# Conergy AG

# Annual Report 2011

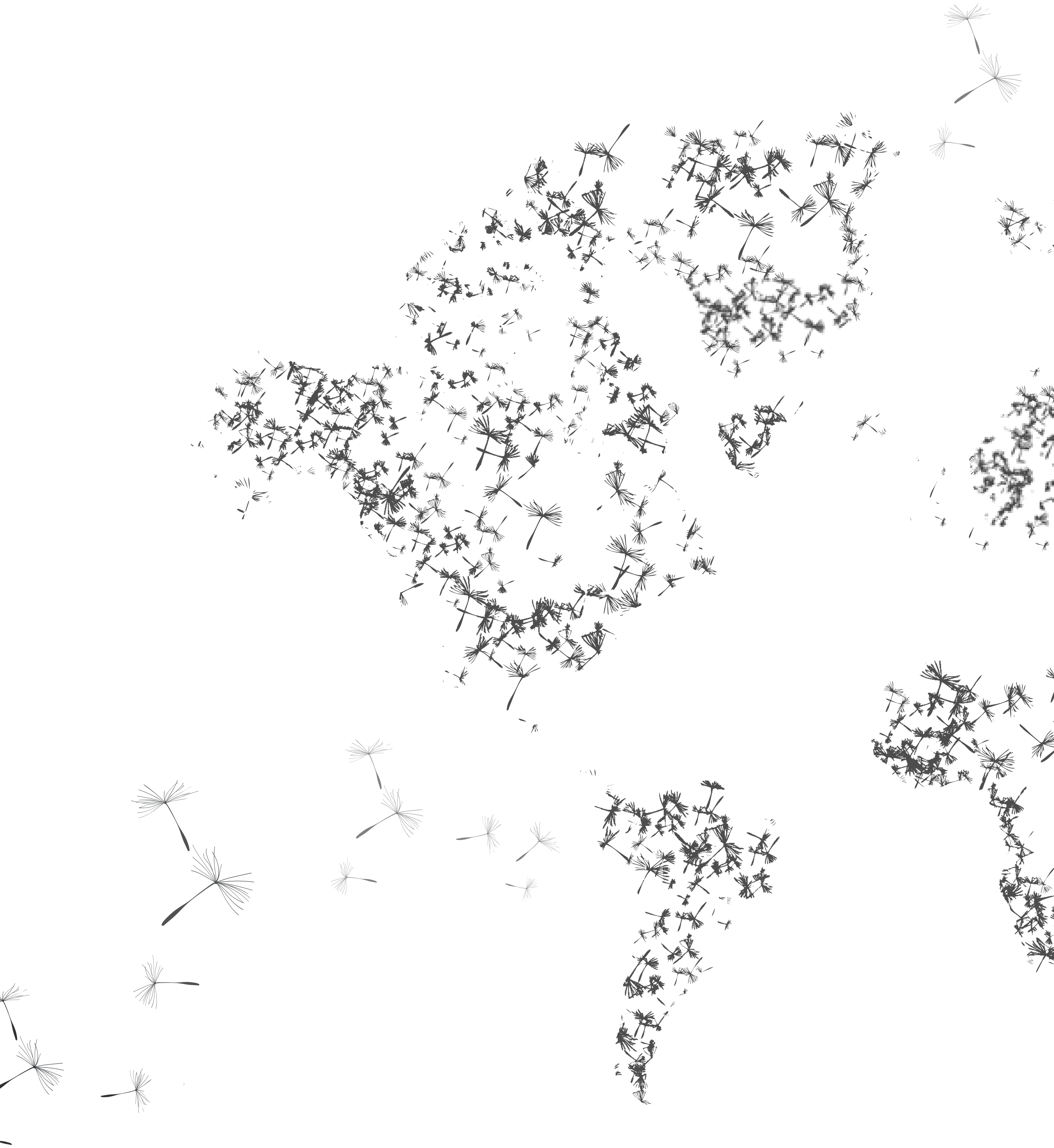
# Key figures

| | | 2011 | 2010 |
|---|---|---|---|
| Sales | EUR million | 754.1 | 913.5 |
| Germany | EUR million | 199.0 | 384.0 |
| Abroad | EUR million | 555.1 | 529.5 |
| Gross profit | EUR million | 127.3 | 216.9 |
| Gross profit margin | in percent | 16.9 | 23.7 |
| EBITDA | EUR million | –84.1 | 30.1 |
| EBITDA margin | in percent | –11.1 | 3.3 |
| EBIT | EUR million | –182.8 | –13.8 |
| EBIT margin | in percent | –24.2 | –1.5 |
| Income after taxes from continuing operations | EUR million | –164.5 | –42.0 |
| Income after taxes | EUR million | –162.1 | –44.9 |
| | | 31.12.2011 | 31.12.2010 |
| Total assets | EUR million | 342.4 | 613.4 |
| Total equity | EUR million | 20.9 | 71.4 |
| Equity ratio | in percent | 6.1 | 11.6 |
| | | 2011 | 2010 |
| Cash flow from operating activities | EUR million | –45.2 | 7.9 |
| Cash flow from investing activities | EUR million | 15.6 | –9.1 |
| Cash flow from financing activities | EUR million | 15.4 | –15.2 |
| Earnings per share from continuing operations* | EUR | –1.67 | –0.84 |
| Average number of no-par shares issued (as at 31.12.)* | | 98,359,550 | 49,761,116 |
| Number of employees FTE** (as at 31.12.) | | 1,461 | 1,569 |
| Germany | | 1,033 | 1,090 |
| Abroad | | 428 | 479 |

* Previous year's figures adjusted due to the ordinary capital reduction
** Full Time Equivalents

# Contents

**AS A PIONEER, WE HAVE HAD A DECISIVE INFLUENCE ON THE DEVELOPMENT OF THE PHOTOVOLTAIC MARKET AND HAVE SET OURSELVES THE GOAL OF SUPPLYING EVERYBODY WITH SAFE, CLEAN, AFFORDABLE ENERGY.**



**AS THE FOREMOST INTERNATIONAL SUPPLIER OF PV SOLUTIONS AND SERVICES, CONERGY WILL CONTINUE TO LEAD THE WAY IN THE SECTOR SO THAT SOLAR SOLUTIONS BECOME MORE INTELLIGENT, COST-EFFECTIVE AND RELIABLE.**

Dear Shareholders,

The past year was a very eventful one for us – and one which proved to be extremely difficult for the entire photovoltaic industry. The year 2011 was marked by excess capacity as well as by severe price pressure and a challenging demand situation. That said, 2011 was also a year in which we as a company achieved a great deal and got a large number of projects off the ground – and in spite of the persistently difficult market situation we are cautiously optimistic about the future.

We took several important steps to make Conergy fit for the future. First, we successfully completed our refinancing in July 2011 and extensively changed the composition of our boards – starting with the Supervisory Board in August 2011, followed by the Management Board at the end of 2011/beginning of 2012. Second, we sharpened Conergy's strategic focus as a systems provider on its very own strengths: our strong international sales, our premium quality and brand, as well as the increasingly important service business. By focusing on these four pillars, we aim to provide added value to our customers and also to you, our shareholders, in the future.

Our successful refinancing initially provided an important basis for our operational and strategic realignment. With the debt-to-equity swap in July, some of our creditors converted debt into equity with our shareholders' consent. This enabled Conergy to strengthen its equity base and significantly reduce its liabilities – and consequently also its interest burden. On the basis of this financial restructuring, Conergy has laid an important foundation for the future. Not only we as a company, but also our former creditors, believe in this future. Your investment as new shareholders of the Company is a vote of confidence in our sustainability, our continued existence and our strengths, with which we aim to forge ahead in the persistently difficult environment.

In the course of our strategic realignment we have focused squarely on reducing our own vertical integration and concentrated exclusively on photovoltaics. We took the first step in this direction at the beginning of the year by selling our wind, biogas and heat pump activities. This was followed by the restructuring of our module production in Frankfurt (Oder) in the autumn. By provisionally discontinuing our cell and wafer production and focusing on module production, we are able to react more flexibly to the rapidly changing pricing situation and market. We still retain full control over quality and product design, however.

In December, we took another important step in our strategic realignment as a systems supplier by selling our inverter manufacturer subsidiary voltwerk electronics to the Bosch Group. The sale is subject to the approval of the anti-trust authorities, which is due to be given in April 2012 at the latest. Within the framework of the purchase agreement we agreed on a long-term cooperation deal that will continue to ensure access to our outstanding range of inverters and thus enable us to offer our customers systems of the premium quality to which they are accustomed. Our customers can therefore benefit from the service structure, the research and product development, as well as the economies of scale offered by the Bosch Group.

Systematically reducing our vertical integration means that our sales structures and our service portfolio are becoming increasingly important. In spite of the persistently difficult market environment, Conergy benefited once again from its efficient sales organisation and strong international position. One of our largest growth regions in 2011 was Asia-Pacific, where we more than doubled our volumes sold with 144.4 percent and our sales by 27.3 percent. In April we installed one of the largest solar farms in Southeast Asia in Nakhon Pathom, Thailand, with the solar components we manufacture in Germany – a success which shows that even the very price-sensitive Asian market has now developed a completely new awareness of quality. In Australia, the government of the State of Queensland also relied on our premium components and expertise when constructing a solar energy system at the state's emergency call centre. We were also successful in India, where we erected one of the largest grid-connected farms on the sun-soaked subcontinent.

Besides the Asia-Pacific region, the North American solar market also developed encouragingly. On the Hawaiian island of Oahu, Conergy built the country's first PowerPlus system on the roof of the local branch of photo giant Fujifilm. In October we announced additional major projects in Hawaii, California and Pennsylvania. By entering into new growth markets, Conergy further expanded its international presence. At the beginning of the year, we announced our plans to enter the UK market, where we implemented our first prestige project in July with the largest farm in the country. In addition, we implemented our first large-scale project in Israel with an installation on the roof of a shopping mall.

In the European markets, we also secured major contracts, from the largest solar energy system on the Canary Islands through numerous solar farms in Greece to one of Italy's biggest rooftop installations on the roofs of the Parma Exhibition Centre. Conergy had built a solar power plant for the trade show operator back in late 2009, though the new 5 MW installation is almost three times as large as the initial project. In Conergy's home market of Germany, the Company had positive news to report in 2011 with large-scale power stations in Bavaria, Brandenburg, Mecklenburg-Western Pomerania and Rhineland-Palatinate.

All of these operational achievements are a reflection of Conergy's early internationalisation and successful sales organisation. They demonstrate that in spite of the difficult market environment we were able to boost our sales volumes worldwide by 7 percent. The price pressure being experienced by the entire industry exceeded expectations, however: For the year as a whole, experts had initially forecast a price drop of no more than 15 percent, but reality far outstripped these forecasts – though in the negative sense of the word. Throughout the industry, module prices slumped by over 40 percent in the course of the year. Due to this continuing strong price pressure, our consolidated sales fell short of the prior-year figure at EUR 754.1 million, and our EBITDA also remained below expectations at EUR -84.1 million. Apart from the price pressure being more severe than anticipated, our operating result before depreciation and amortisation was also characterised by high extraordinary factors, principally due to the strategic realignment of our module production in Frankfurt (Oder).

Without a doubt, we as a company and also you as our shareholders cannot be satisfied with the result we obtained in the past financial year. Nevertheless, we are beginning the new financial year with lean inventories and without excessive burdens in order to be able to handle the continuing erosion in the price of photovoltaic products with greater flexibility. To achieve this, we made a conscious decision in the fourth quarter to reduce our stocks by selling off inventories, especially from long-term supply agreements, at the end of the year. With all the measures it implemented in 2011, Conergy has set its sights firmly on the future. We are convinced that with the successfully concluded financial restructuring, our strategic realignment and the associated restructuring of the Company, as well as the decision to keep our inventories lean in the traditionally difficult first quarter, we have built the best possible foundations for the 2012 financial year. We are confident that with these steps we have created the conditions necessary to be successful in 2012 in what will still be a difficult market.

Yours Sincerely,

Philip Comberg

Dr. Philip Comberg

# The Management Board

From left: Jan Vannerum, Alexander Gorski, Dr. Philip Comberg, Marc Lohoff

**Dr. Philip Comberg** (CEO)

Appointed from 12 January 2012 until 31 December 2012 (Delegated from the Supervisory Board, membership on the Supervisory Board is suspended pursuant to Section 105 para. 2 German Stock Corporation Act)

Responsible for Strategy, Corporate Development, Corporate Communications, Human Resources, Compliance and Legal.

**Marc Lohoff** (CSO)

Appointed from 12 January 2012 until 31 December 2014

Responsible for Asia-Pacific, North America and the Middle East; he is based in Singapore.

**Alexander Gorski** (COO)

Appointed from 04 May 2011 until 31 December 2014

Responsible for Operations and Services, Supply Chain, Quality Management, Marketing & Sales and Region Europe.

**Jan Vannerum** (CFO)

Appointed from 12 January 2012 until 31 December 2014

Responsible for Finance, Tax, Treasury, Internal Audit, IT and Investor Relations.

---

Dr. Sebastian Biedenkopf stepped down from the Management Board after the close of the reporting year effective 12 January 2012 and left the company at the end of February 2012.

Andreas Wilsdorf resigned from the Management Board with effect from midnight on 31 July 2011.

## The members of the Management Board and their memberships

(as at 31 December 2011)

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

| Name | Member since | Positions on statutory Supervisory Boards and comparable control committees |
|---|---|---|
| | | |
| **Dr. Sebastian Biedenkopf** * | 2010 | – |
| **Alexander Gorski** | 2011 | – |

Andreas Wilsdorf resigned from the Management Board with effect from midnight on 31 July 2011.
* Dr. Sebastian Biedenkopf stepped down from the Management Board after the close of the reporting year effective 12 January 2012 and left the company at the end of February 2012.

# 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 provided regular and timely 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 revenue, earnings and liquidity developments; the economic situation of both the Company and the Group, including their exposure to risk and their risk management; intragroup 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 on specific occasions at the request or explicit demand of the Supervisory Board as well as in regular intervals in accordance with the rules of procedure drawn up by the Supervisory Board for the Management Board. The Supervisory Board included external consultants as well as staff from various areas such as Legal, Accounting, Controlling and Internal Auditing in its deliberations to the extent necessary in the 2011 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, all of which it approved following detailed examinations and discussion with the Management Board.

**Composition of the Supervisory Board**

In the 2011 financial year, Messrs Norbert Schmelzle (Chairman of the Supervisory Board), Klaus-Joachim Krauth (Deputy Chairman of the Supervisory Board until 7 March 2011), Andreas de Maizière (Deputy Chairman of the Supervisory Board since 10 March 2011), Oswald Metzger, Bernhard Milow and Dieter Ammer initially belonged to the Company's Supervisory Board, which comprises six shareholder representatives pursuant to Section 96 para. 1 and Section 101 para. 1 sentence 1 German Stock Corporation Act (AktG) in conjunction with Article 10 para. 1 of the Company's Articles of Association. Dieter Ammer resigned from the Supervisory Board with effect from 1 July 2011 in accordance with Article 8 para. 5 of the Company's Articles of Association.

The Supervisory Board members Norbert Schmelzle, Andreas de Maizière, Klaus-Joachim Krauth, Oswald Metzger and Bernhard Milow each resigned as members of the Supervisory Board with effect from the end of the 2011 Annual General Meeting on 26 August 2011 in accordance with Article 8 para. 5 of the Company's Articles of Association.

The General Meeting on 26 August 2011 elected Jeremy Blank, Dr. Philip Comberg, Pepyn René Dinandt, Werner Paschke, Dr. Andreas Pleßke and Dr. Klaus-Dieter Rasch to the Company's Supervisory Board for the remaining term of office of the departed Supervisory Board members, i.e. until the end of the General Meeting that resolves on the approval of the actions of the Supervisory Board members for the 2014 financial year. Akbar Rafiq was also elected as a substitute Supervisory Board member for all newly elected Supervisory Board members. At the inaugural meeting of the Supervisory Board, Dr. Philip Comberg was elected Chairman of the Supervisory Board and Dr. Andreas Pleßke its Deputy Chairman.

**Supervisory Board meetings**

In the 2011 financial year, the Supervisory Board held a total of 15 meetings to carry out its duties, specifically, on 12 January, 25 February (two meetings), 10 March, 24 March, 21 April, 10 May, 16 June, 4 July, 9 August, 26 August, 7 September, 27 September, 7 November and 7 December 2011. With the exception of the meetings on 10 March, 21 April and 4 July 2011, which were held as teleconferences, 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. In addition the Supervisory Board regularly asked the Management Board to keep it informed of current events by telephone. With the exception of Dieter Ammer (who resigned from the Supervisory Board effective 1 July 2011) and Jeremy Blank, Dr. Philip Comberg, Pepyn René Dinandt, Werner Paschke, Dr. Klaus-Dieter Rasch and Dr. Andreas Pleßke (all of whom were not elected to the Supervisory Board until 26 August 2011), all members of the Supervisory Board attended more than one half of its meetings. Since their election to the Supervisory Board, the current members of the Supervisory Board – with the exception of Dr. Klaus-Dieter Rasch, who was sick on one occasion and was excused – have attended all board meetings. Up to the time of their departure from the Supervisory Board, the Supervisory Board members Klaus-Joachim Krauth, Dieter Ammer and Oswald Metzger had each excused themselves from one meeting.

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

At all meetings, the Management Board briefed the Supervisory Board in detail on current revenue, 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. Keeping a critical eye on the Company's ongoing restructuring and refinancing process was one of the priorities of the Supervisory Board's advisory and supervisory activities during the 2011 reporting year. This work focused first and foremost on individual issues such as (i) the refinancing concept, (ii) internal restructuring, (iii) matters related to the Management Board, (iv) the Company's strategic alignment as well as (v) the question whether to bring claims for damages against former members of the Company's Management Board in connection with its earnings and liquidity crisis in 2007. None of this gave rise to any doubts with respect to the current Management Board's due and proper conduct of business.

The preparation of the Company's Extraordinary General Meeting and the associated restructuring measures as well as planned debt relief measures within the Group were among the main topics addressed at the Supervisory Board meeting on 12 January 2011. In addition, the Management Board reported on the details of the impairment testing of the loan receivables contributed by the creditors as part of the planned capital increase and the commissioning of a corresponding expert opinion. The full Supervisory Board then discussed the draft resolution and the draft of the invitation to the Extraordinary General Meeting. The Supervisory Board also asked the Company's external advisors for reports in this connection. The Management Board then updated the Supervisory Board on changes in business planning and their effects, for example on the income statement, the balance sheet and the Group's liquidity. The full Supervisory Board also discussed the appointment of the auditor for the 2011 financial year and compliance topics as well as recent compliance-related incidents. The Management Board reported on an approved project for safeguarding the Company's competitiveness and the full Supervisory Board discussed different issues in this context. A variety of operational issues on the staffing situation, suppliers and the sale of the Group company Güstrower Wärmepumpen GmbH were also debated.

The Supervisory Board meeting on 25 February 2011 took place ahead of the Company's Extraordinary General Meeting. The initial purpose of this meeting was to prepare the Extraordinary General Meeting in more detail. One of the topics the Supervisory Board discussed was a countermotion by shareholders received by the Company. The Supervisory Board then appointed Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft to review the interim report for the first quarter. Finally, the Supervisory Board discussed the status of the search for candidates to fill the vacant CEO position in the Management Board and received a report, with input from the Company's legal advisor, on the status of the review of claims for damages against a former member of the Management Board.

Another extraordinary meeting of the Supervisory Board on 25 February 2011 following the Company's Extraordinary General Meeting addressed the future cooperation between the Management Board and the Supervisory Board. In this connection, the current vacancy in the Management Board and the need to implement the refinancing concept in the near term were discussed, as were other topics.

Among the focal points of the Supervisory Board meeting on 10 March 2011 were the resignation of Klaus-Joachim Krauth as Deputy Supervisory Board Chairman, his departure from the Chairman's Committee and the Audit Committee, as well as new appointments for these positions. The status of the review of claims against former Management Board members and the search for candidates to fill the vacant Management Board positions were then discussed.

At its meeting on 24 March 2011, the Supervisory Board addressed, among other things, the reports from the committees and the corporate governance statement for the 2010 financial year. Then the full Supervisory Board was briefed on the draft of the Supervisory Board report for the 2010 financial year and discussed this at length. At this meeting, the Supervisory Board also concerned itself with the preparation of the 2011 Annual General Meeting. In the presence of the auditor, the Management Board then briefed the Supervisory Board in depth on the financial year just ended. The Supervisory Board asked the Management Board and the auditors to report on the audit of the single-entity financial statements according to the German Commercial Code (HGB) and the preliminary findings of the audit for the 2010 financial year. The Supervisory Board, the Management Board and the auditors discussed once again the main aspects of the annual and consolidated financial statements with the management reports. Both the Management Board and the auditors answered all of the Supervisory Board's questions comprehensively. At this meeting on 24 March 2011, the Supervisory Board then approved the annual financial statements prepared by the Management Board as well as the consolidated financial statements for the 2010 financial year. The Management Board also reported on current business trends, specific major projects and the status of an internal project for improving the Company's market positioning and competitiveness. At the end of the meeting, matters relating to the Management Board and Supervisory Board were discussed that also included questions on the compensation of the Management Board.

At its meeting on 21 April 2011, the Supervisory Board dealt with matters relating to the Management Board, among other things, concentrating on the vacancy in the Management Board and the search for candidates to fill the vacant CEO position, the targets set for 2011 as well as possible breaches of duty by former Management Board members.

The main topics discussed at the Supervisory Board meeting on 10 May 2011 included reports from the committees, the report of the Management Board on current business trends in 2011, a status report on the refinancing with subsequent discussion of strategy, as well as the further preparation of the 2011 Annual General Meeting. The Supervisory Board received a detailed report from the Management Board on the main findings from the results for the first quarter and a comparison of the current key performance indicators with those set out in the business plan. The forecast for the remaining three quarters, the liquidity situation and various other operational topics were also discussed. The Supervisory Board then discussed matters relating to the Management Board and personnel issues.

Among the topics addressed at the Supervisory Board meeting on 16 June 2011 were the status of implementation of the capitalisation measures resolved at the Extraordinary General Meeting. The Supervisory Board asked the Management Board for a report on the current status, which also included the conclusion of the new syndicated loan agreement. The Supervisory Board was then updated on the status of the case against former Management Board members and the full Supervisory Board discussed the factual and legal context as well as further steps with regard to bringing an action. The Management Board subsequently reported on general business trends and comprehensively answered a large number of questions from the Supervisory Board. Finally, the Management Board also reported to the Supervisory Board on the current forecast for financial years 2011 to 2013. Before drawing to a close, the Supervisory Board meeting discussed matters concerning the Supervisory Board and the Management Board, particularly in relation to the variable compensation of the Supervisory Board and the status of the search for candidates to fill the vacant CEO position in the Management Board and the possible terms of contract.

At its meeting on 4 July 2011, the Company's Supervisory Board focused in particular on matters relating to the Management Board as well as personnel matters. The invitation to the 2011 Annual General Meeting and the amendment of the Declaration of Compliance submitted by the Management Board and Supervisory Board in December 2010 were also discussed.

The main items on the agenda of the Supervisory Board meeting on 9 August 2011 were a report by the Management Board on the completion of the refinancing and the Company's new capital structure. This was accompanied by a report on the first six months and an outlook for the second half of 2011. General business trends and the strategic orientation of specific Group units were also debated. In addition, the Supervisory Board received reports on current sales results. Another topic was the continued improvement in the Group's competitiveness. Finally, matters relating to the Supervisory Board and Management Board were discussed, particularly the status of the search for candidates to fill the vacant CEO position in the Management Board and questions relating to the Management Board's compensation.

Among the focal points of the Supervisory Board meeting on 26 August 2011 were the further preparation of the 2011 Annual General Meeting held on the same day and the status of the search for candidates to fill the vacant CEO position in the Management Board. Matters relating to the Management Board and the assertion of claims by one of the Group companies against a supplier were also addressed.

The Supervisory Board meeting on 7 September 2011 was the inaugural meeting of the newly elected Supervisory Board following the Annual General Meeting on 26 August 2011. For this reason, internal Supervisory Board matters such as elections and the composition of the committees were first on the agenda. The Management Board then gave a comprehensive presentation on the Company. Numerous aspects were discussed by the full Supervisory Board, especially topics of particular importance for the Group and the priorities being set. Legal action against former Management Board members and other Management and Supervisory Board issues were addressed before the meeting drew to a close.

The main issues on the table at the Supervisory Board meeting on 27 September 2011 included current business trends and internal Supervisory Board matters. The latter comprised discussions on the drawing up of new rules of procedure for the Supervisory Board as well as the composition of the Management Board, with the focus on the current Management Board members, their function and possible other Management Board functions as well as potential candidates. The debate on business trends concentrated on topics such as the cash flow, the 13-week forecast and short-term liquidity measures. The Supervisory Board received detailed reports on the Company's liquidity situation and discussed various opportunities for improving the liquidity reserves. Finally, the Supervisory Board was briefed on the preliminary results of a simulation for the years 2012 to 2014.

The Supervisory Board meeting on 7 November 2011 principally dealt with internal Supervisory Board issues, a Management Board report on the liquidity measures taken and planned, as well as the report on current business trends. Matters relating to the Management Board and the search for suitable candidates for the positions of CFO and CEO were also addressed.

The main topics at the Supervisory Board meeting on 7 December 2011 were current business trends, the Company's liquidity situation, business planning for 2012 to 2014 as well as internal Supervisory Board matters. In addition, the Supervisory Board asked the Company's Management Board and staff to report on strategic options for the Company. The status of the sale of the Group company voltwerk electronics GmbH was also addressed. Finally, the further handling of lawsuits against former Management Board members and the inclusion of the Chairman of the Supervisory Board in the search for a strategic cooperation or an investor for the Company were discussed.

**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 fulfilment 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 Chairman's Committee also serves as a Nomination Committee. 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 close cooperation between the committees and the full Supervisory Board in the reporting year. The Supervisory Board resolved at its meeting on 7 September 2011 following the new elections to the Supervisory Board at the 2011 Annual General Meeting to establish a Project Control Committee comprising three members, to complement both the Audit Committee and the Chairman's Committee. Among other things the Project Control Committee will be tasked with monitoring both the progress and the implementation of projects at the operating level, as defined in greater detail by the Management Board with the approval of the Supervisory Board. Mr. Pepyn Dinandt, Dr. Andreas Pleßke and Dr. Klaus-Dieter Rasch were elected to the Project Control Committee, and Dr. Andreas Pleßke was elected its Chairman. There were no meetings of the Project Control Committee in the 2011 financial year.

At the beginning of the 2011 reporting period, the Chairman's Committee initially comprised Messrs Norbert Schmelzle (Chairman), Andreas de Maizière, Klaus-Joachim Krauth (until 7 March 2011) and Bernhard Milow (from 10 March 2011). Following the election of new Supervisory Board members by the 2011 Annual General Meeting and the associated departure of Messrs Schmelzle, de Maizière and Milow, the Audit Committee comprised the Supervisory Board Chairman, Dr. Philip Comberg, and the Deputy Supervisory Board Chairman, Dr. Andreas Pleßke. On 7 September 2011, Pepyn Dinandt and Jeremy Blank were elected as further members of the Chairman's Committee.

In the 2011 financial year, the Chairman's Committee held a total of five meetings – on 12 January, 2 February, 22 March, 27 September and 7 December 2011. These meetings focused on issues related to the composition of the Management Board, specifically the search for candidates for vacant Management Board positions and deliberations on the focus of individual Management Board positions. Issues related to the Management Board's internal organisational structure as well as compensation issues and Management Board incentives were also debated. The Committee also concerned itself with the preparation of the Extraordinary General Meeting, urgent operational issues, on which the Management Board reported, as well as the claims for damages brought against former members of the Management Board. All committee members attended all meetings of the Chairman's Committee. In the 2011 financial year, the members of the Chairman's Committee stayed in touch outside of meetings too, especially regarding matters related to the Management Board.

