disposal of Conergy GmbH Switzerland – a subsidiary of Conergy AG, whose business is focused on the solar thermal segment – could not be completed. The same applies to the disposal of Güstrower Wärmepumpen GmbH. Hence these companies will remain in the Group. In contrast, the wind turbine production plant in Bremerhaven as well as the factory for small wind turbine plants in Bergheim have already been sold. The Company has started to retreat from unprofitable countries and has already retreated in full from Turkey, Belgium, the Netherlands, Portugal, the Philippines, Indonesia, Thailand and South Africa. Its companies in Brazil and Mexico are in the process of being closed.

- Conergy also plans to improve margins in the long term by realigning its distribution policies to focus on high-growth and high-margin market segments. The Group's restructuring the two segments – Conergy PV and EPURON – which took effect on 1 January 2008 enables it to focus on high-growth markets and the creation of a new distribution system. This meant bundling the entire PV business, which had previously been offered through three different brands, under a single brand – Conergy.

- An optimised product mix and the expansion of high-margin applications will be leveraged to improve the margin potential. This includes increasing the percentage of internally-produced solar modules, additional products and higher-margin thin film solar modules while reducing large-volume sales.

- Conergy started initiating personnel and non-personnel cost reductions at the end of 2007 via personnel reductions, service consolidation as well as consistent cost management and controlling. By 31 December 2008, the Group had reduced its staff by approximately 1,000 employees compared to 31 December 2007.

- The restructuring also aims to improve working capital management in order to reduce the amount of tied-up capital. This entails clear allocation of responsibilities in relation to receivables and their management, improvement of collection processes as well as reduction of inventories and days' receivables outstanding that remain high and trade receivables which are too high. We succeeded in making significant improvements in these areas in 2008: the working capital fell from 38.7 percent of sales in 2007 to 25.4 percent of sales in 2008.

Improved management controls by implementing a unified, efficient IT architecture and reducing the complexity of the Group's corporate structures.

- In future, major projects shall be executed solely if they possess independent, cash-neutral funding, taking into account an internal, fixed prefinancing credit limit of EUR 60 to EUR 70 million that is contained in the general credit lines. All cross-subsidisation shall thus be eliminated.

- Conergy is in the process of implementing groupwide management, controlling and incentive systems, new responsibility structures and core performance indicators.

The Company's restructuring is being tightly controlled by a committee named Measure Control Office (MCO) that was established specifically for this purpose. Its aim is to implement the groupwide management, controlling and incentive systems under the new responsibility structures (segment organisation) and core performance indicators (e. g. return on capital employed). The MCO was launched in November 2007; it supports the Company and its business units in defining and executing specific measures by reviewing and evaluating the outcome of each and every project. It uses a formal procedure to monitor the progress of the restructuring measures that have been initiated and reports directly to the Chairman of the Management Board. The MCO has contacts in all of the Company's business units and defines goals for them by means of action plans; compliance with these plans is checked on a regular basis. It also fixes groupwide targets. This includes for instance groupwide personnel reductions; reductions in communications, IT, vehicular and rental costs by reopening bids as well as improvements in working capital management. The MCO also monitors the achievement of these objectives. Conergy has repeatedly adjusted and supplemented its restructuring concept against the backdrop of the worldwide economic crisis and the fact that it will accelerate the shift from a sellers' to a buyers' market. With a resolution dated October 2008, the Management Board agreed upon additional measures to improve the parameters determining the demand for liquidity. In addition to this decision, the Management Board has also established a project team in early 2009, which supports the national companies in identifying and implementing further measures to enhance earnings and liquidity.

EMPLOYEES

The Company's restructuring and realignment were the main issue in 2008. Adjustments of the personnel structure were central to personnel management. Conergy worked hard in connection with its restructuring programme in 2008 to counteract the massive personnel increases particularly in the 2007 financial year. These increases were due to the expansion, diversification and internationalisation strategy that the Company was pursuing at the time. Conergy did its best to design the personnel reductions occasioned by its restructuring as socially responsible as possible. This entailed pursuing agreements that put in place a temporal and financial framework designed to help employees' transition to new jobs. For example, employees terminated for operational reasons in Germany were offered severance pay. In the alternative, these employees were offered the option to switch to a transfer company for a period of six months. The personnel measures adopted in connection with the restructuring programme from end of November 2007 were completed in 2008.

Employee figures

Conergy significantly reduced its staffing levels in its continuing operations in the 2008 financial year and is thus on the way toward achieving staffing levels that are appropriate to its business. As of 31 December 2008, the Conergy Group had 1,773 employees (all figures FTE), of which 1,050 were employed in Germany and 723 were employed by its foreign subsidiaries. This corresponds to 1,954 employees on average in 2008 (2007: 2,090 employees). At the end of the 2007 financial year, Conergy still had 2,494 employees worldwide, including 1,506 employees in Germany and 988 employees abroad. This means that since 31 December 2007, 721 full-time equivalents have left the Company. Specifically, the number of employees worldwide in the Conergy PV segment decreased from 2,009 employees as at 31 December 2007 by 564 to 1,445 employees at the end of 2008. The number of employees at the Conergy holding company dropped from 305 at the end of 2007 by 166 to 139 employees as at 31 December 2008. Of the 1,773 employees in the Conergy Group, 77 percent were salaried employees and 23 percent were hourly-paid workers as at 31 December 2008. Including discontinued operations, a total of 1,779 staff were employed worldwide by Conergy as at 31 December 2008 (31 December 2007: 2,756 employees). The employee figures reported in this report may deviate from previously published figures as a result of the reorganisation of the Group's segments in 2008 and the realignment of subsidiaries in the area of discontinued operations.

Employee development

The dedication, expertise and motivation of the employees in the Conergy Group are critical to the Group's future success. These employee characteristics are supported and promoted through a variety of HR instruments.

Conergy employees have the opportunity to contribute to the achievement of the Group's strategic goals and to benefit from them as well. The large majority of employees at the Group's German entities participates in a performance-based compensation scheme. Employees are paid a bonus based on the achievement of operational earnings and performance goals, which are agreed annually on an individual basis. In addition to this, individual goals are set with each employee. Most executives at the Group's foreign entities participate in a performance-based compensation scheme.

In order to prevent employees from terminating their employment contracts, a retention programme was launched for members of staff in key positions. The relevant activities such as funding off-the-job training and paying special bonuses were individually stipulated with the relevant staff.

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.

The Conergy Group also offers its employees pension plans through deferred compensation, always ensuring that the most flexible solutions are provided.

Code of Conduct

Back 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.

Establishment of a Works Council at the Hamburg headquarters

The foundations for the establishment of a Works Council were laid in Hamburg in February 2008, and elections to the Works Council were held at both Conergy AG and Conergy Deutschland GmbH for the first time in June 2008. The Works Councils of these two companies constituted themselves in early July 2008. The first ever elections to the Works Council of voltwerk electronics GmbH were carried out in December 2008.

While the Works Councils of the Conergy Group consider themselves the employees' spokespersons, they also see themselves as contacts for the Management Board in view of enhancing employees' motivation and boosting their confidence in Conergy. The Works Councils have held regular office hours and meetings since July 2008 in both Hamburg and Zweibrücken.

Thank you

The 2008 financial year, in which the Company continued its restructuring programme, proved to be a turbulent and difficult one for the Conergy Group. The Management Board would like to thank all of the employees of the Conergy Group for their dedication in this exceptionally difficult situation. The Management Board is convinced that with the continued expertise, commitment and, above all, enthusiasm of every team, we can look forward to success in the near future.

Group management report

Group management report

THE CONERGY GROUP

Organisational and legal parameters

Conergy is one of the highest-grossing solar companies in Europe and one of the world's leading downstream players with a comprehensive presence in Germany – a highly significant photovoltaics market – as well as in key international markets. Whereas Conergy was initially aiming for an integrated business model in photovoltaics when it built the Frankfurt (Oder) solar factory, in future the Company will once again turn its attention to its original downstream approach. Conergy offers comprehensive systems solutions for the downstream B2B and B2C markets, as well as turnkey installations in both photovoltaics and wind energy. As a leading downstream player with an aggregate installed PV output of more than 800 MWp worldwide, Conergy maintains good business relationships with the most important suppliers of crystalline and thin film solar modules; it also has an established network of industry partners and financial investors. Conergy benefits from its strong brand as well as from a large distribution network that comprises over 100 partners in Germany. The Company believes that it is well positioned in its core foreign markets, given its comprehensive local presence.

Conergy AG is domiciled in Hamburg. This is where the corporate departments of both Conergy AG and its subsidiaries are located. The Group also maintains other business premises in Germany, among them a Central European Warehouse in Zweibrücken (Saarland) and the solar module factory in Frankfurt (Oder). Counting one additional production site in Rangsdorf (near Berlin) and a development site in Bad Vilbel (Hessen) as well as numerous regional sales offices, at this time a total of 1,050 employees (full time equivalents) work for Conergy in Germany. The Group is also active worldwide. In addition to Conergy AG, as the parent, the Conergy Group comprises 67 subsidiaries.

Conergy AG is managed by a five-member Management Board. The Management Board's members are Dieter Ammer, Dr. Jörg Spiekerkötter, Nikolaus Krane and Philip von Schmeling as well as Dr. Andreas von Zitzewitz (since 1 January 2009).

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 develop offers that are tailored to the relevant customers' needs. The Company leverages its growing, bundled knowledge of regionally diverse customer needs with the aim of expanding its photovoltaic product portfolio. It believes that this sales and customer-focused strategy puts it in a good position to develop new markets with matching products.

Conergy's areas of operation are divided into the Conergy PV and EPURON segments. In the Conergy PV segment the Company produces and distributes photovoltaic products and system solutions. Through the EPURON segment it develops, finances, implements, and operates large projects in the area of renewable energy sources.

The Conergy PV segment is divided into two divisions: The Components division develops and manufactures system components such as solar cells, solar modules, module frames, and mounting systems, as well as electronic components. In its solar facility in Frankfurt (Oder), Conergy is developing additional parts of the photovoltaic value chain by manufacturing solar cells and solar modules, which in the past were solely purchased from outside suppliers. Conergy develops electronic components such as inverters, connection boxes, monitoring systems, and tracking systems in Hamburg and Bad Vilbel, and has these built to order by various companies, most of them European. Mounting systems and module frames are developed and manufactured in Rangsdorf near Berlin. As of 1 September 2008, electrical components and mounting systems are being developed, produced and sold by our subsidiaries voltwerk electronics GmbH and Mounting Systems GmbH. Both of these companies also offer their products to third-party customers. The Sales&Systems division sells the products that Conergy manufactures, as well as purchased complete systems and components, to wholesalers, installers and end customers (primarily farmers, private households, and companies). Our distribution activities also include the construction, planning, and installation of photovoltaic systems (known as EPC activities: engineering, procurement, and construction). Conergy offers three different types of service: the sale of individual components, the sale of complete systems with coordinated components, and turnkey construction of a plant. Customers are primarily in Germany, Spain, France, Italy, Greece, the United States, Australia, and parts of Asia. The services that we offer range from construction planning to component procurement, all the way to the construction of photovoltaic plants.

In the EPURON segment we develop, finance, implement, and operate major renewable energy projects through our subsidiaries within EPURON. The emphasis was until now on projects in the area of photovoltaics and wind energy. Our range of products and services includes site inspection and development; contracting for, coordinating, and monitoring plant construction; negotiation of project agreements; the creation of project-based operating companies; and commercial and technical management of the plants. EPURON also arranges for debt and equity financing of the operating companies and the marketing of equity interests to investors. Customers of EPURON primarily include institutional investors that invest in renewable energy projects. Effective 1 January 2009 however, EPURON's PV project business was transferred to the Conergy PV segment in order to group all photovoltaics activities in this segment. EPURON, which will then predominantly focus on wind energy projects, will also continue to pursue other renewable energy projects, such as biogas and CSP (Concentrated Solar Power), if they offer attractive margins.

Conergy has decided to discontinue its biomass and solar thermal operations. This does not include the solar thermal business of Conergy GmbH in Switzerland and the heat pump manufacturing business of Conergy Wärmepumpen GmbH in Güstrow, both of which will remain in the Conergy PV segment business pursuant to a December 2008 resolution of the Management Board due to their proximity to the Company's PV business. It also decided in the second quarter of 2008 to cease its manufacturing activities in the field of wind energy and has by now disposed of its wind turbine factories in Bremerhaven and Bergheim. EPURON however will continue to focus on wind energy projects.

Key milestones in the 2008 financial year

Conergy AG has made good headway in its restructuring programme in 2008 and will continue to carry this forward in 2009. An important milestone along this path was the strategic adjustment in the third quarter of 2008 of the wafer delivery contract concluded with MEMC Electronic Materials, Inc. in October 2007. It entailed adjusting the contract's sales volume over its ten-year term from USD 7.0 to 8.0 billion to approximately USD 3.5 to 4.0 billion. This enabled Conergy, as planned, to expand the operating and financial latitude it needs for executing its corporate realignment as a downstream provider in the field of photovoltaics. But it also ensured the creation of an important base for supplying the Group's solar module factory in Frankfurt (Oder) with raw material. The first deliveries were made in the third quarter of 2008. Please see the disclosures regarding events after the balance sheet date for information on the status of the contractual relationship with MEMC.

As part of Conergy's restructuring programme, the Management Board of Conergy AG declared the Company's wind activities in the area of production in the second quarter of 2008 to be discontinued operations. This includes the development and sale of wind power installations as well as the production site in Bremerhaven. The development, financing and implementation of wind energy projects will be continued in the EPURON segment, however. The sale of the business of Conergy Wind GmbH agreed and announced on 9 September 2008 by Conergy AG and the investor Warburg Pincus was completed in October 2008. Effective 27 October 2008, Warburg Pincus took over all operations of Conergy Wind GmbH, including the development and sale of the 900-kw turbine "PowerWind 56" and the production facility in Bremerhaven. Originally envisaged to be completed in early September, the transaction had been temporarily put on hold after the State of Bremen had rejected the transfer to Warburg Pincus of the subsidies of up to EUR 3.5 million, which originally had been promised to Conergy Wind GmbH and parts of which had already been approved. As a result, Warburg Pincus initially was no longer bound to the original contract of sale. After Conergy had expressed its willingness to Warburg Pincus to make a financial settlement for the discontinued subsidies, the sale was completed at the end of October 2008. This separation has enabled the Company to take another major step towards realignment.

In August 2008, the Conergy Group merged its two largest German sales companies both in terms of operations and legally. The merger of Conergy Vertriebs GmbH & Co. KG into SunTechnics GmbH and the change of name to Conergy Deutschland GmbH concluded an important stage of the restructuring. The Group's entire photovoltaics business in Germany is now run homogeneously as Conergy Deutschland GmbH, in which all sales channels for its system and wholesale business are consolidated. At the same time, in September 2008, the mounting systems and inverters production areas commenced independent operations on the solar market. The previous divisions of Conergy AG were thus spun off into independent entities. The Conergy Mounting Systems division, one of the largest producers of mounting systems for solar applications, will thus be run in the future as Mounting Systems GmbH with headquarters in Rangsdorf near Berlin. This company's products range from mounting systems and components for photovoltaics and solar thermal energy to module frames and collector frames. In the future, Mounting Systems GmbH will market its products independently. This will enable it to actively expand its own sales activities, enlargen its customer base and continue its profitable growth course. One of Mounting Systems GmbH's most important customers is Conergy AG, to which it supplies high-quality module frames for the Conergy PowerPlus modules produced at the Frankfurt (Oder) plant.

Following the spin-off, the former Conergy Electronics division is now a separate company called voltwerk electronics GmbH. voltwerk electronics GmbH is one of a small number of manufacturers worldwide that offer all electronic products from tracking systems through intelligent terminal boxes, string and central inverters to complete supervision and analysis of installations. All components are developed in Germany at the sites in Hamburg and Bad Vilbel. By setting up a separate enterprise, the Company is now better able to make its experience with over 300 MWp of installed power and products that have received multiple awards available to new customer groups.

The capital increase conducted in December 2008 was a key component of the Company's restructuring programme. On 17 July 2008, the Management Board of Conergy AG resolved with the approval of the Supervisory Board to execute an extensive capital increase aimed at strengthening the Company's capital base and improving the structure of its balance sheet. The shareholders of Conergy AG approved the planned capital increase with an overwhelming majority of the capital present at the Company's General Shareholders' Meeting on 28 August 2008. The capital increase was completed in early December despite the turbulent stock markets, generating gross proceeds of around EUR 399.3 million for the Company. A total of 363 million new shares were issued at a subscription price of EUR 1.10. The new share capital is EUR 398,088,928. The subscription ratio of the capital increase was approximately 49.5 percent, which corresponds to roughly 179.6 million new shares. Dresdner Bank took over about 155 million new shares of the remaining unsubscribed shares and of those for which the subscription right had been excluded. Other investors, notably Leemaster Ltd. and Athos Service GmbH, subscribed the remaining unsubscribed shares at the subscription price. Conergy AG used the proceeds from the capital increase to discharge financial liabilities, in particular the February 2008 bridge loan for EUR 240.0 million, and will use the new equity to continue its restructuring and support future growth in both 2009 and 2010.

Companies included in the consolidated financial statements

Aside from Conergy AG, a total of 23 domestic and 44 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 2008). 16 companies were no longer included in consolidation in the 2008 financial year as a result of mergers or disposals.

INTERNAL CONTROL SYSTEM AND KEY PERFORMANCE INDICATORS

The Management Board of Conergy AG has implemented an internal management control system that provides for groupwide planning, managing and reporting processes with the aim of enabling value-orientated control and ensuring the development of both the Group and its individual companies. Achieving profitable growth, increasing operational efficiency, optimising tied-up capital and maintaining an healthy capital structure are the elements of this management control system. This system also helps to coordinate the activities of the Group's subsidiaries, emphasise decentralised accountability and thus strengthen operations.

Budgets and forecasts are an integral 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. Key Performance Indicator (KPI) reports assist management in controlling segments and regions, individual subsidiaries as well as operating processes. Sales and gross profit serve as the key performance indicators for determining corporate success. Conergy also uses the gross profit margin, which shows gross profit relative to sales, in addition to gross profit to measure performance. The Company's performance is measured based on earnings before interest, taxes, depreciation and amortisation (EBITDA) and earnings before interest and taxes (EBIT). Conergy uses earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortisation (EBITDA) to measure the success of individual business units. In addition to these two parameters, the Group also utilises both the EBITDA and the EBIT margin that present these earnings measures as a ratio of sales. These relative performance indicators make it possible to compare the profitability of profit-oriented divisions of various sizes.

The table below shows the KPI that are monitored on a continuous basis and constitute the core of the Group's optimisation efforts:

Key performance indicators

		2008	2007[1]
Sales	EUR million	**1,006.2**	**719.0**
Germany	EUR million	294.8	337.6
Abroad	EUR million	711.4	381.4
Gross profit	EUR million	**126.0**	**100.9**
Gross profit margin	in percent	**12.5**	**14.0**
EBITDA	EUR million	**–176.7**	**–163.2**
EBITDA margin	in percent	**–17.6**	**–22.7**
EBIT	EUR million	**–212.5**	**–213.3**
EBIT margin	in percent	**–21.1**	**–29.7**

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

The Conergy Group's controlling system has a particularly important role to play in that the yearly variable compensation paid to top management groupwide for the 2008 financial year was linked to the aforementioned earnings-based performance indicators, notably EBITDA.

In 2008, Conergy lowered the amount of tied-up capital through efficient working capital management in connection with its restructuring programme. Streamlining receivables management, improving collection processes as well as reducing inventories, accounts receivable aging cycles and receivables outstanding were substantial factors in this success. Hence the amount of capital tied up in receivables, liabilities and inventories was further optimised, as was the contribution that projects make to the Group's earnings. Working capital is defined as the total of inventories and trade receivables less trade payables and presented as a ratio relative to the sales of the comparative period.

Working capital development

		31.12.2008	31.12.2007[1]
Sales	EUR million	**1,006.2**	**719.0**
Inventories	EUR million	245.6	345.6
Trade receivables	EUR million	120.9	214.7
Trade payables	EUR million	111.2	282.4
Working capital	EUR million	**255.3**	**277.9**
Working capital / sales	in percent	**25.4**	**38.7**

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

In addition to bringing about a sustained increase in the enterprise value, managing the finances of the Conergy Group is also aimed at maintaining an adequate capital structure. Gearing thus serves as an additional financial ratio in our management control system. It is defined as the ratio of net financial liabilities (borrowings less liquid funds) to equity. Repaying borrowings as well as boosting the equity base through retained earnings and / or capital increases serve as controlling instruments. We aim to achieve a gearing of 100.0 percent in the medium term, i.e. a 1:1 ratio of equity to net financial liabilities. Gearing clearly improved year on year as a result of the increase in equity following the capital increase and the simultaneous decrease in net financial liabilities. Gearing developed as follows:

Net liabilities to equity

		31.12.2008	31.12.2007[1]
Borrowings	EUR million	317.2	468.8
Liquid funds	EUR million	27.7	62.7
Net liabilities	EUR million	**289.5**	**406.1**
Equity	EUR million	196.8	125.2
Gearing	in percent	**147.1**	**324.4**

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

As before, it is our foremost economic goal in the 2009 financial year to improve the key performance indicators EBITDA, EBIT, working capital and gearing.

GLOBAL ECONOMIC CONDITIONS

Global economic forecasts for 2008 were still positive at the start of the year following the strong expansion of the world economy in 2007, yet growth was actually dampened in 2008, even ending altogether in some regions. The fallout worldwide of the financial market crisis, which originated in the United States in early 2008, triggered a powerful downward momentum that sent numerous countries into a recession by year's end. While industrialised countries still reported increases in domestic output at the start of year, this development slowed substantially in the course of the year, among other things, due to banks' tightened lending standards which in turn sparked a strong downturn in investing activities. The insolvency of the investment bank Lehman Brothers in mid-September 2008 put yet another damper on the general mood. Massive capital infusions from individual governments were needed in many cases to prevent further bankruptcies; in some cases, governments even took over shares in financial institutions, leading to their nationalisation. Central banks are trying to ward off the crisis by substantially lowering prime rates. The US Federal Reserve cut the prime rate in 2008 from 4.25 percent to a target between 0 percent and 0.25 percent. While the European Central Bank raised its prime rate to 4.25 percent in July, it decided to reduce it by a total of 175 basis points to 2.5 percent in December 2008. The Bank of England cut its prime rate in 2008 from 5.25 percent to 2.0 percent.

Consumer and commodities prices reached their high in the summer of 2008 and have fallen substantially since then. While the cost of crude oil increased from USD 127.4 in June to USD 140.2 per barrel it had fallen to under USD 40.0 by December

The US dollar began its slide from one low to the next at the start of 2008, falling to 1.60 to the euro in March and even below that for a short time in April 2008. It regained its footing relative to the euro toward the end of year however, causing the euro to fall from 1.46 to 1.39 vis-à-vis the US dollar.

Even though the economies of emerging countries continued to expand substantially until the middle of the financial year just ended, they too were unable to escape the ramifications of the international financial crisis. Reduced capital expenditures as well as declining exports caused the relevant economies to cool off.

DEVELOPMENT OF THE INDUSTRY

Industry environment

Worldwide energy consumption today is still largely derived from fossil fuels such as coal, oil and gas. At the same time, renewable energy sources have seen considerable growth in recent years and will continue to gain in significance in the future. This is primarily due to the finiteness of fossil fuel resources and an increase in prices associated with this, the efforts of many countries to become less dependent on energy imports, and the increasing impact of greenhouse gases on climate change.

The international energy market is characterised by the rising cost of energy for the consumer. Energy experts expect this development to continue in the long term, so that renewable energy sources will be more and more important. The rise in energy prices has been caused by decreasing fossil fuel resources combined with an increasing demand for energy. The price of crude oil has been rising considerably since the beginning of 2007 and continued to rise until July 2008. The price of crude oil decreased rapidly, however, during the intensified credit crisis in the financial markets. At the beginning of November 2008, the price of oil was only approximately USD 65.0 per barrel, following an increase in the interim from less than USD 60.0 at the beginning of 2007 to just less than USD 150.0 in mid-July 2008. The International Energy Agency (IEA) however expects further worldwide energy consumption to increase by 50.0 percent by 2030.

While fossil fuel costs by trend are rising, renewables costs are falling at a steady pace, gradually closing the price gap between regenerative and conventional energies. Climate protection programmes in numerous countries have had a positive impact on international demand for renewables. Today they are the main growth drivers in the renewable energy business. The industry aims to lower costs on a continuous basis and hence to make electricity from the sun, wind and bioenergy competitive with electricity from fossil fuels (grid parity).

Regulatory environment

In response to the Kyoto Protocol, the European Commission issued a White Book on renewable energy sources in 1997, stating the goal of increasing the percentage of renewable energy sources to 12.0 percent of gross energy consumption in the EU-15 by 2010, with a goal of 22.1 percent for the electricity supply. To implement this goal, the European Parliament and the European Council issued the Directive on the Promotion of the Electricity Produced from Renewable Energy Sources in the Internal Electricity Market in 2001. It requires Member States to take appropriate steps to achieve or promote the goals defined in the Directive by 2010. But the Directive leaves it up to the Member States how to achieve those goals. In this connection, many countries have opted for an active promotion of renewable energies and launched effective incentive programmes.

In March 2007, the Council of the European Union decided to commit the European Union to reduce greenhouse gas emissions by at least 20.0 percent from 1990 levels by the year 2020. On 23 January 2008, the European Commission submitted its proposal for a directive on the promotion of the use of energy from renewable sources. The proposal calls for the market share of renewable energy sources to rise from 8.5 percent to 20.0 percent by 2020. Each country must contribute one half, i.e. 5.75 percent. The commission considers the wealth of the member states in determining the other half. The member states must submit national action plans to the European Commission, explaining their strategy. The proposal for a directive was submitted to the European Parliament and the European Council on January 28, 2008, and is now under discussion there.

Germany

In Germany, photovoltaics enjoy substantial support under the Renewable Energies Act (German acronym: EEG). One of the objectives of the Act is to facilitate a sustained development of energy supply, to contribute to the avoidance of conflicts surrounding fossil fuel sources, and to further develop technologies for generating electricity from renewable sources. The German renewables market is the world’s largest in terms of installed total output because the country made a political decision early on to promote renewables on a broad basis, including solar energy. On the whole, in 2008 all renewables accounted for approximately 9.6 percent of the primary demand for energy in Germany. Relative to the consumption of electricity, they even accounted for 15.3 percent of all energy consumed, climbing by about 5.5 percent year on year. Newly installed solar energy output rose above average in Germany. At 1.8 gigawatts, the market grew by about 30.0 percent, thus expanding its share yet again. This demonstrates that the industry is doing fairly well, especially against the backdrop of the economic downturn in the year's second half.

On 6 June 2008, the German parliament amended the German Renewable Energy Sources Act, which provides in particular for a larger degression of the feed-in tariff as well as reduced compensation rates for electricity from PV units. The amendments took effect on 1 January 2009.

Spain

Through an administrative order (Real Decreto), Spain promotes photovoltaic power generation along with other renewable energy sources. The programme expired on 29 September 2008 and was amended based on applicable legal regulations. The successor programme calls for a yearly limit on new installations of 133 MWp for open space systems and 267 MWp for roof systems; interim regulations provide for an increase in the annual maximum capacity for 2009 and 2010 for open space systems of 100 MWp to 233 MWp (2009) and of 60 MWp to 193 MWp (2010). According to the new programme, the feed-in tariff for systems on open space is 32 cents / kWh and between 32 and 34 cents / kWh for roof systems. The new programme has an adverse impact, in particular, on large projects (above 10 MWp), since the promotion of systems on open space is limited to 10 MWp for each project (2 MWp for roof systems).

This adjustment of the compensation rates, which was the subject of lengthy discussions and had been expected, caused the Spanish market to boom even before the coming into effect in 2008. Although official figures regarding the newly installed aggregate PV volume in Spain have not been published to date, market observers assume that the volume reached will be upto 2.5 gigawatts. This would correspond to a quadrupling of the Spanish market over 2007 levels, turning Spain into the world's largest PV market by far. However, the newly introduced ceiling of approximately 500 MWp that will apply in coming years will trigger a strong decline. The country will remain the second largest market in the world based on 2008 figures – despite the ceiling that was imposed on the promotion of renewables.

United States of America

At growth of roughly 70.0 percent in 2008, the US photovoltaics market has once again turned out to be one of the most dynamic. Many analysts predict that this growth trend will continue in coming years. Particularly the election of Barack Obama as the country's new President has given the industry reason to hope. And the President's initial pronouncements since taking office a few weeks ago make it seem that these hopes are not unfounded.

At the national level, the United States of America promotes solar power generation mainly by providing tax breaks for private households and companies that build photovoltaic systems. On 3 October 2008, the US Congress amended and supplemented its incentive programme as part of the Emergency Economic Stabilization Act of 2008. The tax breaks were extended by another eight years through 2016 and expanded to include public utility providers. At the same time, a total of 33 states have promulgated additional laws aimed at promoting renewables. For example, in California, the largest market for solar power in the United States, the government has made supporting funds of USD 3.3 billion available until 2016 for the Million Solar Roofs Program. New Jersey, the second largest market for solar power in the United States, plans to implement a certificate system that is intended to produce annual increases in solar power generation of 30 – 70 MWp. Other key states such as Pennsylvania, Maryland, Arizona and Colorado have already enacted notable incentive programmes.

Italy

In Europe, the Italian, next to the Greek market, is regarded as the most dynamic. An amendment of the programme for state support, adopted on 19 February 2007, has abandoned the former quota system and replaced it with a new one. The base tariff for electricity from photovoltaic systems, irrespective of their size and type, will be between 36 cents and 49 cents per kWh. Photovoltaic systems also receive preference in getting connected to the public grid. Correspondingly, grid operators must preferentially draw electricity from photovoltaic systems. These attractive conditions have resulted in a strong expansion of the market in 2008.The total installed PV output tripled to 150 MWp compared to the previous year.

France

One particularity of the French incentive system is that an additional mark-up for systems integrated into buildings is paid: apart from the guaranteed basis feed- in tariff of 30 Cent/kWh the owner of a building integrated photovoltaic system in France receives an additional 25 cent/kWh. The tariff for installations in open space in continental France is only 30 cents per kWh. In France overseas and Corsica, the tariff for installations in open space is 40 cents per kWh. Also here an additional tariff is granted for building integrated systems of 15 cents per kWh. The feed-in tariffs are adjusted to the inflation rate on a yearly basis. The guaranteed duration of the feed-in tariff is twenty years. In addition France grants tax incentives for the installation of photovoltaic systems. Accordingly, an income tax deduction is available for up to half of the material costs of solar power systems up to a maximum amount of EUR 8,000.

Greece

Climatic conditions in Greece are superbly suited for PV units, and the country's renewables promotion programme is stable. Nonetheless, at approximately 25 MWp of newly installed output in 2008, the market has been weakly developed to date. Extensive approval processes have hampered growth. Given that the Greek government wants to push photovoltaics by amending the existing renewables law. On 15 January 2009 the Greek parliament promulgated a new PV feed-in tariff. The new compensation rules guarantee a feed-in tariff for solar electricity of between 40 and 50 cents per kilowatt hour (kWh) for 20 years. While a degression of the fees does not kick in until August 2010, they will actually remain unchanged until early 2012 because an implementation phase of 18 months will apply after a grid connection contract has been entered into.

ASSETS, LIABILITIES, CASH FLOWS AND PROFIT OR LOSS

Profit or loss

Income statment of the Conergy Group (short version)

EUR million	2008	2007[1]
Sales	1,006.2	719.0
Gross profit	**126.0**	**100.9**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**−176.7**	**−163.2**
Earnings before interest and taxes (EBIT)	**−212.5**	**−213.3**
Net finance income	**−67.8**	**−21.8**
Earnings before taxes (EBT)	**−280.3**	**−235.1**
Income taxes	26.8	22.1
Result after taxes from continued operations	**−253.5**	**−213.0**
Result after taxes from discontinued operations	−53.1	−35.1
Result after taxes	**−306.6**	**−248.1**
Thereof		
to the sharesholders of Conergy AG	−305.3	−247.6
to minority shareholders	−1.3	−0.5

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

Basis of presentation

The derecognition of discontinued operations in connection with the Conergy Group's realignment resulted in an adjustment of previous year's figures. Discontinued operations comprise the solar thermal and biomass business units and, as of 30 June 2008, also Conergy's wind activities in the area of production. This affects the Bremerhaven site of Conergy Wind GmbH, who's activities were sold on 31 October 2008. As a consequence, Conergy Wind GmbH is also reported under discontinued operations. Pursuant to the Management Board resolution of December 2008, both the solar thermal business of Conergy GmbH in Switzerland and the heat pump manufacturing business of Conergy Wärmepumpen GmbH in Güstrow are treated as continued operations in the Conergy PV segment and no longer as discontinued operations. The relevant previous year's figures were adjusted to reflect the aforementioned adjustments during the financial year in regards to discontinued operations. Please see the notes for information on changes in Group companies.

The disclosures in this Group management report solely concern continuing operations unless they expressly refer to discontinued operations. Discontinued operations are combined in the income statement, the balance sheet and the cash flow statement as separate line items. The previous year's figures were adjusted accordingly. The Conergy Group's continuing operations are divided into the segments Conergy PV, EPURON and Holding.

Segment classification for the 2008 financial year was changed relative to the previous year's consolidated financial statements due to the Company's strategic realignment. The Company's continuing operations are managed by means of the two divisions, Components and Sales & Systems, which comprise the Conergy PV segment, and by the EPURON segment. While the Components division covers all production-related activities, Sales & Systems brings together the previous activities of Conergy and the former SunTechnics entity. Accordingly, the Conergy PV segment develops, produces and markets PV system components in the area of photovoltaics, i. e. solar cells, modules, module frames and mounting systems plus electronic components such as inverters and monitoring systems. Conergy sells the complete systems and components that it manufactures in-house and buys in to major distributors and installers, as well as to end customers. Its sales activities also comprise the construction, planning and installation of photovoltaic units. In its EPURON segment, Conergy develops, finances, implements, and operates large renewables projects, primarily for institutional investors. The emphasis was up to now on projects in the area of photovoltaics and wind energy.

Sales

The Conergy Group posted sales of EUR 1,006.2 million for the 2008 financial year in an increasingly difficult economic environment, thus further significantly expanding its downstream activities in the photovoltaics market. At EUR 719.0 million, business in the two segments improved year on year by EUR 287.2 million or 39.9 percent. The Conergy PV segment contributed a full 73.7 percent to consolidated sales, a positive outcome. Adjusted for currency effects, which resulted largely from the South Korean won and the US dollar, sales even rose to EUR 1,044.0 – a growth rate of 45.2 percent. Sales growth was basically due to the implementation of major international photovoltaics projects in the Conergy PV segment, specifically in Spain and South Korea, in the year's second quarter. But the high rate of growth in Spain also arises from one-off effects, namely the completion of the El Calaverón solar power plant as well as the general increase in capital expenditures by PV plant operators in Spain ahead of the expiry of attractive Spanish feed-in tariffs on 30 September 2008. For more information on the development of sales, please see the section entitled "Business development by segment and region".

Gross profit

In the 2008 financial year, the gross profit of the Conergy Group rose by EUR 25.1 million to EUR 126.0 million, up from EUR 100.9 the previous year – an increase of 24.9 percent. The gross profit margin of 12.5 percent was 1.5 percent under previous year's level and thus significantly behind expectations. While the gross profit margin in the first quarter of 2008 was a healthy 17.6 percent, both increases in the cost of materials and decreases in margins related to the funding of the Group's two highest-grossing projects in Spain and South Korea for one as well as higher start-up costs resulting from foreign currency changes related to the South Korean project business for another generated a relatively weak gross profit margin of 12.4 percent in the second quarter. But we succeeded in reversing this trend in the third quarter by generating a gross profit margin of 17.5 percent. In the fourth quarter, Conergy was exposed to (mounting) price pressures for PV products in national and international markets alike such that the envisioned improvement in margins was not realised, yielding a negative gross profit margin of – 0.2 percent. The main reasons for this development reside in the evolution of the global PV market from a sellers' to a buyers' market as well as in the consequences of the current financial market crisis and the resulting worldwide economic downturn, which has crimped capital spending and tightened standards in the finance market. Among other things, this led to a one-time write down on inventories by EUR 27.3 million in the fourth quarter, putting yet more pressure on the gross profit margin. Adjusted for this one-off effect, the gross profit margin was 15.4 percent. At the same time, gross profit was impacted by the shortfall in capacity utilisation in solar cell and module production at our own plant in Frankfurt (Oder).

Personnel costs

Conergy worked hard in connection with its restructuring programme in 2008 to counteract the massive personnel increases that took place particularly in the 2007 financial year. These large increases were due to the expansion, diversification and internationalisation strategy that the Company was pursuing at the time. Conergy substantially reduced staffing levels during the 2008 financial year and thus is on the way to a personnel structure that is adequate for its business. As at 31 December 2008, the Conergy Group had a total of 1,773 employees (all figures represent full time equivalents); 1,050 of these employees worked in Germany and 723 in the Group's foreign subsidiaries. This corresponds to 1,954 employees on average in 2008 (2007: 2,090 employees). At the end of the 2007 financial year, Conergy still had 2,494 employees worldwide, including 1,506 employees in Germany and 988 employees abroad. This means that since 31 December 2007 the personnel level has been reduced by 721 full-time employees. Specifically, the number of employees worldwide in the Conergy PV segment decreased from 2,009 employees as at 31 December 2007 by 564 to 1,445 employees at the end of 2008. The number of employees at the Conergy holding company dropped from 305 at the end of 2007 by 166 to 139 employees as at 31 December 2008. Of the 1,773 employees in the Conergy Group, 77.0 percent were salaried employees and 23.0 percent were hourly-paid workers as at 31 December 2008. Including discontinued operations, a total of 1,779 staff were employed worldwide by Conergy as at 31 December 2008 (31 December 2007: 2,756 employees). The employee figures reported in this report deviate from previously published figures as a result of the reorganisation of the Group's segments in 2008 and the realignment of subsidiaries in the area of discontinued operations.

Personnel costs in the 2008 financial year amounted to EUR 113.5 million (2007: EUR 112.3 million). This figure comprised wages and salaries of EUR 98.7 million (2007: EUR 96.0 million) as well as social security contributions and other pension costs of EUR 14.8 million (2007: EUR 16.3 million). A retention programme was launched for a select group of executives in 2008 in order to prevent departures of staff critical to the Company, which increased following Conergy's earnings and liquidity crisis. The relevant activities such as funding off-the-job training and paying special bonuses were individually stipulated with the relevant staff. Since the reduction in personnel could only be executed gradually in 2008 and because termination benefits had to be paid to some of the employees who left the personnel costs increased slightly despite the carried out personnel reduction. Overall personnel costs were effected by EUR 3.6 million in one-off expenses. Yet we succeeded nonetheless in reducing the ratio of personnel costs (personnel costs as a percentage of sales) by 4.3 percent to 11.3 percent in the 2008 financial year (2007: 15.6 percent).

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

Earnings before interest, taxes, depreciation and amortisation (EBITDA), a measure of operating income, in the reporting period amounted to EUR –176.7 million (2007: EUR –163.2 million). Despite volume increases, the introduction of minimum margins and the cost structure and efficiency measures initiated in 2008 as part of the restructuring programme, earnings were impacted by large extraordinary items. Adjusted EBITDA totalled EUR –15.0 million. While other income amounted to EUR 42.3 million (2007: EUR 27.5 million), other operating expenses amounted to EUR 231.5 million (2007: EUR 179.3 million.

Other income comprises own work capitalised of EUR 7.5 million (2007: EUR 11.6 million), which in 2008 mainly relates to the expenditures for the start-up for the cell manufacture within the scope of the in-house production of photovoltaic modules in Frankfurt (Oder), as well as other operating income of EUR 34.8 million (2007: EUR 15.9 million). The latter essentially comprise EUR 11.7 million in currency gains (2007: EUR 11.5 million), EUR 7.7 million in cash inflows related to receivables previously written down (2007: EUR 0.2 million) as well as EUR 6.1 million in provision reversals (2007: EUR 4.2 million). This mainly concerns the reversal of unused provisions recognised in the 2007 financial year that had been set up in connection with restructuring measures, guarantee risks related to the project business and employee compensation. The remaining other operating income comprises a multitude of individual items, each of which by itself is immaterial.

Other operating expenses increased in the 2008 financial year by EUR 52.2 million to EUR 231.5 million (2007: EUR 179.3 million). In particular, these comprise expenses of EUR 54.4 million related to the adjustment of doubtful debt allowances on receivables (2007: EUR 28.2 million); foreign exchange losses of EUR 41.6 million (2007: EUR 18.6 million); legal and consulting expenses of EUR 33.3 million (2007: EUR 21.9 million); expenses for rentals and leases as well as maintenance costs of EUR 24.8 million (2007: EUR 14.8 million); warranty costs of EUR 10.4 million (2007: EUR 14.6 million); selling costs of EUR 9.6 million (2007: EUR 20.3 million); other personnel costs of EUR 7.2 million (2007: EUR 11.1 million); and one-off expenses of EUR 20.2 million in connection with the measurement of contracts. Here from result one-off effects from service contracts in both Germany and Spain as well as potential conventional penalties in connection with the realignment of our business activities. The increase in legal and consulting expenses is due in particular to the greater need for counsel in connection with issues related to finances, legal affairs, restructuring, audits and the implementation of the Group's restructuring and realignment concept. Other personnel costs relate primarily to expenses for contract and temporary workers. The expenses for bad debt allowances essentially result from the correction of a receivable in the amount of EUR 42.1 million from MEMC Electronic Materials, Inc. Please see the disclosures regarding events after the balance sheet date for information on the status of the contractual relationship with MEMC. The write-downs of receivables mainly arose as a result of the adverse change in the market. Especially problems in individual projects as well as the general worsening of market conditions together had a negative impact on the profitability of the Conergy Group's projects.

EBITDA was adjusted for one-off effects in order to arrive at a better assessment of the operating business. The expenses enumerated above contain one-off effects that depressed EBITDA in 2008 by EUR 161.7 million overall. These expenses especially comprised net foreign exchange losses in the amount of of EUR 29.9 million, start-up costs of EUR 13.2 million for the solar cell and module production in Frankfurt (Oder) as well as further restructuring costs of EUR 81.9 million. The latter specifically include the correction of other receivables in the amount of EUR 42.1 million from MEMC, consulting fees of EUR 20.2 million and termination benefits of EUR 3.6 million. In addition, other one-off expenses arising from contractual penalties, loss contingencies from service contracts, costs for potential litigation with suppliers due to quality defects as well as the aforementioned writedowns of inventories owing to the ramifications of the financial market crisis and the change in the global PV market from a sellers' to a buyers' market impacted earnings by a total of EUR 47.5 million. Adjusted for these one-off expenses, EBITDA in the 2008 financial year was EUR –15.0 million. This corresponds to an adjusted EBITDA margin (EBITDA as a percentage of sales) of –1.5 percent.

Earnings before interest and taxes (EBIT)

We posted negative EBIT of EUR –212.5 million in the 2008 financial year, there with remaining on previous year's level of EUR –213.3 million. In 2008, EBIT was depressed by the one-off effects in the amount of EUR 161.7 million enumerated above (which were incurred especially in the Conergy PV segment) as well as EUR 10.8 million in impairment losses on plant, property and equipment (owing largely to the decision to terminate development projects and shut down German and foreign business locations). Adjusted for these one-off expenses, EBIT in the 2008 financial year was EUR –40.0 million, corresponding to an EBIT margin (EBIT as a percentage of sales) of –4.0 percent adjusted for one-off effects.

Earnings before taxes

Conergy's net finance income was especially affected by the temporary increase in net liabilities in 2008; it fell dramatically to EUR –67.8 million (2007: EUR –21.8 million) as a result of the substantial increase in finance costs. The two-tranche syndicated loan as well as the bridge loan for EUR 240.0 million that was additionally obtained in early February 2008 had a major factor in this outcome. Finance costs of EUR 71.4 million compared with EUR 32.9 million in the previous year largely arose from rising interest expense through borrowings, which comprise both interest payments and interest accruals, especially amortisation of transaction costs. Finance costs were offset by finance income of EUR 3.6 million (2007: EUR 11.1 million). Taking into account net finance loss of EUR 67.8 million (2007: –21.8 million), earnings before taxes were negative at EUR –280.3 million (2007: EUR –235.1 million).

Result after taxes

After taking into account EUR 26.8 million in positive income taxes (2007: tax income of EUR 22.1 million), the result after taxes from continuing operations for the year 2008 was EUR –253.5 million (2007: EUR –213.0 million). The low tax rate in 2008 is attributable to the fact that a smaller amount of deferred tax assets for loss carryforwards was recognised. Even though a time limit is generally not set for domestic loss carryforwards, the restrictive criteria of the International Accounting Standards permit only limited recognition. Bear in mind to that Section 8c of the German Corporate Income Tax Act, which was newly promulgated as part of the corporate tax reform, has led to the pro rata elimination of approximately 39.0 percent of the existing tax loss carryforwards of both Conergy AG and its directly affected domestic subsidiaries due to the direct change in shareholders resulting from the capital increase.

Discontinued operations are shown as result after taxes. They reduced the result after taxes by EUR 53.1 million (2007: EUR 35.1 million). The increase in the loss from discontinued operations is mainly due to the sale of the business of Conergy Wind GmbH, which resulted in a one-off and essentially non-cash impact on discontinued operations of approximately EUR 38.1 million and to the losses incurred from operations amounting to EUR 7.6 million. The losses incurred in connection with the disposal essentially arise from writedowns on fixed and current assets. Including the results from discontinued operations, the overall result after taxes was EUR −306.6 million (2007: EUR −248.1 million). Earnings per share from continued operations were EUR −3.86 (2007: EUR −6.50).

Business development by segment and region

Key figures by segment

	Sales		EBIT		FTE	
EUR million	**2008**	**2007[1]**	**2008**	**2007[1]**	**31.12.2008**	**31.12.2007[1]**
Conergy PV	**741.2**	**567.9**	**−87.4**	**−185.0**	**1,445**	**2,009**
EPURON	**265.0**	**151.1**	**−30.5**	**−32.0**	**189**	**180**
Reconciliation	–	–	−94.6	3.7	139	305
Continued Operations	**1,006.2**	**719.0**	**−212.5**	**−213.3**	**1,773**	**2,494**

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

Key figures by region

	Sales		EBIT		FTE	
EUR million	**2008**	**2007[1]**	**2008**	**2007[1]**	**31.12.2008**	**31.12.2007[1]**
Germany	**294.8**	**337.6**	**−170.4**	**−182.4**	**1,050**	**1,506**
Rest of Europe	**496.7**	**247.5**	**−6.2**	**−7.0**	**348**	**504**
Rest of world	**214.7**	**133.9**	**−36.3**	**−24.5**	**375**	**484**
Reconciliation	–	–	0.4	0.6	–	–
Continued Operations	**1,006.2**	**719.0**	**−212.5**	**−213.3**	**1,773**	**2,494**

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

Overview

The Conergy Group boosted sales by almost 40.0 percent to EUR 1,006.2 million in an increasingly difficult economic environment in the 2008 financial year, up from EUR 719.0 million the previous year. Business trends in both segments contributed to this outcome. While sales in the EPURON segment increased by 75.4 percent to EUR 265.0 million (2007: EUR 151.1 million) year on year, sales in the Conergy PV segment rose by 30.5 percent to EUR 741.2 million (2007: EUR 567.9 million). The share of foreign sales in the Conergy Group's total sales in 2008 also continued to rise year on year: The share of sales generated outside Germany amounted to 70.7 percent in 2008, as against 53.0 percent in 2007. This sales growth resulted largely from the implementation of major international PV projects in Spain and South Korea, particularly in the second quarter of 2008. But the high rate of growth in Spain is also due to one-off effects, specifically the completion of the El Calaverón solar power plant as well as the general increase in capital expenditures by PV plant operators in Spain ahead of the expiry of attractive Spanish feed-in tariffs which was valid until 30 September 2008.

The largest sales growth was recorded in the "Rest of Europe" region, which boosted sales from EUR 249.2 million to EUR 496.7 million (2007: EUR 247.5 million). This was mainly due to the above mentioned large-scale photovoltaic projects in Spain, where sales more than doubled by EUR 194.7 million to EUR 346.0 million (2007: EUR 151.3 million). This means that Conergy generated almost 50.0 percent of consolidated sales in the region "Rest of Europe".

Sales in the "Rest of world" region increased by EUR 80.8 million to EUR 214.7 million (2007: 133.9 million). This sales growth is especially due to the construction of Asia's largest solar farm in SinAn, South Korea, southwest of the capital of Seoul.

In Germany, sales of the Conergy Group fell substantially by EUR 42.8 million to EUR 294.8 million (2007: EUR 337.6 million). For one, this is mainly rooted in the development of the worldwide PV market from a sellers' to a buyers' market and the resulting large decline in prices for solar modules at the end of 2008 as well as in the fallout from the current financial market crisis, which has reduced capital spending and tightened standards in the finance market. For another, we were unable to make up for the sales shortfall especially in the fourth quarter because a smaller number of modules were allocated to Germany in the first half of the year in favour of allocating them to major foreign projects.

Conergy PV

The Conergy PV segment succeeded in increasing its sales in 2008 by 30.5 percent year on year. Sales amounted to EUR 741.2 million (2007: EUR 567.9 million), which corresponds to an increase of EUR 173.3 million compared to 2007. The share of foreign sales rose once more to EUR 492.7 million (2007: EUR 292.9 million), thus accounting for 66.5 percent of the total sales of the Conergy PV segment (2007: 51.6 percent). This reflects the robust demand for Conergy's components and complete systems in the field of photovoltaics, which was apparent until the fourth quarter. Sales were given a particular boost in the first nine months by the commercial business, which generated sales of EUR 381.5 (2007: EUR 251.1) million. Brisk demand in the "Rest of Europe" region, particularly in Spain, and on the other hand in the "Rest of the World" region, primarily in Korea, made a sizeable contribution to this sales growth.

Sales in Spain grew by EUR 60.5 million or 68.1 percent to EUR 149.4 million in 2008 (2007: EUR 88.9 million). This growth in sales was primarily driven by the attractive subsidies for photovoltaic systems offered by the Spanish government until the end of September 2008 and the resulting increase in investments of photovoltaic system operations prior to the expiry of the regulations regarding feed-in tariffs. Conergy installed total module output of around 51 MWp in Spain. This basically concerns major projects that the EPURON segment managed – such as for example El Calaverón, Manzanaras, Herrera and Chinchilla – and whose external sales are recognised in the EPURON segment. Furthermore, in the Conergy PV segment the largest thin film installation in Andalucía with a total peak output of 0.9 MWp in Cuevas de Almanzora and Almería as well as a 1.4 MWp solar farm with crystalline modules on the Canary Islands were recognised, among others. In October 2008, the Spanish government approved the successor programme for its feed-in tariff law, which proved to be more positive than previously expected. Given the uncertainty regarding the feed-in tariff, third and fourth quarter sales in Spain shrank slightly but this was compensated by the good sales development in the first half-year.

Construction of the largest PV plant in the South Korean city of SinAn (southwest of the country's capital, Seoul) with a sales volume of approximately EUR 90.0 million was the main driver of the Conergy PV segment's sales growth in the "Rest of world" region. Conergy had built the turnkey solar power plant having a total peak output of 19.6 MWp and brought it online in August 2008 on behalf of Dongyang Engineering & Construction Corporation. Subsequently, Dongyang placed an additional order with a sales volume of about EUR 20.0 million for the plant's expansion to a total of 24 MWp; this construction work was completed by the end of 2008. Conergy PV thus generated sales of EUR 100.7 million in South Korea (2007: EUR 44.3 million), and more than doubling its sales year on year. Despite the positive sales development, higher purchase costs due to currency changes in relation to the Korean project business, burdened the operating result.

France, Italy and Greece in particular contributed to sales growth in the Conergy PV segment in the "Rest of Europe" region. Conergy PV expanded its market position in all three countries. The emerging French market posted better-than-average growth with a sales increase of EUR 8.6 million to EUR 25.7 million (2007: EUR 17.1 million). In the summer of 2008, Conergy successfully completed a unit integrated into the roof of the shopping centre in Saint Aunès, a town in the south of France five kilometres southwest of Montpellier. At more than 1.1 MWp, this is the largest such installation in the whole of France. Over 5,400 modules were integrated into the 12 wooden roofs of the car park using the Conergy Solar Delta in-roof mounting system. These not only protect the parked cars from rain and the hot sun; they also generate over 1.42 gigawatts of power per year in an environmentally friendly manner. In Martillac near Bordeaux, the first sun-tracking PV project with 126 trackers and an output of 0.1 MWp became operational.

Sales in Italy almost doubled by EUR 30.5 million to EUR 63.3 million in 2008 (2007: EUR 32.8 million), primarily boosted by the Italian wholesale business, which contributed EUR 56.0 million to this growth in sales. At the same time, the two Italian offices in Vicenza were merged to consolidate the existing resources for the fast-growing Italian market in the third quarter of 2008. At EUR 19.2 million, Conergy PV's sales in both Greece and Cyprus more than doubled (2007: EUR 7.2 million). Here, the feed-in tariffs that were promulgated in 2006 had an effect in the 2008 financial year.

In the United States, Conergy PV posted sales of EUR 61.6 million, an increase of EUR 5.4 million or 9.6 percent over the previous year (2007: EUR 56.2 million). This relatively moderate level of growth is rooted in the heterogeneous structure of measures aimed at promoting renewables in the US market. The largest solar electricity system on the East Coast of the United States with an output of 3.3 MWp and a sales volume of about EUR 12.5 million, which was completed in the fourth quarter 2008 on behalf an investor with a long-term outlook, drove this growth. EPURON was responsible for the project development and the financing while Conergy in the US was responsible for planning and installation. The unit is equipped with 17,000 solar modules; it is located on a large landfill operated by a waste management company outside of Philadelphia whose total annual output suffices to provide energy to more than 400 households in Pennsylvania. This project demonstrates that US energy suppliers have discovered that PV farms offer an alternative to conventional sources of energy. Already in January 2008, a 2-MWp PV unit was started up on the US Army base in Fort Carson, Colorado. The thin film photovoltaic plant with a sales volume of around USD 11.0 million, which was commissioned by the project developer 3 Phases Energy Services, LLC, was planned and installed turnkey. At this plant, a total of 27,588 thin film modules will produce 3,200 MWh of electricity annually, providing enough energy for some 500 households.

Conergy PV's sales in Germany declined by EUR 25.5 million to EUR 248.5 million (2007: EUR 274.0 million) in the 2008 financial year. This was because a lower number of modules were allocated to domestic projects compared to major foreign projects, especially in the year's first half, among other things, due to the adjustment of the feed-in tariff in Spain at the end of September 2008 and the strong drop in prices for solar modules at the end of 2008. While sales fell in the first half of the 2008 financial year, they climbed by 19.6 percent in the year's second half compared to the previous comparative period but we missed the planned sales target for 2008 nonetheless. At EUR 248.5 million, sales fell short of expectations on the whole. Conergy Deutschland GmbH implemented several major PV projects in 2008. A thin film PV farm with a total peak output of 8.4 MWp and a sales volume of EUR 30.0 million was completed and connected to the public grid at year's end in Trier (in the state of Rhineland-Palatinate) after a mere six months of construction work. Overall more than 112,500 thin film solar modules were installed on 25,000 square metres of open space. The construction of the 1.5-MWp solar farm in Suppingen, Baden-Wurttemberg, was also successfully completed. In early 2008, various photovoltaic roof systems were realised in Germany, including those for the Israeli embassy in Berlin and the newly constructed science centre in Kiel.

The Components division posted sales of EUR 10.0 million with third parties, particularly in the third quarter of 2008, through contract production in order to partially make up for the underutilisation of its existing capacity in Frankfurt (Oder).

In Saudi Arabia, Conergy prepared the ground for entering the growing market for solar and wind energy in the Persian Gulf in December 2008. Conergy Asia-Pacific was awarded the contract for building a 2-MWp solar electricity system at a cost of EUR 11.3 million in Thuwal, a city located north of Jeddah, for King Abdullah University of Science and Technology (KAUST) in cooperation with a leading Saudi solar energy systems integrator. The work includes two on-roof solar units with an output of 1 MWp each that are being installed on the roofs of the university's north and south laboratories. Conergy will budget the project under the syndicated contract and make all required system components available. The introduction of alternative energies could give a substantial boost to both the energy landscape and the country's economic growth, given that its energy needs have been growing by about 5.0 percent each year.

EPURON

Sales in the EPURON Segment grew by EUR 113.9 million or 75.4 percent year on year to EUR 265.0 million (2007: EUR 151.1 million). The major international photovoltaic projects that EPURON develops in Germany and Spain were the driving force behind this growth.

The completion of the photovoltaic project in El Calaverón in the sunny Spanish region of Castilla La Mancha was one of the milestones achieved in the 2008 financial year. The solar power plant has a total module output of 21.1 MWp, which makes it currently one of the largest photovoltaic installations worldwide. In an area larger than 100 football fields, Conergy engineers have installed around 100,000 solar modules that were all produced in the solar factory in Frankfurt (Oder). EPURON financed this major project through European banks, with a British financial investor and two Spanish investors underwriting the equity. The El Calaverón project contributed approximately EUR 152 million to the Group's consolidated sales in 2008.

The strong market growth in Spain is reflected in other photovoltaic projects that EPURON has completed in the south of the country in 2008. This includes the construction and sale of the three solar farms Manzanaras, Herrera and Chinchilla, each of which has a total module output of 2 MWp and which produce 12.1 million kilowatt hours of solar electricity annually. The Spanish projects have satisfied all requirements for power produced at the completed solar farms to be compensated in accordance with the high feed-in tariff of the Royal Decree 661/2007. EPURON realised projects with an investment volume of approximately EUR 198.0 million in 2008 through its successful major project business.

In 2008, EPURON completed a solar project with an output of 2 MWp in South Korea. The solar power plant is located on an exhibition site in the country's southwest. This site draws up to two million visitors each year. The parking lots for the exhibition are situated on 4.7 hectares of land; the PV modules were installed on steel rods that crisscross this open space. Hence this solar energy system simultaneously serves as a roof. The installation has an investment volume of some EUR 10.0 million and was sold to the South Korean energy provider Samchully Co. Ltd. Conergy was responsible for planning and installing the unit while EPURON initiated the funding.

Furthermore, EPURON also laid the groundwork in 2008 for achieving additional growth in the United States. EPURON posted sales of EUR 3.7 million for the first time in the US. A project with an output of 3.3 MWp on the East Coast of the United States which was realised together with Conergy contributed to this growth. As previously described EPURON was responsible for the project development and financing, while planning and installation was carried out by Conergy in the USA. In addition EPURON realised a 1.1-MWp project on the West Cost of America.

In Germany, EPURON's sales fell by 20.2 percent in 2008 to EUR 46.3 million (2007: EUR 58.0 million). In January 2008, EPURON brought a PV farm with an output of 4.8 MWp in the Bavarian town of Baar online, thus becoming one of the world's ten largest developers of thin film solar farms. This trend continued throughout the remainder of the year. In September, EPURON completed two additional thin film projects with a sales volume of EUR 31.7 million. In Neuhaus-Stetten, Baden-Wurttemberg, EPURON implemented the second-largest solar energy system in this federal state. Some 45,000 thin film modules have been installed there on an area spanning 100,000 square metres – providing a total output of 3.3 MWp. Prior to this, a solar farm was completed in the municipality of Igling-Buchloe, Bavaria, with a total output of around 5.8 MWp. Igling-Buchloe is the eighth thin film installation that EPURON has put into operation in Bavaria. This brings the total output of thin film installations constructed by EPURON in Germany to 28 MWp.

EPURON's activities in biofuels expanded considerably in 2008. Six biogas projects with a total output of 8.8 MW were sold, including the third biogas project for the Mannheim-based energy provider, MVV Energiedienstleistungen. The Oehna biofuel plant with an output of 0.5 MW will be erected in southern Brandenburg in early 2009. It will begin to generate environmentally friendly electricity from corn silage, pig slurry and solid cattle manure from 2009 on. Oehna already is the third biogas unit – after Vosshöhlen in Schleswig-Holstein and Karow in Mecklenburg-Western Pomerania, each with an output of 0.7 MW – that EPURON has sold to the subsidiary of MVV Energie AG, a listed company. This demonstrates that German energy suppliers are pursuing a strategy of providing their customers with electricity generated from biogas. In addition, EPURON succeeded in selling the largest biogas unit to date with an electrical output of 1.8 MW and a thermal output of 1.5 MW to an investor in Bremerhaven. These biogas projects had an aggregate investment volume of approximately EUR 12.0 million in 2008. EPURON plans to launch German biogas projects in future as well. Given that the amended German Renewable Energy Sources Act makes projects up to 2 MW particularly profitable in 2009, EPURON has acquired new projects in Northern Germany with a projected output of 10 MW overall. The sales channel will be expanded in coming years under a cooperation deal with a leading global seed production company. As a result, EPURON gains access to an international sales network and as well as to the target group of farmers.

EPURON Asia reached a milestone in December 2008 that transcends technologies. EPURON established the first "green" fund in the Asia-Pacific region jointly with GE Energy Financial Services. The Renewable Energy Trust Asia (RETA) will focus solely on operating renewable energy projects in the region – among them PV and wind farms, biogas and biomass plants as well as small hydroelectric plants. RETA will run its projects mainly in the renewables markets in India and the ASEAN states, which are worth EUR 5.5 billion. The fund plans to implement projects with a total output of about 200 MW and an investment volume of about EUR 200.0 million within five years. GE Energy Financial Services will be the main investor in the fund with an interest of 80.0 percent. EPURON will hold the remaining 20.0 percent and manage the fund. It will also be responsible for project development, raising funds and procuring hardware as well as supervising construction. The projects will be managed by EPURON once they have been completed.

Assets and liabilities

Consolidated balance sheet (short version)

EUR million	31.12.2008	31.12.2007[1]
Non-current assets	**319.7**	**305.6**
Current assets	**426.7**	**706.3**
Assets held for sale	0.4	24.2
Total current assets	**427.1**	**730.5**
Total assets	**746.8**	**1,036.1**
Total equity	**196.8**	**125.2**
Non-current borrowings	**131.3**	**168.4**
Current borrowings	**414.8**	**726.3**
Liabilities from assets held for sale	3.9	16.2
Total current borrowings	**418.7**	**742.5**
Total equity and liabilities	**746.8**	**1,036.1**

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

Structure of the balance sheet

Total assets of the Conergy Group fell by EUR 289.3 million or 27.9 percent year on year to EUR 746.8 million (31 December 2007: EUR 1,036.1 million).

Non-current assets

EUR million	31.12.2008	31.12.2007[1]
Goodwill	17.5	20.7
Intangible assets	12.6	20.9
Property. plant and equipment	204.0	208.7
Financial assets	5.3	4.4
Other assets	0.7	0.6
Deferred tax assets	79.6	50.3
Non-current assets	**319.7**	**305.6**

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

Non-current assets related to continuing operations rose from EUR 305.6 million as at 31 December 2007 by EUR 14.1 million to EUR 319.7 million as at 31 December 2008. This development is particularly due to the increase of deferred assets, which amounted to EUR 79.6 million, up by EUR 29.3 million from EUR 50.3 million at the end of the 2007 financial year. After offsetting, they are largely due to deferred tax assets for tax loss carryforwards. In part, this increase was compensated by the decline in the carrying amount of goodwill by EUR 3.2 million or 15.5 percent to EUR 17.5 million (31 December 2007: EUR 20.7 million) and the decrease in intangible assets by EUR 8.3 million or 39.7 percent to EUR 12.6 million (31 December 2007: EUR 20.9 million). Writedowns related to the closing of two operations in Germany as well as the reclassification of goodwill as discontinued operations mainly caused the decline in goodwill. The decline in intangible assets resulted for one from amortisation and for another from impairment losses on capitalised development costs related to projects that will be discontinued. At the same time, property, plant and equipment fell by EUR 4.7 million to EUR 204.0 million (31 December 2007: EUR 208.7 million).