In the 2011 financial year, the Audit Committee initially consisted of Klaus-Joachim Krauth (member of the Audit Committee and also its Chairman until 7 March 2011), Norbert Schmelzle, Andreas de Maizière (Chairman since 10 March 2011) and Oswald Metzger (since 10 March 2011). Following the election of new Supervisory Board members by the 2011 Annual General Meeting and the associated departure of Messrs Schmelzle, de Maizière and Metzger, the Audit Committee comprised the Supervisory Board Chairman, Dr. Philip Comberg, and the Deputy Supervisory Board Chairman, Dr. Andreas Pleßke. On 7 September 2011, two more members were elected to the Audit Committee: Werner Paschke (as Chairman) and Jeremy Blank.

The tasks of the Audit Committee, which during the 2011 reporting year met five times for meetings requiring personal attendance – specifically on 12 January, 23 March, 10 May, 9 August and 7 November 2011 – included the preparation of the audit of the annual and consolidated financial statements and the associated management reports, the engagement of the auditor including deciding on the focal points of the audit, the accounting, issues of risk management, compliance and internal auditing and the principles of the short-, medium-, and long-term financial strategy. The Chairman of the Management Board and other members of the Management Board as well as representatives from specialist departments also participated in these meetings as necessary.

At its meeting on 12 January 2011, the Audit Committee dealt with the Supervisory Board's proposals concerning the award of the audit assignment for the 2011 financial year as well as various compliance topics.

At its meeting on 23 March 2011, the Audit Committee engaged in a detailed discussion – in the presence of the auditors, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, and the Management Board – of the preliminary annual and consolidated financial statements for 2010 as well as the preliminary management and Group management report as at 31 December 2010; the Audit Committee asked the auditors to report on their audits and the relevant findings as well as on the status of the groupwide implementation of risk management policies. The committee prepared a recommendation for a Supervisory Board resolution based on this. Another item on the agenda was the preparation of the 2011 Annual General Meeting.

The main topic at the Audit Committee meeting on 10 May 2011 was the Management Board's report on the financial statements for the first quarter of the 2011 financial year. The various questions asked by the committee members were answered by the Management Board in detail. The Audit Committee also discussed issues relating to internal auditing and compliance.

At its meeting on 9 August 2011, the Audit Committee discussed the report of the Management Board on the financial statements for the second quarter as well as the first six months of 2011. The effects of the Company's refinancing on its financial reporting were discussed in this connection. Another item on the agenda was the scheduled rotation of the auditor. Internal auditing issues, for example, were also addressed by the Audit Committee.

The Management Board's reporting on the current financial year, the liquidity situation and the draft of the financial report for the third quarter were the main topics of discussion at the Audit Committee's meeting on 7 November 2011. After that, areas of emphasis in the audit of the 2011 annual financial statements were discussed in the presence of the auditor. Other topics for discussion included a report by the Management Board on the Company's corporate governance.

**Discussion and audit of the annual and consolidated financial statements for 2011**

The Company's Annual General Meeting appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, to audit the annual and consolidated financial statements and the associated management reports as at 31 December 2011 of Conergy AG for the 2011 financial year. The Audit Committee then negotiated the audit engagement and discussed the focal points of the audit. Subsequently, the Supervisory Board awarded the audit engagement contract. The following items were stipulated as particular focal points of the audit of the financial statements for the 2011 financial year: (i) revenue recognition and consolidation of the project companies, (ii) measurement of non-current assets (calculation of write-downs to the lower net realisable value, single-entity financial statements with a particular focus on the measurement of intercompany assets), (iii) measurement of inventories, (iv) measurement of provisions (incl. warranties), (v) forecast for a going concern taking liquidity into account (and for further business planning) as well as (vi) a review of the Company's hedging.

The auditor audited the annual financial statements of Conergy AG for 2011, which were prepared in accordance with the requirements of the German Commercial Code, as well as the management report and issued an unqualified auditor's report for each of them. The same applies to the consolidated financial statements pursuant to International Financial Reporting Standards (IFRS) as applicable in the European Union that were prepared in accordance with Section 315a German Commercial Code and supplemented by a Group management report. The auditor also issued an unqualified auditor's report for these consolidated financial statements and the 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 (HGB) and found that the obligations of management in the areas of operations and strategy as set out in the German Control and Transparency in Business Act are 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 reviewed by the Audit Committee on 22 March 2012 and discussed in the presence of the auditors. Subsequently, they were examined in detail by the full Supervisory Board at its financials meeting on 23 March 2012 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 and the Supervisory Board for 2011 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. Based on its own review of the annual and consolidated financial statements and the respective management reports, 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 2011 financial year at its financials meeting on 23 2012. The annual financial statements of Conergy AG are hence adopted (Section 172 sentence 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 7 December 2011, the Supervisory Board issued the annual 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 compensation report reproduced in this annual report. In the 2011 financial year, the Supervisory Board also addressed potential conflicts of interest of its members. At the Supervisory Board meeting on 7 December 2011, the Supervisory Board discussed the gratuitous advising of the Management Board by the Supervisory Board Chairman, Dr. Comberg, in the search for a strategic investor for the Company. At this meeting, the Supervisory Board, excluding the vote of Dr. Comberg, who abstained, approved Dr. Comberg's advising of the Management Board in the search for investors and his support in talks and negotiations with the latter for the past and (revocably) for the future. While Dr. Comberg's advising of the Management Board is gratuitous, appropriate out-of-pocket cash expenses are reimbursed. Aside from this, the Supervisory Board did not identify any conflicts of interest in the year under review.

In the year under review, the Supervisory Board also concerned itself with possible claims for damages against several former Management Board members in connection with the Company's earnings and liquidity crisis in 2007. Based on a legal opinion prepared by the Company's legal advisor and following a detailed discussion in the Supervisory Board in consultation with the lawyers advising the Company, the Supervisory Board decided in July 2011 to commence settlement talks with two former members of the Management Board and to file claims for damages against the other former Management Board members concerned. Represented by the Supervisory Board, the Company then filed a claim for damages on 25 August 2011 with the Hamburg Regional Court against four former Management Board members on grounds of various breaches of duty in connection with the Company's earnings and liquidity crisis in 2007. The allegations also relate to various individual transactions in which the defendants were involved in their capacity as members of the Company's Management Board. The Company is seeking damages of around EUR 268 million. Represented by the Supervisory Board, the Company is additionally holding settlement talks with two other former members of the Management Board in this context. As these settlement talks are ongoing, the Company has refrained from including these former Management Board members in the lawsuit for the time being. If the settlement talks do not lead to a binding agreement, the Company reserves the right to include the former Management Board members concerned in the lawsuit.

At its meeting on 9 December 2010, the Supervisory Board resolved to conduct the efficiency review of its work as recommended by the German Corporate Governance Code and subsequently started performing the review. The self-assessment was essentially based on a questionnaire developed by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board took note of the analysis of the answers to the questionnaire on 9 August 2011. The findings of the analysis will be integrated into the work of both the Supervisory Board and its committees.

**Changes in the Management Board and the Supervisory Board**

Effective 7 March 2011, Klaus-Joachim Krauth, a member of the Supervisory Board, resigned from his position as Deputy Chairman of the Supervisory Board, his position as both a member and the Chairman of the Audit Committee as well as his appointment to the Chairman's Committee. On 10 March 2011, the Supervisory Board elected Andreas de Maizière its new Deputy Chairman. Oswald Metzger was appointed to the Audit Committee to fill the vacancy. Bernhard Milow was appointed to the Chairman's Committee, taking the place of Klaus-Joachim Krauth. The Audit Committee also elected Andreas de Maizière its new Chairman.

Alexander Gorski was appointed to the Management Board effective 4 May 2011 and assumed his responsibilities on the same day. He took charge of the Operations and Services department and was appointed as the Company's Chief Operating Officer (COO) with effect from 1 August 2011. In addition to global manufacturing and supply chain, Alexander Gorski is responsible for the quality management and customer service divisions as well as for sales and marketing activities in Europe.

The Supervisory Board member Dieter Ammer resigned from the Supervisory Board with effect from 1 July 2011 in accordance with Article 8 para. 5 of the Company's Articles of Association.

The Management Board member Andreas Wilsdorf resigned from the Management Board with effect from midnight on 31 July 2011.

The Supervisory Board members Norbert Schmelzle, Andreas de Maizière, Klaus-Joachim Krauth, Oswald Metzger and Bernhard Milow each resigned as members of the Supervisory Board with effect from the end of the 2011 Annual General Meeting on 26 August 2011 in accordance with Article 8 para. 5 of the Company's Articles of Association.

The Annual General Meeting on 26 August 2011 elected Jeremy Blank, Dr. Philip Comberg, Pepyn René Dinandt, Werner Paschke, Dr. Klaus-Dieter Rasch and Dr. Andreas Pleßke to the Company's Supervisory Board for the remaining term of office of the departed Supervisory Board members, i.e. until the end of the General Meeting that resolves on the approval of the actions of the Supervisory Board members for the 2014 financial year. Akbar Rafiq was also elected as a substitute Supervisory Board member for all newly elected Supervisory Board members on the understanding that he will take the place of one of the newly elected Supervisory Board members should this member resign from the Supervisory Board before the expiry of his term of office.

The 2011 financial year was a very difficult one for Conergy, also on account of challenges related to its restructuring and refinancing. Yet the Company succeeded in implementing a restructuring concept that substantially lowers its liabilities and laid the ground for its continued existence as a going concern. The Supervisory Board wishes to thank and express its appreciation to Conergy's management, the former members of its Management Board and Supervisory Board, as well as all employees for their extensive commitment.

Hamburg, 23 March 2012
The Supervisory Board

Dr. Andreas Pleßke
Deputy Chairman of the Supervisory Board

# The Supervisory Board

## The members of the Supervisory Board and their memberships

(as at 31 December 2011)

The members of the Supervisory Board held the following positions on statutory Supervisory Boards and comparable corporate control committees as at 31 December 2011:

| Name | Member since | Positions on statutory Supervisory Boards and comparable control committees |
|---|---|---|
| **Dr. Philip Comberg**<br>(Chairman)<br>(membership has been suspended since 12.01.2012 pursuant to Section 105 para. 2 German Stock Corporation Act while serving on the Management Board)<br>Prior to this: Independent entrepreneur, CEO and Partner at Alcosa Capital GmbH & Co. KG, Frankfurt (Main) | 2011 | – |
| **Dr. Andreas Pleßke**<br>(Deputy Chairman)<br>of the Supervisory Board<br>Chief Restructuring Officer of William Prym Holding GmbH, Stolberg | 2011 | Statutory Supervisory Boards:<br>Chairman of the Supervisory Board of m.a.x. Informationstechnologie AG, Munich<br>Chairman of the Supervisory Board of smart One Consulting AG, Berg |
| **Pepyn René Dinandt**<br>Chief Executive Officer of Monier Group SARL, Luxembourg | 2011 | Statutory Supervisory Boards:<br>Chairman of the Supervisory Board of Monier Braas GmbH, Oberursel, Germany<br><br>Comparable control committees:<br>Chairman of the Advisory Board of Bramac Dachsysteme International GmbH, Pöchlarn, Austria |
| **Jeremy Blank**<br>Employee of YCMIL Ltd., Tel Aviv, Israel<br>Head of International Credits and Partner at York Capital Ltd., Tel Aviv, Israel | 2011 | – |
| **Werner Günter Paul Paschke**<br>Self-employed management consultant | 2011 | Statutory Supervisory Boards:<br>Member of the Supervisory Board of Coperion GmbH, Stuttgart<br><br>Comparable control committees:<br>Member of the Supervisory Board of Monier Holdings GP S.A., Luxembourg |
| **Dr. Klaus-Dieter Rasch**<br>Chief Executive Officer (CEO) of AZUR SPACE Solar Power GmbH, Heilbronn | 2011 | – |

Dr. Philip Comberg, Dr. Andreas Pleßke, Pepyn René Dinandt, Jeremy Blank, Werner Paschke and Dr. Klaus-Dieter Rasch were elected to the Company's Supervisory Board by the Annual General Meeting on 26 August 2011. At its inaugural meeting, the Supervisory Board elected Dr. Philip Comberg as its Chairman and Dr. Andreas Pleßke as its Deputy Chairman.

The previous members of the Supervisory Board of Conergy AG, Andreas de Mazière, Oswald Metzger, Bernhard Milow, Klaus-Joachim Krauth and Norbert Schmelzle, resigned from their posts effective at the close of the General Meeting on 26 August 2011. Dieter Ammer resigned from the Supervisory Board with effect from 30 July 2011.

# Statement and report on corporate governance

**Statement on corporate governance**
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 the efficient corporation between the Management Board and the Supervisory Board, the observance of shareholder interests as well as open and up-to-date corporate communications. 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.

The Management Board of Conergy AG reports on issues of corporate governance in this statement – also on behalf of the Supervisory Board – pursuant to both Item 3.10 of the German Corporate Governance Code and Section 289a para. 1 of the German Commercial Code (HGB).

**Declaration of Compliance and report on corporate governance**
Section 161 German Stock Corporation Act requires the Management Board and the Supervisory Board of a company listed in Germany to declare once a year whether they are in compliance with the recommendations of the German Corporate Governance Code (GCGC) and, if this is not the case, which recommendations they did not or do not follow. The Company also has to provide reasons for any non-compliances. This declaration shall be kept permanently available through publication on the Company's website.

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.

**Declaration of the Management Board and the Supervisory Board of Conergy AG regarding the recommendations of the Government Commission German Corporate Governance Code pursuant to Section 161 German Stock Corporation Act**
The Management Board and the Supervisory Board of Conergy AG issued the following declaration on 7 December 2011 regarding the recommendations of the Government Commission German Corporate Governance Code:

The most recent Declaration of Compliance was published on 9 December 2010; it was updated and amended through the Declaration on 14 July 2011. Since this date, Conergy AG has been in compliance in the 2011 financial year and is in compliance now with all recommendations of the German Corporate Governance Code as amended on 26 May 2010, as applicable, with the following exceptions:

Up to now, Conergy AG has not made use of the option created by the German Act Implementing the Shareholder Rights Directive (ARUG) to allow postal votes (Section 118 para. 2 German Stock Corporation Act) (deviation from Item 2.3.3 sentence 2 of the German Corporate Governance Code). The Management Board and Supervisory Board are initially planning to wait and see what other quoted issuers do and what their experience is like before submitting a motion to the General Shareholders' Meeting for resolution on an amendment of the Articles of Association to allow such postal votes.

Ever since the departure of the former Chairman of the Management Board Dieter Ammer, the Management Board of Conergy AG has not had a chairman or a spokesman (deviation from Item 4.2.1 sentence 1, clause 2 of the German Corporate Governance Code). After Alexander Gorski's appointment to the Management Board effective 4 May 2011, the Management Board of Conergy AG initially comprised three members. The Supervisory Board did not appoint a chairman or spokesman of the Management Board, particularly as the Management Board member Andreas Wilsdorf left the Management Board effective at the end of 31 July 2011, so that the Management Board again has comprised two members since that date. The Supervisory Board does not consider it necessary to appoint a chairman or spokesman in the current constellation. The Supervisory Board is looking for suitable candidates for the Management Board and will in due time address the question whether to appoint a chairman or spokesman of the Management Board in this connection.

The Supervisory Board of Conergy AG has not specified any concrete objectives regarding its composition (deviation from Item 5.4.1 sentences 2 to 5 of the German Corporate Governance Code). In nominating suitable candidates to the General Shareholders' Meeting, the Supervisory Board will continue to comply with the legal requirements and emphasise the candidates' expertise and personal skills irrespective of their gender. The Company's international activities as well as potential conflicts of interest and diversity will naturally also be taken into account. This does not require the specification of concrete objectives, however.

The aforementioned declaration dated 7 December 2011 was amended as follows based on resolutions adopted by the Management Board and Supervisory Board on 8 February and 23 February 2012, respectively:

The Management Board of Conergy AG once again has a Chairman or Spokesman (Item 4.2.1, second half of sentence 1 of the German Corporate Governance Code) now that Dr. Philip Comberg has been delegated to the Management Board since 12 January 2012 pursuant to Section 105 para. 2 AktG and appointed Chairman of the Management Board (CEO).

Hamburg, 23 February 2012

| For the Supervisory Board:
  Dr. Andreas Pleßke

| For the Management Board:
  Dr. Philip Comberg, Alexander Gorski,
  Marc Lohoff, Jan Vannerum

**Procedures of the Management Board and the Supervisory Board**

Conergy AG is a stock corporation that was founded under German law. The dual management system comprising the Management Board and the Supervisory Board as corporate bodies, both of which have distinct responsibilities, is a fundamental element of German corporate law. 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.

**Management Board**

The Management Board of Conergy AG comprised two members as at 31 December 2011: Dr. Sebastian Biedenkopf (CFO, responsible for Corporate Finance, Corporate Treasury & Project Finance, Corporate Tax, Investor Relations, Corporate Legal, Corporate Human Resources & Compliance, IT & Processes, Corporate Communications (Public Relations), Corporate Audit, Corporate Business Development) and Alexander Gorski (COO, responsible for Global Operations (Supply Chain Planning, Global Logistics, Corporate Aftersales Operations), Quality Management, Sales Excellence, Project Planning & Execution, Global Purchasing, Global Marketing, Global Large Projects. The Components segment was jointly managed by Dr. Sebastian Biedenkopf and Alexander Gorski.

Alexander Gorski was initially appointed as deputy member to the Management Board effective 4 May 2011 and assumed his responsibilities on the same day. He became the Company's Chief Operating Officer (COO) and therewith ordinary member of the Management Board with effect from 1 August 2011.

The Management Board member Andreas Wilsdorf resigned from the Management Board with effect from midnight on 31 July 2011.

Dr. Sebastian Biedenkopf stepped down from the Management Board after the close of the reporting year effective 12 January 2012 and left the company at the end of February 2012.

Shortly after the close of the reporting year, Jan Vannerum and Marc Lohoff were appointed to the Management Board effective 12 January 2012. Jan Vannerum is responsible for Finance, Tax, Treasury, Internal Revision, IT and Investor Relations. In his capacity as the Chief Sales Officer (CSO), Marc Lohoff is responsible for Asia-Pacific, North America and the Middle East.

Effective 12 January 2012, the Company's Supervisory Board delegated Dr. Philip Comberg, who has been on the Supervisory Board since 26 August 2011, to the Management Board until the end of 2012 to assume the position of Chairman of the Management Board. He is responsible for Strategy, Corporate Development, Corporate Communications, Legal, Human Resources and Compliance.

The Management Board manages the Company autonomously and free of third-party instructions. Its duties include first and foremost defining Conergy's strategic direction and managing the Group, as well as planning, implementing and monitoring a risk management system. All members of the Management Board are tied into the Company's day-to-day business and shoulder operational responsibility. The Supervisory Board decided that the age limit for the members of Conergy AG's Management Board should be 65 years.

The Supervisory Board has issued rules of procedure (as amended 9 August 2011) for the Management Board of Conergy AG that set out the responsibilities and work of the members of the Management Board as well as the Management Board's cooperation with the Supervisory Board in greater detail. Thereunder, the members of the Management Board jointly manage the Company's affairs (principle of collective responsibility). The principle of collective responsibility for the Company's entire management notwithstanding, each individual member of the Management Board is independently and autonomously responsible for managing the business area assigned to them under both the rules of procedure and the schedule of responsibilities unless the matter at hand is assigned to the full Management Board, given its special significance and scope, or by virtue of the law, the Company's Articles of Association or its rules of procedure. The respective Management Board member must coordinate with the relevant other members of the Management Board ahead of time if the activities and transactions of his business area also materially concern one or more other business areas. If an agreement cannot be reached, the Chairman of the Management Board shall arrange for the full Management Board to adopt the resolution. The members of the Management Board must inform each other on an ongoing basis of all material transactions that concern another Management Board member's business areas or could otherwise be significant to other members of the Management Board. The Chairman of the Management Board shall be kept informed on an ongoing basis of all material transactions related to the business areas for which the other members of the Management Board are responsible. He coordinates all business areas, represents the Management Board and the Company – both internally and externally – as well as vis-à-vis the Supervisory Board, in particular, and keeps the Supervisory Board informed of the Company's performance and position as part of his statutory reporting duties; he immediately notifies the Chairman of the Supervisory Board of any matters that are particularly significant to the Company. Any member of the Management Board may turn directly to the Chairman of the Supervisory Board if they believe that the outcome of particular deliberations or a resolution of the full Management Board is unlawful or highly improper.

Matters of a particular scope and significance to the Company and/or the Group companies or that fall within the purview of the full Management Board by virtue of the law, the Company's Articles of Association or the rules of procedure encompass, for example, fundamental issues of organisation, corporate policy, corporate planning and the implementation thereof; measures designed to establish and control a monitoring system as defined in Section 91 para. 2 AktG; establishing and determining the aims and design of the internal audit department; issues related to the rules of procedure and the schedule of responsibilities; preparing the Company's annual and consolidated financial statements as well as both the management report and the Group management report; convening the Annual General Meeting, and preparing the resolutions proposed by both the Management Board and the Supervisory Board; and all reporting to the Supervisory Board.

The full Management Board makes its decisions by resolution. The Management Board generally adopts its resolutions at Management Board meetings that ought to take place every two weeks. The Chairman of the Management Board or the Deputy Chairman shall prepare, convene and chair these meetings. The Management Board constitutes a quorum if all of its members have been invited to the meeting and more than one half of its members participate in the resolution. If so ordered by the Chairman of the Management Board, resolutions may also be adopted outside of meetings through votes cast in writing, by fax, telex, email or telephone, or by votes cast during video conferences unless a member of the Management Board objects. The Management Board shall adopt its resolutions unanimously, if possible. The resolutions of the Management Board shall be adopted by the simple majority of all votes cast unless provided otherwise by law or the rules of procedure; outside of its meetings, its resolutions shall be adopted by the simple majority of all its members. The Chairman of the Management Board shall cast the tie-breaking vote in the event of a tie. If the Chairman of the Management Board is absent or prevented from attending, in case of a tie the proposed resolution shall be deemed to have been rejected.

The Management Board must obtain the approval of the Supervisory Board for all transactions and/or measures that could have a material impact on the assets, liabilities, cash flows and profit or loss of the Company and/or the Group and/or individual Group companies or are otherwise of an extraordinary nature. In keeping with the statutory requirements of Section 111 para. 4 sentence 2 AktG, the Management Board's rules of procedure contain an enumeration of the transactions that may only be executed with the approval of the Supervisory Board.

The Management Board must also inform the Supervisory Board – in a regular, timely and comprehensive manner – of all issues relevant to the Company in terms of the intended business policies, planning, performance, exposure to risk and risk management as well as compliance. These reports are made periodically in accordance with the detailed requirements of reporting rules as well as in connection with specific occasions. In its reports, the Management Board shall address any deviations in the Company's development from plans and targets, stating the reasons for such differences. Management Board reports and all documents material to decision making, specifically the annual financial statements, the consolidated financial statements and the audit report shall generally be made available to the members of the Supervisory Board 14 days ahead of the given meeting in text form. In addition, the Chairman of the Management Board shall brief the Chairman of the Supervisory Board at regular intervals on the performance and position of both the Company and its associates, verbally and in writing, as necessary.

The members of the Management Board are subject to a comprehensive non-compete clause while they are in the Company's employ. They shall commit themselves to the interests of both the Company and the Group companies. In making their decisions, they may not pursue personal interests, nor may they use business opportunities inuring to the benefit of the Company or Group companies for their own good. The members of the Management Board must immediately disclose any conflicts of interest to both the Supervisory Board and the other members of the Management Board. There were no conflicts of interest in the financial year just ended that would have had to be disclosed to the Supervisory Board without delay. All transactions between members of the Management Board as well as parties related to them, on the one hand, and the Company or a Group company, on the other hand, must comply with industry standards. Material transactions require the approval of the Supervisory Board, and the application for approval shall set out that the transaction complies with industry standards. Company loans may only be granted to members of the Management Board as well as parties or companies related to them with the approval of the Chairman of the Management Board as well as the Supervisory Board. The members of the Management Board may not demand nor accept payments or other benefits for themselves or for third parties in connection with their activities above and beyond their compensation, to the extent that this could jeopardise the interests of the Company or Group companies. Nor may members of the Management Board grant unlawful advantages to third parties. Members of the Management Board shall obtain the approval of the Chairman's Committee of the Supervisory Board if they wish to accept board appointments to or consulting assignments from companies that are not Conergy AG Group companies as well as appointments to offices in any company that entail power of attorney and any other secondary employment of a significant nature. During the reporting year, no member of the Management Board held more than three appointments to the supervisory boards of listed stock corporations not belonging to the Conergy Group.

Conergy AG has purchased D&O insurance subject to a reasonable deductible for all members of its Management Board and its Supervisory Board.

The full Management Board may establish committees tasked with technical, commercial or financial issues at the suggestion of the Chairman of the Management Board for the purpose of conducting reviews and preparing Management Board resolutions. No committees were established during the reporting year.

**Board appointments of Management Board members**

The appointments of the members of the Company's Management Board to other companies' statutory supervisory boards and comparable domestic and foreign corporate control committees are enumerated in the notes to the annual financial statements as well as in the section entitled "The Management Board".

**Supervisory Board**

Pursuant to Article 8 para. 1 of the Company's Articles of Association in conjunction with Section 95 and 96 para. 1 AktG as well as Section 101 para. 1 AktG, the Supervisory Board is composed of six shareholder representatives who are elected by the Annual General Meeting, which is not bound by election proposals. At this time, it consists of the following: Messrs Dr. Philip Comberg (Chairman of the Supervisory Board; his appointment has been suspended since 12 January 2012 pursuant to Section 105 para. 2 AktG), Dr. Andreas Pleßke (Deputy Chairman of the Supervisory Board), Pepyn René Dinandt, Jeremy Blank, Werner Paschke and Dr. Klaus-Dieter Rasch.

In the 2011 reporting year, the Supervisory Board initially consisted of Messrs Norbert Schmelzle (Chairman of the Supervisory Board), Klaus-Joachim Krauth (Deputy Chairman of the Supervisory Board until 7 March 2011), Andreas de Maizière (Deputy Chairman of the Supervisory Board since 10 March 2011), Oswald Metzger, Bernhard Milow and Dieter Ammer. Dieter Ammer resigned from the Supervisory Board with effect from 1 July 2011 in accordance with Article 8 para. 5 of the Company's Articles of Association.

The Supervisory Board members Norbert Schmelzle, Andreas de Maizière, Klaus-Joachim Krauth, Oswald Metzger and Bernhard Milow each resigned as members of the Supervisory Board with effect from the end of the 2011 Annual General Meeting on 26 August 2011 in accordance with Article 8 para. 5 of the Company's Articles of Association.

The General Meeting on 26 August 2011 elected Jeremy Blank, Dr. Philip Comberg, Pepyn René Dinandt, Werner Paschke, Dr. Klaus-Dieter Rasch and Dr. Andreas Pleßke to the Company's Supervisory Board for the remaining term of office of the departed Supervisory Board members, i.e. until the end of the General Meeting that resolves on the approval of the actions of the Supervisory Board members for the 2014 financial year. Akbar Rafiq was also elected as a substitute Supervisory Board member for all newly elected Supervisory Board members. At the inaugural meeting of the Supervisory Board after the Annual General Meeting, Dr. Philip Comberg was elected Chairman of the Supervisory Board and Dr. Andreas Pleßke its Deputy Chairman.

All election proposals concerning potential Supervisory Board members shall consider the expertise, abilities and professional experience that are required for carrying out the respective tasks as well as issues of diversity. No former members of the Management Board of Conergy AG serve on the Supervisory Board. The Supervisory Board includes an adequate number of independent individuals, who do not maintain any professional or personal ties to the Company or its Management Board. The rules of procedure also stipulate that Supervisory Board members should resign their seat on the Supervisory Board effective at the end of the Annual General Meeting that follows their 72nd birthday.