Current assets

EUR million	31.12.2008	31.12.2007[1]
Inventories	245.6	345.6
Trade receivables	120.9	214.7
Financial assets	2.9	9.9
Other assets	29.6	73.4
Cash and cash equivalents	27.7	62.7
Current assets	**426.7**	**706.3**

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

Current assets decreased by EUR 279.6 million or 39.6 percent to EUR 426.7 million as at 31 December 2008, down from EUR 706.3 million as at 31 December 2007. Specifically, the reduction in inventories by EUR 100.0 million to EUR 245.6 million (31 December 2007: EUR 345.6 million) considerably contributed to this development. The development of inventories goes hand in hand with a substantial reduction of trade receivables in the amount of EUR 93.8 million, or 43.7 percent, to EUR 120.9 million (31 December 2007: EUR 214.7 million). The other current assets declined by EUR 50.8 million to EUR 32.5 million (31 December 2007: EUR 83.3 million). Cash and cash equivalents decreased by 55.8 percent to EUR 27.7 million (31 December 2007: EUR 62.7 million).

Activities in the areas of biomass, solar thermal energy and wind power installations are shown under discontinued operations. Discontinued operations are no longer shown in individual balance sheet items but rather as a combined item under “non-current assets held for sale” and recognised in the corresponding liabilities and equity item of the balance sheet.

Total assets declined by EUR 289.3 million or 27.9 percent to EUR 746.8 million (31 December 2007: EUR 1,036.1 million) while equity increased by EUR 71.6 million to EUR 196.8 million compared to the 2007 balance sheet date (31 December 2007: EUR 125.2 million). The negative development of equity during the 2008 financial year was attributable to the dip in earnings, resulting in particular from the net finance loss and the losses from discontinued operations. The Group's equity deteriorated substantially over the financial year just ended in this connection. In early December, Conergy AG executed a large capital increase pursuant to a resolution of the General Shareholders' Meeting dated 28 August 2008 that was aimed at boosting its equity base and improving the structure of its balance sheet; the capital increase generated gross proceeds of around EUR 399.3 million. A total of 363 million new no-par bearer shares with a pro-rata interest in capital of EUR 1.00 per share were issued at a subscription price of EUR 1.10. As a result, the Company's share capital rose from EUR 35.1 million by EUR 363.0 million to EUR 398.1 million. Transaction costs of EUR 32.6 million related to the capital increase were taken directly to equity. Conergy AG used the proceeds from the capital increase to discharge financial liabilities, in particular the February 2008 bridge loan for EUR 240.0 million, as well as to continue its restructuring and support future growth in both 2009 and 2010. The equity ratio at the previous year's reporting date was 12.1 percent and on 31 December 2008 it was 26.4 percent.

Liabilities from the continued operations declined year on year by EUR 348.6 million or 39.0 percent to EUR 546.1 million (31 December 2007: EUR 894.7 million).

Non-current liabilities

EUR million	31.12.2008	31.12.2007[1]
Provisions	32.1	14.6
Borrowings	86.5	120.0
Other liabilities	2.6	13.1
Deferred tax assets	10.1	20.7
Non-current liabilities	**131.3**	**168.4**

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

Non-current liabilities as of 31 December 2008 were EUR 131.3 million, down EUR 37.1 million compared to the end of the 2007 reporting period (31 December 2007: EUR 168.4 million). This development was essentially due to the decrease in non-current borrowings by EUR 33.5 million to EUR 86.5 million (31 December 2007: EUR 120.0 million) and in other non-current liabilities by EUR 10.5 million to EUR 2.6 million (31 December 2007: EUR 13.1 million), as well as the reduction in deferred tax liabilities by EUR 10.6 million to EUR 10.1 million (31 December 2007: EUR 20.7 million). This development was partly offset by the increase in non-current provisions by EUR 17.5 million to EUR 32.1 million (31 December 2007: EUR 14.6 million), which was caused by the higher provisions for service contracts.

Current liabilities

EUR million	31.12.2008	31.12.2007[1]
Provisions	12.0	6.1
Current portion of non-current borrowings	37.5	30.0
Borrowings	193.2	318.8
Trade payables	111.2	282.4
Other liabilities	58.8	86.6
Current income tax liabilities	2.1	2.4
Current liabilities	**414.8**	**726.3**

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

Current liabilities were EUR 414.8 million as at 31 December 2008 (31 December 2007: EUR 726.3 million), a decrease of EUR 311.5 million or 42.9 percent compared to the previous year. This change stems for one from the significant decrease by EUR 171.2 million or 60.6 percent to EUR 111.2 million in trade payables, down from EUR 282.4 million as at the end of 2007, and, for another, from the strong reduction of current borrowings by EUR 118.1 million to EUR 230.7 million (31 December 2007: EUR 348.8 million) as a result of the reduced utilisation of the syndicated loan and the repayment of borrowings in the amount of EUR 37.5 million. At the same time, other current liabilities fell by EUR 27.8 million to EUR 58.8 million (31 December 2007: EUR 86.6 million). Current provisions increased by EUR 5.9 million to EUR 12.0 million (31 December 2007: EUR 6.1 million). Current income tax liabilities of EUR 2.1 million remained at the previous year's level (31 December 2007: EUR 2.4 million).

In the 2008 financial year, we succeeded in substantially reducing the amount of capital tied up in both receivables and inventories compared to the previous year. Relative to sales, working capital – a key financial indicator for the Group – that is expressed as the total of inventories and trade receivables less trade payables relative to sales – fell from 38.7 percent as at the 2007 reporting date to 25.4 percent as at 31 December 2008.

Cash flows

Consolidated cash flow statement (short version)

EUR million	2008	2007[1]
Result from operating activities before changes in net working capital	**−37.4**	**−98.6**
Cash generated from operating activities		
continued operations	−131.8	−168.5
discontinued operations	−29.1	−20.2
Cash generated from operating activities (total)	**−160.9**	**−188.7**
Net cash generated from investing activities	**−21.2**	**−194.5**
Net cash generated from financing activities	**146.4**	**421.5**
Change in cash from operating activities (total)	**−35.7**	**38.3**
Cash and cash equivalents at beginning of period	63.7	25.6
Exchange rate changes	0.0	−0.2
Cash and cash equivalents at end of period	**28.0**	**63.7**

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

The cash flow statement describes the source and utilisation of the cash flows in the reporting period. Hence it is central to the assessment of the changes in the Company's financial position.

Based on operating income of EUR −212.5 million in the 2008 financial year (2007: EUR −213.3 million), adjusted for non-cash items such as depreciation, amortisation and impairment losses, changes in non-current provisions largely comprising provisions for warranties, product liability and guarantees as well as other non-cash income and expenses such as, for instance, the net gain/loss from currency translation and the adjustment of inventories and receivables, the result from operating activities before changes in net working capital in the 2008 financial year improved substantially to EUR −37.4 million compared to the previous year (2007: EUR −98.6 million).

Although, at EUR −131.8 million, the cash flow generated from operating activities related to continuing operations in the 2008 financial year was clearly negative, it was EUR 36.7 million higher than the cash flow of EUR −168.5 million generated in the previous year. This was essentially due to the reduction in inventories by EUR 67.5 million, which compares to an increase in inventories of EUR 222.4 million in 2007. The execution of major photovoltaics projects in Spain, particularly in the second quarter of 2008, that had been in development in

2007 and were recognised in income in the 2008 financial year were the main factor driving the decrease in inventories. The decrease in trade receivables by EUR 84.3 million was similar to the previous year (2007: EUR 84.3 million). At the same time, there was a considerable decline in trade payables by EUR 171.2 million; they had risen by EUR 92.8 million just a year earlier. While the changes in other net assets and other non-cash transactions in the amount of EUR –78.1 million (previous year: EUR –22.8 million) are amongst others due to the reduction in VAT liabilities, the change in corporate income taxes by EUR 3.1 million (2007: EUR –1.8 million) arises from tax refunds. A total of EUR –131.8 million was used in the 2008 financial year for operating activities (2007: EUR –168.5 million) – down EUR 36.7 million from the previous year.

The cash flow from operating activities related to discontinued operations – solar thermal, biomass and the manufacture of wind units – in the 2008 financial year was EUR –29.1 million (2007: EUR –20.2 million). This figure is combined in a separate item in the cash flow statement. Cash used for Group operating activities was EUR –160.9 million, a substantial year-on-year improvement over the previous year's figure of EUR –188.7 million. Aside from the fact that operating income developed along a more positive trajectory, the main change from the previous year arose from the positive development of working capital, which was substantially influenced by the completion of major projects in Spain and South Korea, the streamlining of receivables management, the improvement of collection processes, as well as the reduction in inventories, accounts receivable aging cycles and receivables outstanding. Particularly the EUR 171.2 million reduction in trade payables had an offsetting effect.

Net cash used for investing activities declined significantly to EUR –21.2 million in the 2008 financial year, down from EUR –194.5 million in 2007. The large outflow of funds in the previous year stemmed from investments in our Frankfurt (Oder) plant. A net total of EUR 33.5 million (2007: EUR 189.8 million) was used for investments in property, plant and equipment in 2008. Again, this mainly concerned investments in our Frankfurt (Oder) site. Note also that the investment payments in 2008 include an investment grant of EUR 17.0 million, which the Company received in the second quarter. Contrast this with Group proceeds of EUR 10.3 million from the sale of four solar thermal companies in the first half of 2008. The proceed from the sale of Bremerhaven-based Conergy Wind GmbH amounted to EUR 1.0 million.

In 2008, the Conergy Group generated a cash flow of EUR 146.4 million (2007: EUR 421.5 million) from financing activities. The capital increase in early December 2008 generated a substantial inflow of funds. A total of 363 million new no-par ordinary shares were issued at a subscription price of EUR 1.10 pursuant to the resolution of the General Shareholders' Meeting dated 28 August 2008, generating proceeds of around EUR 399.3 million for the Conergy Group. Outflows in connection with the capital increase were EUR 32.6 million. Contrast this with net outflows of EUR 161.0 million (net inflow 2007: EUR 238.1 million) in connection with the repayment of borrowings under the syndicated loan as well as under the February 2008 bridge loan from Commerzbank AG and Dresdner Bank AG. This also includes outflows for discharging borrowings of EUR 37.5 million in connection with the partial repayment of a credit facility for the Frankfurt (Oder) solar factory. It also includes interest payments of EUR 59.3 million (2007: EUR 30.8 million). The change in cash and cash equivalents in the financial year just ended was EUR –35.7 million, compared to EUR 38.3 million the previous year.

Cash and cash equivalents and net liabilities

The Conergy Group had cash and cash equivalents of EUR 27.7 million as at 31 December 2008 (31 December 2007: EUR 62.7 million). At the end of the 2008 financial year, borrowings were EUR 317.2 million, compared to EUR 468.8 million at the close of the 2007 financial year. This means that the Company succeeded in reducing its borrowings substantially by EUR 151.6 million in 2008 compared to the previous year. The Group's net liabilities at the end of the 2008 financial year thus were EUR 289.5 million compared to EUR 406.1 million in 2007. This brought the gearing ratio, i.e. the ratio of net financial liabilities (borrowings less liquid funds) to equity down to 147.1 percent as at the balance sheet date (31 December 2007: 324.4 percent).

Net liabilities

EUR million	31.12.2008	31.12.2007[1]
Non-current borrowings	**86.5**	**120.0**
Current borrowings	**230.7**	**348.8**
Borrowings	**317.2**	**468.8**
Cash and cash equivalents	27.7	62.7
Net liabilities related to continued operations	**289.5**	**406.1**

[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 2008 contain EUR 0.3 million in cash and cash equivalents attributable to discontinued operations (31 December 2007: EUR 1.0 million).

To ensure sufficient operating liquidity, on 31 July 2007 Conergy AG, EPURON GmbH, Conergy SolarModule GmbH & Co. KG and Conergy Deutschland GmbH closed a syndicated loan for a total of originally EUR 600.0 million from 23 banks under the leadership of Commerzbank AG, Dresdner Bank AG and WestLB AG.

The loan is divided into two tranches and will provide funding for the construction of the production facility in Frankfurt (Oder) (Tranche A) as well as enable the Conergy Group to refinance its existing credit facilities and finance its working capital and guarantee requirements (Tranche B with a revolving facility of EUR 250.0 million and a guarantee and documentary credit facility of EUR 200.0 million). Tranche A, amounting to EUR 150.0 million, is to be repaid by 31 December 2011, in half-yearly installments starting on 30 June 2008. In this regard in 2008 EUR 37.5 million were settled as stated in the agreement. Tranche B, amounting to EUR 450.0 million is due for total repayment on 31 July 2010, unless the banks approve an application for extending Tranche B's term to 31 July 2011 or 31 July 2012, as the case may be. The syndicated loan was initially collateralised by pledging absolutely all interests in Conergy SolarModule GmbH & Co. KG and its general partner Conergy SolarModule Verwaltungs GmbH. Liens were created for absolutely all interests in Conergy Vertriebs GmbH & Co. KG (which was merged with Conergy Deutschland GmbH effective 1 August 2008), Conergy Vertriebs Verwaltungs GmbH, EPURON GmbH and Conergy Deutschland GmbH during the negotiations on additional loans above and beyond the syndicated loan in the light of the development of the Conergy Group's financial situation at the end of 2007 in order to collateralise the syndicated loan. In addition, the Conergy Group conveyed, pledged or assigned all material assets already serving as senior collateral for the bridge facility to the lenders of the syndicated loan and/or an entity holding the collateral in trust as junior collateral in connection with the collateralisation of the bridge financing described below.

The individual tranches are subject to interest at a rate corresponding to the sum of the applicable margin, EURIBOR (or LIBOR in case of a foreign currency) for the interest period selected and the regulatory costs (in each case as defined in the loan agreement). The relevant applicable margin is the prevailing margin at the time the contract was closed, which is either raised or lowered with respect to both tranches upon expiration of a stipulated period in accordance with the defined ratio of consolidated net financial liabilities to consolidated EBITDA. The initial margin is 1.7 percent per annum for Tranche A and 1.55 percent per annum for Tranche B. The margin is raised or lowered in regards to both tranches upon expiration of a stipulated period in accordance with the defined ratio of consolidated net financial liabilities to consolidated EBITDA. Accordingly, (i) the margin for Tranche A may be lowered to 0.65 percent p. a. and raised to 1.95 percent p. a. and (ii) the margin for Tranche B may be lowered to 0.5 percent p. a. and raised to 1.8 percent p. a. The syndicated loan agreement also provides for an increase in the relevant applicable margin by 1.0 percent per annum if the debtor fails to make timely payments on amounts that are due and payable.

Under the loan agreement, Conergy is obligated to pay the customary loan commitment fee for any unused amounts under both tranches depending on the relevant applicable margin.

Conergy is also obligated – if it borrows funds on the capital market, sells assets and receives insurance payments – to use its net revenues for early repayment, in full, first of Tranche A and then of Tranche B, provided none of the exceptions set forth in the loan agreement intervene. However, the banking syndicate holding the loan has waived compliance with this obligation during the term of the bridge loan if the revenues are utilised to repay it.

The loan agreement contains requirements that have an impact on the Conergy Group's ability to exercise discretion in operational terms. Conergy has undertaken thereunder to ensure that the ratio of consolidated net liabilities to consolidated EBITDA (in each case with and without contingent liabilities) does not exceed a specific figure and that the ratio of EBITDA to consolidated net interest expense does not fall below a specific figure. While the banks did waive compliance with the Financial Covenants for the 2008 and 2009 financial years, given the development of the Conergy Group's financial situation at the end of 2007, Conergy as of the 31 March 2010 will once again have to evidence compliance with financial indicators to be renegotiated as of 30 September 2009 based on the new capital structure and based on a business plan.

Certain other requirements do apply during the term of the agreement. Among other things, these requirements crimp the ability of the Conergy Group to provide assets as collateral, sell assets, participate in joint ventures, acquire additional companies or business units, incur additional financial liabilities, make loans, provide guarantees, incur leasing liabilities or undertake specific restructuring measures. Any noncompliance with these stipulations and the agreed financial covenants triggers an extraordinary right of termination on the lenders' part (in some cases after expiry of a cure period), giving them the right to call the loan immediately. The lenders have other rights to terminate, for example, if covenants stipulated provided under the loan agreement are not (or can not be) truthful, if a German or significant foreign subsidiary files for insolvency, if creditors institute execution proceedings against Conergy for an amount in excess of EUR 5 million in each individual case, if Group companies whose total financial liabilities (of whatsoever nature) are EUR 5 million or more default, or if creditors of such financial liabilities are entitled to call these liabilities early due to the occurrence of a right to terminate (whatever its nature).

Any change of control – i.e. a situation where an individual or a group of people acting in concert with each other (pursuant to an agreement or by other means) gain control over the Company – would give each bank the individually exercisable right to terminate the loan for cause.

Conergy entered into a EUR 240.0 million bridge loan from Commerzbank AG and Dresdner Bank AG effective 5 February 2008. The bridge facility's initial term ended at the end of September 2008 but was extended to the end of December 2008. It served to plug the Company's liquidity needs until the capital increase in December 2008 and was repaid in early December 2008.

The requirements of the bridge loan corresponded to those of the syndicated loan, subject to the adjustments necessary for short-term interim financing in connection with a restructuring. Hence the bridge loan was divided into two revolving tranches that could be used to fund the Conergy Group's operating liquidity needs pursuant to its liquidity targets.

The Conergy Group had conveyed, pledged or assigned all material assets as senior collateral to the lenders of the bridge facility and/or an entity holding the collateral in trust as well as to the parties to the syndicated loan agreement as junior collateral. The aforementioned collateral, which was created for the syndicated loan prior to the closing of the bridge loan, does not serve to collateralise the bridge loan; the latter was excluded from the collateral package.

The individual tranches in turn were subject to interest at a rate corresponding to the sum of the applicable margin, EURIBOR for the interest period selected and the regulatory costs (in each case as defined in the loan agreement). It is our view that this constitutes a customary interest rate.

Under the loan agreement, Conergy was also obligated to pay the customary loan commitment fee for any unused amounts under both tranches depending on the relevant applicable margin.

Conergy was obligated furthermore – if it sold assets and received insurance payments – to use its net receipts for purposes of early termination and repayment of Tranche A, provided none of the exceptions set forth in the loan agreement intervened.

While no obligations to comply with specific financial indicators was stipulated for the interim financing, it basically imposed the same limitations on the Conergy Group's operating business as the syndicated loan agreement. Given the crisis of Conergy AG however, the exceptions from the restrictions on the operating business were tightened yet further compared to the syndicated loan. Some of the thresholds that trigger a termination for cause were also tightened.

The capital increase that the Management Board and the Supervisory Board of Conergy AG had resolved on 17 July 2008 was completed in early December 2008, generating gross proceeds of around EUR 399.3 million for the Company. A total of 363 million new shares were issued at a subscription price of EUR 1.10. The new share capital is EUR 398,088,928. The subscription ratio of the capital increase was approximately 49.5 percent, which corresponds to roughly 179.6 million new shares. Dresdner Bank took over about 155 million new shares of the remaining unsubscribed shares and those for which the subscription right had been excluded. Other investors, notably Leemaster Ltd. and Athos Service GmbH, subscribed the remaining unsubscribed shares at the subscription price. Conergy AG used the proceeds from the capital increase to discharge financial liabilities, in particular the February 2008 bridge loan for EUR 240.0 million. The Financial Covenants under the syndicated loan have been waived yet again for the 2009 financial year.

OTHER

Non-financial performance indicators

The 2008 financial year was taken up by the implementation of the restructuring programme that had been launched at the end of 2007. We established non-financial performance indicators during the restructuring that help to restructure and realign the Conergy Group and close the gap to our competitors; it is our view that financial performance indicators by themselves fail to adequately capture all of a company's strengths and weaknesses. These non-financial performance indicators are broken down into certain categories that we leverage in order to attain our restructuring goals, specifically: Employees as agents of success, corporate communications and the code of conduct; on the marketing side, they include extensive experience in project management and project financing, the greatest possible independence in terms of technology, engineering expertise and a broad, internationally diverse customer base.

Employees as agents of success

The restructuring and realignment of the Conergy Group would not have been possible absent the know-how, the creativity and the commitment of our employees and executives. Both staff and management must be integrated into all processes in order to facilitate the management of change. It is precisely their identification with Conergy and their commitment to its goals that are decisive to its success. Targeted off-the-job training aimed at enhancing the qualifications of employees and executives alike is thus central to the Company's future performance. 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 and existing know-how can be secured and expanded further. At the same time, this serves to challenge and foster employees' potential by giving them a lot of individual responsibility among other things. Internal personnel programmes as well as the annual employee development review and dialogue support this process. We are also recruiting highly qualified and experienced professionals as necessary. Remuneration models that reward individual performance through variable, performance-based compensation enhance employee motivation.

Corporate communications

We are engaged in intensive communications work, for open and transparent communication both internal and external serves to help our employees, customers, business partners and investors regain their confidence in the Company following its crisis at the end of 2007.

Hence internal communications can be used to counteract employees' uncertainty in the wake of the restructuring process. We also initiated an internal employee suggestion system in order to tap into employees' ideas and experience in connection with the Group's realignment and foster a dialogue between staff and top management on issues related to the operating business. Specially established round tables between employees and executives as well as regular newsletters aimed at the Company's workforce further enhance internal communications and transparency.

Credible external communications serve to restore the confidence of our customers, suppliers, business partners and investors in the Company following its earnings and liquidity crisis at the end of 2007. Creating confidence is thus being defined as a corporate goal. The capital market participants were amongst others interested in the progress the Company had made in its restructuring programme. Conergy responded to these questions by instituting a dialogue characterised by openness and transparency. But it also sought out important investors for individual talks in connection with the planned capital increase.

Conergy's customers are yet another important target group in our communications work because open information and a strong brand positively enhance customer loyalty. We also aim to intensify our conversations and close business relationships with our wide and diversified customer base in order to lay the groundwork for enhancing our attractiveness and thus increasing customer loyalty. Our profound market intelligence on the international PV market, our extensive references and our engineering expertise stand us in good stead in this connection.

Code of Conduct

As early as in the 2007 financial year, the Management Board issued a company-wide Code of Conduct applicable to the employees of the Conergy Group that regulates relationships with business partners and government authorities; issues of confidentiality, independence and objectivity; as well as conflicts of interest. This Code is the ethical foundation of all business activities and describes the values, principles and practices of the Conergy Group. In addition, the Code of Conduct describes the fundamental ethical and legal duties of the Conergy Group's employees and corporate bodies as they conduct their business. Compliance with these standards is monitored by a Compliance Committee organised by the legal department. The Compliance Committee works to ensure that absolutely everybody in the Company abides by the same high ethical and legal standards. It is responsible for publicising the Code of Conduct and its aims among the Company's employees, training them and ensuring compliance with the guidelines. At the same time, the Compliance Committee functions as a point of contact for our employees; it can be reached via separate telephone numbers specifically established for this purpose as well as by e-mail. All compliance officers can also be contacted individually.

Extensive experience in project management and project financing

Since its founding, Conergy has executed major projects with more than 400 MW in renewables output (including about 234 MW of wind power) nationally and internationally. In our view, this makes us one of the most experienced project developers in the field of regenerative energies. Conergy offers its customers the complete value chain from planning to construction to start-up. It believes that its comprehensive expertise in planning and implementing everything from smaller off-grid facilities to special architectural solutions all the way to major multi-megawatt renewables farms gives it an important competitive advantage. And it possesses many years of experience and excellent contacts in project financing.

Greatest possible flexibility and independent technology

Conergy's access to the different state-of-the-art technologies in photovoltaics – mono- and multicrystalline solar modules as well as thin film solar modules and so forth – allow it to be as independent as possible in technological terms. The fact that it is not dependent on a particular photovoltaics technology generally makes Conergy much less vulnerable to innovations in the PV sector. It is precisely this independence from specific technologies that enable it to cushion bottlenecks in the availability of many base components.

Extensive references and engineering expertise

The construction of a multitude of PV units both at home and abroad in the past ten years has given Conergy's engineers a vast well of experience to draw from. These engineers plan and build small island facilities, electrify remote regions, devise special architectural solutions and design multi-megawatt PV farms. They ensure the installations' optimal operation over their entire useful life with the help of a far-flung installation and services network. Conergy's experience with all system components allows it to develop and implement optimally co-ordinated systems. Even the tiniest efficiency gains per system can generate noticeable benefits for customers throughout the systems' useful life in terms of both yield and value added. Conergy has executed a large number of important pilot projects based on excellent engineering work. References are an important factor in selling major projects and acquiring new customers. From the standpoint of customers and investors, a provider's experience and references are highly significant because investments in photovoltaics can be considerable. The Company thus believes that its excellent reputation is pivotal to its success.

Broad and internationally diversified customer base, customer access and customer knowledge

Through the years, Conergy has consistently worked to internationalise its customer base in order to reduce any dependence on individual local markets, legislative models promoting renewables or individual customer groups. Acquisitions in recent years, increased partnerships and a local presence have catapulted Conergy into the core photovoltaics markets. In future, it will focus even more fully on established attractive growth markets while pursuing its internationalisation. The Company's insight into central customer groups in the B2C and B2B business as well as into financial investors and their respective expectations and needs are a central component in building economic success in the PV market, especially as it is changing from a sellers' to a buyers' market. Many years of working with a multitude of customers in these segments have led to broad knowledge of the needs and expectations of these customer groups, greatly facilitating services to these target groups while at the same time enhancing customer loyalty. Loyal, profitable customers are a strategic asset in buyers' markets. The knowledge of the relevant customers is an important competitive advantage vis-à-vis other or new competitors that are engaged in setting up their own networks and evolving from upstream to downstream providers.

Research and development

Research
We currently do not have any significant research activities as such and do not plan to develop any such activities in the future. We are nonetheless cooperating with various institutes. This cooperation relates to the development of inverters from 2005 to 2008 and, since the 2007 financial year, production control systems for our production facility in Frankfurt (Oder).

Development
Conergy must be skilled in the development of products and components for photovoltaic systems in order to ensure an efficient interaction of major system components within the photovoltaic systems. In that respect, at the Components division in Frankfurt (Oder) Conergy has skills in developing electronic components (inverters and monitoring systems) and mounting systems.

Since financial year 2007, we have been continuously optimising silicon wafer, cell, and module production processes in Frankfurt (Oder) while also producing solar cells and solar modules. We are thus also improving our products, chemical processes and production steps. The “Development” team develops new module types and it works to improve the interaction of module components with films and frames to improve efficiency and optimise costs. The “Analysis” team conducts long-term cycle tests (climate chamber, loads, and clean room tests) in the laboratory. The objective is to optimise the quality and efficiency of the manufactured products. This team also analyses the reasons for flaws and optimises chemical processes in the laboratory. The “Technological Implementation” team implements the requirements and findings of analyses in mass production and operational processes. This team pays particular attention to ensuring that parameters are followed and progressively improved in chemical and mechanical processes. At the same time, it promotes operational implementation of completed developments and provides feedback to the “Development” and “Analysis” teams.

Teams in Hamburg and Bad Vilbel, develop electronic components for PV systems. A main focus of the teams is to make continuous improvements in the efficiency of the inverters while at the same time reduce the cost of producing the devices. Development includes the development of specific concepts and their implementation in components.

In the Components division, Conergy develops monitoring systems for photovoltaic plants of all sizes as well as so called tracking systems. The task of the monitoring systems is early detection of defects in the plant, in order to reduce lost earnings for the operators of photovoltaic plants. Conergy has developed the SunReader monitoring system for smaller plants and the SmartControl monitoring system for larger plants. The quality of our products is backed by our Test and Quality Assurance department, which is separate from our Development department, as well as a modern development process. Tracking systems are used for optimal orientation of the photovoltaic system in relation to the sun. The tracking system that we have developed is the Conergy SolarOptimus. Finally, in the Components division, Conergy develops mounting systems and module frames.

Disclosures related to acquisitions

The following disclosures contain the disclosures related to acquisitions in accordance with Section 315 para. 4 German Commercial Code:

Summary of subscribed capital
The subscribed capital (share capital) of Conergy AG in the financial year just ended was increased by resolution of the General Shareholders’ Meeting on 28 August 2008 from EUR 35,088,928 by EUR 363,000,000 to currently EUR 398,088,928. It is denominated in 398,088,928 no-par bearer shares with a pro-rata interest in capital of EUR 1.00 per no-par share. Each share grants identical rights and one vote at the General Shareholders’ Meeting. New shares are issued as bearer shares unless the General Shareholders’ Meeting resolves otherwise.

Limitations on voting rights
In connection with the execution of the cash capital increase by EUR 363,000,000, Allianz SE, Munich, notified Conergy AG on its own behalf and for its subsidiaries, Allianz Finanzbeteiligungs GmbH, Munich, and Dresdner Bank AG, Frankfurt (Main), on 10 December 2008 pursuant to Section 21 para. 1 German Securities Trading Act that its interest in the voting shares of Conergy AG on 1 December 2008 was initially 57.4 percent (corresponding to 228,492,640 voting shares) and on 2 December 2008 38.99 percent (corresponding to 155.231.704 voting shares). Dresdner Bank AG had subscribed and taken over the new shares from the cash capital increase with the proviso that it would offer them for purchase to the Company’s shareholders by means

of an indirect subscription right in accordance with Section 186 para. 5 German Stock Corporation Act. Allianz SE as well as its subsidiaries, Allianz Finanzbeteiligungs GmbH and Dresdner Bank AG, had been exempted from their obligations under Section 35 German Securities Acquisition and Takeover Act in regards to this share purchase by notice dated 11 November 2008 of the Federal Financial Supervisory Authority (BaFin) pursuant to Section 37 para. 1 in conjunction with Section 8 et seq. of the Offer Regulations of the German Securities Acquisition and Takeover Act. The exemption was granted under the condition that Dresdner Bank AG not exercise the voting rights arising from its equity interest in the Company insofar as its interest in the voting shares does not reach or exceed the threshold of 30.0 percent of all voting shares. By notice dated 21 January 2009, BaFin also exempted Commerzbank Aktiengesellschaft from its obligations under Section 35 German Securities Acquisition and Takeover Act in connection with its acquisition of absolutely all shares of Dresdner Bank AG on 12 January 2009. This exemption too was granted with the proviso that Commerzbank AG not exercise the voting rights arising from its equity interest in Conergy AG, indirectly or directly, insofar as its interest in the voting shares of Conergy AG does not reach or exceed the threshold of 30.0 percent of all voting shares.

Equity interests in excess of 10.0 percent of the voting shares

As at the reporting date (31 December 2008), the following direct and indirect equity interests in Conergy AG surpassed the 10.0 percent threshold of voting shares:

Athos Service GmbH, Munich, notified Conergy AG on 16 December 2008 pursuant to Section 21 para. 1 German Securities Trading Act that its interest in the voting shares of Conergy on 11 December 2008 fell below the threshold of 15.0 percent and subsequently was 14.95 percent (corresponding to 59,514,296 shares out of a total of 398,088,928 voting shares).

Leemaster Ltd., Tortola, British Virgin Island, notified the Company on 3 December 2008 pursuant to Section 21 para. 1 German Securities Trading Act that its interest in the voting shares of Conergy AG on 2 December 2008 was 14.13 percent, corresponding to 56,253,001 shares out of a total of 398,088,928 voting shares in the Company.

At the same time, Dr. Otto Happel, Luzern, Switzerland, notified us on 3 December 2008 pursuant to Section 21 para. 1 German Securities Trading Act that his interest in the voting shares of Conergy AG on 2 December 2008 was 14.13 percent, corresponding to 56,253,001 shares out of a total of 398,088,928 voting shares in the Company. Pursuant to Section 22 para. 1 sentence 1 no. 1 German Securities Trading Act, all of Dr. Otto Happel's voting shares are attributable to him via Leemaster Ltd., which he controls.