The tasks of the Supervisory Board include regularly supporting the Management Board in managing Conergy AG and the Group's companies 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. Among other things, the Supervisory Board is also responsible for appointing the members of the Management Board; for establishing the compensation system and determining the compensation of individual Management Board members; and for reviewing the Company's annual and consolidated financial statements, including the management and Group management reports. In terms of strategy and planning, the Supervisory Board is integrated into all issues of fundamental significance to the Company. The Chairman of the Supervisory Board coordinates the work on the Supervisory Board and its committees, chairs its meetings and represents its interests vis-à-vis external parties. The Chairman of the Supervisory Board or his deputy, if the former is unavailable, also issue the declarations of intent of the Supervisory Board and its committees. The Chairman of the Supervisory Board shall be in regular contact with the Chairman of the Management Board and discuss the Company's strategy and performance with the latter. He informs all other Supervisory Board members of the reports by the Chairman of the Management Board inasmuch as they concern important events that are material to the assessment of the Company's position. The rules of procedure (as amended 27 September 2011) contain detailed descriptions of the work of the Supervisory Board and its committees.

The Supervisory Board shall convene once every calendar quarter but must convene twice every six calendar months. It shall convene additional meetings as necessary or if a member of the Supervisory Board or the Management Board request that a Supervisory Board meeting be convened, stating both the purpose of and reason for such a meeting. As a rule, all Supervisory Board meetings are convened by the Chairman of the Supervisory Board or two of its members. They shall be convened in writing subject to a notice period of two weeks, specifying the agenda items and any proposed resolutions, and all required documents shall be appended to the notice. In urgent cases, the Chairman of the Supervisory Board may reasonably shorten the notice period and convene a meeting verbally or by telephone, fax or email. The members of the Management Board participate in the meetings of the Supervisory Board unless the Chairman of the Supervisory Board provides otherwise. Employees of the Conergy Group and/or experts may also be invited in connection with individual agenda items or to serve as keepers of the minutes.

The Supervisory Board constitutes a quorum if all of its members have been duly invited to a meeting and one half of the members that must comprise the Supervisory Board by statute but at least three members participate in the resolution. Absent Supervisory Board members may participate in the resolution by means of telephone and video conferencing or by asking other Supervisory Board members to submit their written votes on their behalf. The Supervisory Board shall adopt its resolutions by the simple majority of all votes cast unless required otherwise by statute or the Company's Articles of Association. In the event of a tie, the vote on the respective agenda item shall be repeated upon application of the Chairman or another Supervisory Board member. The Chairman of the Supervisory Board shall have two votes in the second round if the repeat vote also ends in a tie. Resolutions on items or applications that are not contained in the agenda and that were not communicated to the members of the Supervisory Board at least three days ahead of the meeting may only be adopted if no Supervisory Board member present at the meeting objects, the absent Supervisory Board members are given the opportunity to cast their vote retroactively within a reasonable period to be fixed by the Supervisory Board Chairman and these Supervisory Board members do not object to the resolution within the given period either. Resolutions may also be adopted outside of Supervisory Board meetings – in particular, if the votes are cast in writing or by fax, telephone or email – if the Chairman of the Supervisory Board so orders and no member objects thereto within the period set for the voting. Minutes of the meetings of the Supervisory Board shall be prepared.

The Supervisory Board's rules of procedure also contain detailed provisions regarding the treatment of potential conflicts of interest. Every member of the Supervisory Board has the obligation – both while they serve on the Supervisory Board and thereafter – to maintain secrecy in regards to confidential matters as well as the Company's business and trade secrets to which they become privy in connection with their activities on the Supervisory Board. In making their decisions, the members of the Supervisory Board shall be committed to the interests of the Conergy Group. They may not pursue personal interests, nor may they use business opportunities that properly inure to the benefit of the Conergy Group for their own purposes. All conflicts of interest arising from their position on the Supervisory Board shall be disclosed to the latter immediately. In the event of unavoidable conflicts of interest, the affected Supervisory Board member shall refrain from participating in deliberations and resolutions on matters that affect their impartiality or resign from the Supervisory Board in order to safeguard the interests of Conergy AG. Supervisory Board members must resign their seats in case of material conflicts of interest that are not of a merely passing nature. All transactions between members of the Supervisory Board as well as parties related to them, on the one hand, and the Conergy Group, on the other hand, must comply with industry standards. The members of the Supervisory Board may not demand nor accept any payments or other benefits for themselves or for third parties in connection with their activities on the Supervisory Board above and beyond their compensation, to the extent that doing so jeopardises the interests of the Conergy Group.

**Composition and procedures of the Supervisory Board's committees**

The Supervisory Board created three committees – the Audit Committee, the Chairman's Committee and the Project Control Committee – from among its midst that prepare and supplement its work. The Chairman's Committee also serves as a nomination committee. There are no plans at present to establish additional committees.

The Audit Committee supports the Supervisory Board in carrying out its monitoring duties. The Chairman of the Audit Committee has particular expertise and experience in the application of accounting principles and internal control procedures based on his professional practice. Among other things, the Audit Committee is tasked with preparing the audit of the annual and consolidated financial statements, including the combined management report, as well as the Management Board's proposal for the appropriation of earnings; commissioning the auditor, which includes determining the audit's focal points; issues related to and reviews of the Company's accounting on the whole; monitoring the accounting process; issues related to the structure, task and efficacy of the internal control system; issues related to the management and monitoring of the risk management system on the whole as well as its effectiveness; issues of internal auditing and compliance; general management and review issues as well as reviewing the independence of the auditor of the financial statements and the additional services provided by the auditor; and both reviewing and determining the principles that govern the Company's financial strategy in the short, medium and long term.

The Audit Committee convenes at least twice per calendar year and includes the auditor and/or the Company's tax adviser in its deliberations as necessary. It only constitutes a quorum if at least three of its members participate in its resolutions. For the rest, the provisions of both the Company's Articles of Association and the Supervisory Board's rules of procedure apply analogously to the work of the committee.

In the 2011 financial year, the Audit Committee initially consisted of Klaus-Joachim Krauth (member of the Audit Committee and also its Chairman until 07 March 2011), Norbert Schmelzle, Andreas de Maizière (Chairman since 10 March 2011) and Oswald Metzger (since 10 March 2011). Following the election of new Supervisory Board members by the 2011 Annual General Meeting and the associated departure of Messrs Schmelzle, de Maizière and Metzger, the Audit Committee comprised the Supervisory Board Chairman, Dr. Philip Comberg, and the Deputy Supervisory Board Chairman, Dr. Andreas Pleßke. On 7 September 2011, two more members were elected to the Audit Committee: Werner Paschke (as Chairman) and Jeremy Blank.

The Chairman's Committee is in constant touch with the Management Board, coordinates the work of the Supervisory Board and prepares the latter's meetings. In addition, the Chairman's Committee is responsible, among other things, for granting the Supervisory Board's approvals to the Management Board as required by law, the Company's Articles of Association or the rules of procedure, as amended (unless excluded pursuant to Section 107 para. 3 sentence 2 and 3 German Stock Corporation Act); approving Management Board members' requests to accept board appointments to or consulting assignments from companies in which the Company has no stake as well as appointments to offices in any company that entail power of attorney and other secondary employment of any significance; granting loans to members of the Management Board and members of their families; determining and monitoring personnel matters related to the Management Board; preparing the appointment and dismissal of Management Board members; preparing proposals related to the compensation of Management Board members and reviews thereof; representing the Company vis-à-vis members of the Management Board in court and out of court; regular monitoring of the efficiency of the Supervisory Board's work; approving contracts made between the Company and members of the Supervisory Board in accordance with § 114 German Stock Corporation Act; as well as for special tasks that the full Supervisory Board assigns to the Chairman's Committee on a case-by-case basis. In its capacity as a nomination committee the Chairman's Committee makes recommendations to the Supervisory Board for the election of Supervisory Board members at the Annual General Meeting. The Chairman's Committee constitutes a quorum if all its members participate in its resolutions. For the rest, the provisions of both the Company's Articles of Association and the Supervisory Board's rules of procedure apply analogously to the work of the committee.

At the beginning of the 2011 reporting period, the Chairman's Committee initially comprised Messrs Norbert Schmelzle (Chairman), Andreas de Maizière, Klaus-

Joachim Krauth (until 7 March 2011) and Bernhard Milow (from 10 March 2011). Following the election of new Supervisory Board members by the 2011 Annual General Meeting and the associated departure of Messrs Schmelzle, de Maizière and Milow, the Audit Committee comprised the Supervisory Board Chairman, Dr. Philip Comberg, and the Deputy Supervisory Board Chairman, Dr. Andreas Pleßke. On 7 September 2011, Pepyn Dinandt and Jeremy Blank were elected as further members of the Chairman's Committee.

The Supervisory Board resolved at its meeting on 7 September 2011 following the new elections to the Supervisory Board at the 2011 Annual General Meeting to establish a Project Control Committee comprising three members, to complement both the Audit Committee and the Chairman's Committee. Among other things the Project Control Committee will be tasked with monitoring both the progress and the implementation of projects at the operating level, as defined in greater detail by the Management Board with the approval of the Supervisory Board. Pepyn Dinandt, Dr. Andreas Pleßke and Dr. Klaus-Dieter Rasch were elected to the Project Control Committee, and Dr. Andreas Pleßke was elected its Chairman.

Among other things the Project Control Committee will be tasked with monitoring both the progress and the implementation of projects at the operating level, as defined in greater detail by the Management Board with the approval of the Supervisory Board. Dr. Andreas Pleßke (Chairman), Pepyn Dinandt and Dr. Klaus-Dieter Rasch were elected to the Project Control Committee. There were no meetings of the Project Control Committee in the 2011 financial year.

**Board appointments of the Supervisory Board members**

The appointments of the members of the Company's Supervisory Board to other companies' statutory supervisory boards and comparable domestic and foreign corporate control committees are enumerated in the notes to the annual financial statements as well as in the section entitled "The Supervisory Board".

**Relevant practices of corporate governance**

The Management Board has enacted a Code of Business Conduct and Ethics for employees of the Conergy Group that goes above and beyond legal requirements. 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 Human Resources & Compliance department. Detailed information on the Code of Business Conduct and Ethics is available on the Company's website (www.conergy-group.com) in the Investor Relations section under the heading Corporate Governance.

**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 and is an integral part of the management report. The compensation report also includes information on the shareholdings of the Management Board and Supervisory Board members.

**Shareholders and Annual General Meeting**

The shareholders of Conergy AG exercise their codetermination and control rights at the Company's Annual General Meeting, which takes place at least once a year. It resolves all matters that are within its purview by statute with binding effect on all shareholders and the Company. One share grants one vote in all resolutions.

The Annual General Meeting elects the members of the Supervisory Board and formally approves the actions of the members of the Management Board and the Supervisory Board. It also decides on the allocation of the accumulated profits and capital measures, and approves corporate contracts; it also fixes the compensation of the Supervisory Board and resolves amendments of the Company's Articles of Association. The Management Board and the Supervisory Board account for their actions and the Company's performance in the prior financial year at the Annual General Meeting. The German Stock Corporation Act provides for the convening of an extraordinary Shareholders' Meeting in special cases.

Every shareholder who registers in due time and evidences their right to attend the Annual General Meeting and exercise their voting right may participate in the Annual General Meeting. Specific evidence of shareholdings in text form, which has been prepared by the respective shareholder's depository bank as at the beginning of the 21st day prior to the Annual General Meeting and is made available to the Company no later than six days before the Annual General Meeting – not counting the day of the Meeting and the day of receipt – suffices to establish a shareholder's rights. Shareholders who cannot or do not want to attend in person have the option of appointing a bank, a shareholders' association or any other agent as their proxy to exercise their voting right. In order to make it easier for shareholders to exercise their rights in accordance with the German Corporate Governance Code, the Company also offers those shareholders not interested in exercising their voting right themselves the option of voting at the Annual General Meeting through proxies who are appointed by Conergy and are bound by instructions. Conergy AG provides further details thereon in the notice convening the Annual General Meeting.

The notice of the Annual General Meeting as well as the reports and information required for the resolutions are published in accordance with the requirements of German corporate law and are also made available on Conergy AG's website.

**Risk management**

The responsible handling of business risks is an integral part of all good corporate governance. Comprehensive, cross-divisional and company-specific reporting and control systems that make it possible to record, assess and control these risks are available to both the Management Board of Conergy AG and the management of the Conergy Group. These systems are continuously refined and adjusted to the constantly changing environment. The Management Board informs the Supervisory Board on a regular basis of existing risks and their development. The Audit Committee in particular monitors the accounting process, including the reporting system, as well as the efficacy of the internal control system, the risk management system, the internal audit system, compliance and the audits of the annual accounts.

Please see the risk and opportunity report in the Group Management Report for details on risk management within the Conergy Group. It contains the report on the internal control and risk management system relevant to the financial reporting process as required under the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG).

**Accounting and auditing**

Conergy AG prepares its consolidated financial statements and its interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The annual financial statements of Conergy AG are prepared in accordance with the provisions of the German Commercial Code. The annual financial statements and the consolidated financial statements are prepared by the Management Board and examined by the auditor and Supervisory Board. The Audit Committee discusses the quarterly financial statements with the Management Board prior to publication.

The Company's auditors were elected by the Annual General Meeting in accordance with the regulations of the German Stock Corporation Act. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft were appointed as auditors for the 2011 consolidated financial statements and the 2011 annual financial statements in accordance with the German Commercial Code of Conergy AG. The Supervisory Board obtained the statement by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft regarding its independence, as required under the German Corporate Governance Code, before it submitted its election proposal. The audits were conducted in accordance with German auditing standards and taking the generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors (IDW) into account. The International Standards on Auditing were also taken into account. They also included the risk management and compliance with the reporting duties related to corporate governance under Section 161 AktG.

Conergy also entered into a contract with the auditor pursuant to which they must notify the Supervisory Board immediately, while the audit is in progress, of any grounds for excluding them, any partiality on their part as well as any material findings and events.

**Transparency**

The Conergy Group complies with the principle of non-discrimination under capital market legislation. 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-group.com) 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 in German and English, which are also published on the website.

The fact that individual shareholdings attain, exceed or fall below 3percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, 50 percent or 75 percent of the Company's voting shares is published in a pan-European information system immediately after the Company receives the respective notification pursuant to Section 21 German Securities Trading Act (WpHG).

In accordance with Section 15a WpHG, 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. Conergy AG was informed of the following reportable securities transactions under Section 15a German Securities Trading Act in the reporting period (1 January to 31 December 2011) of a legal entity that has close relations to management tasks:

**Directors' Dealings**

| Date | Name | Type of transaction | Number |
|---|---|---|---|
| 04.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 82,843 |
| 05.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 42,785 |
| 07.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 374,004 |
| 10.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 375,000 |
| 11.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 500,000 |
| 12.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 758,449 |
| 13.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 363,203 |
| 14.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 717,348 |
| 17.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 696,500 |
| 18.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 647,386 |
| 19.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 105,905 |
| 24.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 237,409 |
| 25.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 63,272 |
| 26.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 46,460 |
| 27.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 479,068 |
| 28.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 170,000 |
| 31.01.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 269,000 |
| 01.02.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 1,000 |
| 02.02.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 420,000 |
| 03.02.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 115,821 |
| 07.02.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 128,255 |
| 17.02.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 1,118,072 |
| 18.02.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 397,481 |
| 21.02.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 27,597 |
| 04.03.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 702,774 |
| 07.03.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 60,000 |
| 14.03.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 3,240,000 |
| 15.03.2011 | CoCo Beteiligungs GmbH & Co. KG | sale | 1,650,000 |

**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 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 Meeting itself. All documents and information referring to the General Meeting are also published on the Company's website, including the annual report.

# The Conergy share

Whilst the international stock markets continued to rise during the first two quarters of 2011 due to the positive global economic outlook, this trend began to unravel in the year's second half. The indexes dropped steeply during the third quarter, with the DAX (Germany's leading stock index) losing about 25 percent. After opening at 6,973 points, the DAX rose for a time, reaching 7,528 points in May 2011, its high for the year. In September 2011, the DAX dropped to 5,072 points, its low for the year, and then closed the 2011 year at 5,898 points. This corresponds to a loss of 15.4 percent on the year's opening level. The TecDAX, an index of technology stocks, basically tracked the performance of the DAX, and closed at 685 points on 30 December 2011, a loss of 19.5 percent on the year's opening of 851 points.

The year 2011 was a difficult one for many listed companies engaged in the renewable energy business – especially solar electricity companies – due to such unfavourable factors as excess capacities, the resulting price pressures, weaker demand in core markets as well as market observers' lowered forecasts for the industry in the coming years. As a result numerous companies in the industry had to revise their forecasts in the course of the year, and some companies even had to file for insolvency. All of this had an adverse effect on the share prices of solar energy companies. It is also reflected in the loss of close to 50 percent in the value of the specialised ÖkoDAX, which presents the performance of the ten largest renewable energy companies in Germany by market capitalisation. Conergy AG's share was unable to extricate itself from these developments. It closed the reporting period at EUR 0.32 – a loss of 87.0 percent on its opening price of EUR 2.47 at the start of the year. The market capitalisation of Conergy AG at the close of the year was EUR 51.1 million.

## Price chart

**Share price performance 2011** (indexed; 100 = XETRA opening price on 3 January 2011)

Conergy implemented the capital measures that it had planned and resolved for refinancing purposes at the end of June 2011 and at the start of the third quarter of 2011. It started with an 8:1 capital reduction followed immediately by a capital increase in return for cash and in-kind contributions. The total number of Conergy shares outstanding since the completion of these capital measures has been 159,795,307. The share was given a new securities identification number, a new ISIN and a new stock exchange symbol in connection with the implementation of these capital measures.

### Shareholder structure

The capital measures that Conergy AG carried out in July 2011 changed not just the number of the Company's shares outstanding but also its shareholder structure. The total number of Conergy AG shares at year's end was 159,795,307. Of these, York Global Finance held 20.15 percent, Deutsche Bank 13.07 percent, Värde Partners 7.50 percent and Sothic Capital 4.43 percent. The Company is not aware of any other equity interests exceeding the three-percent reporting threshold. The free float at the close of the year thus was 54.85 percent.

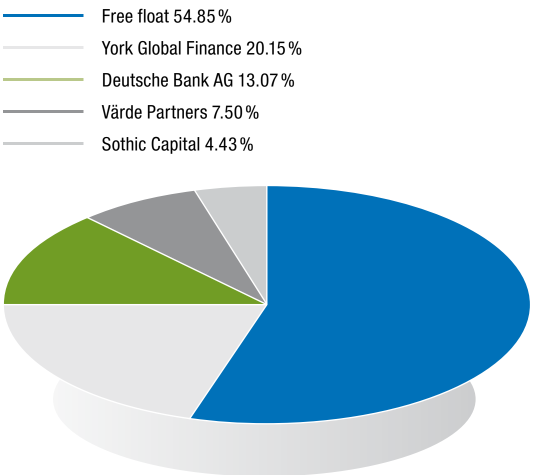
### Key figures of the Conergy share

| | 2011 | 2010 |
|---|---|---|
| Nominal capital in EUR | 159,795,307 | 398,088,928 |
| Number of shares (as at 31.12.) | 159,795,307 | 398,088,928 |
| Market capitalisation (as at 31.12.) in EUR* | 51,134,498 | 199,044,464 |
| Closing share price (as at 31.12.) in EUR* | 0.32 | 0.50 |
| High in EUR* | 3.82 | 0.93 |
| Low in EUR* | 0.24 | 0.38 |
| Daily average trading volume (shares)* | 1,270,837 | 3,656,993 |

*Xetra

| Share: no-par value share | |
|---|---|
| Securities identification number | A1KRCK |
| International Securities Identification Number (ISIN) | DE000A1KRCK4 |
| Reuters symbol | CGYK |
| Stock exchanges | Xetra |
| | Frankfurt (Main) |
| | Stuttgart |
| | Düsseldorf |
| | Hamburg |
| | Munich |
| | Hanover |
| | Berlin-Bremen |

### Shareholder structure (as at 31.12.2011)



**Investor relations**

The dialogue between the capital market and the investor relations team during the 2011 reporting year was basically dominated by refinancing issues and the Company's future strategic realignment. We place great stock in open and ongoing communications with investors, private shareholders and analysts alike.

Both the investor relations team and the Management Board of Conergy AG were once again available for investor meetings at national and international trade fairs and met with shareholders at the Company's head office in Hamburg. All presentations, ad hoc and press releases as well as other information on the Company's shares are available to our shareholders on the Conergy Group's website.

**Annual General Meeting**

Conergy held both an Extraordinary General Meeting and an Annual General Meeting during 2011. The Extraordinary General Meeting on 25 February 2011 voted on reducing the Company's capital stock and a subsequent capital increase in order to implement the restructuring package and refinance the Company. Large majorities of the Company's shareholders voted in favour of both matters. The Annual General Meeting of Conergy AG was held on 26 August 2011 in Hamburg. All sitting members of the Supervisory Board of Conergy AG at the time stepped down from the Supervisory Board effective at the close of the Annual General Meeting. In doing so the old Supervisory Board responded to the Company's new shareholder structure, which had arisen from its successful refinancing. As far as the reconstitution of the Supervisory Board is concerned, the shareholders followed management's proposals and elected the following individuals to the Supervisory Board with a majority of 99.9 percent of all votes cast: Dr. Philip Comberg, Dr. Andreas Pleßke, Jeremy Blank, Pepyn Dinandt, Werner Paschke and Dr. Klaus-Dieter Rasch. The Supervisory Board convened and constituted itself immediately thereafter, electing Dr. Philip Comberg Chairman of the Supervisory Board and Dr. Andreas Pleßke Deputy Chairman. In addition the Annual General Meeting formally approved the actions of both the Management Board and the Supervisory Board for the 2010 financial year with large majorities; all other resolutions were also confirmed.

The Supervisory Board delegated Dr. Philip Comberg to Conergy's Management Board until 31 December 2012, effective 12 January 2012. His membership in the Supervisory Board has been suspended in accordance with Section 105 para. 2 AktG.

**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 all of Conergy AG's publications in the previous 12 months. We make this document available to our shareholders on our website, www.conergy-group.com, in the investor relations section. We will be happy to send you a hard copy of the document if you are unable to access or download it.

# Group management report

# Group management report 2011

## The Conergy Group

### Organisational and legal parameters

Conergy is a listed German stock corporation. The shares of Conergy AG are listed on regulated market of the Frankfurt (Main) Stock Exchange, specifically the Prime Standard segment, which entails additional follow-up obligations.

The centralised corporate offices of Conergy AG as well as its German sales and service companies and voltwerk electronics GmbH are located at the Group's head office in Hamburg. In addition to its production sites in Frankfurt (Oder) and Rangsdorf near Berlin, the Group also maintains other business premises in Germany, among them a Central European Warehouse in Zweibrücken (Rhineland-Palatinate). A total of 1,050 employees (full time equivalents) were employed by the German subsidiaries at these sites and the Group's head office in Hamburg as at 31 December 2011. In addition to Conergy AG, the parent company, the Conergy Group comprises 24 fully consolidated subsidiaries worldwide.

As at the end of 2011, Conergy AG was managed by a two-member Management Board team comprising Dr. Sebastian Biedenkopf and Mr. Alexander Gorski. On 12 January 2012, the Supervisory Board of Conergy AG delegated the Supervisory Board's Chairman, Dr. Philip Comberg, to the Company's Management Board until 31 December 2012 in accordance with Section 105 para. 2 clause 1 AktG. He assumed the position of Management Board Chairman. Alexander Gorski will continue to serve as the Company's Chief Operating Officer and also be responsible for Conergy's European subsidiaries. The Supervisory Board appointed Messrs Jan Vannerum and Marc Lohoff to the Company's Management Board effective 12 January 2012. Jan Vannerum has taken over the office of Chief Financial Officer from Dr. Sebastian Biedenkopf, who resigned from the Company at the end of February 2012 at his own request. Marc Lohoff is the Management Board member responsible for Conergy's business in Asia-Pacific, North America and the Middle East.

Conergy along with its subsidiaries is engaged in the solar energy business as a systems supplier. The Conergy Group develops, produces and sells photovoltaic plants and plant components. In addition, Conergy is also a market leader in the field of project development and structured finance for major photovoltaic projects. 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 monitor 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 enhancing its photovoltaics products. This sales and customer-focused strategy puts Conergy in a good position to develop new markets with matching products.

Conergy's comprehensive competence in all matters pertaining to solar energy is its unique selling proposition. The company offers synchronised solar energy systems for private and commercial on-roof systems as well as megawatt solar electricity farms. The premium components required to this end are manufactured by Conergy at its sites. Whilst Conergy's solar modules are produced in Frankfurt (Oder), its mounting systems are manufactured in Rangsdorf (near Berlin) and Sacramento (California). Voltwerk electronics GmbH, Hamburg, which to date have developed inverters and electronic monitoring systems in both Hamburg and Bad Vilbel, will be transferred to the Bosch Group in the 2012 financial year. This comprehensive portfolio of systems and products is complemented by a large number of services, the so-called Conergy System Services. From system design and funding, to installations, all the way to monitoring, maintenance, plant management and insurance: Conergy's service packages offer all services for one's own solar energy system. Conergy offers its customers not just a broad services portfolio but also a team of service experts with a wealth of experience spanning more than twelve years. Conergy markets its products and services in 40 countries on five continents and maintains discrete sales & distribution teams in 14 markets.

As one of Europe's highest-grossing solar companies, Conergy is well positioned in all its divisions. Conergy already possesses innovative products, good business relationships with the most important suppliers of crystalline and thin film solar modules, an established network of industry partners as well as a broad, international customer base and a strong premium brand.

Conergy will maintain and expand its expertise as a systems supplier in future. It will further strengthen the positioning of its brand, further optimise its systems, expand its production and partner network in the marketplace and most importantly continue to strengthen its customer relationships with installers, wholesalers, strategic marketing partners and financial investors.

The Conergy Group's business was divided into the following segments in the 2011 financial year: Germany, Europe without Germany, Americas, Asia-Pacific, Components and Holding.

The Components segment develops and manufactures system components such as solar modules, module frames, and mounting systems, as well as electronic components. Until 31 December 2011, Conergy produced solar cells and solar modules in its Frankfurt (Oder) solar factory, developed electronic components such as inverters, connection boxes, monitoring systems, and tracking systems in Hamburg and Bad Vilbel, and had these built to order by various companies, most of them European. Mounting systems and module frames are developed and manufactured in Rangsdorf near Berlin and in Sacramento, California. The mounting systems are marketed not just within the Group via Conergy's own sales organisations but also directly under the Mounting Systems brand name. The transition of voltwerk electronics GmbH in the business year 2012 to the Stuttgart-based Bosch Group means that the Company will no longer engage in the development and manufacture of electronic components. Regarding its Frankfurt (Oder) solar factory, Conergy will focus on module production. Under this new business model, wafer and cell production will be suspended until further notice. The cells required for module production will be purchased instead. The Company will continue to review the profitability of both areas on an ongoing basis against the backdrop of the market's development. Capacities for restarting production on short notice are available if changes in the market make it profitable once again to resume manufacturing in one or both of these areas.

The segments Germany, Europe without Germany, Americas and Asia-Pacific sell the products manufactured by the Components segment and complete systems and components purchased by Conergy, to wholesalers, installers and end customers (primarily farmers, private households, and investors). The Company's distribution activities also include the planning, construction as well as operations management and maintenance of photovoltaic systems (known as EPC activities: engineering, procurement, and construction). Conergy offers different types of service: the sale of individual components or the sale of complete systems with coordinated components and/or planning and engineering services, as well as turnkey plant construction with or without operations management and maintenance. The services that Conergy offers range from construction planning to component procurement, all the way to the construction of photovoltaic plants.

Conergy also develops, finances, implements and operates large-scale PV projects in these segments. Conergy's 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 plants. Conergy also arranges debt and equity financing for these operating companies and the marketing of equity interests to investors.

Segment reporting for the 2012 financial year will be adjusted to reflect the changed allocation of responsibilities in the Management Board of Conergy AG and the resulting requirements of the newly constituted Management Board with respect to reporting. In future the new segment reporting will comprise two regional segments and one central segment ("Holding" segment), which will be represented by the Chairman of the Management Board and the Chief Financial Officer. Segment classification will correspond to the internal control and reporting systems of the reporting year 2012. The previous segments, "Europe without Germany" and "Germany", will be combined into a "Europe" segment. The Europe segment will also include central procurement, logistics, supply chain management and quality management. Until 2011 these activities had been grouped in the Holding segment. In future all modules, mounting systems and module frames that are produced for and sold in the European and German market will be reported under the Europe segment. The modules, mounting systems and module frames manufactured for and sold in the Asian and American markets will in future be reported under a new segment entitled Asia Pacific and Americas (APAM), which combines the previously separate Asia-Pacific and Americas segments. The inverters and electronic monitoring systems, which we developed via voltwerk electronics GmbH to date, are reported under the Europe segment until the sale of this entity to the Stuttgart-based Bosch Group. As a systems supplier however, Conergy will continue to offer premium inverters and report the resulting income in the Europe segment as well as the Asia Pacific and Americas segment.

Both the centralised functions and those of the Holding Company concern cross-segment functions required for managing the Group. The Holding segment will mainly comprise Legal, Human Resources and Compliance, Business Development, Finance, Controlling, Internal Revision, Communications, Investor Relations as well as IT. In addition, Momentum Renewables GmbH and Conergy Real Estate GmbH & Co. KG will be reported in this segment.

Based on this new reporting structure, for 2011 the segments would be as follows:

**Reportable segments (short version)**

| Segments | Europe | Asia Pacific and Americas | Holding | Reconciliation | Continuing operation |
|---|---|---|---|---|---|
| **EUR million** | **2011** | **2011** | **2011** | **2011** | **2011** |
| External sales | 543.7 | 210.4 | – | – | 754.1 |
| Intersegment sales | 55.1 | 0.1 | – | –55.2 | – |
| **Segment sales (total)** | **598.8** | **210.5** | **–** | **–55.2** | **754.1** |
| Segment result (EBIT) | –141.3 | –28.1 | –14.0 | 0.6 | –182.8 |
| Depreciation/amortisation | –93.6 | –2.3 | –2.8 | – | –98.7 |
| Thereof impairment losses | –72.5 | –1.6 | –0.2 | – | –74.3 |

**Companies included in the consolidated financial statements**

Aside from Conergy AG, a total of seven domestic and 17 foreign subsidiaries – the majority of whose voting shares are held by Conergy – were included in the Company's consolidated financial statements at the end of the reporting period (31 December 2011). Eight subsidiaries were no longer included in consolidation in the 2011 financial year either as a result of mergers or sales in connection with the Conergy Group's reorganisation or because they were insignificant.

## 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, ensuring liquidity and achieving a healthy capital structure are the elements of this management control system. This system also helps to coordinate the activities of the Group's subsidiaries 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. 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 EBIT and EBITDA to measure the success of individual business units. In addition to these two parameters, the Group also utilises both the EBIT and the EBITDA 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 | | 2011 | 2010 |
|---|---|---|---|
| **Sales** | EUR million | **754.1** | **913.5** |
| Germany | EUR million | 199.0 | 384.0 |
| Abroad | EUR million | 555.1 | 529.5 |
| **Gross profit** | EUR million | **127.3** | **216.9** |
| **Gross profit margin** | in percent | **16.9** | **23.7** |
| **EBITDA** | EUR million | **−84.1** | **30.1** |
| **EBITDA margin** | in percent | **−11.2** | **3.3** |
| **EBIT** | EUR million | **−182.8** | **−13.8** |
| **EBIT margin** | in percent | **−24.2** | **−1.5** |

* includes the export operations of Conergy Deutschland GmbH and der Mounting Systems GmbH

The Conergy Group's controlling system has a particularly important role to play in that the annual variable compensation paid to the top management for the 2011 financial year was linked to the aforementioned earnings-based performance indicators, notably EBITDA.

Conergy was able to lower the amount of tied-up capital through efficient working capital management especially in the 2011 financial year. Hence the amount of capital tied up in receivables, liabilities and inventories was further optimised. The Management Board is of the opinion, that this is a key prerequisite for being able to prevail in the currently difficult market environment for photovoltaic systems. Working capital is defined as the total of inventories and trade accounts receivable less trade accounts payable and presented as a ratio relative to the sales of the comparative period.

| Working capital development | | 31.12.2011 | 31.12.2010* |
|---|---|---|---|
| **Sales** | EUR million | 754.1 | 913.5 |
| Inventories | EUR million | 86.4 | 169.5 |
| Trade receivables | EUR million | 83.2 | 103.2 |
| Trade payables | EUR million | 88.2 | 161.7 |
| **Working Capital** | EUR million | **81.4** | **111.0** |
| **Working Capital/ Sales** | in percent | **10.8** | **12.2** |

* previous year incl. voltwerk electronics GmbH which was classified as discontinued operation in 2011

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 Conergy's 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. Conergy aims to achieve a gearing of 100 percent in the medium term, i.e. a 1:1 ratio of equity to net liabilities. Gearing developed as follows in the reporting period:

| Net liabilities to equity | | 31.12.2011 | 31.12.2010 |
|---|---|---|---|
| Borrowings | EUR million | 141.3 | 291.6 |
| Liquid funds | EUR million | 23.8 | 36.7 |
| **Net liabilities** | EUR million | **117.5** | **254.9** |
| Equity | EUR million | 20.9 | 71.4 |
| **Gearing** | in percent | **562.2** | **357.0** |

The gearing ratio as at 31 December 2011 was 562.2 percent (previous year: 357.0 percent). Whilst Conergy succeeded in substantially lowering its borrowings compared to the previous year by refinancing its existing loan liabilities through a mixed cash and non-cash capital increase, which was adopted at the Extraordinary General Meeting on 25 February 2011 (2011 Syndicated Loan Agreement), this positive development was hampered by the consolidated net loss posted in 2011, which depressed equity. The continued drop in prices for PV modules by about 40 percent in the 2011 financial year had a major impact on the development of business and thus on earnings. As a result, the gross profit declined substantially year-on-year despite higher unit sales. A number of significant extraordinary expenses also depressed earnings. In response to the increasingly difficult market situation Conergy has changed its focus to module production at its Frankfurt (Oder) factory. For further information on the 2011 results we refer to the comments on profit or loss in the Group management report.

For the particulars of the new syndicated loan agreement (2011 Syndicated Loan Agreement), please see the description of its terms and conditions in the risk and opportunity report of the Group management report.

As before, it is our foremost economic goal in the 2012 financial year to improve the indicators EBITDA and cash flow.

## Material components of the internal control and risk management system relevant to the Group's financial reporting process

The Management Board of Conergy AG is responsible for drawing up the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), the Group management report as well as the quarterly and half-yearly reports. An adequate internal control and risk management system was established by the Management Board in order to ensure the accuracy and completeness of the figures and disclosures in the external reporting system as well as the propriety of the accounting on the whole.

The internal control and risk management system is intended to guarantee timely, uniform and accurate accounting for all business processes and transactions. It ensures compliance with legal standards, accounting principles and the Group's internal accounting guidelines that are binding on all subsidiaries that are included in the consolidated financial statements. Amendments of laws and revisions of accounting standards as well as other types of announcements are immediately analysed in terms of their relevance to and impact on our consolidated financial statements, and the guidelines are adjusted to reflect the resulting changes. Unequivocal specifications are intended to limit the discretion available to employees in connection with the recognition, measurement and presentation of assets and liabilities and thus the risk of inconsistent bookkeeping and accounting practices within the Group. These guidelines are available to all employees involved in bookkeeping and accounting via the groupwide intranet.

The internal control system is also rooted in a number of process-integrated monitoring activities. These process-integrated monitoring activities comprise organisational safeguards, ongoing automated procedures (separation of functions, restrictions on access, organisational instructions such as for instance powers of representation) and controls that are integrated into the workflows. In addition, monitoring activities that are uninvolved in business processes such as for instance the internal audit and monthly reporting ensure that the internal control system is effective. The external auditor audits specific internal controls and judges their efficacy as part of the audit of the annual financial statements. Certain elements of the IT systems used are also audited. Any weaknesses in the internal control system are communicated to the appropriate supervisory and management bodies in that connection. However, not even appropriate and functional systems can provide absolute security.

The centralised departments, Corporate Accounting and Corporate Controlling, are tasked with managing the Group's bookkeeping and accounting process. The Tax, Treasury and Legal departments are also fully integrated into a variety of separate processes serving to identify, measure, manage, monitor and communicate risks related to financial reporting.

All subsidiaries prepare their financial statements locally. In Germany, the Group's own Shared Service Center provides these services to both Conergy AG and some of its German subsidiaries. The IT systems utilised for all significant companies in Germany are based on SAP While ERP software based on Navision is utilised for most of the other subsidiaries. All financial systems used are protected from abuse by means of appropriate authorisation processes and limitations on access. The Group IT department uses centralised management and monitoring of almost all IT systems, centralised management of change processes as well as regular system back-up processes to minimise both the risk of data loss and the failure of IT systems relevant to bookkeeping and accounting.

All companies included in the consolidated financial statements of Conergy AG transmit their financial statements to the Company on a monthly basis using a uniform groupwide data model that is subject to the Group's IFRS accounting guidelines. All Group companies are responsible for complying with the guidelines and procedures that apply groupwide as well as for ensuring that their bookkeeping and accounting processes are orderly and timely. All employees involved in the Group's bookkeeping and accounting process are trained to that end on a regular basis. Contact persons at Conergy AG's headquarters, who can answer and resolve special questions and complex issues, are available to support our local subsidiaries throughout the bookkeeping and accounting process.

The consolidated figures are drawn up centrally using the financial statements provided by the companies included in the consolidated financial statements. Carrying out the consolidation process and certain aspects of reconciliation, monitoring all requirements related to deadlines and processes and ensuring compliance with reporting duties and deadlines takes place within centralised Corporate Accounting. The employees also monitor technical aspects of the controls and supplement them through manual reviews, correcting any defects and reporting them back to the subsidiaries. In addition, Conergy also possesses a groupwide reporting and controlling system, which makes it possible to detect deviations from targets and accounting inconsistencies regularly and early on.

The Audit Committee of Conergy's Supervisory Board is responsible for monitoring the effectiveness of the Company's control and monitoring systems. It requires both the Management Board and the auditors to report to it on a regular basis.

For details on the features of the risk management system, please see the disclosures in the "Risk and opportunity report" of the Group management report.

## Global economic conditions

According to the experts, global production in 2011 rose by 3.8 percent in 2011, a slight decline from the strong growth of 5.1 percent in the previous year. The growth momentum that started in the first quarter of 2011 continued until the middle of the year. But economic research institutes had already started to warn that such unfavourable factors as the continued sovereign debt crisis in Europe, rising inflation, the lowered growth forecast for the United States, rating agencies' downgrading of certain European states, weak economic data within the euro zone as well as the weakening of growth in China would slow down the momentum.

Europe's economy was severely impacted by the expanding sovereign debt crisis in 2011. After starting on a strong note, the economy cooled off during the remainder of the year. Increasingly restrictive fiscal policies and the uncertainty surrounding the next developments in the sovereign debt crisis put a damper on the euro zone economies. Some countries even slipped into a recession. Nonetheless euro zone growth is expected to have been about 1.5 percent for the year on the whole, down from 1.8 percent the previous year.

Whilst the German economy continued to expand in 2011 following strong growth in the two preceding years, it lost some of its momentum. High levels of uncertainty resulting from the sovereign debt crisis in the euro zone dampened the country's economic growth, especially the previously strong export sector. Economic research institutes assume that Germany's gross domestic product (GDP) rose by 3.0 percent in 2011 overall, down from 3.6 percent the previous year.

The US economy is expected to have expanded by a mere 1.7 percent in 2011, compared to 3.0 percent in 2010. At the start of the year, particularly the steep increase in crude oil prices as well as the fallout from the natural and nuclear disaster in Japan put a break on the recovery that had started in 2010. Whilst the economy began to accelerate in the course of the year, it did not gather real momentum because the country's structural problems, private households' high debt levels and excess capacities in the real estate market have not been resolved.

The economies of the emerging countries, which have been strong to date, expanded at a lower pace in 2011 compared to 2010, especially due to weak demand from the industrialised countries; exports from emerging countries to industrialised ones fell substantially as a result. Regionally speaking, Latin American economies contracted at a much higher rate than Asian countries. The gross domestic product for Latin America on the whole expanded by only 4.8 percent, compared to 6.0 percent the previous year. At a growth rate of only 3.5 percent (compared with 7.5 percent in 2010), Brazil was hit particularly hard by this development. In Asia, China and India posted economic growth of 9.5 percent and 6.7 percent, respectively. Both countries had recorded growth rates in excess of 10 percent the previous year. GDP for Asia on the whole climbed by 8.1 percent.

The development of the EUR/USD exchange rate reflects economic developments in 2011. After 1.33 EUR/USD at the start of the year, by April the EUR/USD exchange rate had risen to 1.57. In subsequent months, the EUR fell against the USD yet again, closing the year at EUR/USD 1.29 and thus at a lower rate than at the start of the year. Commodities prices also rose during the year. The price of Brent crude for instance climbed from USD 94.75 per barrel to highs of up to USD 127 per barrel but dropped again to USD 111.28 per barrel by the close of 2011.

## Development of the industry in 2011

The political climate for renewables remains positive. The nuclear catastrophe in Japan ignited an intense debate on the future of energy supplies at the start of the year, not just in Germany. This debate has already had consequences, as reflected in the German government's decision to phase out nuclear energy completely. In Italy too a large majority of the population voted against a reintroduction of nuclear energy in a referendum. In spite of these political trends however, 2011 was characterised by reduced feed-in tariffs for solar electricity and rising excess capacities and thus did not keep pace, not even remotely, with the tripling of the market in 2010 over 2009. On the whole the photovoltaics industry was confronted with a difficult market environment in 2011.

Intensifying competition, further regulatory interventions and the resulting price pressures dominated the solar market in 2011. The slight improvement in demand was unable to help matters as the industry had to face a host of problems. Consumers curtailed their spending, particularly in the year's first half. Purchasing decisions were delayed despite attractive yields and falling prices in the hopes that prices would decline further. This expectation caused demand to be less elastic.

The decline in prices by around 40 percent within a single year posed major challenges for the entire industry, and in some cases even put into question companies' existence as going concerns. These price declines were due to continued excess capacities in the market, and the slight improvement in demand was only able to offset them in part.

Analysts estimate that the newly installed PV output worldwide in 2011 was just under 24,000 MW, up by 21 percent compared to 2010. Germany remained the strongest photovoltaics market, just as in 2010. At 7,500 MW of newly installed PV output, according to the preliminary figures compiled by the German Federal Network Agency 2011 was yet another record year (2010: 7,400 MW). Given the decline of about 40 percent in the first three quarters of 2011 however, the newly installed output lagged far behind the 2010 level despite massive reductions in module prices. In the aggregate this development had a negative impact on prices over the year because Germany accounts for about one third of the global market and thus remains the world's largest individual market. The market did not revive until the fourth quarter, and the renewed debate on potential unplanned reductions in the feed-in tariffs sparked an extremely strong year-end rally. The mild weather at the start of the 2011 winter further stimulated the year-end rally, leading to a record 3,000 MW in installations during December alone. This corresponds to an increase of 125 percent.

Aside from Germany, such other European photovoltaics markets as Italy, France, Spain and Greece also slightly increased market volume but failed to match the growth momentum in recent years. According to the experts, this restraint also stems from the fact that banks are increasingly reluctant to grant loans against the backdrop of the European sovereign debt crisis. At market share in excess of 70 percent however, Europe maintained its global lead.

A detailed analysis of the second-largest market, Italy, shows that it improved slightly. According to preliminary estimates, newly installed output in the country exceeded 5,500 MW (+2 percent compared to 2010); according to the Italian Energy Agency however, about 9,000 MW in new PV installations were connected to the grid in 2011. This difference is due to the fact that approximately 3,400 MW had already been built in 2010, benefiting from the higher feed-in tariff that year, but were not connected to the grid until 2011.

In France, only projects up to a maximum of three kilowatts were approved at the start of 2011 due to the moratorium – a substantial cut. Yet the French photovoltaics market achieved a volume of just under 1,700 MW in 2011 anyway, thus expanding by more than 130 percent compared to 2010. In particular this increase arose from the installations that had already been approved prior to the moratorium.

The Greek government continues to bank on photovoltaics in view of stimulating the country's flailing economy. Installed solar energy output thus grew to about 400 MW in 2011 thanks to feed-in tariffs that remain attractive, in effect rising by 167 percent compared to 2010. But bureaucratic barriers, which are as high as ever, especially with respect to large-scale projects, continue to act as brake on further expansion.

The market in the United Kingdom developed exceptionally well. Here the newly installed PV output surpassed 500 MW in 2011 (2010: 50 MW) whilst in the Czech Republic the photovoltaics market was brought to a standstill in 2011 due to the changes in the parameters that were enacted in 2010 (just under 1,500 MW in 2010; 12 MW in 2011).

North America and Asia-Pacific both posted greater rates of expansion in 2011, thus continuing the positive trend in previous years. The market volume in both countries doubled. According to the experts, in North America the U.S. PV market surpassed the 2,000 MW threshold for the first time. In particular this increase was due to the strong trend toward both large-scale projects and installations on commercial roofs. Thanks to falling module prices and the extension of the "1603 Treasury Program", in 2011 the number of new installations rose considerably not just in California but also in other U.S. states such as New Jersey, Arizona, New Mexico and Colorado.

Asian markets have also continued to expand in recent years. The newly installed photovoltaics output in China far outpaced that in other Asian countries. According to the estimates of Bank Sarasin, in 2011 the Chinese PV market reached the 2,000 MW threshold (500 MW in 2010) and Japan was the second-largest market in Asia (1,375 MW in 2011 compared to 991 MW in 2010). Besides these two large markets, Thailand's development is particularly noteworthy. Newly installed PV output in that country more than quintupled year on year.

# Assets, liabilities, cash flows and profit or loss

## Profit and loss

**Income statement of the Conergy Group (short version)**

| | | 2011 | 2010 | 4. quarter 2011 | 4. quarter 2010 |
|---|---|---|---|---|---|
| Sales | EUR million | 754.1 | 913.5 | 183.2 | 248.5 |
| **Gross profit** | EUR million | **127.3** | **216.9** | **14.9** | **46.8** |
| Gross profit margin | in percent | 16.9 | 23.7 | 8.1 | 18.8 |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA )** | EUR million | **−84.1** | **30.1** | **−36.9** | **−3.4** |
| **Earnings before interest and taxes (EBIT)** | EUR million | **−182.8** | **−13.8** | **−46.4** | **−26.8** |
| **Non-operating result** | EUR million | **53.8** | **−14.7** | **−3.0** | **−3.9** |
| **Earnings before taxes (EBT)** | EUR million | **−129.0** | **−28.5** | **−49.4** | **−30.7** |
| Income taxes | EUR million | −35.5 | −13.5 | −11.9 | −12.0 |
| **Income from continuing operations after taxes** | EUR million | **−164.5** | **−42.0** | **−61.3** | **−42.7** |
| Income from discontinued operations after taxes | EUR million | 2.4 | −2.9 | 2.4 | 2.9 |
| **Income after taxes** | EUR million | **−162.1** | **−44.9** | **−58.9** | **−39.8** |
| Thereof attributable to | | | | | |
| Shareholders of Conergy AG (consolidated profit or loss) | EUR million | −162.3 | −44.7 | −58.9 | −39.8 |
| Minority shareholders | EUR million | 0.2 | −0.2 | 0.0 | 0.0 |

**Sales**
In the 2011 financial year, the Conergy Group posted sales of EUR 754.1 million (2010 financial year: EUR 913.5 million) – a year-on-year decrease of 17.4 percent or EUR 159.4 million. The decline in sales stems from the steep drop in prices for PV modules by about 40 percent in the 2011 financial year, which had a material impact on the development of business. Adjusted for price and currency effects, sales from PV modules climbed by 6.8 percent however, which means that unit sales increased. This result shows that foreign sales offset the decreasing sales in Germany.

Whilst we had expected as much for the 2011 financial year, sales in Germany were only EUR 199.0 million compared to EUR 384.0 million the previous year. The German market thus accounted for 26.4 percent of Conergy's sales (2010 financial year: 42.0 percent). Foreign sales accounted for 73.6 percent of consolidated sales in the reporting period (previous year: 58.0 percent). At EUR 555.1 million (2010 financial year: EUR 529.5 million), foreign sales increased by EUR 25.6 million or 4.8 percent. Outside of Germany however, unit sales for photovoltaic modules even soared by 43.9 percent.

**Gross profit**
The Conergy Group posted a gross profit of EUR 127.3 million in the 2011 financial year, down from EUR 216.9 million in the previous year. The gross profit margin thus decreased significantly to 16.9 percent (2010 financial year: 23.7 percent). Unexpectedly high price pressures arising from the global build-up of capaci-

ties among manufacturers and high inventories among manufacturers and dealers alike were the main factor in this development. There is still a large overhang of supplies even though global production of solar modules was partially reduced in the 2011 financial year. This development goes hand in hand with weaker demand in some European countries due, among other things, to uncertainties surrounding future parameters of the feed-in tariffs and speculation regarding a further drop in prices for PV systems, which had a negative impact on the growth of the market. As a result, price pressures have increased even further in the final months of the 2011 financial year. This development has not been fully offset by the reduction in procurement prices and other measures aimed at lowering costs. The Conergy Group lowered its inventories through sell-off campaigns in this difficult market environment. Whilst this had a negative impact on the Company's gross profit margin in the fourth quarter of 2011, these measures helped to reduce inventories to a very low level by year's end.

Large inventories among wholesalers and dampened demand in some markets also reduced capacity utilisation at our module factory in Frankfurt (Oder), in turn also depressing the gross profit margin. At the end of 2011 Conergy decided to focus on module production at its Frankfurt (Oder) factory and thus to reduce its level of vertical integration in response to the increasingly difficult market situation.

Weak industrywide demand for inverters caused the product mix that the Conergy Group sells to shift in the 2011 financial year, further lowering the gross profit margin.

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

Earnings before interest, taxes, depreciation and amortisation (EBITDA), a measure of operating income, amounted to EUR –84.1 million (2010 financial year: EUR 30.1 million). The already mentioned continued drop in prices for PV modules by about 40 percent and a number of other one-off effects had a major impact on the development of business. Thus the gross margin declined compared to the previous year by EUR 89.6 million despite the increase in sales volume. Special measures necessitated by the difficult market environment, which required changing the strategy for the solar factory in Frankfurt (Oder) and additional restructuring measures, additionally lowered EBITDA by EUR 22.7 million in the aggregate. Large write-downs of receivables and the decline in gains from currency translation also affected EBITDA. As a result, Conergy had to contend with a currency loss of EUR 3.1 million in the 2011 financial year, in contrast to a currency gain of EUR 13.3 million the previous year. Write-downs of receivables for the financial year just ended were overall EUR 8.7 million EUR 3.6 million of which were attributable to a single Greek customer. Previous year the corresponding amount was positive with EUR 1.1 million.

**Operating result (EBIT)**

After depreciation, amortisation and impairment losses of EUR 98.7 million (2010 financial year: EUR 43.9 million), of which EUR 70.9 million were due to impairment losses taken on wafer and cell production in Frankfurt (Oder) as a result of the change in strategy, earnings before interest and taxes (EBIT) in the 2011 financial year amounted to EUR –182.8 million (2010 financial year: EUR –13.8 million).

**Earnings before taxes (EBT)**

The non-operating result of the Conergy Group in the 2011 financial year was EUR 53.8 million (previous year: EUR –14.7 million). This figure contains one-time income from the capital increase in July 2011 and the related waiver by the lenders of EUR 67.7 million in debt. Non-operating expenses of EUR 15.3 million (2010 financial year: EUR 15.9 million) mainly arose from interest expense related to borrowings that comprise both interest payments and accrued interest. Taking into account the non-operating result, earnings before taxes were EUR –129.0 million (2010 financial year: EUR –28.5 million).

**Income after taxes**

After accounting for income tax expense of EUR 35.5 million (2010 financial year: EUR 13.5 million), the income from continuing operations after taxes in 2011 was EUR –164.5 million (2010 financial year: EUR –42.0 million). Tax expense was affected primarily by the non-cash deferred taxes.

The discontinued operations of the EPURON segment generated EUR 2.4 million in income after taxes after posting a loss of EUR 2.9 million in the previous year. This means that income after taxes in the 2011 financial year was EUR –162.1 million (2010 financial year: EUR –44.9 million). Earnings per share from continuing operations were EUR –1.67 (2010 financial year: EUR –0.84).

## Business development by segment

| External sales by segment<br>EUR million | 2011 | 2010 | 4. quarter 2011 | 4. quarter 2010 |
|---|---|---|---|---|
| Germany | 173.7 | 328.2 | 59.6 | 49.3 |
| Europe* | 267.2 | 323.7 | 50.1 | 113.4 |
| Americas | 70.0 | 63.0 | 26.1 | 26.6 |
| Asia-Pacific | 140.3 | 110.2 | 13.6 | 31.7 |
| Components | 102.9 | 88.4 | 33.8 | 27.5 |
| Holding | – | – | – | – |
| Reconciliation | – | – | – | – |
| Continuing operations | 754.1 | 913.5 | 183.2 | 248.5 |

*Excluding Germany

Conergy's Germany segment had to contend with a substantial drop in sales to EUR 173.7 million (2010 financial year: EUR 328.2 million). This includes the export business of Conergy Deutschland GmbH as well as in 2011 realised project revenue from a five megawatt PV power plant in the United Kingdom, which was allocated to foreign sales in connection with the determination of regional sales percentages. Adjusted for these items, the Germany segment had to contend with a price-adjusted decline by 38.4 percent year on year in PV module sales. It has to be noted that the previous year's debate on reducing the feed-in tariff as part of the amendment of the German Renewable Energy Sources Act boosted demand in Germany, especially in the first two quarters of 2010. This positive effect on sales or rather the fact that the discussion sparked sales growth in the previous year is now making it difficult to compare sales in Germany. Sales in the 2011 financial year include, among others, an 8.2 megawatt solar farm in Grimmen (Mecklenburg-Western Pomerania) and a 1.2 megawatt solar farm on a former gravel mining site in the Bavarian town of Thalham (Obing). In the previous year, the construction of a 19 megawatt solar farm in the Bavarian town of Thüngen and a six megawatt solar farm in Tarp (in the state of Schleswig-Holstein) had made key contributions to the positive development of sales. On balance the large-scale PV project business was particularly disappointing for Conergy in 2011. Neither falling system prices nor the debate on the phase-out of nuclear power have stimulated demand for photovoltaics in the wholesale business as we had hoped. Given the reduction in government subsidies, especially for large-scale PV projects, the German PV market is very likely to cool off considerably.

Sales in Europe – excluding Germany – fell by EUR 56.5 million or 17.4 percent to EUR 267.2 million (2010 financial year: EUR 323.7 million). Adjusted for price effects however, sales from PV modules climbed by 13.8 percent. Sales developed positively especially in Southern Europe. Conergy continued to expand its market position in the wholesale business in both Spain and Greece, generating substantial sales growth as a result. Sales in Spain thus rose to EUR 54.0 million (2010 financial year: EUR 49.5 million), driven mainly by the wholesale business. This positive development in sales had already begun to make itself felt in 2010. Sales in Greece also increased substantially to EUR 55.2 million (2010 financial year: EUR 39.0 million). In Italy, sales declined from EUR 151.0 million in financial year 2010 to EUR 124.4 million in financial year 2011. Demand in Italy, which had still been strong in the first half of 2011, cooled off substantially in the second half of the year. It was noticeable in that connection that regulatory uncertainties arising from the changed parameters governing the feed-in tariffs had a negative effect on the Italian market. France saw sales decrease by EUR 25.4 million to EUR 23.8 million (2010 financial year: EUR 49.2 million) as a result of the French government's dramatic cuts in PV subsidies.

In the Americas, sales rose to EUR 70.0 million (2010 financial year: EUR 63.0 million), representing an increase by 11.1 percent or EUR 7.0 million. Sales in the United States rose by EUR 3.2 million to EUR 42.6 million (2010 financial year: EUR 39.4 million). This corresponds to an increase in sales of 8.2 percent. Sales in Canada rose to EUR 27.4 million (2010 financial year: EUR 23.6 million), continuing the positive trend in the 2011 financial year that had started in the 2010 financial year. Adjusted for price and currency effects, sales of PV modules in the Americas segment were up 50.3 percent year on year.