Further, Leemaster Ltd. notified us on 5 December 2008 pursuant to Section 25 German Securities Trading Act that on 1 December 2008 it was directly holding financial instruments giving it the right to purchase 7,330,000 voting shares out of a total of 398,088,928 voting shares and thus 1.84 percent of the shares in Conergy AG that entail voting rights. The right to purchase shares entailing voting rights may be exercised at any time until 30 June 2009. The financial instruments are held directly by Leemaster Ltd., which in turn is controlled by Dr. Otto Happel.

Allianz SE, Munich, notified us on 4 December 2008 pursuant to Section 21 para. 1 German Securities Trading Act that its interest in the voting shares of Conergy AG on 2 December 2008 fell below the threshold of 50.0 percent and was 38.99 percent at this date, corresponding to 155,231,704 voting shares. These voting shares are attributable to it in accordance with Section 22 para. 1 sentence 1 no. 1 German Securities Trading Act. The voting shares attributable to Allianz SE were held by the companies it controlled at the time, specifically, Allianz Finanzbeteiligungs GmbH, Munich, and Dresdner Bank AG, Frankfurt (Main). Allianz SE notified us at the same time pursuant to Section 21 para. 1 in conjunction with Section 24 German Securities Trading Act that the interest of Allianz Finanzbeteiligungs GmbH in the voting shares of the Company on 2 December 2008 was 38.99 percent, corresponding to 155,227,788 voting shares. These voting shares are attributable to Allianz Finanzbeteiligungs GmbH in accordance with Section 22 para. 1 sentence 1 no. 1 German Securities Trading Act. The voting shares attributable to Allianz Finanzbeteiligungs GmbH were held via Dresdner Bank AG, which it controls. Dresdner Bank AG's interest in the voting shares of Conergy AG on 2 December 2008 was 38.99 percent, corresponding to 155,227,788 voting shares.

Conergy AG was notified of the following material changes after the reporting date (31 December 2008):

Allianz SE, Munich, notified us pursuant to Section 21 para. 1 German Securities Trading Act et seq. in conjunction with Section 24 German Securities Trading Act – in connection with the takeover of Dresdner Bank AG, Frankfurt (Main), by Commerzbank AG, Frankfurt

(Main) – that on 12 January 2009 its interest in the voting shares of Conergy AG fell below the reporting thresholds of 3.0, 5.0, 10.0, 15.0, 20.0, 25.0 and 30.0 percent in connection with the sale of Dresdner Bank AG to Commerzbank AG and was 0.001 percent at that date (3,916 voting shares). These voting shares are attributable to the company under Section 22 para. 1 sentence 1 no. 1. Allianz SE notified us at the same time pursuant to Section 21 para. 1 German Securities Trading Act in conjunction with Section 24 German Securities Trading Act that on that date the interest of Allianz Finanzbeteiligungs GmbH, Munich, in the voting shares of Conergy AG fell below the reporting thresholds of 3.0, 5.0, 10.0, 15.0, 20.0, 25.0 and 30.0 percent and was 0 percent at that date.

Commerzbank AG, Frankfurt (Main), notified Conergy AG on 14 January 2009 pursuant to Section 21 para. 1 German Securities Trading Act that its interest in the voting shares of Conergy AG on 12 January 2009 exceeded the reporting thresholds of 3.0, 5.0, 10.0, 15.0, 20.0, 25.0 and 30.0 percent and was 37.01 percent (i. e. 147,351,748 voting shares) at that date. These voting shares are attributable to Commerzbank AG under Section 22 para. 1 sentence 1 no. 1 and are held by Dresdner Bank AG.

Appointment and dismissal of Management Board members; amendment of the Company's Articles of Association

Under Article 6 para. 1 of Conergy's Articles of Association, its Management Board must comprise at least two members. Management Board members are always appointed and dismissed by the Supervisory Board pursuant to Section 84 and 85 German Stock Corporation Act in conjunction with Article 6 para. 1 Articles of Association. For the rest, the Articles of Association do not contain any deviations from statutory requirements.

Pursuant to Section 119 para. 1 no. 5 German Stock Corporation Act, the General 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 General 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; Section 179 German Stock Corporation Act is applicable. The law prescribes absolute majorities of three-fourths of the share capital present at the time the relevant resolutions are adopted in connection with certain amendments of the Company's Articles of Association (e. g. amendment of its business purpose), capital measures subject to the exclusion of shareholders' subscription right as well as certain other particularly significant items subject to formal resolution. The Supervisory Board is authorised under Article 22 of the Articles of Association to amend them to the extent that such modification affects solely the wording. It is also authorised under Article 5 para. 3 Articles of Association to amend the relevant wording insofar as authorised capital has been utilised at the given time or upon expiry of the authorisation deadline.

Authority of the Management Board to issue shares

Pursuant to Article 5 para. 3 of the Articles of Association, 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 EUR 14,361,071 by issuing new no-par bearer shares in return for contributions in cash and / or in kind ("Authorised Capital 2007"). The shareholders must be granted a subscription right in connection with any capital increase in return for cash contributions.

The Management Board may exclude shareholders' subscription right with the approval of the Supervisory Board in the following cases:

- for fractional shares;
- in connection with cash capital increases up to a total par value of EUR 3,508,892 or up to 10.0 percent of the share capital extant at the time the relevant authorisation to exclude shareholders' subscription right is first exercised – whichever is lower – if the issue price of the new shares is not substantially lower than the stock market price of the Company's shares having the same class and structure at the time the issue price is fixed; and
- in connection with in-kind capital increases.

The pro rata amount of the share capital attributable to the new or previously purchased treasury shares that were issued or sold since 28 August 2008 subject to simplified exclusion of shareholders' subscription right pursuant to or in accordance with Section 186 para. 3 sentence 4 German Stock Corporation Act as well as the pro rata amount of the share capital attributable to shares that may be subscribed under options and / or conversion rights issued since 28 August 2008 subject to simplified exclusion of shareholders' subscription right in accordance with Section 186 para. 3 sentence 4 German Stock Corporation Act shall be deducted from the maximum amount of EUR 3,508,892 or 10.0 percent of the share capital.

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.

Key agreements of the Company

A material financing agreement that gives the financing banks the right to terminate the agreement in the event of a change of control in accordance with its relevant provisions is a key agreement that will be affected by a change of control of Conergy AG. This concerns the EUR 600 million syndicated loan that was extended to the Company in July 2007 in the event a third-party investor takes over more than 50.0 percent of the share capital entitled to vote. All investors not known as existent major shareholders under the syndicated loan, including Dr. Otto Happel, are deemed third-party investors as defined in the aforementioned agreements. A potential investor would be obligated to raise funds on its own if one of the lenders were to exercise its right to immediate termination and repayment of the amounts owed to it under the respective loan agreement in the event of such a change of control.

The employment contracts of individual members of the Management Board give those among them to whom such a provision applies the right to terminate their contracts for cause in the event of a defined change of control of Conergy AG. Hence there is no guarantee in the event of a change of control that Conergy AG's existing senior management would continue to be available to the Company.

THE CONERGY SHARE

Regarding the development of Conergy's share in the 2008 financial year, we refer to pages 30 and 31 of this annual report.

COMPENSATION REPORT FOR THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF CONERGY AG

Please see the compensation report on pages 24–29 for disclosures regarding the compensation of both the Management Board and the Supervisory Board.

EVENTS AFTER THE BALANCE SHEET DATE

On 23 December 2008, the Supervisory Board of Conergy AG appointed Dr. Andreas von Zitzewitz to the Management Board effective 1 January 2009. He is responsible for Components, Purchasing and Supply Chain. Dr. von Zitzewitz, who has worked for Conergy SolarModule GmbH & Co. KG since 1 March 2008, and therefore continues to head the Components division which includes the development, production and marketing of modules, inverters and mounting systems. He has taken over his new sphere of responsibility – Purchasing and Supply Chain – from Philip von Schmeling who, in his capacity as Chief Sales Officer (CSO), will focus solely on Marketing and Sales.

The Supervisory Board members Dr. Dr. h.c. Andreas J. Büchting, Alexander Rauschenbusch, Hans Johann Baptist Jetter and Andreas Rüter resigned from their positions effective 31 January 2009.

Upon application of the Company, by order of the Hamburg District Court dated 5 February 2009 Klaus-Joachim Wolfgang Krauth, Norbert Schmelzle and Carl Ulrich Andreas de Maizière were appointed members of the Supervisory Board of Conergy AG until the end of the General Shareholders' Meeting that is tasked with reviewing the 2008 financial year.

Carl Ulrich Andreas de Maizière has many years of experience in banking and served on Commerzbank AG's management board for a long time. He is currently a partner in Doertenbach & Co GmbH, Frankfurt (Main), and holds seats on several supervisory boards. Klaus-Joachim Wolfgang Krauth has extensive experience in finance and controlling as a result of his many years of professional activities in these areas, for instance as chief financial officer of Hexal AG. He is currently the Chief Financial Officer of the family office, Athos Service GmbH. As managing director and / or management board member of various industrial companies, Norbert Schmelzle acquired a lot of know-how in regards to issues of strategy as well as operational controlling of international organisations, most recently as managing director of Kaefer Isoliertechnik GmbH in Bremen. He now works as a management consultant.

Due to the significant changes in the economic environment, particularly the very rapid swing from a seller's to a buyer's market, but also due to legal doubts which had emerged in the meantime over the enforceability of at least some contractual provisions which were not in Conergy's favour, Conergy entered into talks with MEMC a few weeks ago with the aim of renegotiating the agreed wafer supply contract.

Contrary to expectations, it has not yet been possible to bring these renegotiations to a conclusion. A basic agreement has been reached to amicably terminate the supply contract, providing that the prepayments of USD 66 million which have already been made are retained and that a new supply contract with a term of one year is simultaneously concluded. However, the parties have not yet come to an agreement over a series of auxiliary conditions relating to such a rearrangement.

Should it not be possible to amicably terminate the supply contract in the near future, Conergy will take legal action challenging this supply contract on the basis of the results of a legal review which has been carried out.

RISK AND OPPORTUNITY REPORT

Risk management

All entrepreneurial activity is inextricably bound to risks and rewards. This is why effective management of risks and opportunities 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 owners 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. The Company's risk management system was and is subject to internal and external reviews.

The earnings of the Conergy Group deteriorated dramatically during the 2007 financial year, triggering an earnings and liquidity crisis at the close of 2007 that threatened the Company's existence as a going concern; the crisis was averted through capital measures for EUR 70.0 million in November 2007 and around EUR 399.3 million in December 2008. The EUR 240.0 million bridge loan, which was granted in February 2008, was repaid using the proceeds of the December 2008 capital increase.

The Group posted a net loss of EUR –306,6 million for the 2008 financial year, up from a net loss of EUR –248.1 million in the 2007 financial year.

The Group's equity ratio rose to 26.4 percent following the completion of the capital increase in December 2008; previously, it had dropped from approximately 12.1 percent at the end of 2007 to about 6.3 percent by 30 June 2008.

Aside from preparing an appropriate restructuring and realignment concept and replacing almost all previous senior managers in finance and administration, the Management Board also refined the Company's existing risk management system and other core Group departments, on short notice, in order to be able to effectively counter developments in the future that led to the earnings and liquidity crisis at the end of 2007. 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. The risk overview is continuously updated based on internal and external sources and experience.

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 2009.

The Management Board prepares budgets and forecasts for managing the Conergy Group. There were shortcomings in the accuracy of our forecasting and the planning process itself because we had failed to implement a fully integrated planning system before the earnings and liquidity crisis occurred in November 2007 due to growth-related system weaknesses. These shortcomings will be eliminated 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. As a key step in this context, the implementation of SAP was successfully completed in Germany in January 2009. There is a possibility, therefore, that the appropriate information regarding deviations from budgets and other facts negatively affecting the Company's business are not forwarded to Conergy's management in due time through the controlling and reporting systems, especially before, during and, possibly, after the conclusion of these measures so that misallocations of resources cannot be fully precluded. Such misallocation could have a negative effect on Conergy's assets, liabilities, cash flows and profit or loss.

What follows is a description of the risks that could have considerable negative effects on the assets, liabilities, cash flows and profit or loss of the Conergy Group, its share price and our reputation. These are not necessarily the only risks to which Conergy is exposed. Risks that are presently unknown to Conergy or that it deems insignificant at this time might also undermine its business activities.

Material risks

Fallout of the crisis in the markets for capital and sales

Conergy's business model presupposes functioning market mechanisms in its capital and sales markets. In the long term, systematic and/or structural disruptions could substantially hamper the development of the Company's business and lead to unforeseeable business developments.

Both regional and global economic conditions influence Conergy's industry. Considerable fluctuations and distortions buffeted the capital and credit markets in the 2008 financial year. After two quarters of shrinking GDP, Germany – which, in its capacity as the core PV market remains Conergy's most important market – is officially in a recession. According to the November 2008 update of the International Monetary Fund's world economic outlook, the global economy will be in a recession in 2009.

Substantial negative effects on Conergy's assets, liabilities, cash flows and profit or loss that might even jeopardise the Company as a going concern as well as its ability to finalise project financing as well as to raise funds cannot be excluded if the fluctuations and distortions on the capital and financial markets remain in place owing to the financial market crisis – particularly in the markets that are crucial to Conergy – or if they were to trigger deflation.

The current economic situation is having an especially negative effect on Conergy's ability to achieve individual restructuring targets, mainly in the following areas:

- **Sales volume**
  There is the possibility that customers might delay or cancel orders and projects due to their specific situation as a result of both the financial market crisis and the recession, and that the Company will be unable to acquire new customers in the numbers necessary for meeting unit sale targets. Indeed the renewable energy industry's strong seasonal fluctuations could intensify this effect.

- **Margin changes**
  The sales prices for PV modules are falling faster than expected. Conergy now expects prices for modules to fall between 15.0 and 20.0 percent. However, even though declining sales prices do not necessarily have a negative impact on Conergy's business model, they do entail the risk that the price degression of long-term delivery contracts might

not correspond to crumbling sales prices. Any inability on Conergy's part to adjust the procurement prices stipulated in delivery contracts as necessary would put the planned margin increases substantially at risk. This applies especially to Conergy's long-term wafer delivery contract with MEMC Electronic Materials, Inc., St. Peters, USA; the price degression under this agreement is much slower than the price degression that currently seems possible in the markets. Please see the disclosures regarding events after the balance sheet date for information on the status of the contractual relationship with MEMC.

- **Project financing**
  Given the current situation in the markets for capital and sales, there is the risk that neither borrowings nor equity from Conergy's customers for specific projects might be available as planned, for example, because customers have filed for bankruptcy. Other reasons include their inability to make capital available or unrealistic expectations as to yields. However, given the current situation in the markets for capital and sales, we cannot ensure that contractually stipulated funding would actually materialise. In turn, this could change or completely cancel contractually stipulated projects, with the attendant effects on Conergy's assets, liabilities, cash flows and profit or loss.

- **Working capital management, default risks**
  Conergy is creating inventories of PV modules, raw materials and consumables as well as of mounting systems and inverters under long-term delivery contracts – and pursuant to conservative planning rooted in functional market mechanisms – in order to meet requirements under planned and projected sales. Conergy would be unable to use these asset inventories, or they might be subject to writedowns, if orders and projects are cancelled because of the current situation in the markets for capital and sales, as described above. Besides increasing the quantity of inventories, such a development might require valuation adjustments to inventories as part of working capital management or selling prices that are below cost.
  There is also a greater risk that customers might no longer be able to fulfil their contractual payment obligations, given their own financial situation. In turn, this could lead to unplanned allowances for doubtful accounts. Furthermore, we cannot always guarantee that Conergy would be able to retrieve the goods it delivered subject to reservation of title by enforcing its security interest because it is an international business and because goods are redelivered.

- **Fixed and intangible assets**
  Impairment losses might have to be recognised on intangible assets – but also on significant items of property, plant and equipment such as the production plant in Frankfurt (Oder) – pursuant to statutory accounting standards if fair values fall below carrying amounts. This could happen if sales are lower than planned due to the ongoing crisis on the markets for capital and sales. This crisis thus intensifies the risk that Conergy's assets, liabilities and profit or loss might be substantially affected by accounting losses on tangible assets as well as immaterial assets.

If the earnings and liquidity of Conergy were to deteriorate as a result of the aforementioned factors, the proceeds from the December 2008 capital increase that were earmarked for the restructuring might be used up for other purposes and hence make it impossible for the Company to attain significant additional restructuring targets. In turn, this could threaten Conergy as a going concern.

Successful restructuring

The capital increase completed in December 2008 was a material component of the comprehensive restructuring programme that was launched at the end of the 2007 financial year with the aim of overcoming the Company's earnings and liquidity crisis. The restructuring programme has not yet been completed although a multitude of actions had already been executed by the end of the financial year just ended. As described above, the crisis in the finance and sales markets may also materially affect the achievement of open restructuring objectives.

The measures not yet completed specifically include:

- sustained improvement of margins by realigning the Company's distribution policies with an international focus on high-growth and high-margin market segments and markets;
- further reducing the Company's high dependence on suppliers of PV modules by focusing on reliable strategic suppliers;
- improving the margin potential by changing the Company's product mix;
- further personnel and non-personnel cost

reductions via personnel reductions, service consolidation, process optimisation and appropriate cost management and cost control strategies;
- lowering the amount of tied-up capital by improving the Company's working capital management (unequivocal assignment of responsibilities for receivables and receivables management, improvement of dunning processes as well as reduction in inventories and accounts receivable aging, both of which remain high, as well as reduction in the high number of outstanding receivables);
- further improving the Company's management through uniform and efficient IT structures as well as reducing the complexity of intragroup relations;
- further expanding the network of domestic sales& distribution partners;
- cash-neutral financing of large-scale projects in the project business; and
- further implementation of groupwide management, control and incentive systems commensurate with the Company's new responsibility structures and core key performance indicators (such as return on capital employed).

Successful execution of the restructuring programme will give rise to the following risks, in particular:

- failure to achieve capacity utilisation targets in our Frankfurt (Oder) factory, also with respect to our considerable purchase commitments under a wafer delivery contract with MEMC Electronic Materials, Inc., St. Peters, Missouri, USA;
- failure to achieve the planned process optimisations and/or to ensure that the PV modules produced possess the requisite quality and competitiveness;
- loss of important employees;
- unavailability of high-quality PV modules and preproducts at adequate prices;
- missing the margin improvement targets, also in light of the expected price pressures in the photovoltaic segment;
- additional liquidity needs in connection with projects;
- failure to meet the planned cost targets;
- failure of planned divestments or failure to achieve targeted sales already considered in the financial planning;
- timely improvement of the IT environment, controlling as well as risk and liquidity management; and
- inability to adequately execute required measures or contractual agreements with suppliers for legal or other reasons.

The reliability of contractual partners in supplying purchased products and services may also suffer as a result of the tight situation on the capital and sales markets. There is also the risk that Conergy's tight finances might preclude the Company from obtaining any loans at all for marketing its existing projects and developing new ones in its project business (EPURON segment) or limit it to insufficient amounts. Any inability on Conergy's part to substantially improve its profitability will cause its losses to eat into the funds it raised through the capital increase, further impairing its balance sheet, financial strength and profitability.

The restructuring also brings the risk of voluntary resignations by important employees. Conergy might miss business objectives if it were unable to find adequate substitutes for such employees in a timely manner. There is also the possibility that employees leaving the Company might compete with it; this could have a negative impact on both Conergy's business relationships and its cash flows and profit or loss.

Given the fact that the crisis in the finance and sales markets has now also reached the renewables markets and hence photovoltaics too – Conergy's core business – the Company's Management Board has initiated a worldwide project aimed at assessing the fallout from the situation in the finance and sales markets in cooperation with external experts. The initial findings of these analyses are anticipated for the first quarter of 2009.

There is no guarantee nonetheless that we will be able to continue successfully implementing the restructuring, given the global economy's current climate.

Conergy could be threatened as a going concern if the restructuring measures are unsuccessful in economic terms.

Terms and conditions of the syndicated loan agreement

Effective 31 July 2007, Conergy closed a syndicated loan agreement with 23 banks under the leadership of Commerzbank AG, Dresdner Bank AG and WestLB AG for a total two-tranche loan volume of EUR 600.0 million. This loan agreement contains extensive disclosure requirements and the obligation to comply with specific financial indicators ("Financial Covenants"). Conergy has undertaken thereunder not to exceed a specific ratio of consolidated net liabilities to consolidated EBITDA (in each case with and without contingent liabilities) and not to fall below a specific ratio of EBITDA to consolidated net interest expense; these ratios are redefined each quarter. The banks did waive compliance with the Financial Covenants for financial years 2008 and 2009, given the development of the Conergy Group's financial situation at the end of 2007. Compliance with the new financial ratios to be negotiated by 30 September 2009 based on the new capital structure and a new business plan must, again, be established on 31 March 2010. Any noncompliance with these newly negotiated financial indicators or the Financial Covenants that have been adopted triggers the lenders' right to terminate for cause, with the result that they are authorised to call the loan immediately. The lenders also have other termination rights.

We can not preclude that compliance with our obligations under both the syndicated loan will have a negative impact on Conergy's business activities, for instance because the Company must forgo or postpone investments, divestments, disposals or acquisitions, thus undercutting its competitiveness. Any failure by Conergy to comply with the Financial Covenants under the aforementioned loan agreements and to cure any breach thereof or any refusal by the relevant lenders to waive compliance with the relevant requirements gives rise to contractually stipulated grounds for termination authorising the lenders, among other things, to call all liabilities under the relevant loan immediately and to foreclose on the collateral.

Availability and procurement prices of preproducts

Silicon ingots or silicon wafers, which Conergy AG turns into PV modules at its Frankfurt (Oder) factory, are a preproduct that is key to the Company's business. Insufficient deliveries of silicon wafers would prevent us from fully or adequately utilising both the existing and the planned production capacities in Frankfurt (Oder) and thus from attaining the targeted and required economies of scale, with the result that our production costs would exceed those of competitors with better capacity utilisation. Moreover, this could also undermine Conergy's ability to make deliveries to the buyers of its products. Conergy will be unable – absent sufficient supplies of silicon wafers from existing and / or future suppliers – to manufacture, process and sell photovoltaic modules in the necessary quantities. Any failure on the part of Conergy to satisfy its delivery obligations vis-à-vis buyers would trigger fines and claims for damages. In October 2007, Conergy AG entered into a ten-year delivery contract with MEMC, subject to annual volume increases and at market terms prevailing at the time, with the aim of securing the quantities of silicon wafers it needs. Since then Conergy's realignment has made it necessary to adjust the contractually stipulated delivery volume. The agreement with MEMC was modified in July 2008. Please see the disclosures regarding events after the balance sheet date for information on the status of the contractual relationship with MEMC.

In this context, the price risk is a significant risk to Conergy's profitability. This risk results, specifically, from the fact that the agreement with MEMC for the delivery of silicon wafers provides for an (annually declining) fixed price that is determined on the basis of the wattage that can be produced. The contract does not provide for any additional options to adjust or renegotiate prices in keeping with market developments. This applies particularly in the event of a dramatic drop in the price for silicon wafers, a development that Conergy continues to anticipate. Then there is the risk that Conergy might be unable to manufacture its products at competitive costs. In addition, the Company's assets, liabilities and profit or loss could be affected if the silicon wafers that it has already accepted or continues to contract for, as well as any goods that it has already or might still manufacture using these wafers, might have to be written down due to the dramatic drop in sales prices. This is why the contract with MEMC had to be renegotiated again if Conergy was to achieve the positive operating performance it has envisioned. Please see the disclosures regarding events after the balance sheet date for information on the status of the contractual relationship with MEMC.

Such a risk also exists for all other procurement contracts, for instance those for PV modules or components.

Although the scope of our contract with MEMC was substantially reduced in mid-2008, there is the risk for one that MEMC might not fulfil its delivery obligations at all, in full, on time or with the requisite technical quality. This applies all the more as the contract gives MEMC the right to make up for delivery shortfalls in the following years.

Furthermore, given the possibility that the ongoing development of silicon-based solar cells will increasingly go in the direction of monocrystalline silicon wafers, Conergy's production might be exposed to the risk that the deliveries stipulated with MEMC are currently limited to multicrystalline silicon wafers. Any failure on Conergy's part to meet its current contractual payment obligations toward MEMC – apart from the existing payment terms – would incur considerable interest on arrears.

Finally, any transport-related breakage is Conergy's responsibility under the contract because it bears the transportation risk.

Under its contract with MEMC, the Company is also obligated to make substantial payments to a "Refundable Capacity Reservation Deposit" during the entire life of the agreement. These deposits are already tying up significant amounts of cash in the contract's first years, which can cause problems for Conergy, especially given its weak liquidity. Please see the disclosures regarding events after the balance sheet date for information on the status of the contractual relationship with MEMC.

Production plant in Frankfurt (Oder)

Conergy invested approximately EUR 250.0 million to establish in Frankfurt (Oder) one of the world's most state-of-the-art production plants for PV modules. The value chain in Frankfurt (Oder) entails the cutting of ingots into silicon wafers, turning silicon wafers into solar cells and processing the latter into PV modules. Operating the production plant in Frankfurt (Oder) gives rise to risks especially in the following areas:

The Frankfurt (Oder) plant was originally scheduled to be fully operational in January 2008. A variety of factors (bottlenecks in commodity supplies, IT control and testing procedures related to the ramp-up of production that were more extensive than planned, delays in the delivery and start-up of certain equipment and a strong focus of production on high-yield mass operations) made it impossible to maintain the schedule, however.

At the end of the financial year, ten of the 24 wafer saws were fully operational. Currently one of the four cell lines is operating and production is possible on all five module lines (as of March 2009). Nonetheless, there is the possibility of further delays. Conergy runs the risk of incurring higher than expected costs for ramping up the remaining production lines in Frankfurt (Oder).

There is no guarantee that module production in Frankfurt (Oder) will develop as planned and that the investment will pay off as expected. Conergy has been unable to date to fully utilise the factory's installed production capacity. The Frankfurt (Oder) plant has built up considerable capacities in order to be able to cut silicon blocks into wafers once the blocks are delivered. The sawing capacities set aside for the quantities to be delivered by MEMC may not be utilised at all times because our contract with MEMC gives it the right but not the obligation to deliver silicon blocks. In order to utilise the plant's unused capacities, silicon blocks are cut into wafers for other solar companies.

The Frankfurt (Oder) production plant is based on an integrated approach. The fact that it covers the entire value chain from the processing of silicon wafers into solar cells to the production of PV modules also means that technological progress on one level must be replicated on all other levels of the value chain for the integrated approach to be maintained. This is why Conergy is working hard to bring about sustained efficiency gains in production. Excellent results have already been achieved in terms of increasing both production yields and efficiencies in Frankfurt (Oder). But the underutilisation of existing capacities has limited further optimisations to date.

Raw material and component supplies

Conergy depends on its suppliers for different raw materials and high-quality components such as solar cells and modules, silicon wafers, silane gas, aluminium, glass, foil as well as steel in the required quantities and at fixed times. The long-term delivery contract with MEMC has covered a portion of our wafer supply since the third quarter of 2008 and will do so entirely in later years. Please see the disclosures regarding events after the balance sheet date for information on the status of the contractual relationship with MEMC. For the most part, all other preproducts and materials are covered by general agreements (subject to extension options) with several providers in some cases. Nonetheless, even when Conergy's suppliers have undertaken to make the requisite deliveries to Conergy in the long term, this does not guarantee that these deliveries will be made in full, on time as well as at the stipulated quality and at the market prices prevailing at that time. There is no guarantee – if MEMC or another supplier does not fulfil its delivery contract at all or only in part or not in time, or if MEMC does not exercise its discretion in ways that meet Conergy's requirements or if the silicon wafers delivered do not possess the quality owing under the contract – that Conergy would be able on short notice to procure the required silicon wafers from other suppliers in sufficient quantities and at the required quality as well as at a reasonable price and in due time. Insufficient deliveries of the materials required for the production process would make it impossible for Conergy to utilise its production capacities, thus undermining its own ability to make deliveries. The availability of these materials at adequate prices thus is pivotal to Conergy's assets, liabilities, cash flows and profit or loss. Rising material prices would also have a negative effect on Conergy's assets, liabilities, cash flows and profit or loss if Conergy can not pass these price increases on to its customers due to market developments and demand levels.

Promotion of photovoltaic and wind energy
Conergy's business is highly dependent on government measures aimed at promoting photovoltaics and wind power (especially in Germany, Spain, the USA, France, Italy and Greece). Photovoltaics – the core of Conergy's activities – would not be viable for customers in many markets absent statutory promotional measures because the cost of generating electricity using PV still exceeds both attainable market prices and the cost of generating electricity from conventional sources (e. g. nuclear power, coal, gas) by a significant margin, nor does the Company expect this to change in the medium term despite the current situation on the capital and sales markets. The same applies, though to a lesser extent, to generating electricity from wind power. It is indeed possible that state subsidies for electricity from renewable energies will continue to decline in future or even be eliminated in the medium or long term. This would have significantly adverse effects on the Company's assets, liabilities, cash flows and profit or loss. This is also true given possible EU initiatives regarding pan-European changes in the promotion of renewable energies aimed at replacing the current national compensation schemes.

Additional fields of risk

Industry-specific risks
Photovoltaics competes with other processes for generating power from conventional and renewable sources of energy such as wind power, bioenergy and geothermal energy as well as CSP ("Concentrated Solar Power"). The market position of these sources of energy could surpass that of photovoltaics for technical, economic, regulatory or other reasons – for example, if they are subsidised at higher rates – further undermining the development of photovoltaics. Consequently, this could cause investments in photovoltaics to dry up in whole or in part or, at a minimum, to decline by a substantial margin, in turn triggering a strong downturn in the demand for Conergy's products and services.

The Company expects energy from conventional sources to continue to become more scarce and more expensive or at least maintain the status quo; in future the prices for conventional energy might fall again, however, causing the demand for renewable energy to decline if it is still much more expensive than conventional energy.

Conergy expects rising numbers of solar companies to go public, given the increasing competition in this sector that is being fuelled by both the positive statutory environment and the ongoing professionalisation of the PV industry. This trend and the increasing number of suppliers in technologies that are relevant for Conergy could further intensify price pressures, lowering the growth rate of Conergy's sales.

Conergy's business is also influenced by general economic developments; as a result of the continued global economic downturn or a possible continued and/or prolonged recession, the demand for its products and services might therefore decline precisely in those markets that are material to the Company.

Furthermore, changing demand for products and services – for example, if the reputation of silicon-based or thin film products were to suffer – could cause margins to tighten or earnings to fall.

Conergy's ability to install and maintain solar and wind energy systems also depends on the given climate and weather. Storms or frost can delay installation work, strong rain or snow can block vehicle access to construction sites and an unexpected onset of winter can make it necessary to suspend transports altogether. Inclement weather can also make it impossible to install units in due time, in turn increasing costs due to the resulting delays.

Nevertheless, Conergy expects laws promoting 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 with attractive subsidy programmes, given the Group's realignment as a provider in the photovoltaics market.

Research and development

There is the risk that existing or new competitors might launch alternative products or technologies that are more economical, of a higher quality or more attractive for other reasons than Conergy's products, improve their current products and technologies in such a way, or obtain exclusive rights to new technologies, effectively blocking Conergy's access to them.

There is also the risk that Conergy's products might be unable to comply with existing or future certification requirements both nationally and internationally.

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 regular 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

Conergy might be exposed to risk factors when working outside Germany that can not be influenced at all or readily. In particular, this includes foreign exchange controls, limits on trade, insufficiently developed and/or defined legal and administrative systems, war or terrorism.

Between 1999 and 2005, voltwerk AG (our former project development company and the precursor to EPURON GmbH) offered investors the possibility to profit from photovoltaics by means of public limited partnerships. voltwerk AG prepared prospectuses for the operating companies with the aim of generating equity in the form of limited partners' capital contributions. The sale prospectuses of voltwerk AG were usually prepared in accordance with the "Principles of Proper Assessment of Prospectuses for Public Offerings" (IDW S 4), a standard promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW – Institute of Public Auditors) and reviewed by an auditor based on this standard. Nevertheless, we can not preclude that claims for damages might be brought against EPURON GmbH in its capacity as the successor company and thus under its liability for these prospectuses due to inaccurate or incomplete disclosures in voltwerk's sale prospectuses.

Furthermore, the business of Conergy AG generally entails the risk that customers might sue due to defects in our products, plants, or services, be it in connection with entire installations or individual components.

On 4 February 2008, a lawsuit was served on SunTechnics GmbH, a precursor of Conergy Deutschland GmbH. The claimant (a customer of SunTechnics GmbH, today's Conergy Deutschland GmbH) is bringing a claim for repayment of more than EUR 4.0 million in consideration paid to SunTechnics for the delivery and construction of a photovoltaic unit and announcing claims for damages in excess of EUR 5.0 million. The claimant bases its claims on defects related to the construction of the PV unit. Currently both parties are related in talks regarding amicable settlement of the disputes.

In a total of 15 claims filed between October and December 2008, several claimants are seeking damages totalling EUR 3.5 million from the Company for their own rights or for rights assigned based essentially on incorrect capital market informations in connection with the Company's revision of sales and profit forecasts for 2007 on 25 October 2007. The Company is essentially contesting the claimants' claims.

Product and production risks

While the services that Conergy offers and the products that it manufactures must satisfy highest quality requirements, quality defects can never be ruled out, no matter what precautions are taken. Any failure on the part of Conergy's products to satisfy the requirements stipulated with the customer can result in the loss of such customer and thus in the loss of sales as well as give rise to supplementary claims (particularly under warranties). Given Conergy's long-term production and service contracts, such quality-related risks could also jeopardise the profitability of its production and services.

As far as self-produced products are concerned, 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), will probably follow in 2009.

The quality of the units that Conergy sells is largely contingent on the quality of the (pre)products used. Defective performance or sales of counterfeit goods by suppliers could make it impossible for Conergy to provide its own contractual services, in turn triggering claims under warranties or product liability. Conergy is thus particularly dependent on the quality of the products that are delivered to it. This also applies to those components that the suppliers develop in cooperation with Conergy and/or that are produced for Conergy under construction contracts.

Although Conergy generally has a right of recourse against its suppliers if its customers bring claims under warranty and for damages due to defective (pre)products, given the prevailing market environment its claims can not be enforced in every case nor can all related contracts be reversed.

Conergy counters these risks with a new standardised purchasing and product control process that serves to verify both performance and quality. The Company limits guarantee risks by stipulating guarantees with its suppliers essentially in accordance with the agreements it makes with its customers. Provisions have been recognised to meet future and known claims under warranties.

Business interruptions can not be precluded despite the fact that we use high standards of technology and security in the construction, operation and maintenance of Conergy's production facilities. There have also been acts of sabotage and vandalism against Conergy's production facilities in the past. These risks are compounded by the fact that in all these cases people, third-party property and/or the environment might be harmed, in turn triggering considerable financial costs, even criminal liability.

Conergy is subject to a large number of constantly changing and increasingly challenging regulations regarding environment and health protections. These requirements have already sparked a need for capital investments in the past and the Company anticipates expending substantial funds in future as well in order to fulfil all applicable statutory requirements. This applies, in particular, in connection with the expansion of Conergy's production facilities or whenever applicable requirements are substantially tightened. Nor can we preclude that producing and/or transporting liquid substances that are hazardous to water might be limited in future by means of statutory or regulatory requirements in light of the risk they pose to the environment.

In building, modifying and operating its plants, Conergy is dependent on public permits, particularly permissions granted by the authorities under the German Federal Immissions Control Act (Bundes-Immissionsschutzgesetz), relevant state building codes and laws concerning water and waterways (Wasserrecht).

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. However, certain risks are excluded under these insurance policies. In particular, possible warranty obligations (e.g., for series defects) are not completely covered by insurance.

Protecting its industrial property rights, especially its know-how, is of major significance to Conergy. Any loss of know-how can limit Conergy's ability to profit from innovative technological developments. Moreover, insufficient protection of its know-how could also lead to a reduction in future income if other players were to succeed in marketing or manufacturing products using processes similar to those that Conergy developed. This could adversely affect Conergy's competitive position.

Project risks

Risks specific to the project business arise from the need for comprehensive prefinancing as well as the projects' very large order volume. Difficulties and delays in carrying out these projects could harm Conergy's reputation and give rise to substantial damages payable to the projects' principals under the Company's liability as well as to loss of sales and liquidity shortfalls. Implementing its project business also exposes the Conergy Group companies to the customary risks of a general contractor. Conergy regularly stipulates fixed prices for fixed performance in its project business. Any planning or budgeting mistakes in connection with a project as well as any defective or delayed execution could preclude carrying out the project in question such that it is profitable or at least covers our cost. Finally, Conergy also provides advance services as part of its project development work that are not remunerated if the given project fails.

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. EPURON also acquires interests in investment companies – such as the Renewable Energy Trust Asia (RETA) it founded jointly with General Electric that has a targeted investment volume of about EUR 200.0 million over five years – and plans other funding ventures of this and a similar nature.

Every project undergoes a fixed planning and decision-making process in order to ensure that all parameters critical to its success have been considered in the project selection process.

In addition, we already 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.

Personnel risks

It is conceivable that the restructuring process and the uncertainty it may spark among Conergy's employees will increasingly cause members of the Management Board and its executive management to terminate their contracts. There is also the risk that senior managers might not be available. Given that Conergy's success is largely dependent on its senior managers, particularly the members of its Management Board and its executive management, it is crucial that Conergy ensures executive loyalty and recruit additional highly qualified personnel – especially for the Conergy Group's significant subsidiaries. Conergy might fall behind its competitors if it is unable – say, because its earnings and liquidity crisis has harmed its reputation – to recruit experienced professionals as needed in future and to find adequate replacements for experienced staff who might leave the Company.

In order to counteract the risk of voluntary resignations by employees in positions pivotal to the Company, it has launched a broad retention programme that entails identifying staff in key functions who possess the know-how that is critical to Conergy's continued development and matching them to different incentive systems. There is no guarantee nevertheless that employees in areas important to the Company's business will actually stay and, if they do not, that Conergy will be able to make up for such resignations on short notice and without affecting its business.

The Company's growth was both strong and rapid, causing it to raise the number of employees from 1,403 to 2,756 (including discontinued operations) in the 2007 financial year. It also had to hire many relatively young employees with little experience, given the tight labour market. As a result, our existing personnel structure and our employees' in 2007 and parts of 2008 failed to fully satisfy the requirements of the Company's business model; hence there is an urgent need for adjustments and/or reinforcements on all levels.

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.

In future Conergy might be exposed to a greater number of business interruptions, strikes or other labour disputes, particularly against the backdrop of the personnel reductions that occurred in the 2008 financial year. The Company is keen on achieving an understanding with its staff and has been communicating personnel decisions as transparently and consistently as possible. The first ever elections to the Works Council at both Conergy AG and SunTechnics GmbH (today: Conergy Deutschland GmbH) took place in June 2008. The Works Councils were constituted in early July 2008. Therefore, Conergy AG and Conergy Deutschland GmbH will have to observe the statutory rights of the respective Works Councils to participate in future decision-making. This could delay the execution of necessary operational changes and thus cause the affected company to incur greater costs.

The members of the Supervisory Board of Conergy AG were elected by the shareholders. An expert opinion has come to the conclusion that Conergy AG normally has fewer than 500 employees and thus that these employees do not have a co-determination right on the Supervisory Board pursuant to Section 1 para. 1 no. 1 of the German One-Third Co-Participation Act (Drittelbeteiligungsgesetz). The Company assumes therefore that its Supervisory Board need not have employee representatives comprising one-third of its members.

Information technology risks

Ensuring smooth operations requires efficient and continuous data processing systems given that Conergy's operations (e. g. production, sales, logistics, controlling and accounting) are largely computerised. Using defective or obsolete systems for too long can have as much of an adverse effect as introducing new systems.

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. In order to improve transparency within the Company, a project for the integration of SAP as an ERP system was included in the existing IT environment and a release change of the software used in addition to SAP (Microsoft Dynamics NAV – Navision) was made based on a current version. The implementation of SAP in Germany was successfully completed according to plan in January 2009. Further systems are scheduled for implementation in 2009 to 2010. It cannot be precluded that these systems cannot be implemented as planned or later than planned or not at all. Furthermore, application errors might increase in the start-up phase in spite of intensive training and the coordination of work processes due to the introduction of new IT systems; additional quality assurance and error correction could lead to delays and shifts in schedules. Conergy's IT security was defective in the past and its emergency planning was insufficient. The Company has taken measures aimed at largely eliminating the shortcomings regarding access rights, authentication and master data management. Backup systems were updated at the time the Company's computer centres were outsourced and the emergency protocols have been revised as well.

The Conergy Group's ERP systems are highly heterogeneous and partly obsolete and its levels of process standardisation are very low due to the Company's intensive and much too rapid expansion strategy – acquisitions, numerous market entries, establishment of module production – in turn hampering controlling and reporting functions. Measures such as the introduction of a new ERP system with corresponding controlling functions (which was successfully completed in Germany in January 2009), tight liquidity management, revisions of the risk management process and centralisation of working capital management were launched during the restructuring. Particularly the introduction of the new ERP system entails large one-off costs and administrative expenses. A Measure Control Office (MCO) established specifically for this purpose monitors the implementation of individual restructuring measures and adjusts them as necessary. Nevertheless, given the rapidly changing situation on the capital and sales markets there is a possibility that the appropriate information regarding deviations from budgets and other facts negatively affecting the Company's business are not forwarded to Conergy's management in due time through the controlling and reporting systems, especially before, during and, possibly, after the conclusion of these measures so that misallocations of resources cannot be fully precluded.

Financial risks

Liquidity risks

Please see the section entitled "Terms and conditions of the syndicated loan agreement" on page 73 in regards to the material earnings and liquidity risks arising from the syndicated loan agreement.

Conergy's loan agreements contain change of control provisions. Any change of control – i. e. a situation where an individual or a group of people acting in concert with each other (pursuant to an agreement or by other means) gain control over the Company – would give each bank the individually exercisable right to terminate the loan for cause. The Company's ability to manoeuvre would be eliminated if the loan were to be called immediately and would probably lead to its insolvency.

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 quarterly update of the planning that covers 12 months. The introduction of refined controlling tools and IT systems will support the planning process; in Germany, the introduction of SAP was completed as planned in January 2009.

According to the Company's planning and based on the existing credit lines and guarantees, the liquidity of Conergy AG and the Group is ensured in both the short and medium term mainly through cash inflows from operating activities.

In the event of substantial shortfalls in sales and earnings targets as well as in the cash inflows from operating activities – e. g. due to the fallout of the crisis in the markets for capital and sales and / or any failure of the restructuring measures to produce economic successes, as set forth in the section entitled "Material risks" – both the Company's and the Group's existence as a going concern might be jeopardised if they are unable to offset the relevant effects through other actions.

Interest rate and currency risks

A large part of the Conergy Group's purchasing and sales volume in the 2008 financial year 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. Conergy was unable to execute significant interest rate hedges in 2008 due to its tight earnings and liquidity, nor does the capital increase that was completed in December 2008 make such hedges possible at this time. The Company is currently conducting negotiations aimed at allowing it to execute interest rate hedges as soon as possible.

There is the possibility that the Company might not be able to hedge foreign exchange risks at all or not in the desired scope in future either, or that the hedging instruments used might not fully achieve the desired effect. The extensive use of loans also exposes Conergy to interest rate fluctuations.

Usually, 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 sales in the same currency. Interest rate swaps and options are the primary means of hedging interest rate risks.

Sales of Conergy's products and services are contingent on the willingness of its current and potential customers to make investments. This willingness to invest in turn hinges on the growth of demand for photovoltaic units. Grid-connected PV units are often financed through extensive borrowings. This applies to both small and medium-sized units that are installed by individuals, SMEs or government authorities as well as to major PV plants that are acquired by investors. Low interest rates in recent years and hence low borrowing costs have had a positive effect on the profitability of photovoltaic units, stimulating the demand for solar electricity systems that is already being fed by statutory subsidies. Given otherwise unchanged general conditions, any increase in interest rates would raise borrowing costs and thus reduce the profitability of photovoltaic units, undermining demand for them. Restrictions on the availability of credit particularly in consequence of the current crisis on the financial and sales markets and higher expectations of investors as regards their return on investment could also depress the number of PV units that are installed.

Conergy largely finances its operations by means of loans with variable interest rates. Restrictions on the availability of credit – for example due to the cautious attitude that both banks and other financial intermediaries have adopted due to the current situation on the capital and sales markets – could make it difficult for Conergy to obtain loans as needed for its operations. Additionally, any increase in the benchmark interest rate stipulated for Conergy's extant loans would increase the Company's interest expense.

But the Company's project business, which it operates through the EPURON Group, is also closely linked to developments in the capital markets and thus depends on current interest rates. Rising interest rates or the banks' growing unwillingness to provide loans would make project financing more expensive or even cause it to fail because EPURON's customers tend to finance through borrowing, in particular for major PV plants; the resulting effects on demand for EPURON's projects or its attainable margins would be highly detrimental. This is why EPURON is intensifying its quest for alternative funding options such as for example the Renewable Energy Trust Asia (RETA), which it established jointly with General Electric; the planned investment volume over five years is approximately EUR 200.0 million.

Risks related to corporate acquisitions

Conergy also fuelled its growth by acquiring small owner-led companies in particular. However, integrating such companies frequently is a difficult and lengthy process because they rarely follow IFRS accounting rules and usually use IT systems that are difficult to integrate – even in bookkeeping and accounting – and their corporate cultures experience major upheavals in the wake of being integrated into a publicly listed Group. Nor is it possible to preclude that mistakes will be made in audits of such companies at the time they or stakes therein are acquired. Indeed, this was one of several factors that contributed to Conergy's earnings and liquidity crisis.

It is conceivable that the Conergy Group will continue to acquire companies in future. Conergy plans to exercise due care in preparing, reviewing, acquiring and integrating all such acquisitions. Nonetheless, acquisitions do give rise to an entrepreneurial risk that is not inconsiderable and can have significant ramifications for the Company's earnings and continued existence as a going concern.

Default risks

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

Customers wanting to do business with the Conergy Group are subject to various credit checks. In addition, the Company's central working capital management continuously monitors all outstanding receivables. 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.

There is no guarantee nonetheless – especially against the backdrop of the current situation on the capital and sales markets as well as the process of consolidation among suppliers – that the Company will actually be able to collect receivables. It is also becoming increasingly difficult to obtain receivables coverage from credit insurers.

Risks related to the utilisation of government subsidies

Conergy Group companies have received public subsidies in the past. These subsidies are subject to specific requirements and strict controls aimed at verifying whether or not the standards for public subsidies have been met. Any noncompliance with the requirements carries the risk that the subsidies might have to be repaid. We can not preclude that the modified plans or political changes in connection with Conergy's factory in Frankfurt (Oder) or parts of this factory or other Group companies will entail a greater cut than expected in the subsidies made available to Conergy and that the Company might face repayment demands by the authorities, especially on grounds that it did not comply with the requirements.

Conergy plans to continue applying for government subsidies in future. Whether or not subsidies are granted is usually at the discretion of the public sector entity or authority making the grant subject to the availability of budgeted funds. Grants are frequent, provided the relevant budget has earmarked funds for a specific programme and provided all requirements are met. But there are no options for obtaining and claiming subsidies by recourse to the courts.

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

Tax risks

Conergy and its domestic subsidiaries are subject to routine government tax audits. The Group's foreign businesses are also subject to similar tax audits. The most recent tax audit of the Company in Germany concerned corporate income, municipal trade and value-added taxes in the 2000 to 2003 assessment periods.

Tax assessments for the following years are subject to subsequent audits and thus can be changed, particularly in the wake of a comprehensive tax audit.

The tax authorities have decided to eliminate a total of about EUR 7.8 million in loss carryforwards for Conergy AG, EPURON GmbH and SunTechnics GmbH (today: Conergy Deutschland GmbH) as a result of the comprehensive tax audit of the 2000 to 2003 assessment periods. EPURON GmbH and SunTechnics GmbH have already received revised tax assessments but both companies have appealed them. Conergy has not yet recognised any provisions for the taxes expected to be owed pursuant to the comprehensive tax audit because internal and external experts alike believe that Conergy stands a good chance of winning its appeals.

Conergy and the tax authorities are disputing additional albeit monetarily less significant issues in connection with the comprehensive tax audit, namely the treatment of the costs related to the IPO, which was initially planned for 2001. Future comprehensive tax audits might also trigger demands for additional payments given the complexity of the tax law.

As at 31 December 2008, the Company has deferred tax assets of EUR 79.5 million (31 December 2007: EUR 50.3 million) primarily from tax loss carryforwards. Conergy assumes that these tax loss carryforwards will be available for offsetting against future sales before they expire. These deferred tax assets will have to be written down if the underlying loss carryforwards can not be used in the foreseeable future. Substantial portions of the tax loss carryforwards from previous years have been eliminated for tax reasons due to the changed shareholder structure following the completion of the capital increase in December 2008. While Conergy expects to be able to carry its existing losses forward to new account, its assets, liabilities, cash flows and profit or loss would be negatively affected if it can not do so.

Supplemental tax claims for past periods or the elimination of the loss carryforwards could considerably increase Conergy's future tax burden. In addition, changes in the tax law, such as the recently introduced interest deduction ceiling, which severely limits the tax deductibility of interest payments, could also raise the Company's taxes.

Conergy works closely with internal and external experts in order to arrive at reliable and predictable assessments of its tax risks and reduce possible tax burdens by taking appropriate action and decisions.

Risks from joint ventures

Conergy's ability to fully exploit the strategic potential of the regions and markets on which it plans to focus its expansion in years to come could be undermined by its inability to bring about agreements with existing or future regional partners regarding strategy and its execution and/or if its joint venture partners do not perform in the stipulated scope, at competitive prices or at the desired quality. Both could impair Conergy's ability to successfully translate its strategies into practice.

Sharing know-how with partners in the context of joint ventures carries the risk that Conergy will incur a net loss of know-how. This is because the know-how transferred can no longer be protected once Conergy separates from a given joint venture partner. In turn this could spark heightened competition for commodities, preproducts or customers.

Risks from potential noncompliance with requirements applicable to listed companies

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 sales 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 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.

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.

Conergy is exposed to the risk of competitors or others engaging in industrial espionage given its highly visible activities in an attractive market with a promising future and its own high-tech production facility in Frankfurt (Oder). This concerns process and production know-how as well as any other proprietary know-how. Theoretically this could also jeopardise the Company's assets, liabilities, cash flows and profit.

The Conergy Group's current market capitalisation makes the Company a potential target for a takeover by a competitor or vulture company. In that case, the Group could be taken over or broken up.

Opportunities

Aside from resulting in the risks described above, the relevant scenarios can also give rise to opportunities. As a result of the restructuring process that it already initiated in early 2008, the Conergy Group is positioning itself primarily as a downstream provider in the PV market while maintaining its access to upstream know-how through its Frankfurt (Oder) solar factory and voltwerk electronics GmbH in Hamburg, which manufactures electronic components as tracking systems, connection boxes as well as string and central inverters.

The Management Board believes that this process could engender at least the following opportunities that might have a positive effect on the Company's sales, earnings or liquidity. Note that the opportunities described below may not bear fruit at all or in full and that the occurrence of one or more of the aforementioned risks might make it partly or wholly impossible to tap into the positive effects of these opportunities.

Increased profitability of PV units

Falling prices for solar energy systems due to low-price modules and other system components can lead to a noticeable reduction in the cost of investments in PV units per kWp of installed output. If the reduction in systems prices were to noticeably outpace any renewed amendment of laws promoting renewables – existing promotions being the same – the profitability of PV units in certain markets might noticeably improve, provided current interest rates are cut and reasonable refinancing options are available. If this development were to occur simultaneously with the availability of sufficient funds, PV units could be turned into attractive and secure investment options for end customers and investors alike.

Rising demand momentum

The demand for systems in the end customer market is also subject to the elasticity of demand, a factor that has not been adequately analysed to date in regards to PV systems. Any decline in systems prices could conceivably have a substantial impact on the demand for photovoltaics units. High price elasticity could substantially stimulate demand, in turn tightening supplies. There is no doubt that lower investment costs per kWp and alternative investment options would attract many more customer groups and turn PV systems into a reality for everybody in the core photovoltaics markets. Given this backdrop, there is the chance that yet another sharp drop in systems prices could cause demand to soar, provided price elasticity remains high. This also depends on customers' confidence in the future, the stability of their own financial situation as well as their access to adequate own funds and/or funding options.

Renewables as an increasingly attractive separate asset class

The uncertainty in the capital markets as well as the experience of the recent past have unsettled many investors. By definition, alternative energy projects (photovoltaics, wind- and bio plants etc.) offer considerable advantages in these times. In terms of intake and offtake, PV projects have largely been secured by a statutory framework in stable countries or markets that protects them against external effects such as commodities prices, interest rate trends etc. As a result, investments in renewables projects and funds might become even more popular than has been the case to date, which would greatly stimulate demand among major investors for suitable projects and installations. This could have a positive effect on the Company's assets, liabilities, cash flows and profit or loss.

Shift from providers' to buyers' market earlier than predicted

The photovoltaic market is increasingly developing from a provider's to a buyer's market. This can increase the profitability of the downstream segment in comparison to the upstream segment, which is currently enjoying very high rates of return. The fact that many providers are pushing the build-up and expansion of silicon capacities has resulted in a larger supply of silicon in the market. This could enable Conergy to purchase increasing quantities of silicon and silicon-based preproducts at substantially lower prices than before and could possibly attain full capacity utilisation at its Frankfurt (Oder) plant sooner than previously expected.

The development described above could cause profit trends to shift to the benefit of downstream manufacturers, in turn greatly benefiting Conergy in its capacity as a strong downstream player. This could have a positive effect on Conergy's assets, liabilities, cash flows and profit or loss.

Early grid parity

Providing certain assumptions are true, conventional market studies forecast grid parity for key countries by the middle of the next decade. More recent analyses, such as those conducted by Goldman Sachs and McKinsey Quarterly present some of these scenarios. In fact, grid parity could occur earlier than anticipated if electricity prices continue to rise in countries such as Italy or Spain or US states that boast high levels of solar radiation, such as California, or even in Germany. Early grid parity would have a positive effect on consumer demand for photovoltaic systems and installations, which could benefit Conergy. Retail customers would be presented with a choice as to the provenance of their grid power. This would increase the number of projects and individual demand as well as boost demand for photovoltaic system components in general, which in turn would also have a positive effect on Conergy's earnings as a supplier of photovoltaic systems.

Positive US market development

For the US market the company expects a noticeable change in the energy policies in the near future. The US stimulus package (the so-called American Recovery and Reinvestment Act) that President Barack Obama signed into law on 17 February 2009 contains several provisions that could spur growth in the solar industry yet again. According to one of the more notable provisions, up to 30.0 percent of the cost of solar projects will be directly reimbursed under the Renewable Energy Grant Program irrespective of tax liabilities; this programme will be in place for two years. Moreover, loans for financing renewables projects will be guaranteed at the federal level. This provision could increase banks' willingness to finance projects in the renewables industry. And the possibility of obtaining grants for solar energy at the level of individual states in addition to the federal programme will also help to foster growth. The US Solar Energy Industries Association (SEIA) thus expects installed solar output to double in 2009.

Conergy will be able to benefit from the expected positive development of the market, given both its presence in the US market and its references. This could have a positive effect on Conergy's assets, liabilities, cash flows and profit or loss.

Early breakthrough of Concentrated Solar Power (CSP)

A breakthrough in CSP technology could occur earlier than expected. In Spain, government funding for CSP projects is already in place. The Conergy Group is represented in Spain by the EPURON segment. Although EPURON currently has relatively few projects utilising CSP, it is gaining experience in this field. Should CSP technology experience a significant economic breakthrough within the project environment, EPURON will further expand its commitments in this area. EPURON will thereby benefit from the experience it has already gained in the field. This could have a positive effect on Conergy's assets, liabilities, cash flows and profit or loss. At the same time, this could result in a decline in the demand for PV installations.

New markets

Trends in new Eastern European markets such as the Czech Republic or Bulgaria as well as in other markets could stimulate demand for PV systems and thus benefit Conergy if mechanisms aimed at promoting renewables remain sufficiently stable and clear procedural rules are in place. This could have a positive effect on Conergy's assets, liabilities, cash flows and profit or loss.

REPORT OF ANTICIPATED DEVELOPMENT

Global economic developments

Economic experts differ on the depth and duration of the current recession, pointing out that it is exceptionally difficult at present to make any forecasts. While some of them believe that the economy will recover as early as by the middle of 2009, others think that the situation will not begin to improve until 2010. Yet all of them concur that the international financial crisis will sap the economic development of individual countries in 2009. To what extent the actions that individual countries have taken will have a positive effect is not clear at this point.

In Germany, the government expects the economy to shrink by 2.25 percent in 2009 and exports to decline by 8.9 percent. The Institute for World Economy expects GDP in the euro zone to fall by 2.7 percent and that of the United Kingdom by 2.3 percent. Its forecast for the United States of America calls for a 1.0 percent decline in growth. The Japanese economy is also expected to decline by 1.5 percent in 2009.

Prime rates are expected to continue to fall throughout 2009. It is anticipated that both the European Central Bank and the Bank of England will cut their prime rates to 0 percent as has already happened in the United States.

Emerging countries in Central and Eastern Europe as well as in Asia will be unable to escape the ramifications of the global economic downturn given their dependence on the industrialised countries. While the sharp economic downturn in the industrialised countries has caused exports to drop dramatically, declining commodities prices have reduced profits from exports. These countries' previous growth momentum will be greatly dampened in 2009, and demand will weaken.

Development of the industry

Silicon – one of the solar industry's most important preproducts – was in extremely short supply in recent years, leading to extensive investments in the expansion of capacity worldwide. This extensive expansion has greatly increased the availability of modules and their preproducts since the middle of 2008. Market analysts had already anticipated this development and believe that it will have a positive impact on demand in different markets. But the solar industry will not be able to escape the fallout of the worldwide financial and economic crisis, which will substantially affect its growth prospects in the near term. While most studies assume that the PV market's outlook for growth remains good in the long term, there is a wide difference of opinion with respect to its near-term prospects. These forecasts range from dampened growth to stagnating growth all the way to a contracting market. A multitude of factors that are impossible to predict at this time will shape market trends in 2009. Indeed market development might be weak in the short term even though many indicators are pointing to favourable conditions for the solar industry in the medium to long term.

Outlook

It is difficult to predict how long the current downturn of the global economy and the crisis in the financial markets will continue. As a result, forecasts regarding the development of Conergy AG are highly uncertain. This makes it all the more difficult at the present time to predict the future development of the Company with any precision. The Management Board expects the situation to become clearer as the year progresses and plans therefore to provide its outlook for the Company's development at a later date.

However it can already be seen that following a difficult fourth quarter, which was burdened by the financial crisis and the recession in particular, January and February continued to be influenced by the same factors. On the other hand, there was some improvement in business in March, but the comparatively poor preceding months could not be compensated. Accordingly, the Management Board does not assume that it will be able to maintain sales this year on the same level as in 2008. This is also caused by a change in the business model of Epuron, which will lead to lower sales but at the same time to higher gross margins.

Hamburg, Germany, 20 April 2009

Conergy AG
The Management Board

Dieter Ammer

Nikolaus Krane

Philip von Schmeling-Diringshofen

Dr. Jörg Spiekerkötter

Dr. Andreas von Zitzewitz

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CONSOLIDATED INCOME STATEMENT OF THE CONERGY GROUP

EUR million	**Note**	**2008**	**2007**[1]
Sales	8	1,006.2	719.0
Changes in inventories of finished goods and work in progress		−22.0	71.4
Cost of materials		−858.2	−689.5
Gross profit		**126.0**	**100.9**
Personnel costs	9	−113.5	−112.3
Other own work capitalised		7.5	11.6
Other operating income	10	34.8	15.9
Other operating expenses	11	−231.5	−179.3
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**−176.7**	**−163.2**
Depreciation and amortisation	12	−35.8	−50.1
Earnings before interest and taxes (EBIT)		**−212.5**	**−213.3**
Finance income		3.6	11.1
Finance costs		−71.4	−32.9
Net finance income	14	**−67.8**	**−21.8**
Earnings before taxes (EBT)[2]		**−280.3**	**−235.1**
Income taxes	15	26.8	22.1
Result after taxes from continued operations		**−253.5**	**−213.0**
Result after taxes from discontinued operations	6	−53.1	−35.1
Result after taxes		**−306.6**	**−248.1**
Thereof attributable to:			
Shareholders of Conergy AG (Group profit or loss)		−305.3	−247.6
Minority shareholders		−1.3	−0.5
Earnings per share (in EUR)	16		
Basic		−4.67	−7.57
Diluted		−4.67	−7.57
Earnings per share (in EUR) from continued operations	16		
Basic		−3.86	−6.50
Diluted		−3.86	−6.50

[1] Previous year's figures adjusted

[2] Corresponds to earnings from ordinary activities

CONSOLIDATED BALANCE SHEET OF THE CONERGY GROUP

EUR million	Note	31.12.2008	31.12.2007[1]
Non-current assets			
Goodwill	17	17.5	20.7
Intangible assets	17	12.6	20.9
Property, plant and equipment	18	204.0	208.7
Financial assets	19	5.3	4.4
Other assets	20	0.7	0.6
Deferred tax assets	15	79.6	50.3
		319.7	**305.6**
Current assets			
Inventories	21	245.6	345.6
Trade receivables	22	120.9	214.7
Financial assets	19	2.9	9.9
Other assets	20	29.6	73.4
Cash and cash equivalents	25	27.7	62.7
		426.7	**706.3**
Assets held for sale	6	0.4	24.2
		427.1	**730.5**
Total assets		**746.8**	**1.036.1**
Equity attributable to the shareholders of Conergy AG			
Share capital		398.1	35.1
Capital reserve		321.8	307.2
Other provisions		−522.5	−217.8
		197.4	**124.5**
Non-controlling interests		**−0.6**	**0.7**
Total equity	26	**196.8**	**125.2**
Non-current liabilities			
Provisions	27	32.1	14.6
Borrowings	29	86.5	120.0
Other liabilities	31	2.6	13.1
Deferred tax liabilities	15	10.1	20.7
		131.3	**168.4**
Current liabilities			
Provisions	27	12.0	6.1
Current portion of non-current borrowings	29	37.5	30.0
Borrowings	29	193.2	318.8
Trade payables	30	111.2	282.4
Other liabilities	31	58.8	86.6
Current income tax liabilities	15	2.1	2.4
		414.8	**726.3**
Liabilities from assets held for sale	6	3.9	16.2
		418.7	**742.5**
Total equity and liabilities		**746.8**	**1.036.1**

[1] Previous year's figures adjusted

CONSOLIDATED CASH FLOW STATEMENT OF THE CONERGY GROUP

EUR million	**Note**	**2008**	**2007[1]**
Operating result from continued operations		**–212.5**	**–213.3**
Depreciation and amortisation		35.8	50.1
Change in non-current provisions		17.6	12.2
Other non-cash income (–)/expenses (+)		121.6	51.8
Gains (–)/losses (+) from disposal of fixed assets		0.1	0.6
Result from operating activities before changes in net working capital		**–37.4**	**–98.6**
Increase (–)/decrease (+) in inventories		67.5	–222.4
Increase (–)/decrease (+) in trade receivables		84.3	84.3
Increase (–)/decrease (+) in trade payables		–171.2	92.8
Change in other net assets/Other non-cash items		–78.1	–22.8
Income taxes paid (–)/received (+)		3.1	–1.8
Cash generated from operating activities, continued operations		**–131.8**	**–168.5**
Cash generated from operating activities, discontinued operations	6	–29.1	–20.2
Cash generated from operating activities (total)	32	**–160.9**	**–188.7**
Cash receipts from disposal of property, plant and equipment and other assets		1.0	8.7
Cash payments for investments in property, plant and equipment and intangible assets		–34.5	–198.5
Acquisition of subsidiaries less cash acquired		–0.3	–9.5
Cash receipts from the sale of subsidies		11.3	–
Other cash payments for investments in financial assets		–0.8	–2.2
Interest received		2.1	7.0
Net cash generated from investing activities (total)	32	**–21.2**	**–194.5**
Cash receipts from issuance of share capital		399.3	220.0
Cash payments in connection with the acquisition of equity		–32.6	–2.5
Cash receipts from borrowings		116.5	508.1
Cash payments for repayment of borrowings		–277.5	–270.0
Interest paid		–59.3	–30.8
Cash payments for dividends		–	–3.3
Net cash generated from financing activities (total)	32	**146.4**	**421.5**
Change in cash from operating activities (total)		**–35.7**	**38.3**
Cash and cash equivalents as of 01.01.		63.7	25.6
Change from exchange rate changes		–	–0.2
Cash and cash equivalents as of 31.12.	25	**28.0**	**63.7**
Thereof cash and cash equivalents from discontinued operations		0.3	1.0