Sales in the Asia-Pacific region rose by EUR 30.1 million or 27.3 percent to EUR 140.3 million (2010 financial year: EUR 110.2 million). The construction of a 12.4 megawatt solar farm in Thailand and a 15 megawatt solar farm in India were among the factors contributing to this positive trend. Sales in Australia came to EUR 83.1 million (2010 financial year: EUR 86.3 million), driven mainly by the wholesale business.

At EUR 102.9 million, external sales in the Components segment were up considerably year on year (2010 financial year: EUR 88.4 million). This was due solely to the positive development of sales of Mounting Systems GmbH.

### Employees and personnel expenses

| Employees by region | | | |
|---|---|---|---|
| **FTE** | | **31.12.2011** | **31.12.2010** |
| | | | |
| **Germany** | | **93** | **94** |
| **Europe*** | | **174** | **253** |
| **Americas** | | **86** | **77** |
| **Asia-Pacific** | | **151** | **144** |
| **Components** | | **750** | **762** |
| **Holding** | | **207** | **239** |
| **Reconciliation** | | **–** | **–** |
| **Total number of employees** | | **1,461** | **1,569** |
| thereof salaried employees | in percent | 65 | 67 |
| thereof hourly workers | in percent | 35 | 33 |

*Excluding Germany

As at 31 December 2011, the Conergy Group had 1,461 employees in its continuing operations (all figures FTE), 108 employees fewer than as at 31 December 2010. Of the employees in discontinued operations, 843 employees worked for the Group's German subsidiaries, 411 employees worked for the foreign subsidiaries, and 207 employees worked for the holding company. The average number of employees in the 2011 financial year was 1,510 (2010 financial year: 1,496 employees). Of the 1,510 employees in the Conergy Group, 65 percent were salaried employees and 35 percent were hourly-paid workers as at 31 December 2011.

At EUR 86.3 million, personnel expenses rose by EUR 1.0 million year on year (2010 financial year: EUR 85.3 million), mainly due to one-off effects related to the narrowed focus on module production at the Frankfurt (Oder) factory as well as additional restructuring measures in Germany, France and the United States.

### Reconciliation of EBIT to consolidated profit or loss

| Reconciliation of EBIT to consolidated profit or loss | | | | |
|---|---|---|---|---|
| **EUR million** | **2011** | **2010** | **4. quarter 2011** | **4. quarter 2010** |
| | | | | |
| Germany | 1.6 | −2.8 | 1.2 | −2.8 |
| Europe* | −0.6 | −5.0 | −2.8 | −7.3 |
| Americas | −4.9 | −10.3 | −0.9 | −9.0 |
| Asia-Pacific | −15.7 | 7.4 | −15.2 | 0.3 |
| Components | −65.1 | 27.9 | −2.7 | 5.6 |
| Holding | −98.1 | −27.4 | −27.1 | −14.4 |
| Reconciliation | 0.0 | −3.6 | 1.1 | 0.8 |
| **EBIT** | **−182.8** | **−13.8** | **−46.4** | **−26.8** |
| Non-operating result | **53.8** | **−14.7** | **−3.0** | **−3.9** |
| **Earnings before taxes (EBT)** | **−129.0** | **−28.5** | **−49.4** | **−30.7** |
| Income taxes | **−35.5** | **−13.5** | **−11.9** | **−12.0** |
| **Income from continuing operations after taxes** | **−164.5** | **−42.0** | **−61.3** | **−42.7** |
| Income from discontinued operations after taxes | 2.4 | −2.9 | 2.4 | 2.9 |
| **Income after taxes** | **−162.1** | **−44.9** | **−58.9** | **−39.8** |

*Excluding Germany

Segment reporting is based on the organisational structure of the Conergy Group. The individual organisational units are allocated to the operating segments solely according to economic criteria, irrespective of their ownership structure under German corporate law.

Continuing operations are divided into the operating segments Germany, Europe without Germany, Americas, Asia-Pacific, Components and Holding. The Holding segment essentially comprises the activities of the Conergy AG's Shared Services as well as purchasing and logistics. The "Reconciliation" column is shown separately. During reconciliation, intragroup business transactions are eliminated and income and expenses not directly attributable to the segments are disclosed.

in the reporting period assets and liabilities classified as "held for sale" as well as discontinued operations related to the following issues:

In the 2010 financial year, the assets and liabilities of Güstrower Wärmepumpen GmbH, which belonged to the Components segment, were classified as "held for sale". In the first quarter of 2011, Conergy sold this subsidiary, which is specialised in the production and sale of heat pumps, to SmartHeat Inc. This NASDAQ-listed company is a leading provider of heat transfer and energy conservation solutions in the Chinese market. Conergy's entire equity interest in Güstrower Wärmepumpen GmbH was transferred to SmartHeat Inc. under the sale. In addition, Güstrower Wärmepumpen GmbH also took over Conergy's land.

The assets and liabilities of Conergy's Swiss subsidiary in the Europe segment, Conergy (Schweiz) GmbH, were also classified as "held for sale" in the 2010 financial year. In the first quarter of 2011, Conergy sold its Swiss solar thermal products business to Capital Stage AG, a private equity company specialising in companies and projects in the clean-tech sector. Conergy's entire equity interest in its Swiss subsidiary was transferred to Capital Stage. The assets and liabilities of the Company's Cypriot subsidiary in the European segment were also classified as "held for sale". Both companies were sold in the second quarter of 2011.

In March 2011, the assets and liabilities of Conergy's Swiss subsidiary, SunTechnis Fabrisolar AG, belonging to the Europe segment were also classified as "held for sale". The company was sold in the second quarter of 2011.

The assets and liabilities of the subsidiary, voltwerk electronics GmbH, were also designated as held-for-sale assets and liabilities because the entity was sold to the Bosch Group, which is headquartered in Stuttgart, in December 2011. This sale is subject to the condition precedent or reservation that the relevant cartel office approve the transaction.

The discontinued operations include the EPURON division, which focused mainly on wind energy and bioenergy projects. As part of this disposal, in December 2010 Conergy sold EPURON's German and French wind project business (including the respective operating assets) to an investment fund of Impax Asset Management Ltd., one of the leading specialists for listed and private equity funds in the European renewable energies market. The combined asset/share deal between Conergy's subsidiary Momentum Renewables GmbH (formerly: EPURON GmbH) and Impax New Energy Investors II L.P. comprises the former's German wind energy development activities in Hamburg, all its equity interests in three operational wind farms in East Germany, the plant management business of CSO Energy GmbH as well as 100 percent of EPURON's wind energy business in France. The following major projects based on concentrated solar power (CSP) technology were sold in Spain in the first quarter of 2011. Except for the wind energy project business in Australia, which was sold in November 2011, as well as the biogas project business that was sold to RES Projects GmbH (a leading, Munich-based specialist for the development and implementation of biomethane plants) in early February 2011, all other activities in the EPORUN segment were already discontinued in 2010.

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 statement of cash flows as separate line items.

## Cash flows

| Consolidated statement of cash flows of the Conergy Group (short version) | | | | |
|---|---|---|---|---|
| **EUR million** | **2011** | **2010** | **4. quarter 2011** | **4. quarter 2010** |
| **Result from operating activities before changes in net working capital** | **−65.6** | **34.5** | **−29.0** | **−0.6** |
| Change in net working capital | 18.5 | −17.4 | 33.2 | 21.9 |
| **Cash generated from operating activities** | | | | |
| continuing operations | −47.1 | 17.1 | 4.2 | 21.3 |
| discontinued operations | 1.9 | −9.2 | 3.0 | −3.7 |
| **Net cash generated from operating activities (total)** | **−45.2** | **7.9** | **7.2** | **17.6** |
| **Net cash generated from investing activities** | **15.6** | **−9.1** | **−2.6** | **−6.5** |
| **Cash flow before financing activities (free cash flow)** | **−29.6** | **−1.2** | **4.6** | **11.1** |
| **Net cash generated from financing activities** | **15.4** | **−15.2** | **0.2** | **−8.1** |
| thereof Capital contributions | 13.9 | – | – | – |
| thereof Cash payments in connection with the acquisition of equity | −3.6 | – | – | – |
| thereof Change in borrowings | 124.3 | 22.4 | 2.6 | −2.7 |
| thereof Cash outflows for retirements of debt | −105.0 | −20.7 | – | −1.9 |
| thereof Interest paid | −14.2 | −16.9 | −2.4 | −3.5 |
| **Change in net borrowings** | **−14.2** | **−16.4** | **4.8** | **3.0** |

The statement of cash flows 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 (EBIT) of EUR −182.8 million in the 2011 financial year (2010 financial year: EUR −13.8 million), adjusted for non-cash items such as depreciation, amortisation and impairment losses, changes in non-current provisions as well as other non-cash income and expenses such as, for instance, portions of the net gain/loss from currency translation, and writedowns of inventories and receivables, the cash outflow from operating activities before changes in net working capital (gross cash flow) was EUR 65.6 million. This compares to a cash inflow of EUR 34.5 million in the first 2011 financial year. The gross cash flow thus fell by EUR 100.1 million year on year, largely due to crumbling prices for PV systems and the related difficult market environment.

Net cash outflows from operating activities after changes in the net cash flow from the Conergy Group's continuing operations in the 2011 financial year were EUR 47.1 million in the aggregate, compared to a cash inflow of EUR 17.1 million in the 2010 financial year. The net cash flow in the 2011 financial year results from the negative gross cash flow as well as additional cash outflows in the amount of EUR 7.4 million (2010 financial year: cash outflow of EUR 22.8 million) related to the increase in the working capital. The change in the working capital occurred exclusively in the first quarter of 2011, and developments in the subsequent quarters of 2011 were unable to fully offset it. The increase in working capital was due in particular to the comparably large reduction in trade accounts payable by EUR 67.8 million (2010 financial year: increase in trade accounts payable by EUR 41.8 million). During 2011 financial year, inventories decreased by EUR 50.3 million, compared to the 2010 financial year when inventories rose by EUR 73.3 million. In the previous year, trade accounts receivable fell by EUR 8.7 million while in the 2011 financial year there was a decrease in trade accounts receivable by EUR 10.1 million. Other net assets changed by EUR 28.6 million (2010 financial year: EUR 4.9 million) due, among other things, to the recognition of provisions, which depressed earnings. While Conergy had received tax refunds of EUR 0.5 million in the previous year, EUR 2.7 million in taxes had to be paid in the 2011 financial year.

The cash flow from operating activities related to the discontinued operations of EPURON – biomass, biogas, wind energy projects and CSP – in the 2011 financial year was EUR 1.9 million (2010 financial year: EUR −9.2 million). This figure is shown in a separate item in the statement of cash flows. Overall, the cash outflow from operating activities amounted to EUR 45.2 million (2010 financial year: cash inflow of EUR 7.9 million).

In the 2011 financial year, EUR 15.6 million in net cash were provided by investing activities (2010 financial year: cash outflow of EUR 9.1 million). This cash inflow is due especially to proceeds from the sale of subsidiaries amounting to EUR 25.3 million (2010 financial year: EUR 0.4 million). The Group invested a net total of EUR 14.6 million (2010 financial year: EUR 14.6 million) in property, plant and equipment as well as intangible assets. The inflow of funds from financial assets was EUR 2.4 million (2010 financial year: inflow of EUR 4.2 million). As in the previous year, the Conergy Group received interest payments of EUR 0.9 million (2010 financial year: EUR 0.9 million).

As a result, the cash flow in the 2011 financial year before financing activities was EUR –29.6 million (2010 financial year: EUR –1.2 million).

A net total of EUR 15.4 million was generated from financing activities in the 2011 financial year (2010 financial year: cash outflow of EUR 15.2 million). This cash inflow was due primarily to the restructuring of the Company's borrowings, which basically entailed refinancing liabilities in connection with the capital measures in the third quarter of 2011. In this context, the company received EUR 13.9 million from the capital increase executed in July 2011, for which it incurred costs of EUR 3.6 million. Conergy used the net proceeds from the capital increase subject to shareholders' subscription right to repay loans from its lenders in July 2011. The new loan agreement was also signed in July 2011. The proceeds of this loan were also used to discharge the remaining principal outstanding under the 2007 syndicated loan agreement. It has been extinguished as a result. For more detailed information, please see the explanations in the section "Cash and cash equivalents and net liabilities". For the particulars of the new loan agreement (2011 Syndicated Loan Agreement), please see the description of its terms and conditions in the risk and opportunity report of the Group Management Report.

Add to that interest payments of EUR 14.2 million, which were down year on year (2010 financial year: EUR 16.9 million).

The change in cash and cash equivalents during the 2011 financial year thus was EUR –14.2 million (2010 financial year: EUR –16.4 million).

**Cash and cash equivalents and net liabilities**

| **Net liabilities and gearing** | | **31.12.2011** | **31.12.2010** |
|---|---|---|---|
| **Non-current borrowings** | EUR million | **87.7** | **11.1** |
| **Current borrowings** | EUR million | **53.6** | **280.5** |
| **Borrowings** | EUR million | **141.3** | **291.6** |
| Cash and cash equivalents | EUR million | 23.8 | 36.7 |
| **Net liabilities related to continuing operations** | EUR million | **117.5** | **254.9** |
| Equity | EUR million | 20.9 | 71.4 |
| **Gearing** | in percent | **562.2** | **357.0** |

The Conergy Group had cash and cash equivalents of EUR 23.8 million as at 31 December 2011 (31 December 2010: EUR 36.7 million).

As at 31 December 2011, borrowings amounted to EUR 141.3 million, compared to EUR 291.6 million at the close of the 2010 financial year. Borrowings in the 2011 financial year thus increased by EUR 150.3 million compared to the 2010 balance sheet date. The Group's net liabilities as at the end of the 2011 financial year thus were EUR 117.5 million (31 December 2010: EUR 254.9 million).

In a deviation from the presentation in the consolidated balance sheet, the cash holdings shown in the statement of cash flows can contain cash and cash equivalents attributable to assets held for sale (31 December 2010: EUR 1.3 million). For further details on the held-for-sale assets, please see the disclosures in the section called "Basis of presentation" in the Group management report.

To ensure sufficient operating liquidity, on 31 July 2007 Conergy AG, Momentum Renewables GmbH (formerly: EPURON GmbH), Conergy SolarModule GmbH & Co. KG and Conergy Deutschland GmbH had closed a syndicated loan for a total of EUR 600 million from originally 23 banks under the leadership of Commerzbank AG, Dresdner Bank AG and WestLB AG (EUR 400 million cash loan and EUR 200 million guarantee and documentary credit facility) ("2007 Syndicated Loan Agreement").

On 17 December 2010 the Company reached an agreement with its creditors on a restructuring plan based on a Restructuring Term Sheet that basically entailed refinancing the Company's loan liabilities through a mixed cash and non-cash capital increase. The Extraordinary General Meeting on 25 February 2011 resolved to reduce the capital by a ratio of 8 to 1 in connection with the implementation of the restructuring plan. The resolution regarding the capital decrease was recorded in the Company's Commercial Register on 23 June 2011. The mixed cash and non-cash capital increase, which had also been adopted on 25 February 2011, followed immediately. The Company's shareholders exercised their subscription right during a two-week subscription period, which ended on 12 July 2011, by subscribing for shares worth a total of EUR 13,226,962 at a subscription price of EUR 1.05 per new share. Some of the existing lenders under the 2007 syndicated loan agreement were also given the option to subscribe to the Company's new shares in return for contributing their loan receivables from the Company to the extent that subscription rights had not been exercised or were excluded because they were fractional shares. After the subscription period, some of the lenders under the 2007 syndicated loan agreement subscribed a total of 96,807,229 shares in return for contributing their loan receivables from the Company, the nominal amount of which was discounted by 40 percent. The implementation of the capital increase in return for cash and in-kind contributions was recorded in the appropriate Commercial Register on 21 July 2011. These two steps enabled Conergy AG to reduce its liabilities by a total of EUR 182.6 million.

The new syndicated loan agreement (2011 Syndicated Loan Agreement) took effect after the capital increase was recorded in the Commercial Register on 21 July 2011, replacing the 2007 Syndicated Loan Agreement after the loans thereunder had been repaid. Conergy AG and Conergy SolarModule GmbH & Co. KG acting as borrowers, as well as other significant companies of the Conergy Group acting as guarantors, and ten banks led by Commerzbank International S.A., Luxembourg, closed this new loan agreement for EUR 263.1 million on 8 July 2011.

Of the three-tranche 2011 Syndicated Loan Agreement, Tranche A in the amount of EUR 71.8 million will serve to fund liabilities existing under the 2007 Syndicated Loan Agreement; Tranche B provides a revolving facility of EUR 50.0 million and covers the Conergy Group's working capital requirements as well as other defined operating purposes; Tranche C in the amount of EUR 141.3 million finally serves to fund existing guarantees and cover additional guarantees as required. Whilst all tranches are due and must be repaid in full four years from initial drawdown, revolving loans utilised under Tranche B must either be repaid at the end of the respective interest period or allocated to a new interest period without having been repaid and newly granted; they may then be used until one month prior to final maturity.

For the particulars of the new loan agreement (2011 Syndicated Loan Agreement), please see the description of its terms and conditions in the risk and opportunity report of the Group management report.

## Assets and liabilities

**Consolidated balance sheet of the Conergy Group (short version)**

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Non-current assets** | **91.3** | **213.2** |
| **Current assets** | **228.7** | **377.9** |
| Assets held for sale | 22.4 | 22.3 |
| **Total current assets** | **251.1** | **400.2** |
| **Total assets** | **342.4** | **613.4** |
| | | |
| **Total equity** | **20.9** | **71.4** |
| **Non-current borrowings** | **128.9** | **55.1** |
| **Current borrowings** | **183.2** | **484.0** |
| Liabilities from assets held for sale | 9.4 | 2.9 |
| **Total current borrowings** | **192.6** | **486.9** |
| **Total equity and liabilities** | **342.4** | **613.4** |

The total assets of the Conergy Group as at 31 December 2011 amounted to EUR 342.4 million, down EUR 271.0 million from the end of the 2010 financial year (31 December 2010: EUR 613.4 million). Significant changes were caused by the successful restructuring of Conergy's borrowings in July 2011 and from impairment losses due to the decision to focus on module production at the Frankfurt (Oder) factory in response to the increasingly difficult market situation.

**Non-current assets**

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Goodwill | – | 1.0 |
| Intangible assets | 4.2 | 10.2 |
| Property, plant and equipment | 81.3 | 164.4 |
| Financial assets | 1.5 | 1.6 |
| Other assets | 1.2 | 0.9 |
| Deferred tax assets | 3.1 | 35.1 |
| **Non-current assets** | **91.3** | **213.2** |

Non-current assets from continuing operations declined by EUR 121.9 million to EUR 91.3 million compared to the end of the previous year (31 December 2010: EUR 213.2 million). In part, this stemmed from the decrease in property, plant and equipment to EUR 81.3 million (31 December 2010: EUR 164.4 million), due essentially to impairment losses. Deferred tax assets fell at the same time due to the change in deferred taxes related to loss carryforwards to EUR 32.0 million.

| Current assets | | |
|---|---|---|
| **EUR million** | **31.12.2011** | **31.12.2010** |
| Inventories | 86.4 | 169.5 |
| Trade accounts receivable | 83.2 | 103.2 |
| Financial assets | 8.4 | 4.6 |
| Other assets | 26.9 | 63.9 |
| Cash and cash equivalents | 23.8 | 36.7 |
| **Current assets** | **228.7** | **377.9** |

Current assets from continuing operations as at 31 December 2011 decreased by a total of EUR 149.2 million to EUR 228.7 million (31 December 2010: EUR 377.9 million). The decline concerns especially the inventories, which fell by EUR 83.1 million to EUR 86.4 million (31 December 2010: EUR 169.5 million). Mainly raw materials and consumables as well as merchandise were affected by the reductions in the inventories. The changes in the inventories stem for one from the price declines for photovoltaic modules and for another from the conscious decision to lower inventories to a minimum by the close of the financial year just ended given the current market environment. Note furthermore that the reporting-date inventories of voltwerk electronics GmbH in the amount of EUR 16.7 million (31 December 2010: EUR 6.0 million) are now reported under assets held for sale. Trade accounts receivable in the amount of EUR 83.2 million (31 December 2010: EUR 103.2 million) fell year on year especially due to the reduced sales volume in the 2011 financial year. The other current assets fell by EUR 37.0 million to EUR 26.9 million (31 December 2010: EUR 63.9 million). Among others, this reduction stems from payments received in April 2011 on a purchase price receivable posted at the close of 2010 for the disposal of the Company's German and French wind energy project business. VAT receivables also fell by EUR 13.4 million. As at the balance sheet date, the other current assets mainly comprised VAT receivables and a receivable from MEMC Electronic Materials, Inc. in connection with a wafer delivery contract. Cash and cash equivalents declined by EUR 12.9 million to EUR 23.8 million (31 December 2010: EUR 36.7 million).

Assets and liabilities from discontinued operations are not shown in individual balance sheet items but rather as a combined item under "assets held for sale and discontinued operations" and recognised in the corresponding liabilities and equity item of the balance sheet.

The assets and discontinued operations that had been classified as held for sale the previous year were associated with the following:

| the biogas project business of the discontinued EPURON segment, which was sold to RES Projects GmbH, a leading Munich-based specialist for the development and implementation of biomethane plants, in early February 2011;

| the assets and liabilities of Conergy (Schweiz) GmbH, which were reported under the Europe segment and sold to Capital Stage AG, a private equity company specialising in companies and projects in the cleantech sector, in the first quarter of 2011 too;

| the assets and liabilities of Güstrower Wärmepumpen GmbH, which were reported under the Components segment and sold to SmartHeat Inc., a leading provider of heat transfer and energy conservation solutions in the Chinese market, in the first quarter of 2011;

| projects in Spain that are based on concentrated solar power (CSP) technologies and were sold in the first quarter of 2011;

| the assets and liabilities of Conergy's Cypriot subsidiary, which were reported in the Europe segment and sold in the second quarter of 2011;

| the Australian wind project business of the discontinued EPURON segment, which was sold in November 2011; and

| Conergy's land in Güstrow, which was sold to Güstrower Wärmepumpen GmbH in the fourth quarter of 2011.

Solely the assets and liabilities of voltwerk electronics GmbH were reported as assets or liabilities held for sale as at 31 December 2011. Voltwerk electronics GmbH was sold to the Bosch Group in December 2011 subject to the condition precedent or reservation that the relevant cartel office approve the transaction.

The Conergy Group's equity was EUR 20.9 million at the end of December 2011 (31 December 2010: EUR 71.4 million), down by EUR 50.5 million year on year. This development resulted from the Group's loss in the 2011 financial year, largely owing to the steep price decline in the solar market and other one-off effects. At the same time, the Company carried out a mixed cash and non-cash capital increase in the 2011 financial year as well as a restructuring of its borrowings, both of which lifted equity and consolidated profit by EUR 180.8 million in the aggregate. But these successful steps were unable to offset the consolidated loss in 2011 on the whole. The equity ratio as at the close of the financial year was 6.1 percent (previous year: 11.6 percent). For further details on the changes in equity, please see the statement of changes in equity, which is an integral part of these consolidated financial statements.

Liabilities from continuing operations decreased by EUR 227.0 million to EUR 312.1 million compared to the close of the 2010 financial year (31 December 2010: EUR 539.1 million).

| **Non-current liabilities** | | |
|---|---|---|
| **EUR million** | **31.12.2011** | **31.12.2010** |
| | | |
| Provisions | 39.3 | 41.5 |
| Borrowings | 87.7 | 11.1 |
| Other liabilities | 1.8 | 2.0 |
| Deferred tax liabilities | 0.1 | 0.5 |
| **Non-current liabilities** | **128.9** | **55.1** |

Non-current liabilities as at 31 December 2011 were EUR 128.9 million, up EUR 73.8 million compared to the end of the 2010 reporting period (31 December 2010: EUR 55.1 million). This was caused essentially by the increase in non-current borrowings by EUR 76.6 million to EUR 87.7 million (31 December 2010: EUR 11.1 million), which was mainly due to a restructuring of the borrowings subsequent to the successful completion of the capital measures. Current borrowings fell correspondingly as at the 2011 reporting date. At EUR 39.3 million (31 December 2010: EUR 41.5 million), non-current provisions were virtually on a par with the previous year, as were other non-current liabilities at EUR 1.8 million (31 December 2010: EUR 2.0 million).

| **Current liabilities** | | |
|---|---|---|
| **EUR million** | **31.12.2011** | **31.12.2010** |
| | | |
| Provisions | 18.8 | 10.8 |
| Borrowings | 53.6 | 280.5 |
| Trade accounts payable | 88.2 | 161.7 |
| Other liabilities | 20.9 | 28.1 |
| Current income tax liabilities | 1.7 | 2.9 |
| **Current liabilities** | **183.2** | **484.0** |

Current liabilities from continuing operations as at 31 December 2011 were EUR 183.2 million (31 December 2010: EUR 484.0 million), down considerably by EUR 300.8 million compared to the end of the 2010 financial year. This was caused especially by the decrease in current borrowings by EUR 226.9 million to EUR 53.6 million (31 December 2010: EUR 280.5 million). The reduction in borrowings is related to the restructuring of the borrowings through which EUR 71.8 million in borrowings were funded in the long term as well as to the July 2011 capital increase. For more detailed information, please see the explanations in the sections “Cash and cash equivalents and net liabilities” and “Terms and conditions of the syndicated loan agreement”. Trade accounts payable rose by EUR 73.5 million to EUR 88.2 million (31 December 2010: EUR 161.7 million). The decline is mainly due to shrinking physical inventories. At the same time, other current liabilities decreased by EUR 7.2 million to EUR 20.9 million (31 December 2010: EUR 28.1 million). This was contrasted by an increase in current provisions by EUR 8.0 million to EUR 18.8 million (31 December 2010: EUR 10.8 million) owing mainly to the change of module production at Frankfurt (Oder).

# Other

## Non-financial performance indicators

A company’s non-financial performance indicators make a major contribution to its success in the long term. We treat the non-financial performance indicators that we established and expanded as part of the Company’s realignment in the past few years as leverage that makes Conergy not just more efficient but also more attractive.

**Employee qualification**

Conergy AG’s employees are its bedrock. Through their identification with the Company and their commitment to its defined goals they make a decisive contribution to its success. In addition to targeted training and further education measures, a high level of empowerment serves to foster employees’ potential. 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.

**Code of Conduct**

This Code, which is binding for all Conergy employees, is the ethical foundation of all business activities and describes the values, principles and practices of the Conergy Group. In addition, it 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. The Compliance Committee works to ensure that absolutely everybody in the Company abides by the same high ethical and legal standards; it also serves a point of contact for employees.

**Extensive experience in project management and project financing**

Conergy is one of the most experienced project developers and engineers in the field of renewable energies. The Company offers its customers the complete value chain from planning to construction to plant start-up, and it considers its comprehensive expertise to be a key competitive strength. Conergy also possesses many years of experience in project financing.

**High level of technological flexibility and independence**

Conergy has access to different state-of-the-art technologies in photovoltaics (mono- and multicrystalline silicon solar modules as well as thin film solar modules). This enables it to be as independent as possible in technological terms and ensures at the same time that its product portfolio is attractive for a diverse range of customer groups. Conergy is not dependent on any one particular PV technology in its Germany, Europe without Germany, Americas and Asia-Pacific segments and thus is able to react to innovations in photovoltaics. 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 12 years has given Conergy a vast well of experience to draw from. The Company plans and builds small facilities to electrify remote regions, devises special architectural solutions and designs multi-megawatt PV farms. Conergy ensures the installations' optimal construction and 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 coordinated 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. In its own estimation, Conergy has executed a large number of important pilot projects based on excellent engineering work.

Such pilot projects as well as a long list of reference projects 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. In the Company's view, the fact that Conergy has both a long history in a relatively young industry and a good reputation in terms of the quality of its products has been pivotal to the Company's success against this backdrop.

**Broad and internationally diversified customer base, customer access and customer proximity**

In the past, 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, 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 and emerging PV markets while pursuing its internationalisation.

Many years of working with a multitude of customers and the Company's insight into central customer groups and their respective expectations and needs as wholesalers or installers in the B2B business, as project developers or as financial investors constitute central building blocks for success in the photovoltaics market. These special insights and long-standing customer loyalty turn out to be particularly valuable when a market shifts from a sellers' to a buyers' market – as has recently been the case.