[1] Previous year's figures adjusted

STATEMENT OF CHANGES IN EQUITY OF THE CONERGY GROUP

	Equity attributable to the shareholders of Conergy AG								
			Other provisions						
			Retained earnings		Cumulative other comprehensive income				
EUR million	**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**
As of 01.01.2007	**30.0**	**94.9**	**43.6**	**−12.3**	**0.2**	**−6.1**	**150.2**	**1.3**	**151.4**
Change in equity not recognised in profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cash flow hedges	–	–	–	–	–	–	–	–	–
Exchange differences from the translation of foreign subsidiaries	–	–	–	–	1.6	–	1.6	–	1.6
Taxes on items recognised directly in equity	–	–	–	–	–	–	–	–	–
Transfer recognised in profit or loss	–	–	–	–	–	6.1	6.1	–	6.1
	30.0	**94.9**	**43.6**	**−12.3**	**1.8**	**–**	**157.9**	**1.3**	**159.2**
Other changes	–	–	–	–	–	–	–	−0.1	−0.1
Capital contributions	5.1	212.4	–	–	–	–	217.5	–	217.5
Dividend payments	–	–	–	−3.3	–	–	−3.3	–	−3.3
Transfers to / withdrawals from reserves	–	−0.1	−1.5	1.5	–	–	−0.1	–	−0.1
Change in equity recognised in profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Result after taxes	–	–	–	−247.6	–	–	−247.6	−0.5	−248.1
As of 31.12.2007 / 01.01.2008	**35.1**	**307.2**	**42.1**	**−261.7**	**1.8**	**–**	**124.5**	**0.7**	**125.2**
Change in equity not recognised in profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cash flow hedges	–	–	–	–	–	–	–	–	–
Exchange differences from the translation of foreign subsidiaries	–	–	–	–	0.6	–	0.6	–	0.6
Taxes on items recognised directly in equity	–	10.8	–	–	–	–	10.8	–	10.8
Transfer recognised in profit or loss	–	–	–	–	–	–	–	–	–
	35.1	**318.0**	**42.1**	**−261.7**	**2.4**	**–**	**135.9**	**0.7**	**136.6**
Other changes	–	–	–	–	–	–	–	–	–
Capital contributions	363.0	3.8[1]	–	–	–	–	366.8	–	366.8
Dividend payments	–	–	–	–	–	–	–	–	–
Transfers to / withdrawals from reserves	–	–	–	–	–	–	–	–	–
Change in equity recognised in profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Result after taxes	–	–	–	−305.3	–	–	−305.3	−1.3	−306.6
As of 31.12.2008	**398.1**	**321.8**	**42.1**	**−567.0**	**2.4**	**–**	**197.4**	**−0.6**	**196.8**

[1] incl. costs for the capital increase in the amount of EUR 32.6 million

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CONERGY GROUP

1. Key figures by segment and region

Segments	Conergy PV		EPURON	
EUR million	**2008**	**2007**	**2008**	**2007**
External sales	741.2	567.9	265.0	151.1
Intersegment sales	179.6	107.6	0.8	1.7
Segment sales (total)	**920.8**	**675.5**	**265.8**	**152.8**
Other operating income	48.4	11.0	16.7	5.4
Segment result (EBIT)	−87.4	−185.0	−30.5	−32.0
Depreciation / amortisation / impairment losses	−29.2	−46.5	−3.6	−8.0
thereof impairment losses	−9.6	−34.7	−2.1	−5.4
Employees FTE[1] (as of 31.12.)	1,445	2,009	189	180

[1] Full time equivalents

Segments	Conergy PV		EPURON	
EUR million	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Segment assets	982.5	1,136.5	336.0	396.6
Segment liabilities	519.4	705.2	292.9	343.8
Segment investments	32.5	196.7	2.0	8.7

Regions	Germany		Rest of Europe		Rest of world	
EUR million	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
External sales	294.8	337.6	496.7	247.5	214.7	133.9
Intersegment sales	367.7	303.3	1.0	5.0	7.8	4.8
Segment sales (total)	**662.5**	**640.9**	**497.7**	**252.5**	**222.5**	**138.7**
Segment result (EBIT)	**−170.4**	**−182.4**	**−6.2**	**−7.0**	**−36.3**	**−24.5**

Regions	Germany		Rest of Europe		Rest of world	
EUR million	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Segment assets	984.3	918.7	594.7	413.7	79.6	96.6
Segment investments	30.4	192.4	1.6	10.3	2.5	2.6
Employees FTE[1] (as of 31.12.)	1,050	1,506	348	504	375	484

[1] Full time equivalents

Reconciliation		Continued operations	
2008	**2007**	**2008**	**2007**
–	–	1,006.2	719.0
−180.4	−109.3	–	–
−180.4	**−109.3**	**1,006.2**	**719.0**
−30.3	−0.5	34.8	15.9
−94.6	3.7	−212.5	−213.3
−3.0	4.4	−35.8	−50.1
–	–	−11.7	−40.2
139	305	1,773	2,494

Reconciliation		Continued operations	
31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
−572.1	−521.2	746.4	1,011.9
−266.2	−154.3	546.1	894.7
–	–	34.5	205.3

Reconciliation		Continued operations	
2008	**2007**	**2008**	**2007**
–	–	1,006.2	719.0
−376.5	−313.1	–	–
−376.5	**−313.1**	**1,006.2**	**719.0**
0.4	**0.6**	**−212.5**	**−213.3**

Reconciliation		Continued operations	
31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**
−912.2	−417.1	746.4	1,011.9
–	–	34.5	205.3
–	–	1,773	2,494

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 energies. 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 20 April 2009, 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 consolidated financial statements were submitted to the Supervisory Board's Audit Committee on 20 April 2009; they were approved by the Supervisory Board at its meeting on 20 April 2009. 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 2008 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. 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.

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.

We distinguish between continuing 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 continuing operations. Discontinued operations are described in note 6.

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.

All amounts, including those related to the previous year, are stated in millions of euros (EUR million) unless indicated otherwise. All figures were commercially rounded to one decimal place. The percentage changes given in both the text and the tables were also commercially rounded to one decimal place.

The following new standards and interpretations had to be applied for the first time to annual periods beginning on or after 1 January 2008:

- **IAS 39 und IFRS 7 (Amendments), Reclassification of Financial Instruments**
  This amendment permits reclassifying certain financial instruments out of the fair value through profit and loss category into other categories that provide for measurement at amortised cost along with impairment tests. These amendments shall be applied retroactively to 1 July 2008. In November 2008, the IASB adopted another amendment to clarify the reclassification's retroactive application, the amendment's effective date and the transition. Conergy's portfolio does not contain any financial instruments that qualify for reclassification.

In addition, the following interpretations also had to be applied to the 2008 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 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)

With the exception of IFRIC 12, all IFRS/IAS and interpretations to be applied for the first time in the 2008 financial year had already been adopted by the EU at the time Conergy's consolidated financial statements were released.

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:

- **IFRS 1 und IAS 27 (Amendment), Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (1 January 2009)**
  This amendment concerns specific rules aimed at simplifying both the first-time preparation of IFRS consolidated financial statements and the determination of the cost of investments in subsidiaries, jointly controlled entities and associates in separate single-entity financial statements and thus does not affect Conergy's consolidated financial statements.

- **IFRS 2 (Amendment), Vesting Conditions and Cancellations (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 currently does not expect the first-time application of this standard to have a material impact on the Group's assets, liabilities, cash flows and profit or loss.

- **IFRS 3 rev. 2008 Business Combination and IAS 27 (Amendment) Consolidated and Separate Financial Statements (1 July 2009)**
  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.

- **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.

- **IAS 1 (Amendment), A Revised Presentation (1 January 2009)**
  Revised IAS 1 basically provides for a change in the recognition of changes in equity. Under this revised version, all changes in equity not arising from transactions with equity holders shall be recognised in the statement of comprehensive income. The components of income may be shown either in a single

statement of comprehensive income or in a separate income statement. In future, solely the changes in equity arising from transactions with equity holders acting in their capacity as such shall be presented in the statement of changes in equity. The Conergy Group is currently reviewing how this amendment will affect the presentation of its assets, liabilities, cash flows and profit or loss.

| **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.

| **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, cash flows and profit or loss.

| **IAS 39 (Amendment), Eligible Hedged Items (1 July 2009)**
In July 2008, the IASB published an amendment to IAS 39 that clarifies under which conditions or for which risks hedge accounting may be applied to specific components of a change in fair value or a change in cash flow hedges. The Conergy Group currently does not expect these amendments to have a material impact on its assets, liabilities, cash flows and profit or loss.

| **Various improvements to IFRSs (1 January 2009)**
In May 2008, the IASB published its Improvements to IFRSs that provide for a total of 35 amendments to 20 standards. The most important of these concern

_ the classification of assets and liabilities held by a subsidiary as available for sale if shares in the subsidiary are for sale and if such sale will result in a loss of control (IFRS 5);
_ the recognition of gains on disposals of certain items of property, plant and equipment held for rental as revenue and costs or cost of materials (IAS 16);
_ the initial fair value measurement of government loans subject to below-market interest rates (IAS 20);
_ the disclosure of the assumptions and measurement parameters used in determining the fair value as the recoverable amount in connection with an impairment test based on the discounted cash flow model (IAS 36);
_ the expensing of advertising and promotional activities at the time the entity has a right to access the relevant goods or has received the services (IAS 38);
_ the classification of property being constructed or developed as a financial investment if it is intended for future use as investment property (IAS 40);
_ the distinction between curtailments and negative past service costs (IAS 19);
_ the clarification that short-term employee benefits are those that arise shortly after the relevant service has been rendered (IAS 19); and
_ the clarification that the amount written down and up in the event of an impairment and its subsequent reversal shall not be allocated to the assets underlying the investment. (IAS 28).

The majority of the changes must be applied for the first time to financial years beginning on or after 1 January 2009. The Conergy Group is currently reviewing what effects individual amendments could have on its assets, liabilities, cash flows and profit or loss.

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

| IFRIC 13, Customer Loyalty Programmes (1 July 2008);
| IFRIC 15, Agreements for the Construction of Real Estate (1 January 2009);
| IFRIC 16, Hedges of a Net Investment in a Foreign Entity (1 October 2008);
| IFRIC 17, Distribution of Non-Cash Assets to Owners (1 July 2009);
| IFRIC 18, Transfers of Assets from Customer (1 July 2009).

With the exception of IFRS 3 / IAS 27, IAS 39, Eligible Hedge Items, IFRIC 15, 16, 17 and 18, 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 the standards and interpretations already adopted 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.

A significant portion of EPURON's business is mainly transacted through 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. While the first two phases of project development and funding constitute EPURON's actual core competence, the construction of the unit in the subsequent three phases – engineering, procurement and construction, jointly also referred to as "EPC" – is provided with the help of subcontractors, which – in the case of photovoltaic – generally are Conergy Group companies. Several IFRS standards apply to the accounting treatment of major projects. For example, IAS 27 concerns the presentation of a parent/subsidiary relationship subject to the special rules in SIC 12 for special purpose entities. According to these rules, a partial profit from services rendered to the project companies must be eliminated in the consolidated financial statements if the relationship between Conergy and the project company is one of parent to subsidiary.

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 as at the balance sheet date and thus must be included in its consolidated financial statements. This requires weighing all aspects of the relationship in connection with the question which party enjoys the majority of the benefits or the question how the majority of opportunities and risks are distributed under SIC 12. Hence the opportunities arising from the realisation of a project are considered in relation to the risks; in turn, this requires weighing the question which party benefits from or incurs the majority of the opportunities and risks arising from the project's realisation and at what point in time it does so. Risks from legislative changes and performance that falls short of targets shall also be considered. It is Conergy's view that the project company's banks and other creditors shall also be included in the analysis of opportunities and risks. In particular, the criterion of equity distribution among the project companies may be decisive to the transfer of opportunities and risks. In this regard, placement of the entire targeted partnership share volume by the project companies, which are generally constituted as limited partnerships, is a material indicator that such a transfer of opportunities and risks has occurred.

When weighing opportunities and risks, measuring them based on monetary performance criteria and weighting each criterion with a probability of occurrence, it is necessary therefore to examine in each individual case who benefits from and incurs the majority of the opportunities and risks, and when. The Company believes that this assessment shall be effected in accordance with individual contractual requirements, taking historical data into account. If Conergy no longer controls the project company, contracts providing for the planning and construction of solar or wind energy installations in accordance with customer specifications are accounted for as construction contracts pursuant to IAS 11 (Construction Contracts).

The goods and services that the Conergy Group delivers and renders to the relevant project company during the period the latter is controlled by the former do not lead to the recognition of sales but instead are treated merely as work in progress that increases inventories. Upon deconsolidation, i. e. at the time at which the project company is no longer controlled by Conergy, a reduction in inventories is matched by the corresponding increase in receivables and the recognition of revenue. In contrast, the treatment follows the PoC method, i. e. IAS 11, if goods and services are delivered and rendered to an already deconsolidated project company.

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 accounting policies 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 such shareholdings as of 31 December 2008.

Companies included in the consolidated financial statements

Besides Conergy AG as the parent company, the consolidated financial statements also comprise 23 domestic and 44 foreign subsidiaries. Pursuant to Section 313 para. 2 and para. 4 German Commercial Code, the required disclosures regarding shareholdings are submitted and announced in the electronic Federal Gazette in a separate register along with the consolidated financial statements and the group management report. In the 2008 financial year, the following changes occurred with respect to the companies included in Conergy's consolidated financial statements:

	31.12.2008			31.12.2007
Number of fully consolidated subsidiaries	**Germany**	**Abroad**	**Total**	**Total**
As of 01.01.	**27**	**56**	**83**	**68**
Additions through acquisition	–	–	–	6
Additions through formation	–	–	–	16
Disposals from sale	1	5	6	–
Other disposals	3	7	10	7
As of 31.12.	**23**	**44**	**67**	**83**

Sixteen companies were no longer included in consolidation in the 2008 financial year as a result of mergers or disposals.

The following table lists the significant subsidiaries included in consolidation:

	Domicile	Percentage of shares owned
Germany		
Conergy Deutschland GmbH	Hamburg (Germany)	100 %
EPURON GmbH	Hamburg (Germany)	100 %
Conergy SolarModule GmbH & Co. KG	Frankfurt (Oder) (Germany)	100 %
Rest of Europe		
Conergy Italia S.p.a.	Vicenza (Italy)	100 %
SUNTECHNICS SISTEMAS DE ENERGIA, SLU	Madrid (Spain)	100 %
EPURON Spain SLU	Madrid (Spain)	100 %
EPURON S.A.R.L.	Paris (France)	100 %
Rest of world		
Conergy Inc.	Santa Fe (USA)	100 %
Conergy Ltd.	Seoul (South Korea)	100 %

The number of project companies existent as of 31 December 2008 developed as follows during the financial year:

	31.12.2008			31.12.2007
Number of project companies	**Germany**	**Abroad**	**Total**	
As of 01.01.	**228**	**214**	**442**	**397**
Additions through acquisition	–	–	–	–
Additions through formation	2	12	14	59
Disposals from sale	21	26	47	14
Other disposals	4	37	41	–
As of 31.12.	**205**	**163**	**368**	**442**
thereof consolidated	36	35	71	113

A total of 71 out of the 368 project companies were consolidated as of 31 December 2008. The remaining project companies were not consolidated given their insignificance to the assets, liabilities, cash flows and profit or loss of the Conergy Group.

See note 6 with respect to the changes arising from acquisitions and disposals by sales.

Conergy Deutschland GmbH, Hamburg, and Conergy SolarModule GmbH & Co. KG, Frankfurt (Oder), utilise the exemption rules pursuant to Section 264 para. 3 and Section 264b 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
Lunepower GmbH	Germany	50.0
EOS Energy Management E.P.E.	Greece	99.0
EPURON Yenilenebilir Enerji Türkei	Turkey	100.0
EPURON Asia Pacific Investment Management pte. ltd.	Singapore	100.0

Their total sales, profit or loss and equity is less than one percent of the Group's consolidated sales, profit or loss and equity.

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" as equity element 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 EUR	31.12.2008	31.12.2007	2008	2007
USD (USA)	1.39	1.47	1.47	1.37
AUD (Australia)	2.03	1.68	1.74	1.63
JPY (Japan)	126.14	164.93	152.45	161.25
KRW (South Korea)	1,839.13	1,377.46	1,606.09	1,276.03

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 to the extent 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 personnel costs and related are only recognised 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 amortised 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 2008 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 reflects the capital costs. 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 9.89 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:

	2008		
EUR million	**Conergy PV**	**EPURON**	**Total**
Germany	1.2	0.2	1.4
Rest of Europe	6.5	–	6.5
Rest of world	8.8	0.8	9.6
	16.5	**1.0**	**17.5**

	2007		
EUR million	**Conergy PV**	**EPURON**	**Total**
Germany	2.9	–	2.9
Rest of Europe	9.6	–	9.6
Rest of world	7.6	0.6	8.2
	20.1	**0.6**	**20.7**

An impairment loss of EUR 0.9 million was recognised on existing goodwill as a result of the impairment test that was conducted during the financial year.

Property, plant and equipment

Property, plant and equipment are recognised 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 financial year just ended, EUR 70.3 million in borrowing costs (previous year: EUR 28.1 million) were recognised as an expense. In contrast to the previous year, no borrowing costs were recognised in the reporting period (previous year: EUR 3.8 million).

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. The material portion of the benefit and risk from the leased property remains 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 recognised 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 finance income. Depreciation is taken based on the useful life of the leased assets or the lease term, whichever is shorter.

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, investments 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, this includes 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,
- Held-to-maturity investments,
- 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 19).

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.

Held-to-maturity investments
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 amortised 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 cost 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 as at 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.

As in the previous year, the Company as of 31 December 2008 held no derivative financial instruments for the purpose of hedging currency risks.

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 as follows: In case of major projects, the percentage of completion is always determined on the basis of the completion of predefined project segments (milestone method). The milestones are defined in coordination with 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, 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 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.

The goods and services that the Conergy Group delivers and renders to the relevant project company during the period the latter is controlled by the former do not lead to the recognition of sales but instead are treated merely as work in progress that increases inventories. Upon deconsolidation, i. e. at the time at which the project company is no longer controlled by Conergy, a reduction in inventories is matched by the corresponding increase in receivables and the recognition of revenue. In contrast, the treatment follows the PoC method, i. e. IAS 11, if goods and services are delivered and rendered to an already deconsolidated project company.

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 6) 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 amortised 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 finance 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.

Provisions for other risks from sales and procurement basically relate to imminent losses from executory contracts. Conergy measures provisions for expected losses at the lower of the expected cost upon fulfillment of the contract and the cost upon termination of the contract.

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 the direct expenditures arising from the restructuring are considered in the measurement of a restructuring provision. Hence this only concerns amounts arising from the restructuring that are not associated with the Company's continuing 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 of the respective countries 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 income 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 are 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 individual members of its Management Board based on stock appreciation rights on shares of Conergy AG.

The share-based payment programme based on stock appreciation rights embodied in phantom stock options has a term of three years overall starting 17 November 2007. These phantom options are divided into three tranches with terms of one, two and 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. Unexercised options may be carried over to the next two tranches.

The share-based compensation programme in the form of stock appreciation rights has a term of three years starting 1 September 2008. These stock appreciation rights were divided into two tranches of 50 percent each. The first tranche may be exercised at the earliest upon expiration of a waiting period of six months, and the second tranche at the earliest upon expiration of a waiting period of one year and six months from 1 September 2008. Furthermore, the exercisability of stock appreciation rights is also tied to the positive development of Conergy AG's share price. The first tranche may be exercised only if and as soon as the Company's share exceeds the price previously fixed as the base price by at least 10 percent, at the earliest, on the thirtieth trading day at the Frankfurt (Main) Stock Exchange prior to expiration of the waiting period of the stock appreciation rights and no later than prior to the expiration of the overall maturity. The second tranche may only be exercised if the share price exceeds the base price by at least 20 percent under the same conditions. Any exercise of the stock appreciation rights is ineffective absent the fulfillment of these performance targets. Stock appreciation rights must be exercised no later than by the stock's final maturity; if not, they will be forfeited outright without compensation.

All work obtained in return for the options is recognised in personnel costs. The expense to be recognised is calculated based on the fair value of the 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 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 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 and result in a commensurate reduction in depreciation in the subsequent period.

4. 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.

Management wishes to point out that future events frequently deviate from forecasts and that estimates frequently require routine adjustments.

We also assume that geopolitical conditions will remain stable. This assessment is also based on the underlying assumption that the problems resulting from the international financial crisis will not continue to intensify dramatically. The international financial crisis that was triggered by developments gone awry in the US mortgage market has already had an impact on macroeconomic developments, especially in the United States and other industrialised countries. The financial sector is expected to have negative reverberations throughout the goods and services markets in 2009 as well. The risk of an even deeper and prolonged recession will increase if the economic and financial policies that have been put in place to date fail to restore confidence in the financial market. In that case, the banks' liquidity problems will continue to constrict lending, investments will fall even further and higher unemployment as well as declining consumption will further crimp economic expectations.

In this connection, please also see the disclosures in the risk report of Conergy Group's management report.

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 Conergy PV 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 2008, EUR 11.3 million (previous year: EUR 100.5 million) 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 12). 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 2008, the carrying amount of the goodwill was EUR 17.5 million (previous year: EUR 20.7 million).

| **Development costs**

The Group reviews the carrying amount of capitalised development costs at least once a year. The Management Board usually bases amortisation 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 EUR 1.2 million (previous year: EUR 14.2 million) in additions to development costs as of 31 December 2008. A total of EUR 7.2 million (previous year: EUR 9.1 million) in capitalised development costs from previous years were written down in the financial year just ended due to technical adjustments and the restructuring decisions that were made.

| **Impairment of assets**

The Group must assess at every reporting date whether there is any indication that the carrying amount of an item of property, plant and equipment or an intangible asset might be impaired. If so, the recoverable amount of the relevant asset is estimated. The recoverable amount corresponds to the higher of the fair value less disposal costs and the value in use. The value in use is determined based on the discounted future cash flows of the relevant asset. Estimating the discounted future cash flows entails making material assumptions, especially with respect to future selling prices and volumes as well as to the cost of the discounting rates. As of 31 December 2008, the carrying amount of the Company's property, plant and equipment – which essentially concerns the Frankfurt (Oder) production site – was EUR 204.0 million (previous year: EUR 208.7 million).

| **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 assets, liabilities, cash flows and profit or loss. The deferred tax assets previously recognised must be written down to profit and loss if they are impaired. As of 31 December 2008, recognised tax loss carryforwards for corporate income and municipal trade tax purposes, respectively, were EUR 213.6 million and EUR 140.0 million (previous year: EUR 160.0 million and EUR 96.0 million, respectively). No deferred tax assets were recognised for tax loss carryforwards of EUR 139.4 million (previous year: EUR 140.7 million) in corporate income taxes and EUR 137.1 million (previous year: EUR 153.0 million) 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.

As a result of the capital increase carried out in December 2008, Dresdner Bank AG has become a direct equity owner, holding 38.99 percent of Conergy AG's share capital.

Due to the direct change in shareholders as a result of the capital increase, which led to Dresdner Bank holding equity in excess of 25 percent, application of Section 8c German Corporate Income Tax Act – which was newly promulgated as part of the business tax reform and is effective from 2008 – we expect, at the level of Conergy AG and its indirectly affected domestic subsidiaries, 38.99 percent of both existing tax loss carryforwards as of 31 December 2007 (corresponding to EUR 74.1 million and EUR 49.3 million, respectively, in corporate income and municipal trade tax loss carryforwards) and pro rata losses incurred in 2008.

Additional indirect or direct acquisitions of equity interests in the share capital of Conergy AG may result in the renewed application of Section 8 c German Corporate Income Tax Act and hence the additional elimination of tax loss carryforwards after the reporting date. For further details we refer to note 15.

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 requires 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.

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 amortised 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.

5. 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.

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.

Even after the capital increase carried out in December 2008, the Company can not engage in currency hedging at the present time due to its tight earnings and financial position; Conergy plans to resume currency hedging transactions as soon as possible.

In this connection, please see the disclosures in the risk report of Conergy's Group management report.

Market risks

Currency risks
The Group is exposed to foreign currency risks due to the international nature of its business.

Currency risks on the one hand arise from the fact that a number of the Group's consolidated companies report their figures in currencies other than the euro, which means that Conergy has to convert the relevant items into euro when preparing its consolidated financial statements ("translation risk"). On the other hand, currency risks can also arise if revenue of a certain member of the Conergy Group is achieved in currencies different from those of the associated costs ("transaction risk"). A considerable portion of these transactions are settled in US dollars (USD), Japanese yen (JPY) and South Korean won (KRW). The risks from US dollars and Japanese yen stem mainly from long-term procurement contracts in the relevant currency, pursuant to which the Conergy Group has undertaken to accept goods against payment in US dollars or Japanese yen. Changes in the respective currency relations can intensify or counteract fluctuations in commodities prices. A decline in the value of the euro vis-à-vis the US dollar or the Japanese yen can have a negative impact on Conergy's gross profit margin. Unfavourable conditions (notably rising commodities prices due to the rising US dollar or Japanese yen) can trigger additional expenses in the procurement of raw materials in the short term, in turn substantially affecting Conergy's earnings and liquidity. The risk from South Korean won arises mainly from transactions with local subsidiaries that receive payment in won and subsequently exchange them for US dollars. Delivery and procurement contracts with extended payment terms such as for example the MEMC contract give rise to translation risks as well as transaction risks that cannot be hedged. The sales and earnings of the Conergy Group might thus be affected by fluctuations in the relative value of the Company's main currencies.

Even after the capital increase carried out in December 2008, the Company can not engage in currency hedging at the present time due to its tight earnings and financial position; Conergy plans to resume currency hedging transactions as soon as possible.

Usually, 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.

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 assets, liabilities, cash flows and profit or loss. 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 of 31 December 2008 would have been EUR 7.7 million. Of this amount, EUR 0.3 million relate to the Australian dollar and EUR 7.4 million to the US dollar. There were no effects on equity because no derivatives were used as of 31 December 2008 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 2008 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 strategies 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 (of EUR 22.5 million each), 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

The Conergy Group's failed strategy of expanding aggressively into new technologies, value added stages as well as geographic markets and simultaneously acquiring new companies had a substantial impact on the Group's assets, liabilities, cash flows and profit or loss, sparking an earnings and liquidity crisis.

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 12 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 an originally EUR 600 million syndicated loan with fixed terms of, respectively, three and four and a half years. The loan is divided into two tranches and will provide funding for the construction of the production facility in Frankfurt (Oder) (Tranche A) as well as enable the Conergy Group to refinance its existing credit facilities and finance its working capital and guarantee requirements (Tranche B with a revolving facility of EUR 250.0 million and a guarantee and documentary credit facility of EUR 200.0 million). Tranche A, amounting to EUR 150.0 million, is to be repaid by 31 December 2011, in half-yearly installments starting on 30 June 2008. In this regard in 2008 EUR 37.5 million were repaid as agreed upon. Tranche B, amounting to EUR 450.0 million is due for total repayment on 31 July 2010, unless the banks approve an application for extending Tranche B's term to 31 July 2011 or 31 July 2012, as the case may be. 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 originally 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 bridge facility's initial term ended at the end of September 2008 but was extended to the end of December 2008. It served to plug the Company's liquidity needs until the capital increase in December 2008 and was repaid in early December 2008.

The Financial Covenants for the syndicated loan were suspended for the 2008 and 2009 financial years. The parties intend to agree new Covenants for the years after 2009 in due time. Compliance with the new financial ratios to be negotiated by 30 September 2009 based on the new capital structure and a new business plan must, again, be established on 31 March 2010.

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:

EUR million	up to 1 year	1 to 5 years	more than 5 years
As of 31.12.2008			
Borrowings	224.9	86.5	–
Derivative financial instruments	5.8	–	–
Trade payables	111.2	–	–
Leasing liabilities	11.3	25.1	21.1
As of 31.12.2007			
Borrowings	335.4	120.0	–
Derivative financial instruments	13.2	–	–
Trade payables	282.4	–	–
Leasing liabilities	11.1	29.0	1.0

The variable interest payments related to the liabilities were determined based on the interest rates last applied prior to 31 December 2008. 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.

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 19).

As a rule, all customers wanting to do business with the Conergy Group are 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

In addition to bringing about a sustained increase in the enterprise value, managing the finances of the Conergy Group is also aimed at maintaining an adequate capital structure. Gearing thus serves as an additional financial ratio in our management control system. It is defined as the ratio of net liabilities (borrowings less liquid funds) to equity. Repaying borrowings as well as boosting the equity base through retained earnings and / or capital increases serve as controlling instruments. We aim to achieve a gearing of 100.0 percent in the medium term, i.e. a 1:1 ratio of equity to net financial liabilities. The increase in equity following the capital increase and the simultaneous decrease in net financial liabilities clearly improved gearing year on year. Gearing developed as follows:

Net liabilities

		31.12.2008	31.12.2007[1]
Borrowings	EUR million	317.2	468.7
Liquid funds	EUR million	27.7	62.7
Net liabilities	EUR million	**289.5**	**406.0**
Equity	EUR million	196.8	125.2
Gearing	in percent	**147.1**	**324.3**

[1] Previous year's figures adjusted

As before, it is our foremost economic goal in the 2009 financial year to improve the key performance indicators EBITDA, EBIT, working capital and gearing.

6. Changes in the consolidated group

Acquisitions

On 30 May 2008, Conergy AG purchased 16.8 percent of the shares in Conergy Inc., Alberta, Canada, at a purchase price of EUR 0.3 million, increasing its total equity interest in this company to 96.8 percent. No other acquisitions were made in the financial year just ended.

Discontinued operations

The discontinued operations include the solar thermal business unit and the biomass business unit. The Conergy Group has disposed of its thermal activities in Belgium, the Netherlands and Austria in the first quarter of 2008. The sale also included the Belgian entity Conergy bvba, domiciled in Lille, Belgium. 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. Conergy GmbH domiciled in Althofen, Austria, and SunTechnics Energy Systems nv domiciled in Lille, Belgium, were also sold. The incoming payment from the sale of these entities totaled EUR 10.3 million. In addition, the Company's Management Board resolved in the second quarter of 2008 to stop manufacturing wind turbines. This affects Conergy Wind GmbH domiciled in Bremerhaven; effective 30 June 2008, the company was thus also treated as a discontinued operation. The sale of the business of Conergy Wind GmbH agreed and announced on 9 September 2008 by Conergy AG and Warburg Pincus was completed in October 2008. In this context Conergy accrued EUR 1.0 million. The development, financing and implementation of wind energy projects will be continued in the EPURON segment.

By resolution of the Management Board in December 2008, the solar thermal business of Conergy GmbH in Switzerland and the heat pump manufacturing business of Conergy Wärmepumpen GmbH in Güstrow are treated as continuing operations in the Conergy PV segment and no longer as discontinued operations. The relevant previous year's figures were adjusted to reflect the aforementioned adjustments during the financial year in regards to discontinued operations. Validation changes were not necessary in this case.