Conergy's knowledge of and connection to its relevant customers give the Company a material edge over other or newer competitors that are establishing their own customer networks or aim to evolve from a pure manufacturer into an integrated provider and seller.

**Flexible market access**
Many years of experience in the global and increasingly dynamic photovoltaics market have enabled Conergy to develop the ability to identify opportunities in diverse markets early on and ensure access to the given market for itself in due time. Flexible working of the market, which in a first step takes place via exports without recourse to a local organisation or company, puts Conergy in a position to establish itself in a developing market as a PV provider early on. If a market turns out to be attractive in the long term given the relevant parameters for developing photovoltaics, in a second step Conergy sets up a local company to continue expanding its activities in that market. This flexible market access makes it possible to identify whether a market is attractive and sustainable without making significant investments and also offers the option of leaving a market without incurring major losses.

## Research & development

Conergy has been banking on research and development work at its Frankfurt (Oder) solar factory since 2009 – both in its in-house laboratories and in cooperation with external research institutes. Technological objectives include boosting the efficiency of the Conergy PowerPlus Modules, lowering production costs and streamlining production processes.

Conergy offered its customers additional product features in 2011. The new Conergy PowerPlus product generation for instance was made even more robust in 2011. Our solar experts were able to increase load capacity from 5,400 to 6,000, keeping the weight at 19.6 kilogrammes. This corresponds to a load of 612 kilogrammes per square metre.

High quality standards, high-value components and the fully automated production process at the Frankfurt (Oder) module factory enable our solar experts to just about preclude defects in workmanship and materials and resulting defects in the modules. This feat is underscored by the tiny return rate of 0.0037 percent, which places Conergy's Premium Modules far ahead of its competitors. According to experts, the average return rate for the industry is between 2 and 3 percent.

The Conergy PowerPlus Modules stand out thanks to excellent performance in weak light and outstanding resilience to fluctuating climatic conditions, corrosion, hail as well as ammonia and salt mist. Several independent tests have already confirmed the premium quality of the Conergy PowerPlus Modules. In 2011 the Conergy Module added yet another quality seal to the range of its awards. TÜV Rheinland and Solarpraxis AG awarded the Conergy Premium Module the "PV+Test" quality seal in connection with an independent module test and judged it "good+". The performance parameters were particularly convincing: Out of the eight quality modules that had been tested to date – including seven from renowned European manufacturers – the Conergy PowerPlus Module stood out because it had the highest degree of efficiency and because its actual performance surpassed the rated performance by 2 percent. The Module's behaviour under actual operational and environmental conditions is equally impressive. The Conergy Module's decrease in power output under rising temperatures and solar irradiation was the lowest of the lot. This property also has a massive impact on the Module's overall output.

The Conergy PowerPlus Modules are subjected to strict quality checks not just in the factory in order to meet the quality requirements. The solar modules including their components undergo extensive tests in our in-house laboratories, clean rooms and climatic chambers. They are then given official quality certificates from such independent testing organisations as the TÜV. The site itself has also been awarded a quality seal. Conergy SolarModule GmbH & Co. KG has been certified to TÜV Rheinland's ISO 9001:2008 and ISO 14001:2004 since 2010 and passed the annual repeat audit in 2011 without any deviations. The Frankfurt (Oder) production site thus possesses a documented quality assurance and environmental management system across all departments that ensures consistent quality at the highest level.

Mounting Systems GmbH, a wholly-owned subsidiary of Conergy AG, is one of the largest manufacturers of mounting systems and module frames for both photovoltaics and solar thermal systems. In Rangsdorf (near Berlin), construction and mechanical engineers work continuously to optimise these mounting systems in accordance with applicable standards and tailor them to customers' needs. Their top priority Is never to compromise the products' quality. All mounting systems manufactured in Rangsdorf provide maximum safety because the ISO-9001-certified factory only uses high-quality materials. In 2007 Germanische Lloyd certified the plant in Rangsdorf to the quality management standard. In terms of stability and statics, these mounting systems comply with the state of the art and thus come with ten-year warranties. Mounting Systems closely coordinates the development of new installation options with other Group divisions – giving Conergy an edge as a systems supplier.

Mounting Systems has been offering two new mounting systems since 2011: “Tau” for trapezoidal sheet metal roofs and “Lambda Light”, which is light and has been aerodynamically optimised for all types of flat roofs. The Tau mounting system can be rapidly and easily installed on all standard trapezoidal sheet metal roofs regardless of whether the modules are framed or unframed. The rail is affixed to the trapezoidal sheet metal roof with a hook. The holding devices can be moved flexibly inside the rail and variably positioned. This enables the mounting system to offset the tension resulting from temperature fluctuations and uneven roofs. Another special property: Sideways mounting of the trapezoidal holdings devices allows for higher wind loads. All structural load-bearing components of the Tau mounting system are made of aluminium and stainless steel. The components are particularly resistant to corrosion, guaranteeing a maximum life cycle.

Mounting Systems developed the Lambda Light, an ultra-light mounting system, specifically for flat roofs. It is suitable for horizontal installation of framed modules. The easily ballasted mounting system with improved aerodynamics was designed by an aerospace engineer. Customers’ roofs also benefit from Lambda Light because the system does not penetrate roofs. It is also particularly suitable for thin roofs and folio or lightweight roofs.

Lambda Light can be quickly assembled using just a few tools thanks to extensive pre-fitting and pre-assembly.

The mounting systems of Conergy’s subsidiary are sent out into the world from the German state of Brandenburg. This is why Mounting Systems opened its own office in Lyon, France, in 2010 and launched its own production facility in Sacramento, CA, USA, in 2011. Mounting systems for the U.S. market are manufactured in shift work on 5,500 square metres of production and storage space. In October 2010 the Potsdam Chamber of Commerce and Industry awarded its CAI Prize – the corporate award in the growth category – to Mounting Systems. In 2011 the company won the Quality Award, which is the quality seal of the Berlin-Brandenburg Chamber of Commerce. Also in 2011, Mounting Systems Inc. was given the Patriotic Employer Award (U.S.).

Conergy’s wholly-owned subsidiary, voltwerk electronics GmbH, has been one of the most innovative manufacturers in the field of electronic PV components for years. In September 2011 voltwerk was recognised as a “TOP 100 Innovator in 2011” by the Institute for Entrepreneurship and Innovation of the Vienna University of Economics and Business in connection with a competition. This analysis of German small and mid-cap companies judged innovation successes already achieved as well as companies’ future innovation potential based on the design of their specific innovation management system.

The product portfolio was further expanded in the past year thanks to this innovation management system. In the major PV power plant business, the central inverters with an output of 350 kVA and 250 kVA supplement the VC series. A peak efficiency of 98.7 percent makes the transformerless VC 350 device unmatched worldwide. The VC 250 central inverter, which is also new, has an integrated transformer and feeds energy into the low voltage grid.

The VC 350 central inverter is also used in the two new performance classes of the VIS central inverter station series. Not only do the new VIS 1050 and VIS 1400 stations meet the demand for compact solutions for major PV power plants that are more powerful than ever; because the new central inverter has been integrated into the station, they can also achieve an output of 1050 kVA and 1400 kVA on the same surface using only three or four inverters. This enables significant cost savings. The peak efficiency factor is 98.3 percent, making these stations top performers at the international level. As all other stations of the VIS series, the two new models also include an extensive monitoring system that can be accessed both on site and via the Internet, a highly efficient medium voltage transformer and, upon request, medium voltage switchgear that is installed at the plant. Voltwerk’s VIS series is certified to the German Medium Voltage Directive and is the only station series worldwide that has been certified to type.

The strong growth in regenerative electricity from PV installations is placing new requirements on the public grid. Grid operators have been demanding that it must be possible to throttle PV plants as necessary in order to guarantee the grids’ stability. Voltwerk developed a universal interface converter called GridControl to this end. It ensures reliable processing of a multitude of signals from energy utility companies. In a second step, integration of the VM Touch Logger ensures that any intervention is logged in traceable fashion.

The field test being conducted by the Sol-Ion research project concerning storage of decentrally generated solar electricity continues. By now, additional devices have been installed in both Germany and French overseas territories as part of the project's second phase. The VS 5 Hybrid storage solution, which combines an inverter, a lithium-ion battery and a power management system, was successfully introduced to the public. The device was awarded the 2011 Innovation Prize at the 26th Photovoltaic Symposium in Bad Staffelstein. Additional awards such as the "2011 Product of the Year" prize and several product design prizes followed.

## Disclosures related to acquisitions

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

**Composition of the subscribed capital**
At the start of the reporting period, the subscribed capital (capital stock) of Conergy AG was EUR 398,088,928, denominated in 398,088,928 no-par bearer shares with a pro rata interest in capital of EUR 1.00 per share. The Company's Extraordinary General Meeting on 25 February 2011 resolved to reduce the capital stock to EUR 49,761,116, denominated in 49,761,116 no-par shares. The decision on the capital decrease was recorded in the Company's Commercial Register on 23 June 2011. The same Extraordinary General Meeting on 25 February 2011 also resolved to increase the capital stock by up to EUR 237,551,399. The implementation of the capital increase for a total of EUR 110,034,191 was recorded in the appropriate Commercial Register on 21 July 2011. The Company's capital stock has been EUR 159,795,307 since that date. It is denominated in 159,795,307 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 General Meeting. New shares are issued as bearer shares unless the Annual General Meeting resolves otherwise.

**Equity interests in excess of 10.0 percent of the voting shares**
The following direct and indirect equity interests in Conergy AG surpassed or surpass the 10.0 percent threshold of voting shares:

Deutsche Bank AG, Frankfurt/Main, notified Conergy AG on 28 July 2011 in accordance with Section 21 para. 1 German Securities Trading Act that its interest in the voting shares of Conergy AG had surpassed the threshold of 3 percent, 5 percent and 10 percent of the voting rights and was 13.072 percent (corresponding to 20,888,726 voting rights) on that date.

York Global Finance BDH, LLC, New York; York Global Finance Manager, LLC, New York; York Capital Management Global Advisors, LLC, New York; and James G. Dinan, USA, notified Conergy AG on 25 July 2011 in accordance with Section 21 para. 1 German Securities Trading Act that their interest in the voting shares of Conergy AG had surpassed the threshold of 3 percent, 5 percent, 10 percent, 15 percent and 20 percent of the voting rights and was 20.15 percent (corresponding to 32,196,514 voting rights) on that date.

**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. The provisions on the appointment and dismissal of the members of Conergy AG's Management Board follow from Section 84 and Section 85 AktG in conjunction with Article 6 para. 1 of the Company's Articles of Association. Thereunder, the Supervisory Board appoints the members of the Management Board, determines the number of its members and decides on their dismissal for cause. In particular, such cause shall be a gross breach of duty, inability to properly manage a business, or the withdrawal of confidence by the general meeting, unless confidence is withdrawn for evidently subjective reasons.

Pursuant to Section 119 para. 1 no. 5 and section 179 ff. German Stock Corporation Act, the Annual General Meeting is charged with resolving amendments of the Articles of Association. Unless required otherwise by mandatory law or the Articles of Association, the resolutions of the Annual General Meeting are adopted by the simple majority of all votes cast pursuant to Article 19 of the Articles of Association and, to the extent that the law requires a majority of the capital, by the simple majority of the capital stock represented. The law prescribes absolute majorities of three-fourths of the capital stock 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 to amend the relevant wording insofar as authorised capital in accordance with Article 5 para. 3 and para. 9 of the Articles of Association (Authorised Capital 2009 and 2010) has been utilised at the given time or upon expiry of the authorisation deadline. If new shares are issued in accordance with Article 5 para. 8 of the Articles of Association using Contingent Capital, the Supervisory Board is authorised thereunder to amend the wording of the Articles of Association such that it reflects the number of the new no-par bearer shares issued in each case, as well as to adopt any other related amendments of the Articles of Association that affect solely the wording. The same shall apply analogously if the authorisation to issue bonds with warrants or convertible bonds is not exercised upon expiration of the authorisation period as well as if the contingent capital is not used upon expiration of the deadlines for exercising options and conversion rights or for fulfilling conversion obligations or options.

**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 capital stock until 9 June 2014 by a total of up to EUR 100,000,000 by once or repeatedly issuing up to 100,000,000 new no-par bearer shares in return for contributions in cash and/or in kind ("Authorised Capital 2009"). In principle, the shareholders are granted a subscription right. The new shares may also be acquired by one or more banks, subject to the obligation to offer them to the shareholders for subscription.

The Management Board is authorised hereby to exclude shareholders' subscription right with the approval of the Supervisory Board, once or repeatedly: (a) to the extent necessary in order to exclude fractional shares, if any, from shareholders' subscription right; (b) to the extent necessary in order to grant to the holders of options or conversion rights or obligations arising from bonds with conversion rights and/or options or a conversion obligation a subscription right to new shares in the scope to which they would be entitled as shareholders once they exercised the option or conversion right or fulfilled the conversion obligation; (c) to the extent that the new shares are issued in return for cash contributions and the pro rata amount of the capital stock attributable to all of the newly issued shares does not exceed the total of EUR 39,808,892 or, if lower, 10.0 percent of the capital stock extant both at the time this authorisation takes effect and at the time it is exercised for the first time ("maximum amount") and the issue price of the shares to be newly issued is not substantially lower than the market price of the Company's listed shares of the same class at the time the issue price is finally fixed; [and] (d) to the extent that the new shares are issued in return for in-kind contributions (especially in the form of companies, business units, equity stakes in companies or receivables).

The pro rata amount of the capital stock attributable to new or previously acquired treasury shares that are issued or sold in accordance with or under Section 186 para. 3 sentence 4 German Stock Corporation Act while this authorisation is in effect, subject to the exclusion of shareholders' subscription right, shall be offset against the maximum amount set forth in item (c) of the forgoing paragraph, as well as the pro rata amount of the capital stock attributable to shares that are or must be issued to satisfy bonds with conversion rights and/ or options or a conversion obligation, to the extent that these bonds are issued while this authorisation is in effect subject to the exclusion of shareholders' subscription right in analogous application of Section 186 para. 3 sentence 4 German Stock Corporation Act.

The Management Board is further authorised, subject to the approval of the Supervisory Board, to determine additional details of the capital increase and the conditions of the share issuance.

The Management Board is also authorised pursuant to Article 5 para. 9 of the Company's Articles of Association, as amended by the resolutions of the Annual General Meeting on 5 October 2010, which were recorded in the Commercial Registry on 23 February 2011, to increase the Company's capital stock until 4 October 2015, with the approval of the Supervisory Board, by a total of EUR 99,044,464.00 by issuing a total of up to 99,044,464 new no-par bearer shares (no-par shares), once or repeatedly, in return for contributions in cash and/or in kind (Authorised Capital 2010). In principle, the shareholders are granted a subscription right. The new shares may also be acquired by one or more banks, subject to the obligation to offer them to the shareholders for subscription.

The Management Board is authorised in this connection to exclude shareholders' subscription right with the approval of the Supervisory Board, once or repeatedly: (a) to the extent necessary in order to exclude fractional shares, if any, from shareholders' subscription right; (b) to the extent necessary in order to grant to the holders of options or conversion rights or obligations arising from bonds with conversion rights and/or options or a conversion obligation a subscription right to new shares in the scope to which they would be entitled as shareholders once they exercised the option or conversion right or fulfilled the conversion obligation; (c) to the extent that the new shares are issued in return for in-kind contributions (especially in the form of companies, business units, equity stakes in companies, receivables or for the purpose of satisfying conversion or option rights or obligations). The Management Board is authorised, subject to the approval of the Supervisory Board, to determine additional details of the capital increase and the conditions of the share issuance.

Pursuant to Article 5 para. 8 of the Company's Articles of Association, as amended by the resolutions of the Annual General Meeting on 5 October 2010, which were recorded in the Commercial Registry on 23 February 2011, the Company's capital stock was increased by up to EUR 199,044,464.00 by issuing 199,044,464 new no-par bearer shares (no-par shares) with a pro rata interest in the capital stock of EUR 1.00 per share (Contingent Capital). This Contingent Capital increase serves to grant no-par bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, profit participation rights and/or income bonds (or combinations of these instruments) that are issued by the Company or its direct or indirect associates under the authorisation granted by the Annual General Meeting on 5 October 2010 pursuant to Agenda item 7 in return for cash contributions and establish a conversion right or option to the Company's new no-par bearer shares or a conversion obligation. This Contingent Capital increase shall be executed only insofar as the options or conversion rights are exercised or insofar as the holders or creditors obligated to convert actually fulfil their conversion obligation and provided that no treasury shares or new shares issued under authorised capital are used to satisfy same.

The new no-par bearer shares shall participate in the Company's profit from the start of the financial year in which they are created through the exercise of options and/or conversion rights or through the fulfilment of conversion obligations. The Management Board is authorized to determine other details relating to the execution of the Contingent Capital Increase.

The Management Board has the right under Section 71 para. 1 German Stock Corporation Act to purchase the Company's treasury shares in the following cases: (a) if such purchase is necessary in order to avert severe, imminent harm to the Company; (b) if the shares are to be offered for purchase to persons who were or are employed with the Company or one of its associates; (c) if the purchase is made in order to compensate shareholders using shares in specific situations prescribed by law; (d) if the purchase does not entail any consideration; (e) by virtue of universal succession; and (f) pursuant to a resolution of the Company's Annual General Meeting to retire stock in accordance with the requirements regarding a reduction in the capital stock. The shares bought back under items (a) through (c) above, along with the Company's other treasury shares, which it already purchased or still retains, may not account for more than 10 percent of the capital stock.

At this time, Conergy AG is not authorised to purchase treasury shares under any resolution of its Annual General Meeting pursuant to Section 71 para. 1 no. 8 German Stock Corporation Act.

**Key agreements of the Company**

The key agreements that will be affected by a change of control at Conergy AG concern the 2011 syndicated loan agreement for EUR 273.2 million that was signed in July 2011. The financing banks also reserved their right to terminate the agreement in accordance with its relevant provisions if an individual or a group of people acting in concert with each other (third-party investor) under an agreement or by any other means gain more than 50 percent of the Company's voting shares. All investors not known as existent major shareholders under the syndicated loan agreement are regarded as third-party investors.

The employment contract of one member of the Management Board gave him the right to terminate his contract for cause in the event of a defined change of control of Conergy AG. The Management Board member in question stepped down from the Management Board effective 12 January 2012 and resigned from the Company at the end of February 2012.

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

The compensation report below is part of the Group management report. The report explains the structure and the level of compensation applicable to the Management Board and the Supervisory Board in the reporting year. 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 Sections 285 no. 9, 314 para. 1 no. 6 German Commercial Code and the (Group) management report pursuant to Sections 289 para. 2 no. 5 and 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**

The following sets out the principles governing the Management Board's compensation and, in accordance with the recommendations of the German Corporate Governance Code, discloses the compensation paid to the Management Board on the whole and on an individualised basis.

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. The compensation system introduced by the Company in early 2010 not only satisfies the requirement that the compensation be based on several years of performance but also takes into account the recommendation of the German Corporate Governance Code that negative developments ought to affect the variable compensation as well.

*Responsibility for fixing the Management Board's compensation*

The Supervisory Board is tasked with fixing the compensation of each individual member of the Management Board. Its determination of adequate compensation is based on a performance appraisal, 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 overall performance of the Management Board as well as the economic situation, the performance and outlook of the enterprise taking into account its peer companies.

*Elements of the compensation of Management Board members*

The compensation of the Management Board comprises both fixed and variable elements.

All members of the Management Board receive basic compensation not contingent on performance that is paid monthly as a salary. 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 expenses. In general these benefits are paid to all members of the Management Board equally but the actual amounts vary according to their personal needs. Individual members of the Management Board are also reimbursed for outlays such as accommodation, flights/trips home or relocation expenses. All non-cash benefits are part of their compensation and thus taxable. The Company has not made any additional promises above and beyond the aforementioned payments with respect to corporate contributions toward retirement plans.

In 2010, Conergy AG put in place a new compensation structure that applies to Management Board members' new director's contracts. Thereunder the members of the Management Board are paid variable compensation as stipulated in their individual director's contracts if they achieve absolutely all performance targets that the Supervisory Board fixes in advance at its discretion. If goal achievement exceeds the target, the variable compensation is raised to a maximum of 150 percent of the fixed compensation; if goal achievement falls short of the target, it is lowered. The variable compensation comprises a cash component that is disbursed and a component that is converted into phantom stock options. The cash component of the variable compensation is stipulated individually and may not exceed 45 percent. It is due and payable at the close of the Annual General Meeting tasked with granting formal approval for the financial year for which the variable compensation is owed. The remaining and thus larger portion of the variable compensation is converted into phantom stock options on an annual basis. The number of phantom stock options is determined at the time the variable compensation is fixed based on the weighted average share price on the last 30 trading days of the financial year for which the compensation is owed. The phantom stock options are paid out at the end of a holding period of up to four years from the date on which the number of shares is determined at the time the variable compensation is converted. The value of the phantom stock options during the reporting period to be paid out upon expiry of the holding period is limited to an individually stipulated percentage not exceeding 200 percent of the variable compensation that was converted into phantom stock options but may not fall below 50 percent thereof. The phantom stock options are measured on the basis of the weighted average share price during the 30 trading days preceding the payment date.

Aside from setting the contractually owed compensation, the Supervisory Board also has the option at its discretion to grant individual Management Board members a special bonus or a retroactive bonus in recognition of outstanding performance based on a previously stipulated performance target.

*Individual compensation*
The Company entered into a termination agreement with Andreas Wilsdorf during the reporting year pursuant to which his employment contract ended at midnight on 31 July 2011. Under this termination agreement, Andreas Wilsdorf was paid both his fixed salary and various benefits monthly on a pro rata basis until the termination date. Andreas Wilsdorf was paid a flat fee of EUR 34,199.68 gross in settlement of the portion of the variable compensation for 2010 that had been converted into phantom stock options. It is stipulated in the termination agreement with respect to the variable compensation to which Mr. Wilsdorf is entitled for 2011 that solely the 45 percent cash portion of the variable compensation shall be paid out in accordance with the degree of target achievement determined by the Supervisory Board subject to a deduction of 25 percent. The remaining 55 percent of the variable compensation shall be forfeited without compensation. A total of TEUR 14 were recognised in provisions to this end. The post-signing noncompete clause was revoked by mutual agreement without compensation.

Dr. Sebastian Biedenkopf exercised a special right to terminate his contract effective at the end of February 2012. Subsequently, the Company and Dr. Sebastian Biedenkopf entered into a severance agreement after the close of the reporting year. Dr. Biedenkopf shall be paid a one-off termination benefit of TEUR 550 gross thereunder. This amount constitutes payment in full of all claims by Dr. Biedenkopf against the Company, in particular claims to fixed or variable compensation as well as claims to payment of phantom stock options allocated to him in the past. The fixed compensation paid to Dr. Biedenkopf for the 2011 reporting year, the restructuring bonus of TEUR 205 previously stipulated in his director's contract as well as the fixed compensation paid to him in January and February 2012 are exempted therefrom however.

The employment contract with Alexander Gorski took effect on 1 May 2011. Under this contract, in addition to his monthly fixed compensation Alexander Gorski will be paid variable compensation in the reporting year contingent on both his personal performance and the degree to which financial targets are met. Alexander Gorski is entitled to variable compensation of TEUR 170 gross for the reporting year and TEUR 190 gross starting on 1 August 2011 provided he met all performance targets in full. His variable compensation was set to rise to a maximum of TEUR 255, and a maximum of TEUR 285 from 1 August 2011, if his level of target achievement surpassed the baseline; it shall be lowered if it falls short of the baseline. Forty percent of the variable component of his compensation shall be paid in cash and 60 percent shall be converted into phantom stock options subject to a three-year holding period. As at 31 December 2011, the value one phantom stock was EUR 0.20 and the number of phantom stocks outstanding was 216,464. Provisions of TEUR 44 were recognised for this reason at the reporting date. As at the 1 May 2011 grant date, the fair value of the share-based payments was TEUR 76 and the number of the phantom stocks granted on a pro rata basis was 205,405. A director's contract at better terms was made with Alexander Gorski after the close of the reporting year.

Employment contracts were made with Jan Vannerum and Marc Lohoff shortly after the close of the reporting year. These employment contracts also provide for fixed compensation and utilise the variable compensation system that was introduced in 2010 and is described above.

In addition, Dr. Philip Comberg, who has been a member of the Company's Supervisory Board since 26 August 2011, in January 2012 was delegated to the Company's Management Board until 31 December 2012 by resolution of the Supervisory Board pursuant to Section 105 para. 2 AktG. Until now Dr. Philip Comberg has worked as an independent financial investor and strategic consultant for crises management and M&A scenarios. A director's contract was made with Dr. Philip Comberg shortly after the close of the reporting year given his appointment to the Management Board. Due to the special circumstances of his appointment however, his compensation is not based on the variable compensation system introduced in 2010. Instead, Dr. Philip Comberg shall be paid a fixed salary, one-off compensation for terminating current consultancy contracts, a single special payment that will become due and payable under certain conditions as well as additional variable compensation based on financial targets. Once the delegation of Dr. Philip Comberg to the Management Board has ended, the Supervisory Board shall decide whether to invest his variable compensation in phantom stock options as a long-term component based on the share price in accordance with the variable compensation system introduced in 2010 or whether to pay it out immediately.

No Management Board member was granted loans or advances in the reporting year, nor did the Company incur any contingent liabilities on their behalf. 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.

*General contractual stipulations*
The employment contracts of the Management Board members all have terms of three years. The employment contract with Alexander Gorski initially had a term ending 31 December 2012 but this term was amended shortly after the close of the reporting year extending the term of his contract by three years until 31 December 2014. The employment contracts of the two Management Board members, Dr. Sebastian Biedenkopf and Andreas Wilsdorf, respectively, who stepped down shortly after the close of the reporting year and during the reporting year also had terms of three years each. Owing to the special circumstances described above, the employment contract with Dr. Philip Comberg, which was made shortly after the close of the reporting year, has a term of only one year.

Their director's contracts shall expire no later than at midnight on the last day of the month in which they turn 65. this does not apply to the director's contract of Dr. Philip Comberg, which only has a term of one year. Given this limitation, the contracts do not provide for a regular right to termination. Whilst these employment contracts may be terminated by either party for cause effective immediately, with the exception of the aforementioned cases no promises concerning payment of additional compensation in case their contracts are terminated have been made to any member of the Management Board.

For the duration of a one-year post-signing noncompete period, the members of the Management Board shall be paid noncompete compensation equivalent to 50 percent of their most recent contractual compensation. The Company may waive compliance with the post-signing noncompete clause. Given the special circumstances of Dr. Philip Comberg's employment, as described above, his employment contract does not contain a post-signing noncompete provision and thus does not provide for noncompete compensation either.

With the exception of the employment contract of Dr. Comberg (which is limited to one year, as described above), all Management Board members' employment contracts stipulate that severance pay, if any, to be agreed upon if their respective activities on the Management Board are terminated early shall not exceed two years' worth of annual compensation (severance cap) and the compensation for the remaining term of the respective employment contract.

| TEUR | Dr. Sebastian Biedenkopf | Alexander Gorski | Andreas Wilsdorf | Total |
|---|---|---|---|---|
| Fixed annual compensation | 410 | 155 | 204 | 769 |
| Compensation in kind / other benefits* | 224 | 8 | 53 | 285 |
| **Non-performance-based compensation** | **634** | **163** | **257** | **1,054** |
| Short-term variable compensation** | 0 | 51 | 14 | 65 |
| **Directly paid compensation** | **634** | **214** | **271** | **1,119** |
| Fair value of newly granted share-based payment (SAR) | – | 76 | – | 76 |
| **Total compensation according to HGB** | **634** | **290** | **271** | **1,195** |
| Long-term variable compensation (benefits vested in the current year) | – | 44 | – | 44 |
| Change in value of existing benefits | – | – | –100 | –100 |
| **Share-based payment** | **–** | **44** | **–100** | **–56** |
| Total directly paid compensation | 634 | 214 | 271 | 1,119 |
| Long-term variable compensation (benefits vested in the current year) | – | 44 | – | 44 |
| Change in value of existing benefits | – | – | –100 | –100 |
| **Total compensation according to IFRS** | **634** | **258** | **171** | **1,063** |

* The other compensation components comprise non-cash compensation (e.g. company car, insurance) and allowances for pension insurance (relief fund) as well as the reimbursement of flights home and relocation expenses.; as for Dr. Biedenkopf it also comprises a onetime, contractually agreed upon, restructuring bonus of TEUR 205; as for Mr. Wilsdorf the compensation for the share based remuneration of TEUR 34 on the basis of the termination agreement are included.
** These figures are mainly based on provisions, assuming full target achievement.