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

EUR million	31.12.2008	31.12.2007[1]
Assets		
Goodwill	–	–
Intangible assets	–	3.1
Property, plant and equipment	–	3.8
Inventories	–	9.2
Other current assets	0.1	7.1
Cash and cash equivalents	0.3	1.0
	0.4	**24.2**
Liabilities		
Borrowings	–	0.5
Trade payables	2.3	6.4
Other liabilities	1.6	9.3
	3.9	**16.2**

[1] Previous year's figures adjusted

Write-downs of EUR 38.1 million 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:

EUR million	2008	2007[1]
Sales	1.2	29.4
Expenses	−55.2	−62.9
Result before taxes from discontinued operations	**−54.0**	**−33.5**
Income taxes	0.9	−1.6
Result after taxes from discontinued operations	**−53.1**	**−35.1**
Thereof valuation gains/losses from value adjustments of assets and liabilities	−38.1	−16.2
Current profits/losses	–	–

[1] Previous year's figures adjusted

The increase in the loss from discontinued operations is mainly due to the sale of the business of Conergy Wind GmbH, which resulted in a one-off and essentially non-cash impact on discontinued operations of approximately EUR 38.1 million and to the losses incurred from operations amounting to EUR 7.6 million, both of which had a material effect on the assets, liabilities, cash flows and profit or loss of the Conergy Group.

The losses related to the disposal essentially result from depreciation, amortisation and impairment losses on non-current and current assets.

Discontinued operations account for the following net cash flows:

EUR million	2008	2007[1]
Cash flow from operating activities	−29.1	−20.2
Cash flow from investing activities	–	−4.5
Cash flow from financing activities	–	–
Cash flow from discontinued operations	−29.1	**−24.7**

[1] Previous year's figures adjusted

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

7. Segment disclosures

Segment reporting was prepared in accordance with IAS 14 (Segment Reporting). Individual consolidated data are reported by business units in keeping with 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).

The segment table solely shows the Company's continuing operations. Comments on its discontinued operations are contained in note 6.

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 2008, the Conergy Group was managed via two divisions operating internationally 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 PV	In its Conergy PV segment, Conergy develops, produces and markets solar cells, solar modules, module frames, and mounting systems. Conergy also develops electronic components in this segment.
EPURON	In its EPURON segment, Conergy develops, finances, implements and operates major renewables projects worldwide via the EPURON Group companies.

Segment classification was changed relative to the previous year's consolidated financial statements due to the Company's strategic realignment. The Company's activities are managed by means of the two divisions, Components and Sales & Systems, which comprise the Photovoltaics segment, and by the EPURON segment. The Components division includes all production activities. The Sales & Systems division bundles the previous activities of Conergy and SunTechnis. The EPURON segment entails the development and financing of major projects. The segment table solely shows the Company's continuing operations. Comments on its discontinued operations are contained in note 6. Previous year's figures were adjusted accordingly.

Intersegment sales include the sales from transactions between segments. The transfer prices for intraGroup sales are determined at arm's length.

During reconciliation, intraGroup items are eliminated and income, expenses, assets and liabilities not directly attributable to the segments are disclosed. This includes, in particular, the activities of the Group holding company, the financial liabilities and financial assets as well as the cash and cash equivalents and the deferred and current income tax assets and liabilities.

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

8. Sales

Sales are comprised of the following:

EUR million	2008	2007
Sales from the sale of goods	683.0	419.7
Sales from services rendered	289.3	261.5
Services realised under construction contracts (PoC)	33.9	37.8
	1,006.2	**719.0**

The 2007 sales of EUR 719 million is EUR 13.5 million higher than reported in the 2007 annual report due to the reclassification of discontinued operations. For further details on the changes in the consolidated group, please see the comments in note 6.

Sales of EUR 190.6 million (previous year: EUR 237.2 million) were recognised on a total of 42 settled projects (previous year: 49 projects). Sales of EUR 33.9 million (previous year: EUR 37.8 million) was recognised using the PoC method.

9. Personnel costs

EUR million	2008	2007
Wages and salaries	−98.7	−96.0
Social security costs	−14.8	−16.3
	−113.5	**−112.3**

The wages and salaries include bonuses of EUR 14.3 million (previous year: EUR 11.8 million) and termination benefits of EUR 3.4 million (previous year: EUR 2.3 million).

10. Other operating income

The other operating income is comprised of the following:

EUR million	2008	2007
Currency changes	11.7	11.5
Deconsolidation income	6.1	4.2
Income from the disposal of non-current assets	7.7	0.2
Other operating income	9.3	–
	34.8	**15.9**

The income from the reversal of provisions mainly concerns the reversal of unused provisions recognised in the 2007 financial year that had been recognised in connection with restructuring measures and guarantee risks related to the project business. The write-ups of receivables contain payments received for receivables previously written down.

The other operating income also encompasses a multitude of numerically minor individual items related to the Group's 68 consolidated companies.

11. Other operating expenses

The other operating expenses are comprised of the following:

EUR million	2008	2007
Bad debt allowance	−54.4	−28.2
Currency changes	−41.6	−18.6
Legal and consulting expenses	−33.3	−21.9
Rental and lease contracts	−17.0	−11.8
Warranty costs	−10.4	−14.6
Distribution costs	−9.6	−20.3
Production-related expenses	−7.5	−7.9
Other personnel costs	−7.2	−11.1
Other operating expenses	−50.5	−44.9
	−231.5	**−179.3**

The expenses for bad debt allowances essentially result from the correction of a receivable in the amount of EUR 42.1 million from MEMC Electronic Materials, Inc. Please see the disclosures regarding events after the balance sheet date for information on the status of the contractual relationship with MEMC. The remaining writedowns were due to a lack of creditworthiness on the part of customers. This development was caused for one by problems in individual projects and for another by the general deterioration in the economic environment; taken together, these factors have had a negative effect on the profitability of the Conergy Group's projects.

Conergy is employing numerous consultants who work in finance (banks), the law, restructuring, auditing and consulting who support and guide the Company in the restructuring process. In 2008, the consultancy fees incurred by the Conergy Group amounted to approx. EUR 33.3 million (EUR 21.9 million in the previous year).

Other personnel costs relate primarily to expenses for contract and temporary workers.

The cost of sales contain travel and advertising costs.

The other operating expenses include expenses of EUR 20.2 million from the measurement of contracts.

Other operating expenses in 2008 also contain expenses for maintenance and gas, electricity and water EUR 7.8 million (previous year: EUR 3.0 million); communications and office equipment EUR 4.5 million (previous year: EUR 5.1 million); cars and other vehicles EUR 3.5 million (previous year: EUR 3.5 million); as well as insurance, contributions, fees and other charges EUR 3.2 million (previous year: EUR 3.0 million).

Other operating costs encompass a multitude of numerically minor individual items related to the Group's 68 consolidated companies.

12. 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:

EUR million	2008	2007
Impairment of goodwill	−0.9	−21.8
Impairment of own development services	−7.3	−9.1
Impairment of other intangible assets and of property, plant and equipment	−3.5	−9.3
Depreciation and amortisation	−24.1	−9.9
	−35.8	**−50.1**

For further details on the adjustments to goodwill, please see the comments in note 4.

The previous year's impairment losses on property, plant and equipment concern assets at the Frankfurt (Oder) production facility.

13. 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.

Net profit or loss by measurement category

EUR million	2008	2007
Loans and receivables	−9.6	−28.2
Financial investments held to maturity	–	–
Available-for-sale financial assets	–	–
Financial instruments held for trading	−8.0	−11.3
Borrowings measured at amortised cost	−9.1	2.8
	−26.7	**−36.7**

A total of EUR 9.6 million in losses from loans and receivables (previous year: EUR 28.2 million) result from the adjustments as well as from write-downs on trade receivables.

The net losses of EUR 8.0 million (previous year: EUR 11.3 million) from financial instruments held for trading essentially comprise the result of the measurement of the derivative financial instruments.

The net loss of EUR 9.1 million (previous year: net gains EUR 2.8 million) from financial liabilities measured at amortised cost essentially resulted from currency translation.

14. Net finance income

Net finance income is comprised of the following elements:

EUR million	2008	2007
Finance income	3.6	11.1
Finance costs	−71.4	−32.9
	−67.8	**−21.8**
Thereof financial instruments in measurement categories pursuant to IAS 39		
Loans and receivables	−3.2	2.7
Financial investments held to maturity	–	0.0
Available-for-sale financial assets	–	–
Borrowing measured at amortised cost	−60.8	−28.1
	−64.0	**−25.3**

The net finance loss of the Conergy Group is essentially the result of the Company's high net borrowing. This is substantially due to the two-tranche syndicated loan for originally EUR 600 million (tranche A for EUR 450 million and tranche B for EUR 150 million) as well as the bridge loan for EUR 240.0 million stipulated in early February 2008, which was repaid in early December 2008 as part of the capital increase.

Net finance income contains net loss of EUR −6.9 million (previous year: net gains of EUR 2.5 million) from financial instruments recognised in profit or loss at fair value.

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

15. 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:

EUR million	2008	2007
Current income taxes	−3.2	−2.9
Deferred income taxes	30.0	25.0
	26.8	**22.1**

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

EUR million	2008	2007
Result before taxes from continued operations	**−280.3**	**−235.1**
Result before taxes from discontinued operations	−54.0	−33.5
Earnings before taxes (total)	**−334.3**	**−268.6**
Theoretical income tax rate for the Company in percent	31.5	40.4
Expected tax income (+)/expense (–)	**105.3**	**108.5**
Effects of tax rate changes in future years	1.0	−17.5
Municipal trade tax additions/deductions	−5.6	−1.2
Effects of previous years' taxes recognised in the financial year	1.4	2.7
Effects due to tax rates deviating from the theoretical income tax rate	−0.5	2.0
Effects of non-taxable income	−16.0	2.6
Permanent effects	−3.7	−9.9
Effects of non-deductible expenses	−2.1	−1.7
Effects of non-recognition and subsequent recognition of deferred tax assets	−53.8	−59.6
Effects of the elimination of tax loss carryforwards	−19.8	–
Effects of the adjustment of tax loss carryforwards	15.6	–
Other differences	5.9	−5.4
Current income taxes (total)	**27.7**	**20.5**
Effective income tax rate in percent	8.3	7.6
thereof current income taxes from discontinued operations	0.9	−1.6
Effective income tax from continued operations	**26.8**	**22.1**
Effective income tax rate in percent	9.6	9.4

A corporate income tax rate of 15 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: 30 percent in Spain; 25 percent in Austria; 33.3 percent in France; 38.8 percent in the USA; 30 percent in Australia; 31.4 percent in Italy; and 23.3 percent in Switzerland.

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

	Deferred tax assets		Deferred tax liabilities	
EUR million	**2008**	**2007**	**2008**	**2007**
Intangible assets	32.8	0.1	1.5	4.1
Property, plant and equipment	0.2	0.7	0.5	0.3
Receivables and other financial assets	0.4	5.8	4.3	3.4
Inventories	37.8	–	–	14.7
Provisions	6.1	1.1	0.4	0.8
Other liabilities	3.2	0.5	40.2	26.7
Trade payables	0.4	25.4	27.5	0.7
Capitalised tax loss carryforwards	63.0	46.7	–	–
	143.9	**80.3**	**74.4**	**50.7**
Netting	64.3	30.0	64.3	30.0
Deferred taxes recognised	**79.6**	**50.3**	**10.1**	**20.7**

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.

The Company's total allowable corporate income and municipal trade tax loss carryforwards at the balance sheet date were EUR 213.6 million and EUR 140.0 million, respectively (previous year: EUR 160.0 million and EUR 96.0 million, respectively). 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. In the 2009 financial year, tax measures related to the restructuring of the Company's activities such as for instance the transfer of subsidiaries' activities will be considered if they permit the use of tax loss carryforwards. The utilization of the recognised tax loss carryforwards is as follows:

EUR million	**2008**	**2007**
Up to 1 year	–	19.7
1 to 5 years	17.8	8.6
More than 5 years	335.8	227.7
	353.6	**256.0**

No deferred tax assets were recognised for corporate income tax and municipal trade tax loss carryforwards of EUR 139.4 million and EUR 137.1 million (previous year: EUR 140.7 million and EUR 153.0 million). The utilization of unrecognised tax loss carryforwards is as follows:

EUR million	**2008**	**2007**
Up to 1 year	0.9	2.5
1 to 5 years	0.6	0.3
More than 5 years	275.0	290.9
	276.5	**293.7**

Due to the direct change in shareholders as a result of the capital increase, which led to Dresdner Bank holding equity in excess of 25 percent, application of Section 8 c German Corporate Income Tax Act – which was newly promulgated as part of the business tax reform and is effective from 2008 – we expect, at the level of Conergy AG and its indirectly affected domestic subsidiaries, 38.99 percent of both existing tax loss carryforwards as of 31 December 2007 (corresponding to EUR 74.1 million and EUR 49.3 million, respectively, in corporate income and municipal trade tax loss carryforwards) and pro rata losses incurred in 2008. The corporate and municipal trade tax loss carryforwards as at 31 December 2008 no longer contain the tax loss carryforwards that were eliminated.

Due to Commerzbank AG's takeover and integration of Dresdner Bank AG, Section 8 German Corporate Income Tax Act will be applied yet again in 2009.

Deferred tax liabilities of EUR 42.7 million (previous year: EUR 55.5 million) 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 five percent for dividends paid into account. There is no plan to pay out the retained profits.

16. Earnings per share

	2008	**2007**
Result from continued operations applicable to shareholders of Conergy AG in EUR million	–252.2	–212.5
Result applicable to shareholders of Conergy AG in EUR million	–305.3	–247.6
Adjustment of results for finance costs for diluting instruments in EUR million	–	–
Adjusted result from continued operations in EUR million	–252.2	–212.5
Adjusted result applicable to shareholders of Conergy AG in EUR million	–305.3	–247.6
Weighted average number of shares issued	65.338.928	32,699,203
Potential effect of diluting instruments (number)	–	–
Adjusted average number of no-par shares issued	65.338.928	32,699,203
Basic earnings per share		
from continued operations in EUR	–3.86	–6.50
from discontinued operations in EUR	–0.81	–1.07
Earnings per share applicable to the shareholders of Conergy AG in EUR	**–4.67**	**–7.57**
Diluted earnings per share		
from continued operations in EUR	–3.86	–6.50
from discontinued operations in EUR	–0.81	–1.07
Earnings per share applicable to the shareholders of Conergy AG in EUR	**–4.67**	**–7.57**

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.

Given Conergy AG's net loss of EUR –138.6 million as of 31 December 2007, the General Shareholders' Meeting resolved on 28 August 2008 not to distribute any dividend for the 2007 financial year. The annual deficit pursuant to the annual financial statements of Conergy AG as of 31 December 2008 was EUR –240.1 million.

Conergy's Management Board und Supervisory Board propose to the Annual Shareholders' Meeting not to pay any divident for the 2008 financial year.

DISCLOSURES AND COMMENTS ON THE CONSOLIDATED BALANCE SHEET

17. Intangible assets and goodwill

EUR million	Goodwill	Industrial property rights	Development services	Other intangible assets and advance payments made	Total
As of 01.01.2007					
Cost	29.4	12.6	13.0	0.3	55.3
Cumulative amortisation and impairment losses	–	−2.3	−1.9	–	−4.2
Net carrying amount	**29.4**	**10.3**	**11.1**	**0.3**	**51.1**
Development in 2007					
Net carrying amount as of 01.01.2007	29.4	10.3	11.1	0.3	51.1
Currency changes	0.0	0.0	0.0	–	0.0
Acquisitions	12.9	–	–	–	12.9
Investments	6.9	4.0	14.2	4.5	29.6
Disposals	−0.6	−2.8	−2.8	–	−6.2
Reclassification to current assets	−6.1	−3.2	−2.7	–	−12.0
Amortisation	–	−2.1	−0.8	–	−2.9
Impairment losses	−21.8	–	−9.1	–	−30.9
Reclassifications	0.0	0.7	–	−0.8	−0.1
Net carrying amount as of 31.12.2007	**20.7**	**6.9**	**9.9**	**4.0**	**41.5**
As of 31.12.2007					
Cost	51.1	13.8	21.8	4.0	90.7
Cumulative amortisation and impairment losses	−30.4	−6.9	−11.9	0.0	−49.2
Net carrying amount	**20.7**	**6.9**	**9.9**	**4.0**	**41.5**
Development in 2008					
Net carrying amount as of 01.01.2008	20.7	6.9	9.9	4.0	41.5
Currency changes	−0.2	0.0	0.1	0.1	0.0
Acquisitions	0.3	–	–	–	0.3
Investments	2.1	4.8	1.2	3.1	11.2
Disposals	0.0	0.0	0.0	0.0	0.0
Reclassification to current assets	−4.5	–	–	–	−4.5
Amortisation	–	−4.2	−0.8	−2.4	−7.4
Impairment losses	−0.9	−3.0	−7.3	–	−11.2
Reclassifications	0.0	−0.9	–	1.0	0.1
Net carrying amount as of 31.12.2008	**17.5**	**3.6**	**3.1**	**5.8**	**30.0**
As of 31.12.2008					
Cost	47.8	10.9	23.6	7.1	89.4
Cumulative amortisation and impairment losses	−30.3	−7.3	−20.5	−1.3	−59.4
Net carrying amount	**17.5**	**3.6**	**3.1**	**5.8**	**30.0**

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

18. Property, plant and equipment

EUR million	Land and buildings	Machinery	Other plant and equipment	Advance payments made and assets under construction	Total
As of 01.01.2007					
Cost	5.2	3.3	12.4	47.3	68.2
Cumulative depreciation and impairment losses	–0.5	–0.9	–3.6	–	–5.0
Net carrying amount	**4.7**	**2.4**	**8.8**	**47.3**	**63.2**
Development in 2007					
Net carrying amount as of 01.01.2007	4.7	2.4	8.8	47.3	63.2
Currency changes	–	0.0	–0.1	–	–0.1
Acquisitions	–	0.0	0.1	–	0.1
Investments	49.9	102.4	8.1	15.3	175.7
Disposals	–	–0.3	–1.3	–8.2	–9.8
Reclassification to current assets	–1.8	–1.3	–0.2	–0.9	–4.2
Depreciation	–0.2	–3.0	–3.2	–0.6	–7.0
Impairment losses	–	–	–	–9.3	–9.3
Reclassifications	–	1.4	0.2	–1.5	0.1
Net carrying amount as of 31.12.2007	**52.6**	**101.6**	**12.4**	**42.1**	**208.7**
As of 31.12.2007					
Acquisition and production cost	52.9	105.0	17.4	51.4	226.7
Cumulative depreciation and impairment losses	–0.3	–3.4	–5.0	–9.3	–18.0
Net carrying amount	**52.6**	**101.6**	**12.4**	**42.1**	**208.7**
Development in 2008					
Net carrying amount as of 01.01.2008	52.6	101.6	12.4	42.1	208.7
Currency changes	0.0	–0.1	–0.3	0.0	–0.4
Investments	8.5	0.1	0.0	14.7	23.3
Disposals	–	–	–0.1	–	–0.1
Reclassification to current assets	–8.6	–1.5	–0.1	–	–10.2
Depreciation	–1.6	–11.7	–3.4	–	–16.7
Impairment losses	–	–	–0.5	–	–0.5
Reclassifications	19.0	–0.4	4.4	–23.1	–0.1
Net carrying amount as of 31.12.2008	**69.9**	**88.0**	**12.4**	**33.7**	**204.0**
As of 31.12.2008					
Acquisition and production cost	73.4	104.3	21.0	43.0	241.7
Cumulative depreciation and impairment losses	–3.5	–16.3	–8.6	–9.3	–37.7
Net carrying amount	**69.9**	**88.0**	**12.4**	**33.7**	**204.0**

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

19. Financial assets

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

EUR million	Loans and receivables	Financial instruments held for trading	Derivatives with a hedging relationship	Financial investments held to maturity	Carrying amount	Fair value
As of 31.12.2007						
Assets						
Non-current financial assets	4.4	–	–	–	4.4	4.4
Trade receivables	214.7	–	–	–	214.7	214.7
Current financial assets	9.5	0.4	–	–	9.9	9.9
Cash and cash equivalents	62.7	–	–	–	62.7	62.7
	291.3	**0.4**	**–**	**–**	**291.7**	**291.7**
As of 31.12.2008						
Assets						
Non-current financial assets	5.3	–	–	–	5.3	5.3
Trade receivables	120.9	–	–	–	120.9	120.9
Current financial assets	2.9	–	–	–	2.9	2.9
Cash and cash equivalents	27.7	–	–	–	27.7	27.7
	156.8	**–**	**–**	**–**	**156.8**	**156.8**

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.

20. Other assets

EUR million	31.12.2008	31.12.2007
Other assets	30.3	74.0
Thereof		
Receivables from the tax office	21.2	44.4
Prepaid expenses	0.8	7.7
Other current assets	7.5	21.3
Non-current	0.7	0.6

EUR 21.2 million (previous year: EUR 44.4 million) in receivables from the tax authority primarily concern input VAT receivables and are due within one year.

Other assets in the amount of EUR 7.5 million (previous year: EUR 21.3 million) comprise a multitude of numerically minor individual items related to the Group's 68 consolidated companies.

21. Inventories

EUR million	31.12.2008	31.12.2007
Raw materials and consumables	26.8	26.2
Work in progress	60.6	53.9
Finished goods	144.4	228.2
Advance payments made	13.8	37.3
	245.6	**345.6**

In 2008, the following inventories were recognised at their lower fair values net of distribution expenses:

EUR million	31.12.2008	31.12.2007
Raw materials and consumables		
Carrying amount before impairment	29.4	27.8
Less impairment	−2.6	−1.6
Carrying amount	**26.8**	**26.2**
Work in progress		
Carrying amount before impairment	61.5	54.3
Less impairment	−0.9	−0.4
Carrying amount	**60.6**	**53.9**
Finished goods		
Carrying amount before impairment	171.3	238.2
Less impairment	−26.9	−10.0
Carrying amount	**144.4**	**228.2**

Cost of materials increased in the 2008 financial year due to impairment losses on inventories amounting to EUR 30.4 million (previous year: EUR 12.0 million).

22. Trade receivables

EUR million	31.12.2008	31.12.2007
Trade receivables before impairment losses	131.8	234.1
Less impairment losses	−10.9	−19.4
Trade receivables	120.9	214.7
Thereof		
Receivables from production contracts	71.4	123.5
Advance payments received	−60.1	−23.0
Non-current	–	–
	11.3	**100.5**

Most trade receivables have short residual lives. Hence their carrying amounts correspond to the fair value 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 lossfree measurement.

Receivables from construction contracts developed as follows year on year:

EUR million	31.12.2008	31.12.2007
Accrued contract costs	58.7	105.0
Contract gains realised pro-rata incl. carryforward effect	12.7	18.5
Less recognised contract losses	–	–
Less advance payments received	−60.1	−23.0
	11.3	**100.5**

As of 31 December 2008, EUR 63.1 million (previous year: EUR 48.5 million) in trade receivables were due but not impaired because they represented claims against customers that had never defaulted in the past. The aging structure of the trade receivables that are due but not impaired was recognised as follows:

EUR million	31.12.2008	31.12.2007
Trade receivables	120.9	214.7
Thereof		
Neither impaired nor past due as of the balance sheet date	57.8	166.2
Not impaired as of the balance sheet date and past due within the following periods:		
Less than 1 month	34.9	23.0
Between 1 and 2 months	3.7	8.4
Between 2 and 3 months	7.1	7.8
Between 3 and 6 months	9.0	8.9
Between 6 and 12 months	6.1	0.1
More than 12 months	2.3	0.3
	63.1	**48.5**

The following impairment losses were recognised in the reporting year:

EUR million	2008	2007
As of 01.01.	**19.4**	**1.2**
Currency changes	0.4	–
Additions	12.3	28.2
Use	−13.5	−0.3
Reversals	−7.7	−0.2
Disposal	–	−9.5
Reclassification to current assets	–	–
As of 31.12.	**10.9**	**19.4**

Specific and global valuation allowances are recognised in the income statement under other operating expenses while reversals are recognised under other operating income. Additions do not include the bad debt allowance in the amount of EUR 42.1 million related to MEMC Electronic Materials, Inc.

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

23. Subsidies received

During the 2008 reporting period, Conergy Group companies received a total of EUR 24.1 million in non-reimbursable government grants and supplements (actual inflow of funds). In addition, Conergy also obtained binding promises of subsidies for a total of EUR 24.7 million (subsidy notifications) in 2008. Government subsidies 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 five years (from the project's completion date) and / or to guarantee jobs for specific plants during the same period. During the period presented and until the time the consolidated financial statements were prepared, these requirements had been met; Conergy expects these requirements to be met in future as well.

The following subsidies were disbursed in the reporting period:

EUR million	2008	2007
Investment subsidy	2.0	3.2
Investment grants	22.1	6.9
	24.1	**10.1**

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

24. Derivative financial instruments

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

	31.12.2008		31.12.2007	
EUR million	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps Fair value recognised in profit or loss	–	−5.8	0.3	0.1
Forward foreign exchange contracts Fair value recognised in equity	–	–	–	–
Forward foreign exchange contracts Fair value recognised in profit or loss	–	–	–	−13.1
	–	**−5.8**	**0.3**	**−13.2**

The negative market value of the interest rate swaps has been recognised as a liability.

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.

25. Cash and cash equivalents

EUR million	31.12.2008	31.12.2007
Cash on hand / checks	2.1	0.4
Bank balances	25.6	62.3
	27.7	**62.7**
thereof deposited in special accounts	–	1.0

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 of 31 December 2008 contain EUR 0.3 million in cash and cash equivalents attributable to discontinued operations.

26. Equity

The individual components of equity as well as their development in 2007 and 2008 follow from the statement of changes in equity of the Conergy Group.

Share capital

The subscribed capital (share capital) of Conergy AG in the financial year just ended was increased by resolution of the General Shareholders' Meeting on 28 August 2008 from EUR 35,088,928.00 by EUR 363,000,000.00 to currently EUR 398,088,928.00. It is denominated in 398,088,928 no-par bearer shares with a pro-rata interest in capital of EUR 1.00 per no-par 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.

	Number of shares
As of 01.01.2008	**35,088,928**
Addition from capital increase	363,000,000
Repurchase of own shares	–
Disposal through sale of treasury shares	–
As of 31.12.2008	**398,088,928**

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 EUR 14,361,071 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.

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 was effective until 10 December 2008. The treasury shares can be purchased, at the discretion of Conergy AG, on the stock exchange, or by means of a public purchase offer sent to all shareholders or a public notice to submit such an offer or 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. The Company did not make use of the authorisation to purchase treasury shares in the financial year just ended.

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 plus the related tax, the capital reserves climbed by EUR 14.6 million to EUR 321.8 million (previous year: EUR 307.2 million) as a result of the capital increases during the 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

Non-controlling interests are held in Conergy Mexico S. de R.L. de C.V. (Mexico), Conergy Services Ost GmbH (Germany), SunTechnics Energy Systems EPE (Greece), Forturon S.r.l. (Italy) and Compagnie des Énergies Renouvelables S.A.R.L. (France).

27. Provisions

The provisions developed as follows in the financial year:

EUR million	Warranties	Restructuring	Legal disputes	Other	Total
As of 01.01.2008	**14.6**	**3.0**	**2.3**	**0.7**	**20.7**
thereof non-current	14.6	–	–	–	14.6
Change in the basis of consolidation	–	–	–	–	–
Addition	11.4	6.5	2.5	14.5	34.9
Use	−4.6	−2.5	−1.5	−0.6	−9.2
Reversal	−1.5	−0.5	−0.2	−0.1	−2.3
Reclassification to current liabilities	–	–	–	–	–
Currency changes	–	–	–	–	–
As of 31.12.2008	**19.9**	**6.5**	**3.1**	**14.6**	**44.1**
thereof non-current	19.9	–	–	12.2	32.1

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.

28. Stock options programme

Effective 15 November 2007, one member of the Management Board (previous year: two members of the Management Board) was permitted to participate in a sharebased payment system based on 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:

	2008		2007	
	Number	Weighted average exercise price EUR	Number	Weighted average exercise price EUR
As of 01.01.	**168,000**	**–**	**–**	**–**
Granted	–	–	168,000	–
Forfeited	–	–	–	–
Exercised	–	–	–	–
Expired	84,000[1]	–	–	–
As of 31.12.	**84,000**	**–**	**168,000**	**–**

[1] Due to the resignation of a Board member

None of the 84,000 Phantom Stock Options outstanding were exercised up to 31 December 2008.

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

	Exercise price EUR	2008 shares	2007 shares
Maturity date 14.11.2009	–	56,000	112,000
Maturity date 14.11.2010	–	28,000	56,000
As of 31.12.	**–**	**84,000**	**168,000**

The fair values of the Phantom Stock Options were determined using the Black Scholes Option Pricing Model, subject to the following measurement parameters:

	2008
Risk-free interest rate (term dependent) in percent	3.9 – 4.0
Dividend yield in percent	0.0
Volatility of the Conergy AG share (historical, 252 days) in percent	150.0
Beta factor of the Conergy AG in relation to the Öko-Dax	1.1

The fair values of the options outstanding at the balance sheet date were as follows:

	Number as of 31.12.2008 shares	Intrinsic value per option (= payment amount) EUR	Fair value per option EUR	Payment obligation TEUR	Provision as of 31.12.2008 TEUR
Tranche 2007	84,000	–	0.15	–	8

Income of EUR 0.2 million (previous year: EUR 0.2 million) was recognised under personnel costs in connection with this stock option programme for the financial year just ended. Regarding the options granted, please also see note 3.

Another member of the Management Board was invited to participate in stock appreciation rights (SAR) in 2008.

The stock appreciation rights are divided into tranche 1 (with a waiting period ending on 1 March 2009) and tranche 2 (with a waiting period ending on 1 March 2010). Stock appreciation rights are options which, in this case, entitle the owner to a claim against Conergy AG for payment in cash of an amount corresponding to the difference between the share price of Conergy AG and the base price (call option).

The exercise price is EUR 1.27 pursuant to the conditions of the stock appreciation rights. Because the relevant share price at the exercise date may not exceed EUR 16.27, the ability of the stock appreciation rights to go up is capped, thus reducing their value. The settlement profile of a call option that places a cap on the option's upward potential may be structured by selling a call option for an exercise price that equals the maximum share price at the time the stock appreciation rights are exercised (cap), also referred to as a short call option.

The essential parameters of the stock appreciation rights are as follows:

Parameters	**1 Tranche**	**2 Tranche**
Measurement date	**31.12.2008**	**31.12.2008**

Long call option		
Type of option	Call option	Call option
Base price	Conergy AG	Conergy AG
Expiry	01.09.2011	01.09.2011
End of waiting period	01.03.2009	01.03.2010
Share price in EUR	1.08	1.27
Exercise price in EUR	1.27	1.27
Interest rate in percent	2.96	2.96
Volatility in percent	108.04	108.04
Dividend yield in percent	0.00	0.00
Option price in EUR	**0.655**	**0.655**

Short call option		
Type of option	Call option	Call option
Base price	Conergy AG	Conergy AG
Expiry	01.09.2011	01.09.2011
End of waiting period	01.03.2009	01.03.2010
Share price in EUR	1.08	1.27
Exercise price in EUR	16.27	16.27
Interest rate in percent	2.96	2.96
Volatility in percent	108.04	108.04
Dividend yield in percent	0.00	0.00
Option price in EUR	**0.161**	**0.161**

Due to the cap on their upward potential, the value of stock appreciation rights thus consists of the value of a long call option with an exercise price of EUR 1.27 less the value of a short call option with an exercise price of EUR 16.27.

The Black Scholes Option Pricing Model was used to measure the options.

The historical volatility of Conergy's share was used to determine volatility because the implicit volatility shown by Bloomberg is calculated using short-term options. The measurement of the stock appreciation rights was based on their historical volatility over a period of 680 days in order to take into account that the stock appreciation rights still had a remaining term of approximately 680 trading days as of 31 December 2008 – assuming that they will be held for the maximum term and will be exercised at maturity on 1 September 2011.

SAR measurement	Tranche 1	Tranche 2	Gesamt
Option price at exercise price EUR 1.27	Call option	Call option	–
Option price at exercise price EUR 16.27	Conergy AG	Conergy AG	–
SAR value in EUR	**0.495**	**0.495**	**–**
Number of SARs granted	300,000	300,000	**–**
Value per tranche in EUR	**148,363**	**148,363**	**296,726**

The aggregate value for tranche 1 and 2 as of 31 December 2008 is EUR 0.3 million.