**Compensation of the Supervisory Board**

The policy for the compensation of the Supervisory Board was amended by the Annual General Meeting in 2011 based on the joint proposals of the Management Board and the Supervisory Board. The compensation of the individual members of the Supervisory Board is based on their responsibilities and tasks as well as on the scope of their work, the market conditions governing the recruitment of qualified individuals and the Company's financial condition. Accordingly, Supervisory Board members have been paid fixed compensation of EUR 40,000 per annum since the 2012 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 EUR 30,000 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. Each member of the Supervisory Board also receive an attendance fee of EUR 1,000 for each meeting in which the member participates. Each member of the Supervisory Board is also paid fixed compensation of EUR 12,000 per year and committee membership. The chairman of a committee is paid two and one half times the compensation paid to regular committee members unless the position was assigned to him by virtue of the Company's Articles of Association or the rules of procedure for the Supervisory Board. In addition, committee members are paid EUR 1,000 for every committee meeting they attend.

The Supervisory Board members listed in the following table were elected at the Annual General Meeting of Conergy AG on 26 August 2011. The compensation of the Supervisory Board members comprises the following:

| TEUR | Fixed Compensation Supervisory Board | Attendance Compensation Supervisory Board | Fixed Compensation Audit Committee | Attendance Compensation Audit Committee | Fixed Compensation Chairman's Committee | Attendance Compensation Chairman's Committee | Fixed Compensation PCC* | Attendance Compensation PCC | Variable Compensation | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | |
| Dr. Philip Comberg (Chairman) | 21 | 4 | 3 | 1 | 3 | 2 | – | – | – | 34 |
| Dr. Andreas Pleßke (Deputy Chairman) | 13 | 4 | 3 | 1 | 3 | 2 | 8 | – | – | 34 |
| Pepyn René Dinandt | 9 | 4 | | | 3 | 2 | 3 | – | – | 21 |
| Jeremy Blank | 9 | 4 | 3 | 1 | 3 | 2 | – | – | – | 22 |
| Werner Paschke | 9 | 4 | 8 | 1 | – | – | – | – | – | 22 |
| Dr. Klaus-Dieter Rasch | 9 | 3 | – | – | – | – | 3 | – | – | 15 |
| | **70** | **23** | **17** | **4** | **12** | **8** | **14** | **–** | **–** | **148** |

*At its meeting on 24 January 2012 the Supervisory Board decided to waive the compensation für the Project Controll Committee, as no meetings of the committee took place during the reporting period. The already paid compensation will be balanced with the upcoming compensation payment.

In addition to their compensation, the Supervisory Board members also received TEUR 46 in reimbursements for outlays (especially travel expenses) during the reporting year.

With the exception of Mr. Dieter Ammer, who had already stepped down effective 30 June 2011, all Supervisory Board members listed in the table below were in office from the start of the reporting period until the close of the Annual General Meeting on 26 August 2011. The compensation of the Supervisory Board members in the reporting period comprises the following:

| TEUR | Fixed Compensation Supervisory Board | Attendance Compensation Supervisory Board | Fixed Compensation Audit Committee | Attendance Compensation Audit Committee | Fixed Compensation Chairman's Committee | Attendance Compensation Chairman's Committee | Variable Compensation | Total |
|---|---|---|---|---|---|---|---|---|
| Norbert Schmelzle (Chairman) | 41 | 11 | 7 | 4 | 7 | 3 | – | 73 |
| Andreas de Maizère (Deputy Chairman since 10 March 2011) | 22 | 11 | 14 | 4 | 7 | 3 | – | 61 |
| Klaus-Joachim Krauth (Deputy Chairman until 7 March 2011) | 19 | 10 | 4 | 1 | 2 | 2 | – | 38 |
| Dieter Ammer (until 30 June 2011) | 12 | 7 | – | – | – | – | – | 19 |
| Oswald Metzger | 16 | 10 | 5 | 3 | – | – | – | 34 |
| Bernhard Milow | 16 | 11 | – | – | 5 | 1 | – | 33 |
| | **126** | **60** | **30** | **12** | **21** | **9** | **–** | **258** |

In addition to their compensation, the Supervisory Board members also received TEUR 13 in reimbursements for outlays (especially travel expenses) during the reporting year.

**Shareholdings of the Management Board and the Supervisory Board members**

No shares were held by members of the Management Board and the Supervisory Board as at the 31 December 2011 closing date.

## Events after the reporting period

On 12 January 2012, the Supervisory Board of Conergy AG delegated the Supervisory Board's Chairman, Dr. Philip Comberg, to the Company's Management Board until 31 December 2012 in accordance with Section 105 para. 2 clause 1 German Stock Corporation Act (Aktiengesetz – AktG) effective immediately. He assumed the position of Management Board Chairman, which had been vacant since October 2010. Alexander Gorski will continue to serve as the Company's Chief Operating Officer and also be responsible for Conergy's European subsidiaries. His term of office has been extended by two years to 31 December 2014. Effective immediately, the Supervisory Board also appointed Messrs Jan Vannerum and Marc Lohoff to the Company's Management Board until 31 December 2014. Jan Vannerum has assumed the position of Chief Financial Officer, taking over from Dr. Sebastian Biedenkopf, who resigned from the Company at the end of February 2012 at his own request. Marc Lohoff is the Management Board member responsible for Conergy's business in Asia-Pacific, North America and the Middle East.

In all likelihood, the sale of voltwerk electronics GmbH to the Bosch Group will be executed by 30 April 2012 at the latest. The cartel authorities responsible for reviewing mergers in the various countries defined in the agreement have approved the takeover. The condition precedent stipulated in the agreement has therefore been met.

## Risk and opportunity report

### Risk report

All entrepreneurial activity is inextricably bound to risks and rewards. In that connection Conergy too is exposed to a diverse range of risks, which may have a negative impact on business and in the extreme might jeopardise the Company as a going concern. At this time we do not perceive any going-concern risks that are more than likely to occur. Hence the Management Board assumes that the Company will continue as a going concern. All that is available to Conergy is a very thin liquidity cover that depends largely on the Company's operating activities. This is why short-term reductions in the feed-in tariffs in main markets, as for example Germany – at the current moment at the preparation of the Annual Report the effects are difficult to estimate – could have substantial negative effects on the Company's liquidity and earnings. Please see the two sections "liquidity risks" and "subsidies for photovoltaics" in this risk report for further disclosures on the problem.

## Risk management and internal control system

Managing opportunities and risks is an integral part of Conergy's groupwide management system.

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. Hence Corporate Risk Management will continually refine the Company's risk management system. The effectiveness of the risk management system is also monitored by Corporate Audit and the Supervisory Board's Audit Committee.

A groupwide risk management manual, centralised Corporate Risk Management, the Risk Committee as well as regular and uniform risk reporting at the level of the operating units are material elements of our risk management system. The risk management manual describes the groupwide approach to risk management and fixes functions, processes and responsibilities that are binding on both the employees and the operating units of Conergy. This approach is aligned with Conergy's corporate structure and is designed to ensure that all risks are detected in due time such that they can be counteracted, immediately and adequately.

Apart from the risk management the internal control system (ICS) is an integral part of the management of the company. For one the internal control system consists of such process-integrated controls as the "four-eyes" principle, the separation of functions or IT process controls. For another ICS encompasses controls that are uninvolved in business processes such as regular audit procedures associated with Corporate Audit that are designed to ensure compliance with internal guidelines and accounting standards, the reliability of the data used for preparing the consolidated financial statements and internal reporting as well as compliance with material legal requirements. The Company's management is also supported by Corporate Compliance, which makes up the fourth key pillar in addition to Corporate Audit.

## Risk detection and assessment

The Management Board of Conergy AG 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. Risk management is thus an integral part of groupwide planning, managing and reporting processes. It serves to systematically identify, assess, control and document risks. The audit of the annual financial statements also entails reviewing the general suitability of Conergy AG's risk early warning system for identifying substantial risks that have a direct impact on the Company's financial reporting.

Conergy's organisational units are each responsible for identifying risks and reporting them to Corporate Risk Management. Corporate Risk Management for its part coordinates the groupwide recording of risks and their systematic assessment based on uniform standards. Risks are identified and quantified as part of internal risk reporting. The initial risk assessment is made for a one-year planning period. Taking defined risk categories into account, the risks are assessed based on the probability of their occurring and the loss amount, in particular their possible impact on EBIT. New risks are analysed and included in risk management if they are relevant. Corporate Controlling also analyses the difference between the Company's actual and targeted performance in order to identify any risks that could jeopardise its performance.

## Risk management and control

Individually adjusted strategies and measures designed to avoid, mitigate or hedge risks are initiated in cooperation with the responsible departments once the given risks have been identified and measured. These countermeasures are documented in the risk reporting system; their implementation is consolidated by Corporate Risk Management and controlled by the Risk Committee. The identified risks and the attendant measures are monitored by the responsible corporate bodies on an ongoing basis.

## Risk reporting

Risks that exceed a specific maximum value are communicated to the Risk Committee, which is tasked with monitoring the Group's material risks and initiating appropriate countermeasures as necessary.

Besides the obligation to report new, relevant risks immediately, both Corporate Risk Management and the Risk Committee regularly assess and adjust the Company's exposure to risk in cooperation with the responsible departments in the Group. Corporate Risk Management and the Risk Committee report existing material risks to the Management Board. In addition, the Management Board regularly informs the Supervisory Board of material risks and their development. We define material risks as those whose impact is serious enough to jeopardise the existence of the Conergy Group as a going concern. Whilst Conergy's risk management system provides for the complete recording and processing of matters relevant to the Company, personal judgements, defective controls, criminal acts and other circumstances cannot be fully precluded. As a result, the Company's risk management system cannot offer absolute certainty as to whether or not the disclosures in the Group's accounting are accurate, complete and timely.

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 impact its business activities.

## Financial risks

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 Corporate Treasury 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 is available to our employees in this connection. Maximum amounts that greatly limit the risk from underlying (project) transactions of the hedges 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 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.

## Terms and conditions of the syndicated loan agreement

To ensure sufficient operating liquidity, on 31 July 2007 Conergy AG, Momentum Renewables GmbH (formerly: EPURON GmbH), Conergy SolarModule GmbH & Co. KG and Conergy Deutschland GmbH had closed a syndicated loan for a total of EUR 600 million from originally 23 banks under the leadership of Commerzbank AG, Dresdner Bank AG and WestLB AG (EUR 400 million cash loan and EUR 200 million guarantee and documentary credit facility) ("2007 Syndicated Loan Agreement"). The cash loan was divided into two tranches and was intended for financing the construction of the production facility in Frankfurt (Oder) (Tranche A) and for financing Conergy Group's working capital requirements (Tranche B with a revolving facility of EUR 250 million). In addition, the loan provided a guarantee and documentary credit facility of EUR 200 million. Originally, Tranche A for EUR 150 million had to be paid back in half-yearly instalments until 31 December 2011, starting in 30 June 2008. Tranche B in the amount of EUR 250 million was originally scheduled for repayment by 31 July 2010. On 29 July 2010, Conergy originally had reached an agreement with its financing banks to extend all loans until the end of 2011. The parties had also agreed that the three instalments outstanding on the term loan (Tranche A) would also be suspended until the end of 2011. These agreements were subject to certain terms. Conergy and the banking syndicate had agreed in this connection to commission an independent auditing firm to prepare an independent business review. This independent business review came to the conclusion that follow-up financing for the current credit facility beyond 31 December 2011 would be rather unlikely unless the Company's capital base was strengthened. This conclusion triggered a suspensive condition, accelerating the maturity date of all loans to 21 December 2010.

On 17 December 2010 the Company reached an agreement with its creditors on a restructuring plan based on a Restructuring Term Sheet that basically entailed refinancing the Company's loan liabilities through a mixed cash and non-cash capital increase. The Extraordinary General Meeting on 25 February 2011 resolved to reduce the capital by a ratio of 8 to 1 in connection with the implementation of the restructuring plan. The resolution regarding the capital decrease was recorded in the Company's Commercial Register on 23 June 2011. The mixed cash and non-cash capital increase, which had also been adopted on 25 February 2011, followed immediately. The Company's shareholders exercised their subscription right during a two-week subscription period, which ended on 12 July 2011, by subscribing for shares worth a total of EUR 13,226,962 at a subscription price of EUR 1.05 per new share. Some of the existing lenders under the 2007 syndicated loan agreement were also given the option to subscribe to the Company's new shares in return for contributing their loan receivables from the Company to the extent that subscription rights had not been exercised or were excluded because they were fractional shares. After the subscription period, some of the lenders under the 2007 syndicated loan agreement subscribed a total of 96,807,229 shares in return for contributing their loan receivables from the Company, the nominal amount of which was discounted by 40 percent. The implementation of the capital increase in return for cash and in-kind contributions was recorded in the appropriate Commercial Register on 21 July 2011. These two steps enabled Conergy AG to reduce its liabilities by a total of EUR 182.6 million.

The new syndicated loan agreement (2011 Syndicated Loan Agreement) took effect after the capital increase was recorded in the Commercial Register on 21 July 2011, replacing the 2007 Syndicated Loan Agreement after the loans thereunder had been repaid. Conergy AG and Conergy SolarModule GmbH & Co. KG acting as borrowers, as well as other significant companies of the Conergy Group acting as guarantors, and ten banks led by Commerzbank International S.A., Luxembourg, closed this new loan agreement for EUR 263.1 million on 8 July 2011.

The scope of the collateral for the 2011 Syndicated Loan Agreement is basically identical to that for the 2007 Syndicated Loan Agreement. As is customary for such funding arrangements, the collateral made available for the 2007 Syndicated Loan Agreement was released and new collateral was created for the loan agreement dated 8 July 2011. Some of the collateral provided under the 2007 Syndicated Loan Agreement remained in place in modified form. The contracts underlying the respective collateral were basically amended to reflect that henceforth the existing collateral would serve as security for the liabilities of Zurich Insurance plc, German Office, and in part those of euro delkredere GmbH & Co. KG under the 2011 Syndicated Loan Agreement. In particular, the 2011 Syndicated Loan Agreement thus has been collateralised by pledging absolutely all equity interests in Conergy Deutschland GmbH, voltwerk electronics GmbH, Mounting Systems GmbH, Conergy SolarModule GmbH & Co. KG, Conergy SolarModule Verwaltungs GmbH, Conergy Services GmbH, Conergy Real Estate Verwaltungs GmbH, Conergy Real Estate GmbH & Co. KG, Momentum Renewables GmbH (formerly: Epuron GmbH), Conergy Inc. (USA) and Conergy Projects Inc. (USA) as well as Conergy Pty. Ltd. Conergy has also created senior collateral in favour of the lenders based on all of its material assets or conveyed, pledged or assigned them for security purposes to an entity holding the collateral.

Of the three-tranche 2011 Syndicated Loan Agreement, Tranche A in the amount of EUR 71.8 million will serve to fund existing liabilities under the 2007 Syndicated Loan Agreement; Tranche B provides a revolving facility of EUR 50.0 million and covers the Conergy Group's working capital requirements as well as other defined operating purposes; Tranche C in the amount of EUR 141.3 million finally serves to fund existing guarantees and cover additional guarantees as required. Whilst all tranches are due and must be repaid in full four years from initial drawdown, revolving loans utilised under Tranche B must either be repaid at the end of the respective interest period or allocated to a new interest period without having been repaid and newly granted; they may then be used until one month prior to final maturity.

The individual tranches of the 2011 Syndicated Loan Agreement are subject to interest at a variable 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 2011 Syndicated Loan Agreement provides for a mark-up of 1 percent per annum if Conergy AG, Conergy SolarModule GmbH & Co. KG or a guarantor under the 2011 Syndicated Loan Agreement fail to repay an amount due and payable in due time.

Unless any of the exceptions set out in the 2011 Syndicated Loan Agreement intervene, Conergy is obligated – if it borrows funds on the capital market, sells assets and receives insurance payments – to use the net proceeds for early repayment of both interest and costs outstanding first; if neither interest nor costs are owed, such net proceeds must be used to repay Tranche A and, once it has been repaid in full, Tranche B.

The 2011 Syndicated Loan Agreement also contains customary provisions regarding both voluntary and mandatory special loan payments. The 2011 Syndicated Loan Agreement contains requirements that have an impact on the Conergy Group's ability to exercise discretion in operational terms. Certain requirements 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 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 2011 Syndicated 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). Conergy AG and other Group companies may declare a dividend only if a predefined level of liabilities was met in the calendar quarter immediately preceding the date of the envisioned distribution. Moreover no creditor is obligated to satisfy a demand for payment by a borrower in the event of a change of control. In certain circumstances, the creditors have the right to terminate the loan agreement for cause, such right to be exercised by each bank individually. The aforementioned rights shall inure to the creditors during the first three years from the first drawdown under the loan agreement if they are enjoined, due to either corporate requirements internal to the given entity or regulatory requirements, from serving as a creditor on account of the change of control.

The loan agreement contains extensive disclosure requirements vis-à-vis the financing banks. The Company is also obligated to comply with certain financial covenants starting in 2014. These financial covenants shall be established in December 2013 by mutual agreement between the Company and the lenders. Absent an agreement the financial covenants shall be based on the Company's targets until 2014 less risk discounts. Any breach of the financial covenants that apply from 2014 may give the banks the right to call the tranches of the loan.

## Liquidity risks

The Conergy Group centrally manages its liquidity risk – i. e. the risk of being unable to fulfil current and future payment obligations for lack of adequate cash and cash equivalents. Based on the insights gained with respect to the liquidity situation from groupwide financial planning tools, Conergy now utilises liquidity planning that covers a period of 13 weeks and is rolled over from week to week as well as a continuous planning update that covers the period until year's end. Cash and cash equivalents are available to ensure the Group's solvency and ability to fulfil payment obligations when due. They consist of operating payment streams as well as of changes in current financial liabilities. Furthermore provisions are recognised for unplanned cash inflows or outflows that fall short of or exceed targets. Liquidity is mainly assured by means of overnight money and term deposits.

In addition, a total of EUR 263.1 million in funds are available under the loan agreement (2011 Syndicated Loan Agreement) made on 8 July 2011 between Conergy AG and Conergy SolarModule GmbH & Co. KG (as the borrowers), other significant Conergy Group companies (as the guarantors) and ten banks led by Commerzbank International S.A., Luxembourg. This new loan agreement took effect at the time the capital increase adopted by the Extraordinary General Meeting on 25 February 2011 in return for cash and non-cash contributions was recorded in the Commercial Register on 21 July 2011. The existing 2007 Syndicated Loan Agreement was replaced on 21 July 2011 upon implementation of the Restructuring Term Sheet, which the Company and the banks had stipulated on 17 December 2010. Both loan agreements existed side by side until the 2007 Syndicated Loan Agreement was extinguished. With respect to the implementation of the restructuring plan, please see the disclosures in the chapter entitled "Terms and conditions of the syndicated loan agreement".

According to the Company's planning and based on the existing credit lines and guarantees, sufficient liquidity of Conergy AG and the Group is basically ensured in both the short and medium term through cash inflows from operating activities. The Company's liquidity cover remains very thin and depends solely on earnings from operating activities. Considerable shortfalls in expected sales and earnings as well as in expected cash inflows from operating activities would therefore undermine or even destroy Conergy's solvency, thereby causing the currently existing threat to its existence as a going concern to become a reality, if and to the extent that it is impossible to offset the lack of operating cash flows through other actions, especially cash infusions from shareholders and outside lenders. The Management Board cannot judge at this time whether the shareholders or outside lenders would be willing to do so.

## 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 sales of a certain member of the Conergy Group are recognised in currencies different from those of the associated costs ("transaction risk").

A significant portion of transactions is carried out in US dollars (USD). The risks from US dollars 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. 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 can have a negative impact on Conergy's gross profit margin. Unfavourable conditions (notably rising commodities prices due to the rising US dollar) can trigger additional expenses in the procurement of raw materials in the short term, in turn substantially affecting Conergy's earnings and liquidity.

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". Corporate Treasury also hedges currency and interest rate risks related to the project business, as necessary. Furthermore, the Conergy Group optimises its currency risks by pushing natural hedging measures – i. e. by matching cash outflows under delivery contracts with cash inflows from external revenue in the same currency.

## Interest rate 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 borrowings under the syndicated loan are subject to variable interest rates. Borrowings in the 2011 financial year generally were structured in euros. The Conergy Group is exposed to additional interest rate risks in connection with the 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 – are used if or when such hedges are implemented.

Conergy initially entered into five fixed-rate swaps in connection with the 2007 Syndicated Loan Agreement, which is subject to variable interest rates, to hedge rising interest rates. These fixed-rate swaps for EUR 15.0 million each as at 31 December 2010 (including the respective payment), served to hedge the 2007 Syndicated Loan Agreement (term loan) against rising interest rates and expired on 31 December 2011.

## Bad debt losses

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. Guidance on receivables management was implemented groupwide in March 2011 with the aim of ensuring efficient receivables management. It contains guidelines that apply both to the initial contact with a customer and the ongoing management of that customer (e.g. by establishing credit limits) and take effect before and after every order confirmation.

In addition, the Company's central working capital management continuously monitors all receivables outstanding worldwide in terms of their aging structure. Measures aimed at collecting receivables, e.g. through an ERP-based dunning system, are determined in cooperation with the decentralised units. 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 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.

## Impairment losses on tangible and intangible assets

There is the possibility that intangible assets as well as property, plant and equipment such as the factory in Frankfurt (Oder) must be written down in accordance with the applicable requirements of both international and national accounting standards. This occurs when future fair values fall below the carrying amount. Such a situation may arise when the cash flows from the use of such assets falls short of targets due to regulatory interventions or manufacturing costs that are too high competitively speaking.

The greater part of Conergy's property, plant and equipment concerns the Frankfurt (Oder) production plant. Any damage to or destruction of material buildings or production facilities – for instance due to natural disasters, terrorism or other failures in operating processes (e.g. a fire or an explosion) – might lead to material writedowns of Conergy's property, plant and equipment irrespective of any payouts from insurance companies. Changes in the Company's level of vertical integration might also entail writedowns.

There is the risk in all these scenarios that accounting losses on the property, plant and equipment as well as intangible assets would substantially affect Conergy's assets, liabilities and profit or loss.

## Market and business-related risks

**Industry-specific risks**
Photovoltaics competes with other processes for generating power from renewable sources of energy such as wind power, bioenergy, geothermal energy and concentrated solar power, as well as with conventional processes for generating power such as fossil fuels or nuclear energy. These sources of energy might develop better than photovoltaics for a variety of reasons and thus hamper its continued development. This could cause investments in and feed-in tariffs for PV to dry up in whole or in part, which in turn might cause the demand for Conergy's products and services to fall.

Conergy generally expects the need for clean, renewable energy to continue growing in the long term – especially in photovoltaics. Whilst the decline in the availability of fossil fuels will cause prices for conventional sources of energy to rise in future, in the near term they might actually fall, thereby dampening demand for renewable energy.

Conergy expects the growing professionalisation of the PV industry to continue intensifying competition, which already made itself felt in 2011 through excess production capacities and massive price pressures. The consolidation of the industry, which began in 2011, will continue in the coming years and possibly result in declining revenue among other things.

Conergy is materially dependent on the willingness of companies and private households to invest in PV installations. Insofar Conergy's success in all its markets is contingent on economic parameters. A weakening of the economy or a recession may lead to a decrease in the demand for our products.

Likewise, damage to the reputation of silicon-based or thin film products for instance or changes in the need for photovoltaics products or services might undermine both margins and earnings. The industry is also relatively dependent on the weather such that inclement weather or natural disasters might delay both transportation to project sites and projects' installation. In turn this might increase costs or prevent timely delivery of orders or completion of PV projects.

**Subsidies for photovoltaics**
In the past Conergy's business activities have depended to a large degree on governmental support for photovoltaics – especially in the core markets. Absent these support measures, until 2011 photovoltaics

was generally not profitable for customers. Driven by the enormous price reductions and excess capacities worldwide however, we may assume that grid parity – i.e. the time at which the cost of generating electricity using photovoltaics will be same as the rates paid for conventional electricity – will be attained soon for consumers. The study by the Fraunhofer Institute for Solar Energy Systems shows that grid parity might already be a given, particularly in regions where both solar irradiation and end customer rates for electricity are high. In 2011 this already applied to some areas in Australia and Hawaii as well as to California, especially when peak load prices are analysed; grid parity is expected to be attained for end customers in parts of Italy and Spain by 2012. The Bundesverband Solarwirtschaft (BSW), Germany's major solar industry association, forecasts that grid parity will be achieved for consumers in Germany as well by the end of 2012 or the start of 2013. In this case photovoltaics would become less and less dependent on grants and governmental support programmes, in turn giving rise to new business models that must first prove their utility in the market.

In 2011 however, PV was still tethered in large measure to government grants worldwide. New feed-in tariffs were enacted in many European markets in the financial year just ended, most of which entailed cuts in governmental support or limits on new PV installations. Further cuts and restrictions were announced at the start of 2012 in Germany and Spain among others. In Spain, all support for renewables was cut in January 2012. In March 2012, the German government announced its sudden and unforeseen plan to cut the feed-in tariffs for open field installations by about 30 percent and those for roof-top installations by about 20 percent starting on 1 April 2012. Open field installations larger than 10 MWp will no longer be subsidized. The annual number of new installations will also be limited starting from 2014. Lowering the support for solar energy in reaction to the development of prices is generally understandable because, such governmental support should not have a material effect on the expansion of PV in the long term. However, the fact that these changes have been enacted on short notice is problematic for Conergy as a company that specialises in photovoltaics because it gives the Company very little time to duly prepare for the changed parameters. In effect the proposal has further intensified the already difficult situation facing the German solar industry. The consequences of the short-term nature of this policy are impossible to predict at this time. The solar industry will be hard hit by the planned policy, and the changes are difficult to understand given the need for putting in place economic parameters that enable all players to prepare in due time.

All of the aforementioned developments could have a negative effect on the demand for the products and services of the Conergy Group.

Whilst Europe continued to dominate the global PV market in 2011 with a market share of just under 70 percent, growth in Europe was much lower than in the markets of the Asia-Pacific and North America segment. These two regions followed a positive trend in 2011, and they are expected to remain promising in the years to come – assuming stable policies respecting photovoltaics.

**Raw material, preproduct and component supplies**
Conergy depends on its suppliers for different raw materials and high-quality components such as solar modules, inverters, aluminium, glass and foil in the required quantities and at fixed times. For the most part, all components and raw materials are covered by general agreements, 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 suppliers do not fulfil their delivery contracts at all, only in part or not in time, or if the components and raw materials delivered do not possess the quality owing under the contract – that Conergy would be able on short notice to procure the required materials from other suppliers at adequate terms and conditions. Insufficient deliveries of the materials required for the production process would make it impossible for Conergy to utilise its production capacities, thus possibly undermining its own ability to make deliveries. Rising commodities prices would also have a negative effect if Conergy can not pass these price increases on to its customers due to market developments and demand levels. The availability of materials at adequate prices thus is pivotal to Conergy's assets, liabilities, cash flows and profit or loss.

Silicon blocks or silicon wafers, which Conergy AG turned into PV modules at its Frankfurt (Oder) factory, were important preproducts that were key to the Company's business until the end of 2011. In connection with the restructuring of the Frankfurt (Oder) solar factory, Conergy will focus on module production for the time being. Under this new business model, wafer and cell production will be suspended until further notice. The Company will continue to review the profitability of both areas on an ongoing basis against the backdrop of the market's development. Capacities for restarting production on short notice are available if changes in the market make it profitable once again to resume manufacturing in one or both of these areas. The plant is being supplied with high-grade and high-performance silicon cells since then to ensure continued production of competitive and efficient solar modules. Supplies are obtained from both established and newly qualified manufacturers. Insufficient deliveries of silicon cells would prevent Conergy from fully or adequately utilising the production capacities in Frankfurt (Oder) and thus from attaining the targeted economies of scale required to keep production costs competitive compared to competitors with better capacity utilisation.