A cost of TEUR 33 was recognised under personnel costs in connection with this stock option programme for the financial year just ended.

29. 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:

EUR million	Borrowings measured at amortised cost	Derivatives with a hedging relationship	Liabilities held for trading	Carrying amount	Fair value
As of 31.12.2007					
Liabilities					
Non-current borrowings	120.0	–	–	120.0	120.0
Current portion of non-current borrowings	30.0	–	–	30.0	30.0
Current borrowings	305.5	–	13.2	318.7	318.7
Trade payables	282.4	–	–	282.4	282.4
	737.9	**–**	**13.2**	**751.1**	**751.1**
As of 31.12.2008					
Liabilities					
Non-current borrowings	86.5	–	–	86.5	86.5
Current portion of non-current borrowings	37.5	–	–	37.5	37.5
Current borrowings	187.4	–	5.8	193.2	193.2
Trade payables	111.2	–	–	111.2	111.2
	422.6	**–**	**5.8**	**428.4**	**428.4**

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:

	31.12.2008		31.12.2008	31.12.2007
	Nominal value EUR million	Effective interest rate percent	Carrying amount EUR million	Carrying amount EUR million
Liabilities to banks	311.4	8.31	311.4	455.4

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

	31.12.2008			31.12.2007	
	Total liabilities subject to variable interest rates EUR million	Total liabilities subject to fixed interest rates EUR million	Weighted interest rate (fixed-interest loan) percent	Total liabilities subject to variable interest rates EUR million	Total liabilities subject to fixed interest rates EUR million
Up to 1 year	224.9	–	–	335.4	–
1 to 5 years	86.5	–	–	120.0	–
More than 5 years	–	–	–	–	–
Carrying amount total	**311.4**	**–**	**–**	**455.4**	**–**
Fair values	**311.4**	**–**	**–**	**455.4**	**–**

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

The syndicated loan agreement for originally EUR 600.0 million that was signed in 2007 is comprised as follows:

The loan is divided into two tranches and will provide funding for the construction of the production facility in Frankfurt (Oder) (Tranche A) as well as enable the Conergy Group to refinance its existing credit facilities and finance its working capital and guarantee requirements (Tranche B with a revolving facility of EUR 250.0 million and a guarantee and documentary credit facility of EUR 200.0 million). Tranche A, amounting to EUR 150.0 million, is to be repaid by 31 December 2011, in half-yearly installments starting on 30 June 2008. In this regard in 2008 EUR 37.5 million were settled as agreed upon. Tranche B, amounting to EUR 450.0 million is due for total repayment on 31 July 2010, unless the banks approve an application for extending Tranche B's term to 31 July 2011 or 31 July 2012, as the case may be. The syndicated loan was initially collateralised by pledging absolutely all interests in Conergy SolarModule GmbH & Co. KG and its general partner Conergy SolarModule Verwaltungs GmbH. Liens were created for absolutely all interests in Conergy Vertriebs GmbH & Co. KG (which was merged with Conergy Deutschland GmbH effective 1 August 2008), Conergy Vertriebs Verwaltungs GmbH, EPURON GmbH and Conergy Deutschland GmbH during the negotiations on additional loans above and beyond the syndicated loan in the light of the development of the Conergy Group's financial situation at the end of 2007 in order to collateralise the syndicated loan. In addition, the Conergy Group conveyed, pledged or assigned all material assets already serving as senior collateral for the bridge facility to the lenders of the syndicated loan and / or an entity holding the collateral in trust as junior collateral in connection with the collateralisation of the bridge financing described below.

The individual tranches are subject to interest at a rate corresponding to the sum of the applicable margin, EURIBOR (or LIBOR in case of a foreign currency) for the interest period selected and the regulatory costs (in each case as defined in the loan agreement). The relevant applicable margin is the prevailing margin at the time the contract was closed, which is either raised or lowered with respect to both tranches upon expiration of a stipulated period in accordance with the defined ratio of consolidated net financial liabilities to consolidated EBITDA. The initial margin is 1.70 percent per annum for tranche A and 1.55 percent per annum for tranche B. The margin is raised or lowered in regards to both tranches upon expiration of a stipulated period in accordance with the defined ratio of consolidated net financial liabilities to consolidated EBITDA. Accordingly, (i) the margin for tranche A may be lowered to 0.65 percent p. a. and raised to 1.95 percent p. a. and (ii) the margin for tranche B may be lowered to 0.50 percent p. a. and raised to 1.80 percent p. a. The syndicated loan agreement also provides for an increase in the relevant applicable margin by 1.0 percent per annum if the debtor fails to make timely payments on amounts that are due and payable.

Under the loan agreement, Conergy is obligated to pay the customary loan commitment fee for any unused amounts under both tranches depending on the relevant applicable margin.

Conergy is also obligated – if it borrows funds on the capital market, sells assets and receives insurance payments – to use its net revenues for early repayment, in full, first of tranche A and then of tranche B, provided none of the exceptions set forth in the loan agreement intervene. However, the banking syndicate holding the loan has waived compliance with this obligation during the term of the bridge loan if the revenues are utilised to repay it.

The loan agreement contains requirements that have an impact on the Conergy Group's ability to exercise discretion in operational terms. Conergy has undertaken thereunder to ensure that the ratio of consolidated net liabilities to consolidated EBITDA (in each case with and without contingent liabilities) does not exceed a specific figure and that the ratio of EBITDA to consolidated net interest expense does not fall below a specific figure. While the banks did waive compliance with the Financial Covenants for the 2008 and 2009 financial years, given the development of the Conergy Group's financial situation at the end of 2007, Conergy as of the 31 March 2010 will once again have to evidence compliance with financial indicators to be renegotiated as of 30 September 2009 based on the new capital structure and based on a business plan.

Certain other requirements do apply during the term of the agreement. Among other things, these requirements crimp the ability of the Conergy Group to provide assets as collateral, sell assets, participate in joint ventures, acquire additional companies or business units, incur additional financial liabilities, make loans, provide guarantees, incur leasing liabilities or undertake specific restructuring measures. Any noncompliance with these stipulations and the agreed financial covenants triggers an extraordinary right of termination on the lenders' part (in some cases after expiry of a cure period), giving them the right to call the loan immediately. The lenders have other rights to terminate, for example, if covenants stipulated provided under the loan agreement are not (or can not be) truthful, if a German or significant foreign subsidiary files for insolvency, if creditors institute execution proceedings against Conergy for an amount in excess of EUR 5.0 million in each individual case, if Group companies whose total financial liabilities (of whatsoever nature) are EUR 5.0 million or more default, or if creditors of such financial liabilities are entitled to call these liabilities early due to the occurrence of a right to terminate (whatever its nature).

Any change of control – i. e. a situation where an individual or a group of people acting in concert with each other (pursuant to an agreement or by other means) gain control over the Company – would give each bank the individually exercisable right to terminate the loan for cause.

Conergy entered into a EUR 240.0 million bridge loan from Commerzbank AG and Dresdner Bank AG effective 5 February 2008. The bridge facility's initial term ended at the end of September 2008 but was extended to the end of December 2008. It served to plug the Company's liquidity needs until the capital increase in December 2008 and was repaid in early December 2008.

30. Trade payables

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

EUR million	31.12.2008	31.12.2007
Trade payables	111.2	282.4
Thereof		
Advance payments received	11.6	67.7
	11.6	**67.7**

31. Other liabilities

EUR million	31.12.2008	31.12.2007
Other liabilities	61.4	99.7
Thereof		
Liabilities arising from salary or wage settlement for employees	13.7	13.2
Accrued expenses	10.0	11.1
Liabilities to the tax office	7.0	18.2
Deferred income	2.0	5.0
Purchase price liabilities in connection with the acquisition of companies	1.7	7.6
Liabilities related to social security	1.3	1.1
Miscellaneous other liabilities	25.7	43.5
Non-current	2.6	13.1

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 EUR 7.0 million (previous year: EUR 18.2 million) in liabilities to the tax authority primarily concerns VAT liabilities due within one year.

Liabilities of EUR 1.7 million (previous year: EUR 7.6 million) related to the acquisitions mostly have a residual life of less than one year.

The remaining other liabilities in the amount of EUR 25.7 million (previous year: EUR 43.5 million) cover a multitude of elements in subsidiaries, each of which by itself is immaterial.

OTHER DISCLOSURES

32. 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 financial year. The cash flow statement was prepared in accordance with the requirements of IAS 7. Cash flows are allocated to three areas: operating activities, investing activities and financing activities.

The indirect method is used to show cash flows 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 continuing operations (EBIT). The cash flow related to investing and financing activities is determined directly on the basis of in- and outflows.

Under IFRS 5, cash flows from operating, investing and financing activities must be disclosed separately according to continuing and discontinued operations. Cash flows related to investing and financing activities in connection with discontinued operations are separately disclosed in note 6.

Operating activities
Based on operating income of EUR –212.5 million in the 2008 financial year (2007: EUR –213.3 million), adjusted for non-cash items such as depreciation, amortisation and impairment losses, changes in non-current provisions largely comprising provisions for warranties, product liability and guarantees as well as other non-cash income and expenses such as, for instance, portions of the net gain/loss from currency translation, the result from operating activities before changes in net working capital in the 2008 financial year improved to EUR –37,4 million compared to the previous year (2007: EUR –98.6 million.

Although, at EUR –131.8 million, the cash flow generated from operating activities related to continuing operations in the 2008 financial year was clearly negative, it was EUR 36.7 million higher than the cash flow of EUR –168.5 million generated in the previous year. This was essentially due to the reduction in inventories by EUR 67.5 million, which compares to an increase in inventories of EUR 222.4 million in 2007. The execution of major photovoltaics projects in Spain, particularly in the second quarter of 2008, that had been in development in 2007 and were recognised in income in the 2008 financial year were the main factor driving the decrease in inventories. While trade receivables declined by EUR 84.3 million, the same as last year (2007: EUR 84.3 million), there was a considerable reduction in trade payables by EUR 171.2 million; they had risen by EUR 92.8 million just a year earlier. The changes in other net assets and other non-cash transactions in the amount of EUR –78.1 million (2007: EUR –22.8 million) stem from the reduction in VAT liabilities among other things. The change in corporate income taxes by EUR 3.1 million (2007: EUR –1.8 million) arises from tax refunds. A total of EUR –131.8 million was used in the 2008 financial year for operating activities – down EUR 36.7 million from the 2007 financial year (2007: EUR 168.5 million).

The cash flow from operating activities related to discontinued operations – solar thermal, biomass and the manufacture of wind units – in the 2008 financial year was EUR –29.1 million (2007: EUR –20.2 million). This figure is combined in a separate item in the cash flow statement. Cash used for Group operating activities was EUR –160.9 million, a substantial year-on-year improvement over the previous year's figure of EUR –188.7 million. Aside from the fact that operating income developed along a more positive trajectory, the main change from the previous year arose from the positive development of working capital, which was substantially influenced by the completion of major projects in Spain and South Korea, the streamlining of receivables management, the improvement of collection processes, as well as the reduction in inventories, accounts receivable aging cycles and receivables outstanding. Particularly the EUR 171.2 million reduction in trade payables had an offsetting effect.

Investing activities

Net cash used for investing activities declined significantly to EUR –21.2 million in the 2008 financial year, down from EUR –194.5 million in 2007. The large outflow of funds in the previous year stemmed from investments in our Frankfurt (Oder) plant. A net total of EUR 33.5 million (2007: EUR 189.8 million) were invested in property, plant and equipment as well as intangible assets in 2008. Again, this mainly concerned investments in our Frankfurt (Oder) site. Note also that the investment payments in 2008 include an investment grant of EUR 17.0 million, which the Company received in the second quarter of 2008. Contrast this with Group proceeds of EUR 10.3 million from the sale of four solar thermal companies in the first half of 2008. The proceed from the sale of Bremerhaven-based Conergy Wind GmbH amounted to EUR 1.0 million.

Financing activities

In 2008, the Conergy Group generated a cash flow of EUR 146.4 million (2007: EUR 421.5 million) from financing activities. The capital increase in early December 2008 gave rise to a substantial inflow of funds. A total of 363 million new no-par ordinary shares were issued at a subscription price of EUR 1.10 pursuant to the resolution of the General Shareholders' Meeting dated 28 August 2008, generating gross proceeds of EUR 399.3 million for the Conergy Group. Outflows in connection with the capital increase were EUR 32.6 million. Contrast this with net outflows of EUR 161.0 million (inflows in 2007: EUR 238.1 million) in connection with the repayment of borrowings under the syndicated loan as well as under the February 2008 bridge loan from Commerzbank AG and Dresdner Bank AG. This also includes outflows for discharging borrowings of EUR 37.5 million in connection with the partial repayment of a credit facility for the Frankfurt (Oder) solar factory. It also includes interest payments of EUR 59.3 million (2007: EUR 30.8 million). The change in cash and cash equivalents in the financial year just ended was EUR –35.7 million, compared to EUR 38.3 million the previous year.

33. 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 EUR 129.7 million in bank guarantees and documentary credits as part of the syndicated credit facility. The Company also had liabilities to other banks from EUR 36.3 million 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 27) 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 one month to nine years 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 11).

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

EUR million	31.12.2008	31.12.2007
Up to 1 year	15.1	11.1
1 to 5 years	28.8	29.0
More than 5 years	0.1	1.0
	44.0	**41.1**

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 Material, Inc. and Conergy AG. In this connection, Conergy AG entered into a ten-year delivery contract with MEMC in October 2007 for the purpose of securing the quantities of silicon it needs in the long term. Since then Conergy's realignment has made it necessary to adjust the contractually stipulated delivery volume. The agreement with MEMC was modified accordingly in July 2008. As part of this adjustment, the contract's sales volume over its ten-year term was reduced from USD 7 to 8 billion to USD 3.5 billion to USD 4 billion (in each case not counting the Refundable Capacity Reservation Deposit). The agreement provides for an annual increase in Conergy's obligation to accept goods at previously fixed, during the time period declining prices based in their initial point on currently high levels. While it serves to secure long-term supplies of silicon wafers, the agreement also makes the Conergy Group highly dependent on MEMC. However, the purchase obligations Conergy entered into from 2011 onward require a minimum production (and sales) of solar modules that is significantly higher than the Company's current production capacity. Under its contract with MEMC, the Company is also obligated to make substantial payments to a “Refundable Capacity Reservation Deposit” during the entire life of the agreement. In the first two years of the agreement, prepayments are to be made that total USD 94.9 million, of which USD 66.0 million have already been paid to MEMC. As agreed upon a refund of USD 31.6 million on this amount is to be granted in the second half year of 2009. MEMC is supposed to repay 96 percent of the Refundable Capacity Reservation Deposits to Conergy over the term of the agreement. But the amount may be offset against MEMC's open receivables if Conergy defaults or fails to perform. Please see the disclosures regarding events after the balance sheet date for information on the status of the contractual relationship with MEMC.

Conergy has the following obligations under existent long-term purchasing agreements:

EUR million	31.12.2008	31.12.2007
Up to 1 year	245.2	192.9
1 to 5 years	1,392.9	2,042.0
More than 5 years	1,750.2	4,617.0
	3,388.3	**6,851.9**

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 EUR 5.9 million (previous year: EUR 5.9 million). However, these repurchase obligations must be fulfilled from 2023 at the earliest.

Other

There are also annual financial obligations of EUR 1.3 million for a term of 99 years in connection with the land at the production sites in Rangsdorf and Frankfurt (Oder). These properties carry hereditary building rights.

Conergy has the following obligations under existent lease and hereditary building right contracts:

EUR million	**31.12.2008**	**31.12.2007**
Up to 1 year	2.5	2.5
1 to 5 years	5.4	11.7
More than 5 years	123.8	124.0
	131.7	**138.2**

34. Related parties

The related parties of the Conergy Group include the members of its Management Board and Supervisory Board as well as members of subsidiaries' bodies, in each case including their close relatives. Related parties also include those companies upon which members of the Company's Management Board or Supervisory Board or their close relatives can exercise a significant influence or in which they hold a significant voting share. Furthermore, related parties include companies with which the Company forms a Group or in which it holds a share that enables it to significantly influence the business policies of the investee, as well as major shareholders of the Company and its Group companies.

The Conergy Group maintains several business relationships with related parties, which, in the Company's opinion, were handled at market terms.

In accordance with Section 105 para. 2 of the German Stock Corporation Act (AktG), Mr. Dieter Ammer was appointed acting Chairman of the Management Board of Conergy AG on 16 November 2007. On 17 July 2008, Mr. Dieter Ammer was appointed regular Chairman of the Management Board effective 1 August 2008. On 17 July 2008, he declared his resignation from his position of Chairman of the Supervisory Board effective 31 July 2008, which had been temporarily suspended at that time. Dieter Ammer waived his entitled Supervisory Board compensation while serving on the Management Board. On 11 December 2007, Conergy AG entered into an agreement with AMMER!PARTNERS GmbH, Hamburg, a company controlled by Mr. Dieter Ammer in his capacity as its shareholder and Managing Director, according to which AMMER!PARTNERS GmbH provides certain services to Conergy AG, specifically (i) assistance / secretarial services, (ii) provision of a company car, (iii) office organisation services and (iv) further services as required and to the extent possible, for the duration of Mr. Dieter Ammer's service as acting Chairman of the Management Board, i.e. from 16 November 2007 to 31 July 2008. Conergy AG reimbursed AMMER!PARTNERS GmbH for the provision of these services plus statutory VAT based on evidenced costs. These reimbursements may not exceed a monthly maximum of EUR 30,000.00 plus VAT. The claims of AMMER!PARTNERS GmbH were accounted for and settled by the end of August 2008. A total of EUR 219,536.84 including VAT was paid in this connection.

On 5 September 2008, Conergy AG as lessor entered into a sublease with AMMER!PARTNERS GmbH, Hamburg, as lessee for various offices with a total area of 205.95 square metres as well as for two parking spaces in the Berliner Bogen office building at Anckelmannsplatz 1, 20537 Hamburg. Conergy AG itself rents the offices, which are located at its registered office, that are the subject of the lease and has received authorisation to sublet them from the head lessor and owner, XXL Berliner Bogen GmbH & Co. KG, Hamburg. The sublease began on 15 September 2008 and will run until 14 March 2010. The subtenancy will be extended until 14 March 2011 providing neither party to the contract objects to the extension in writing before 14 September 2009. The right to terminate the contract for convenience is excluded. The monthly rent to be paid amounts to EUR 14.00 per square metres for the offices and EUR 93.00 for each of the parking spaces plus service charges and maintenance costs as well as VAT. The parties have agreed on stepped rent comprising an annual rent increase of EUR 0.50 per square metres for the office space and EUR 3.00 per parking space. The total cost to be borne by AMMER!PARTNERS GmbH is currently EUR 4,607.81 per month.

Under a redemption agreement signed on 5 September 2008, Conergy AG will transfer ownership of various pieces of office furniture in the offices rented by AMMER!PARTNERS GmbH to AMMER!PARTNERS GmbH in return for compensation of EUR 4,601.73 (gross).

Mr. Dieter Ammer is the majority shareholder of Trium Investment (TriVest), Pty Ltd, Murrayfield, Pretoria (South Africa). TriVest is a private equity company. A subsidiary of TriVest, the Sol Square Pty Ltd., Murrayfield Pretoria (South Africa), is engaged in the field of renewable energies, among others. TriVest and its subsidiary have maintained a business relationship with the Conergy Group since July 2007, which essentially is in the early stages of contract negotiation. The company obtained solar modules and batteries at a price of about EUR 5,000 in March 2008 from SunTechnics Energy Systems Pvt. Ltd., India (a subsidiary of Conergy AG) for this purpose. TriVest also maintains a business relationship with Conergy AG's Australian subsidiary. By letter dated 12 June 2008, TriVest ordered 80 180-litre tanks as well as 80 collectors from Conergy Pty Ltd. Australia for the operation of solar thermal units at a total price of AUD 129,760, taking a prepayment of approximately AUD 5,000 into account. Conergy itself is not active in South Africa. By written order dated 2 August 2008, TriVest's subsidiary named Sol Square, Pty Ltd., Murrayfield, Pretoria, South Africa, ordered a variety of articles for solar thermal units, including 1,191 flat plate collectors, for a total of EUR 350,000 from Conergy AG, Conergy Ltd. Cyprus and Conergy España SL. Conergy AG and Conergy Ltd. Cyprus confirmed the order on 27 August 2008 and 1 September 2008, respectively. Conergy España SL's confirmation was issued on 8 September 2008. All of these orders have been fulfilled in the meantime and the companies received the payments owed to them under the contracts in December 2008.

Mr. Hans Johann Baptist Jetter was appointed to the Supervisory Board on 28 August 2008. Mr. Jetter is the Managing Director and sole shareholder of JB Jetter Consultants Limited, St. Peter Port, Channel Islands. On 18 April 2008, Conergy AG and JB Jetter Consultants Limited entered into a written consulting agreement that became effective retroactively as of 15 April 2008. According to the agreement, JB Jetter Consultants Limited shall provide to Conergy AG certain consulting services related to the capital market in connection with the capital increase carried out in December 2008. For successful consulting services, which in any case require the successful implementation of the capital increase, JB Jetter Consultants Limited shall receive (i) a success fee of EUR 1.0 million and (ii) an additional discretionary fee of EUR 1.0 million if the Company's overall refinancing is successful. Furthermore, Conergy is obligated to reimburse JB Jetter Consultants Limited all expenses required for providing the services. Given Mr. Jetter's election to the Supervisory Board, effective 28 August 2008 the agreement was amended to meet the requirements of the German Stock Corporation Act and related regulations applicable to agreements with Supervisory Board members. In this context, the contractual obligations of Mr. Jetter in particular were defined in more detail in order to distinguish them from the general obligations of Supervisory Board members. Under this contract, JB Jetter Consultants Limited received a payment of EUR 1.0 million plus reimbursement of outlays totalling EUR 45,620.25 on 18 December 2008.

Mr. Hans-Martin Rüter was the Company's Chairman of the Management Board until 15 November 2007. He is the brother of Andreas Rüter, who during the reporting period is a member of the Supervisory Board of Conergy AG. On 14 November 2007, the Company entered into a consulting agreement with Mr. Rüter, which became effective 1 December 2007 and ran until 31 July 2008. Under the agreement, Mr. Rüter shall advise the Company in matters of its business strategy and in the marketing of renewable energies. In addition, Mr. Rüter also helped the Company maintain relationships with material investors and suppliers, subject to coordination with Conergy AG's CEO. Mr. Rüter was paid a flat fee of EUR 26,666.67 per month plus VAT for his activities under the contract, on the assumption that his consulting work would require up to three days per week on average.

Dresdner Bank AG – in its capacity as one of the syndicate's lead managing banks – subscribed and took over the new shares from the cash capital increase in December 2008 with the proviso that it would offer them to the Company's shareholders in accordance with Section 186 para. 5 German Stock Corporation Act for purchase by means of an indirect subscription right and offer any unsubscribed new shares under the subscription offer to institutional investors in a private placement subject to specified conditions. Given the number of unsubscribed new shares, the total interest of Dresdner Bank AG in the Company's voting shares has been 38.99 percent since 2 December 2008.

On 31 July 2007 Conergy AG, EPURON GmbH, Conergy SolarModule GmbH & Co. KG and Conergy Deutschland GmbH closed a syndicated loan for a total of EUR 600.0 million from 23 banks under the leadership of Commerzbank AG, Dresdner Bank AG and WestLB AG. For more details, see note 29.

Dresdner Bank AG provides banking services to Conergy as well as to its subsidiaries, Conergy Deutschland GmbH and EPURON GmbH, in connection with their ordinary activities.

In addition, the Company and its French subsidiaries, Conergy S.A.S. and EPURON S.A.R.L., have entered into a general Automated Common Concentration International Service agreement with Dresdner Bank AG and BNP Paribas Bank SA. Under this agreement, all balances in the respective subaccounts are transferred to the main account of Conergy AG in order to even out its cash flow.

Furthermore, Conergy AG and its Spanish subsidiaries – Conergy España SLU, SunTechnics Sistemas de Energía SLU, Sun Technics Instalaciones y Mantenimiento S.L. and EPURON Spain SLU – have entered into a general Dresdner Cash Concentrating agreement with Dresdner Bank AG. Under this cash concentrating procedure, all balances in the respective subaccounts are transferred to the main account of Conergy AG in order to even out its cash flow.

These transactions are executed in connection with the companies' ordinary activities at prevailing market terms.

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 para. 1 no. 6 a sentence 5 through 9 German Commercial Code.

Total compensation paid to the Management Board was TEUR 2.667 (previous year: TEUR 2.987). Conergy's Management Board is comprised of the following individuals, whose compensation is allocated as follows:

TEUR	Dieter Ammer	Pepyn R. Dinandt[1]	Nikolaus Krane	Philip von Schmeling	Dr. Jörg Spiekerkötter	Total
Fixed annual compensation	395	200	240	180	500	1,515
Compensation in kind / other benefits	10	2	14	19	11	56
Non-performance-based compensation	**405**	**202**	**254**	**199**	**511**	**1,571**
Short-term variable compensation	300	233	–	–	200	733
Directly paid compensation	**705**	**435**	**254**	**199**	**711**	**2,304**
Fair value of newly granted share-based payment (SAR)	297	–	–	–	–	297
Total compensation according to HGB	**1,002**	**435**	**254**	**199**	**711**	**2,601**
Long-term variable compensation (benefits vested in the current year)	33	–	–	–	–	33
Change in value of existing benefits	–	–	–	–	–70	–70
Share-based payment	**33**	**–**	**–**	**–**	**–70**	**–37**
Total directly paid compensation	705	435	254	199	711	2,304
Long-term variable compensation (benefits vested in the current year)	33	–	–	–	–	33
Change in value of existing benefits	–	–	–	–	–70	–70
Total compensation according to IFRS	**738**	**435**	**254**	**199**	**641**	**2,267**

[1] Member of the Management Board until 17 March 2008; resigned from the Board on 30 April 2008.

The compensation of the Management Board under IFRS does not include the fair value of the newly granted share-based payments; it only includes the share-based payments earned in the current year plus the changes in the value of claims under share-based payments not yet made.

Conergy's Supervisory Board in 2008 comprised of the following individuals, whose compensation is allocated as follows:

TEUR	Fixed compensation	Committee compensation	Variable compensation	Total
Eckhard Spoerr (Chairman since November 2007)	41	8	–	49
Alexander Rauschenbusch (Deputy Chairman)	25	8	–	33
Dr. Dr. h.c. Andreas J. Büchting	17	–	–	17
Oswald Metzger	17	4	–	21
Andreas Rüter	17	5	–	22
Hans Johann Baptist Jetter (since 28 August 2008)	6	–	–	6
	123	**25**	**–**	**148**

The remuneration for the Supervisory Board in the previous year was TEUR 146.

As of 31 December 2008 no loans were granted to members of the Management Board and/or the Supervisory Board.

35. Number of employees

The Group had 1,779 employees (expressed in full time equivalents), including managing directors and Management Board members, as of 31 December 2008 (previous year: 2,756). Of these, 1,773 (previous year: 2,494) were employed in the Company's continuing operations as of 31 December 2008.

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

	2008	2007[1]
Germany	1,208	1,317
Europe	432	463
Rest of world	405	434
	2,045	**2,214**
Thereof		
Production	366	225
Administrative/technical area	1,679	1,989
	2,045	**2,214**

[1] Previous year's figures adjusted

Adjusted be the average number of employees from the discontinued operations, on average 1,954 employees (previous year: 2,090) were employed in the Company during the year 2008.

36. Auditing fees

The following fees for the auditor of the consolidated financial statements were expensed the 2008 financial year:

EUR million	2008	2007
Audits of financial statements	0.7	0.5
Tax consultancy services	0.0	0.1
Other services	0.1	0.2
	0.8	**0.8**

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

37. 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.

38. Events after the balance sheet date

On 23 December 2008, the Supervisory Board of Conergy AG appointed Dr. Andreas von Zitzewitz to the Management Board effective 1 January 2009. He is responsible for Production, Purchasing and Supply Chain as well as the Components division. Dr. von Zitzewitz, who has worked for Conergy SolarModule GmbH since 1 March 2008, previously managed the Components division which includes the development, production and marketing of modules, inverters and mounting systems. He has taken over his new sphere of responsibility – Purchasing and Supply Chain – from Philip von Schmeling who, in his capacity as Chief Sales Officer (CSO), will focus solely on Marketing and Sales, an area that is becoming increasingly important to Conergy.

The Supervisory Board members Dr. Dr. h.c. Andreas J. Büchting, Alexander Rauschenbusch, Hans Johann Baptist Jetter and Andreas Rüter resigned from their positions effective 31 January 2009.

Upon application of the Company, by order of the Hamburg District Court dated 5 February 2009 Klaus-Joachim Wolfgang Krauth, Norbert Schmelzle and Carl Ulrich Andreas de Maizière were appointed members of the Supervisory Board of Conergy AG until the end of the General Shareholders' Meeting that is tasked with reviewing the 2008 financial year.

Carl Ulrich Andreas de Maizière has many years of experience in banking and served on Commerzbank AG's management board for a long time. He is currently a partner in Doertenbach & Co GmbH, Frankfurt (Main), and holds seats on several supervisory boards. Klaus-Joachim Wolfgang Krauth has extensive experience in finance and controlling as a result of his many years of professional activities in these areas, for instance as chief financial officer of Hexal AG. He is currently the Chief Financial Officer of the family office, Athos Service GmbH. As managing director and / or management board member of various industrial companies, Norbert Schmelzle acquired a lot of know-how in regards to issues of strategy as well as operational controlling of international organisations, most recently as managing director of Kaefer Isoliertechnik GmbH in Bremen. He now works as a management consultant.

Due to the significant changes in the economic environment, particularly the very rapid swing from a seller's to a buyer's market, but also due to legal doubts which had emerged in the meantime over the enforceability of at least some contractual provisions which were not in Conergy's favour, Conergy entered into talks with MEMC a few weeks ago with the aim of renegotiating the agreed wafer supply contract.

Contrary to expectations, it has not yet been possible to bring these renegotiations to a conclusion. A basic agreement has been reached to amicably terminate the supply contract, providing that the prepayments of USD 66 million which have already been made are retained and that a new supply contract with a term of one year is simultaneously concluded. However, the parties have not yet come to an agreement over a series of auxiliary conditions relating to such a rearrangement.

Should it not be possible to amicably terminate the supply contract in the near future, Conergy will take legal action challenging this supply contract on the basis of the results of a legal review which has been carried out.

Hamburg, Germany, 20 April 2009

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, 20 April 2009

Conergy Aktiengesellschaft
The Management Board

Dieter Ammer

Nikolaus Krane

Philip von Schmeling-Diringshofen

Dr. Jörg Spiekerkötter

Dr. Andreas von Zitzewitz

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Conergy AG, Hamburg, comprising the consolidated income statement, the consolidated balance sheet, consolidated cash flow statement, statements of changes in equity, and the notes to the consolidated financial statements – and the group management report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB are the responsibility of the company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Without qualifying this opinion, we draw attention to the statements of management board in the Group management report. There it is stated in the "Risk and Opportunity Report" under "Financial risks / Liquidity risks" that both the Company's and the Group's existence as a going concern is jeopardised if sales, income and the cash flows from operations should fall significantly below planning and this cannot be offset through other actions. According to the Company's planning the liquidity of the Company and the Group is ensured beyond 2009 through cash flows

Hamburg, Germany, 20 April 2009

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Ohlsen)	(ppa. Arlitt)
Wirtschaftsprüfer	Wirtschaftsprüferin

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

2009 FINANCIAL CALENDAR

29 April 2009

Publication of the 2008 financial statements
Financial statements press conference, Frankfurt (Main)
Analyst conference, Frankfurt (Main)

14 May 2009

Publication of the interim report first quarter 2009

10 June 2009

General Shareholders’ Meeting, Hamburg

13 August 2009

Publication of the interim report first half 2009

12 November 2009

Publication of the interim report third quarter 2009

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