MEMC Singapore Pte. Ltd. ("MEMC") is a key supplier of silicon wafers. A long-term agreement that runs until 2018 is in place with this company. Conergy is obligated thereunder to purchase silicon wafers at a price that is fixed annually and in quantities derived from this price. Conergy must pay for the stipulated minimum even if it does not purchase it. The fact that Conergy has given MEMC a specific unsecured deposit in accordance with its obligations under the agreement also exposes Conergy to the credit risk of MEMC Singapore in terms of the deposit being returned. The purchase obligation gives rise moreover to a general technology risk should silicon become obsolete as a raw material for PV modules. Conergy is in ongoing negotiations with MEMC aimed at amending and adjusting the agreement, especially with respect to the delivery of wafers.

Moreover, insufficient deliveries to Conergy by its suppliers might in turn undermine Conergy's ability to make deliveries to the buyers of its products. Conergy will be unable – absent sufficient supplies of silicon cells from existing and/or future suppliers – to manufacture and sell photovoltaic modules in the necessary quantities. Conergy addresses this risk by further reducing its dependence on suppliers of PV modules by focusing on reliable strategic suppliers. Any failure on the part of Conergy to satisfy its delivery obligations vis-à-vis buyers would trigger fines and claims for damages.

The current market situation allows Conergy to secure procurement of silicon cells for its Frankfurt (Oder) plant at economical market prices. Due to the current excess capacities in the market, at this time the risk from all other procurement contracts, whether related to other primary products for manufacturing PV components or to ready-made products, is very low.

To ensure full capacity utilisation at our Frankfurt (Oder) factory, in future products will no longer be built to order in Europe.

**Production facilities**

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 is also the risk that people, third-party property and/or the environment might be harmed, in turn triggering considerable financial costs, even criminal liability.

Conergy does its best to obtain the annual confirmation of the certifications under ISO 9001 and ISO 14001 of its quality and management system. This is very important especially because Conergy is subject to a multitude of continuously evolving and generally ever more demanding requirements pertaining to environmental 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 were 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).

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.

**Conergy's production plant in Frankfurt (Oder)**
Conergy established state-of-the-art production facilities for PV modules in Frankfurt (Oder). Given the strategic change that the Company adopted in 2011, at the close of 2011 the value chain at the Frankfurt (Oder) factory only consisted of turning purchased solar cells into PV modules. Operating the production plant gives rise to risks especially in the following areas:

Conergy faces the risk that the unit cost of manufacturing will not decline as planned or that they might even rise in the event of market-driven shortfalls in capacity utilisation. The fact that Conergy SolarModule GmbH & Co. KG currently serves only Conergy AG as its main customer magnifies this risk.

At present the factory in Frankfurt (Oder) procures materials and services required for module production from various suppliers. The terms at which many materials and services are procured have improved substantially in the past. However, it is possible that the supply materials will shrink once again in future due to tightening demand and, in turn, spark delivery bottlenecks and/or cost increases in regards to materials and services. There is also the risk of cost increases under longer-term supply contracts due to surcharges for small quantities in the event of market-driven shortfalls in capacity utilisation.

Currently a large portion of the commodities and raw materials purchased for production at the Frankfurt (Oder) plant are paid for in foreign currency. Particularly changes in the EUR/USD currency relation might intensify or counteract fluctuations in commodities prices. A decline in the value of the euro vis-à-vis the US dollar could have a negative impact on Conergy's gross profit margin. Since Conergy purchases a considerable part of its materials in USD, fluctuations in the exchange rate for this currency could affect the Company's results of operations. The supply contract with MEMC Singapore is also settled in USD. The cost of procuring commodities might increase on very short notice in extreme cases (e.g. rising commodities prices due to the rising USD), in turn triggering substantial negative effects on Conergy's liquidity and earnings.

Additional risks to the Frankfurt (Oder) plant arise from temporary shutdowns of the wafer and cell production. One major project that had already been started was cancelled in this connection. At the same time, we are also in negotiations with key suppliers on rescinding or adjusting extant agreements. This process might entail compensation payments or fines. It cannot be precluded furthermore that Conergy might have to repay investment and other public grants it has received if it were unable to continue fulfilling the attendant statutory requirements governing their retention.

Nor can it be precluded in that connection that austerity measures will spark strikes that might put the production process at risk. Thus far, Conergy's domestic and foreign sites have not had any strikes, walkouts or other labour disputes that would affect its business activities. If labour unrest were to impair or interrupt Conergy's business operations for an extended period, this could have material adverse effects on the Company's assets, liabilities, cash flows and profit or loss.

**Product risks**
Conergy sells products that it produces itself, products that are built to order and products by other manufacturers. Most of these products are brought to market under the Conergy brand. All products that Conergy offers 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 damage to Conergy's reputation and thus in the loss of sales. Claims under warranties that Conergy gives its customers might also arise. In addition, the long-term service and maintenance contracts that Conergy offers, particularly for major power plants, might entail risks related to the profitability of providing certain services.

These potential product risks are mitigated through comprehensive and integrated quality assurance for the products that Conergy manufactures itself or that are built to order. In addition, all of the Group's production facilities (Mounting Systems GmbH, Conergy SolarModule GmbH & Co. KG) as well as all companies under contract to build products to order for Conergy are certified under ISO 9001.

The quality of the preproducts used largely determines the quality of the products that Conergy sells, whether generated in-house or built to order. Defective preproducts or sales of counterfeit goods by suppliers could make it impossible for Conergy to perform as required under its contracts. In turn, this would give rise to claims under warranties, delivery commitments or product liability. Conergy is thus dependent on the quality of the preproducts that are delivered to it. This also applies to components that the suppliers develop in cooperation with Conergy and/or that are produced for Conergy under construction contracts. Although

Conergy generally has rights of recourse or rights to transaction reversal against its suppliers if its customers bring claims under warranties and claims for damages due to defective preproducts and products, its claims may not be enforceable in every case.

The third-party products that Conergy sells under its own brand are subjected to demanding requirements, fulfilment of which is assured through Conergy's own intensive product tests and on-site quality audits of the given production facilities. Conergy uses the experts it employs at its own production facilities as well as its own testing laboratories and procedures to this end. It also uses standardised procurement and product control processes for conducting performance and quality assurance checks. Only warranties that Conergy can secure through the manufacturers themselves are passed on to Conergy's customers in connection with these products. This serves to limit the Company's warranty risks.

Customary provisions have been recognised to meet future and known claims under warranties. Any claims under warranty by Conergy's customers in excess of customary provisions could negatively affect Conergy's assets, liabilities, cash flows and profit or loss.

**Project risks and project financing**

Risks specific to Conergy's project business arise particularly from the need for prefinancing as well as the PV projects' very large order volume.

Grid-connected units are often financed through extensive borrowings. This applies to small and medium-sized systems that are bought by private individuals, medium-sized companies or municipalities, as well as large plants that are purchased by investors. There is the risk that neither borrowings nor equity from customers might be available as planned owing to the capital markets' current tight credit policies. This could be rooted in unrealistic expectations of achievable yields as well as in non-fulfilment of contractual obligations regarding the provision of equity or debt capital. Higher borrowing costs, for example due to an increase in interest rates, might reduce the profitability of photovoltaic installations and thus lower demand for them.

We cannot assure that contractually stipulated financing will actually materialise even though the contracts are in place. In turn, this could change, delay or completely cancel contractually stipulated projects, with the attendant effects on Conergy's assets, liabilities, cash flows and profit or loss.

There would also be the risk that it might not be possible to sell PV installations, which were financed and built by Conergy itself, at the envisioned time, with the attendant negative impact on the Company's liquidity and earnings.

Operational difficulties and delays in carrying out these projects could harm Conergy's reputation and give rise to 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 Conergy 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 costs. Finally, Conergy may also provide advance services as part of its project development work that might not be remunerated if the given project fails.

Every project undergoes a fixed planning, decision-making and controlling process in order to ensure that all parameters critical to its success have been considered in the project selection process. Conergy's binding project management guideline, which has been in place since 2007, was thoroughly updated in early 2011 and supplemented by detailed controlling processes that intervene before, during and after completion of any project.

**Research and development**

Protecting its industrial property rights, especially its inventions and know-how, is of major significance to Conergy. A lack of protection for its inventions or any loss of know-how can limit Conergy's ability to profit from innovative technological developments. Moreover, insufficient protection of its inventions of 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.

Many of Conergy's developments and products are not patentable from the outset. Insofar Conergy tries to protect the outcomes of its development activities, which cannot be patented, through secrecy agreements and other contractual arrangements if and to the extent that it believes that such arrangements make economic sense. As far as Conergy considers the protection of intellectual property rights to be an economically viable option, it strives to safeguard its rights to intellectual property by registering patents, trademarks and other proprietary rights in selected countries and also through non-disclosure agreements and other contractual agreements on the use of intellectual property in the Company's products and services. Any failure by Conergy to take the necessary steps to protect its rights to intellectual property and the unpatentable results of its development activities could substantially undermine its competitiveness.

Despite Conergy's efforts to protect its intellectual property rights, the possibility exists that unauthorized parties may copy or use products and/or services developed by the Conergy Group. This also applies to cases in which Conergy is the target of industrial espionage. Moreover, the risk exists that Conergy's present or future patents and copyrights or other rights to intellectual property will be contested, declared invalid or circumvented. Moreover third parties might develop similar products and services without infringing any rights to the intellectual property of the Conergy Group. Finally, Conergy itself might violate intellectual property rights of third parties and thus potentially become liable for damages or be required to purchase licenses.

There is also the risk that 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, 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.

In its own assessment, at this time Conergy is spending relatively little on the research and development of new products and technologies compared to its competitors, not least due to its tight finances.

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.

**Personnel risks**

The Company's success greatly depends on its management and non-executive personnel. It is precisely their identification with Conergy and their commitment to its goals that are decisive to its success. It remains crucial, therefore, that Conergy provide incentives to ensure executive and employee loyalty and recruit additional highly qualified personnel. Conergy might fall behind its competitors if it is unable to continue recruiting experienced professionals and to find adequate replacements for staff who leave the Company.

Various works councils have been established within the Conergy Group since the middle of 2008. At this time, there are works councils in Conergy AG and Conergy Deutschland GmbH at the Hamburg and Zweibrücken sites. Both companies have also seen the establishment of general works councils. Works councils have been set up in voltwerk electronics GmbH and Conergy SolarModule GmbH & Co. KG too. Conergy AG has a works council at the Group level also. Insofar the respective companies must comply with the given works council's statutory codetermination rights. 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 are representatives of the shareholders. Conergy AG normally has fewer than 500 employees which is why 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**

Most of Conergy's operations worldwide – production, sales, logistics, controlling and accounting – are carried out by means of IT systems. Ensuring the efficiency and largely uninterrupted functioning of the relevant data processing systems as well as data privacy and protection are prerequisites for maintaining smooth operations. Any prolonged failure of existing systems may result in the stoppage of production and work processes. The wilful dissemination, deletion or manipulation of data may trigger substantial adverse effects.

Conergy outsourced its computer centre operations to an external service provider back in 2007 in order to minimise relevant risks of loss. This also ensures that the IT systems are operated in a certified environment and maintained on a regular basis, and that availability is always high. Data privacy and protection are assured through clearly defined rules and processes, current anti-virus programmes and firewalls. All relevant data are backed up once a day at a minimum. Regular investments in updates of hardware systems and software applications ensure that the state of the art is adequate to the risk exposure.

**Working capital management**
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 achieve planned and projected sales. The assets stored might not be sold as planned or only at prices that do not cover costs if orders and projects fail to materialise, for instance due to financial reasons, regulatory interventions or intensifying competition in the photovoltaics market. This might increase the physical inventories, which are a part of working capital, in turn increasing inventory costs. The inventories might also have to be written down if they are subject to impairment.

## Legal, environmental and tax risks

**Legal risks**
Conergy might be exposed to factors when working outside Germany that could pose increased risk. In particular, this includes foreign exchange controls, limits on trade, insufficiently developed and/or defined legal and administrative systems, war or terrorism.

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.

Conergy AG and some of its subsidiaries are party to a number of proceedings under civil and public law of which the following are expressly disclosed here:

Conergy SolarModule GmbH & Co. KG and Roth & Rau AG entered into an agreement in June 2006 regarding the delivery and installation of four solar cell production lines for the Frankfurt (Oder) factory. Conergy SolarModule GmbH & Co. KG believed that Roth & Rau AG was late in delivering the cell production lines and that they did not fulfil the specifications under the contract. Under the delivery contract, Conergy SolarModule GmbH & Co. KG must still pay the remaining purchase price/compensation for work, a seven-figure sum, to Roth & Rau AG under certain conditions. As Conergy SolarModule GmbH & Co. KG sees it however, these conditions have not been met. Following the failure of the settlement talks that we conducted with Roth & Rau AG from mid-2008 until June 2010, Conergy SolarModule GmbH & Co. KG gave Roth & Rau AG a deadline to fulfil its contract based on a comprehensive expert opinion of a prestigious institute – to no avail. Conergy SolarModule GmbH & Co. KG and its attorneys conducted a detailed review of the damage caused by Roth & Rau AG and filed claims for damages in February 2011 with the Hamburg Regional Court (Landgericht Hamburg) in connection with the damage due to the delays, the defective performance or the defects as well as the resulting loss of income and several breaches of ancillary duties. The complaint contains a motion for a declaratory judgement that Roth & Rau AG is also obligated to pay damages for losses that have been incurred since 2010 and are still being incurred. The amount in controversy is in the lower three digit millions.

Roth & Rau AG has responded to the complaint filed because settlement talks that were reinstated in the meantime have failed. Roth & Rau AG disputes the entirety of the claims presented and has brought counterclaims for payment of the remaining purchase price/ compensation for work plus interest for a total of just under two million, the surrender of a guarantee and a declaratory judgement that Conergy SolarModule GmbH & Co. KG must pay damages for losses Roth & Rau AG supposedly incurred in connection with the filing of the suit.

Based on current reviews of the matter, in the view of Conergy SolarModule GmbH & Co. KG the allegations and arguments that Roth & Rau AG has presented are not suitable for undermining the claims brought against the latter. We believe that all of the counterclaims lack merit.

Given the extent of the claim it has brought and general litigation risks, Conergy SolarModule GmbH & Co. KG does not expect to be able to fully recoup its claims for damages from Roth & Rau AG. By the same token Conergy SolarModule GmbH & Co. KG does not expect to incur any financial losses in future on account of this matter because just the collectible amount of the claims far exceeds any counterclaims that Roth & Rau AG may have or be awarded, in particular the claims it has brought in its statement of defence. The counterclaims of Roth & Rau AG could also be offset in the current proceedings. Given general litigation risks however, it cannot fully be precluded that Conergy Solar Module GmbH & Co. KG faces a residual risk in this matter.

In November 2006, Conergy SolarModule GmbH & Co. KG and M+W Zander FE GmbH entered into an agreement regarding the construction of a production plant for the Frankfurt (Oder) factory. On 4 May 2009, M+W Zander FE GmbH filed suit for payment of approximately EUR 3.0 million in outstanding compensation plus interest with the Hamburg Regional Court. Conergy SolarModule GmbH & Co. KG filed countersuit, bringing claims for damages substantially in excess of the petitioner's claims. By court ruling dated 17 August 2010, M+W Zander FE GmbH was ordered to pay EUR 730,233.92 plus interest to Conergy SolarModule GmbH & Co. KG and to pay most of the court costs related to the dispute. M+W Zander FE GmbH has appealed the ruling. Conergy SolarModule GmbH & Co. KG in turn has filed a cross appeal. Particularly given the successful outcome of the litigation in the court of first instance, Conergy SolarModule GmbH & Co. KG is not expected to incur any financial loss in this matter in future. This cannot be precluded with absolute certainty given general litigation risks.

In a total of currently 19 lawsuits, several claimants are seeking a total of EUR 3.5 million in damages from the Company under own or assigned rights on the ground that capital market data pertaining to the restatement of the Company's sales and profit forecasts for 2007 on 25 October 2007 were defective or not disseminated by the Company in due time. The Company is essentially contesting the claimants' claims. Whilst 19 lawsuits, which were filed between October and December 2008, are currently pending before the Hamburg Regional Court, they have been suspended under the German Capital Markets Test Case Act (Kapitalanlegermusterverfahrensgesetz – KapMuG). In one of these proceedings, the Court issued an order for reference under KapMuG in the 2010 financial year with the aim of having the Hamburg Upper Regional Court (Hanseatisches Oberlandesgericht) bring about a test-case ruling on certain questions concerning the claims for damages. The Hamburg Upper Regional Court finally designated one test-case plaintiff in November 2011. Furthermore, the oral hearing has been scheduled for 21 March 2012. The Upper Regional Court has not yet issued any substantive instructions. The other proceedings have been stayed until a ruling is issued in the test case because they depend on it.

Aside from these 19 proceedings pending before the Hamburg Regional Court, yet another matter is pending before the Hamburg Upper Regional Court. The respective investor suit with an amount in dispute of EUR 61,912.73 was dismissed at first instance. The petitioner in that matter has appealed. The Hamburg Upper Regional Court has notified us that these proceedings will continue in the first half of 2012.

The district attorney's office searched the offices of Conergy in June 2009. Its investigations are aimed at several individuals who were members of the Company's bodies at the time and who are accused of violating the German Commercial Code and the German Securities Trading Act between November 2006 and April 2007. Third-party claims against the Company cannot be precluded if the accusations turn out to be true.

In March 2011 a total of 27 shareholders filed actions with the Hamburg Regional Court to rescind or void the resolutions of the Company's Extraordinary General Meeting on 25 February 2011 on Agenda item 3 (reduction of the Company's capital stock in simplified form to cover losses and the attendant amendment of the Articles of Association) and Agenda 4 (increase of the Company's capital stock subject to shareholders' subscription right, exclusion of shareholders' subscription right for fractional shares and attendant amendment of the Articles of Association). Various shareholders simultaneously filed motions for declaratory judgements with respect to the Annual General Meeting's adverse resolutions on a motion to appoint a special auditor and a motion to bring claims for damages under the German Stock Corporation Act in conjunction with a motion challenging the adverse resolutions. Finally, some of these shareholders motioned for a declaratory judgement on the invalidity of the 2010 annual financial statements.

The Hamburg Regional Court handed down its ruling on 23 February 2012 after hearing oral arguments in the matter in November 2011. It dismissed the actions for annulment of the shareholder resolutions with the exception of the motion for a declaratory judgement on the motion to appoint a special auditor. Its ruling is not final and absolute. On 27 February 2012 the Company appealed the ruling on the special audit. It believes that the ruling of the Court of First Instance will not be upheld on appeal.

In April 2011 the Company initiated proceedings before the Hamburg Upper Regional Court to obtain a release (Freigabeverfahren) under the German Stock

Corporation Act and bring about the recording of the resolutions in the Commercial Register in the near term despite the pending actions aimed at rescinding or voiding the resolutions. The Hamburg Upper Regional Court granted the application for release on 22 June 2011 and found thereby that the pending lawsuits do not prevent the recording of the resolutions in the Commercial Register. Subsequently the Annual General Meeting's resolution on the capital decrease was recorded in the appropriate Commercial Register on 23 June 2011 and the Annual General Meeting's resolution on the capital increase on 24 June 2011.

In October 2011, a total of three shareholders jointly filed an action in the Commercial Division of the Hamburg Regional Court (Landgericht) to challenge and alternatively vacate the resolutions adopted at the Annual General Meeting of Conergy AG on 26 August 2011, specifically, agenda item 2 ("Resolution regarding formal approval of the actions of the members of the Management Board for the 2010 financial year") and agenda item 3 ("Resolution regarding formal approval of the actions of the members of the Supervisory Board for the 2010 financial year").

The court has scheduled an oral hearing for 2 April 2012. So far, the court has not issued any instructions.

In November 2010, a total of eight shareholders jointly filed an action in the Commercial Division of the Hamburg Regional Court to challenge and alternatively vacate resolutions adopted at the Annual General Meeting of Conergy AG on 5 October 2010, specifically, agenda item 2 ("Resolution regarding formal approval of the actions of the members of the Management Board for the 2009 financial year"); agenda item 3 ("Resolution regarding formal approval of the actions of the members of the Supervisory Board for the 2009 financial year"); agenda item 7 ("Resolution regarding the authorisation to issue convertible bonds and/or bonds with warrants as well as profit participation rights and/or income bonds (or combinations of these instruments))"; and agenda item 8 ("Resolution regarding the creation of new authorised capital"). The Court dismissed the complaints in full by its decision dated 4 April 2011 and ordered the claimants to pay all costs. No appeal was filed during the appeal period.

Concurrently to the matter pending at first instance, the Company also initiated proceedings to obtain a release under the German Stock Corporation Act regarding the resolutions under agenda item 7 and 8. In these proceedings the Hamburg Upper Regional Court handed down a ruling on 4 February 2011 which granted the Company's applications for release in full and found that the filing of the lawsuit did not pre-empt the recording of the resolutions in the Commercial Registry. The resolutions in question have been recorded in the Commercial Registry in the meantime.

In July 2009, three shareholders jointly filed an action with the Commercial Division of the Hamburg Regional Court to vacate shareholder resolutions that were adopted at the Annual General Meeting of Conergy AG on 10 June 2009 or, in the alternative, to have them declared null and void, specifically, agenda item 3 (Resolution regarding formal approval of the actions of the members of the Management Board in the 2008 financial year); agenda item 4 (Resolution regarding formal approval of the actions of the members of the Supervisory Board in the 2008 financial year); agenda item 5 (Resolution regarding formal approval of the actions of individual members of the Management Board in the 2007 financial year); agenda item 8 (Resolution regarding the creation of new Authorised Capital, an amendment of § 5.3 of the Articles of Association and the exclusion of shareholders' subscription right); and agenda item 10 (Resolution regarding approval of a profit and loss transfer agreement with Mounting Systems GmbH, Rangsdorf). In its decision dated 18 January 2010, the court dismissed the complaints in their entirety and ordered the petitioners to pay all costs of the dispute. The claimants had appealed the ruling that dismissed their complaint but withdrew their appeal in January 2011. The case has thus been adjudicated.

Concurrently to the matter pending at first instance, the Company also initiated proceedings to obtain a release under the German Stock Corporation Act regarding the resolutions under agenda item 8 and 10. In these proceedings the Hamburg Upper Regional Court handed down a ruling on 11 December 2010 which granted the Company's applications for release in full and found that the filing of the lawsuit did not preempt the recording of the resolutions in the Commercial Registry. The resolutions in question have been recorded in the Commercial Registry in the meantime.

Conergy AG has filed claims for damages against six former Management Board members on the ground that they breached their duties. The breaches of duty it accuses them of committing are related to the Company's earnings and liquidity crisis in 2007 and concern individual transactions in which the former Management Board members participated in their capacity as members of the Company's Management Board. The Company had initiated settlement talks. In August

2011 the Company filed suit in the Hamburg Regional Court against four of these former Management Board members because the settlement talks had failed in part. The Court has ordered written preliminary proceedings and fixed May 2012 as the date for filing the statement of defence. We cannot assess the outcome of the proceedings at this time because the lawsuit also concerns legally complex matters that have not yet been adjudicated by Germany's highest court in connection with comparable cases. It cannot be precluded therefore that the Company might have to pay approximately EUR 1.5 million in court and attorneys' fees in the event that it loses in whole or in part.

## Tax risks

Conergy AG 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 tax audit of the companies in Germany – which has not yet been completed – concerns corporate income, municipal trade and value-added taxes in the 2004 to 2008 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 initially imposed additional taxes on Conergy and issued amended tax assessments after the comprehensive tax audit of the 2000 to 2003 assessment periods. But they abandoned these demands for payment in the meantime owing to the appeals Conergy filed against the amended assessments.

Another comprehensive tax audit of both Conergy AG and the Conergy Group's German subsidiaries started in November 2009; it concerns the years 2004 through 2008. The underlying tax assessments are subject to subsequent audits and thus can be changed. Audit reports for some of the companies are already available. Among other things the audit findings concern the VAT analysis of a payroll tax audit, the repayment of an investment grant and the amount of provisions for holidays not taken. Conergy has already set up provisions for the anticipated additional payments.

Given the complexity of tax laws – e. g. with respect to intragroup pricing or VAT – current or future comprehensive tax audits can always trigger demands for additional payments, both at home and abroad.

The elimination of both losses and interest assets carried forward may aggravate the tax situation of the Conergy Group's German companies.

The deferred tax assets as at the 31 December 2011 reporting date are EUR 3.1 million. They arise from temporary differences between the balance sheet and the income tax base. No deferred taxes were recognised for tax loss carryforwards.

The changed shareholder structure following the completion of the December 2008 capital increase as well as the merger of Dresdner Bank AG with Commerzbank AG (in May 2009) eliminated tax loss carryforwards on a pro rata basis under Section 8c para. 1 German Corporate Income Tax Act. The tax authorities have already issued amended tax assessments for 2009. These amended tax assessments do not entail any immediate payments. The tax authorities have issued corresponding findings for the 2008 assessment period that is being audited.

Conergy is currently reviewing whether the restructuring provision in Section 8c para. 1a German Corporate Income Tax Act – which was introduced as part of the so-called Bürgerentlastungsgesetz-Krankenversicherung for the purpose of enhancing the deductibility of health insurance premiums on 16 July 2009 – affects the December 2008 capital increase and applies to the indirect changes in the shareholder structure in 2009 and the extent to which the remaining existing losses can be carried forward. By its ruling dated 26 January 2011, the European Commission decided in a formal investigation that the restructuring provision under Section 8c para. 1a German Corporate Income Tax Act constitutes an unlawful government grant. The letter of the German Ministry of Finance dated 30 April 2010 already made it unlawful to apply the restructuring provision. In the German government's view, this is not a harmful grant. On 7 April 2011, the German government thus filed suit to vacate the EU Commission's decision. The outcome of these proceedings is uncertain. Moreover the Hamburg Tax Court (Finanzgericht) and the Münster Tax Court have both raised doubt as to the constitutionality overall of the limitation on loss carryforwards under Section 8c para. 1 KStG. The Hamburg Tax Court has asked the Federal Constitutional Court (Bundesverfassungsgericht) to review the requirements of Section 8c KStG. The ruling of the Federal Constitutional Court is pending. Conergy has appealed the amended tax assessments for the 2009 assessment period against this backdrop.

The tax loss carryforwards of both the Company and its domestic subsidiaries could no longer be utilised if the limitation on loss carryforwards under Section 8c KStG is finally upheld. If the tax loss carryforwards can no longer be utilised, this would have a substantially negative impact on Conergy's assets, liabilities, cash flows and profit or loss. The ruling of the EU Commission will not give rise to any claims for refunds. This possible elimination of loss carryforwards was already taken into account in the determination of the deferred tax assets on loss carryforwards such that it would not not have any effect.

The Conergy companies carried out comprehensive measures in 2011 to reduce liabilities. In this connection, shareholders of Conergy AG contributed their claims under loans by means of in-kind contributions in return for new Conergy AG shares. A taxable restructuring gain of about EUR 67 million has arisen in connection with the takeover because the loan receivables contributed were measured below the nominal value. According to a binding statement from the tax authorities, the Restructuring Ordinance (Sanierungserlass) will apply to this restructuring gain, i.e. any taxes due on the 2011 restructuring gain will be waived after it has been offset against existing loss carryforwards.

Furthermore, the shareholder structure of Conergy AG has changed in the wake of its debt-reduction measures. Pursuant to a binding statement from the tax authorities however, this change does not result in any further elimination of the loss carryforwards pursuant to Section 8c para. 1 KStG. The binding statement of the tax authority shall be binding only if the actual facts correspond in all material respects to the facts described in the application for a binding statement.

Indirect or direct acquisitions of equity interests in the capital stock of Conergy AG may result in the application of Section 8c German Corporate Income Tax Act and hence the elimination of recognised and unrecognised tax loss carryforwards after the reporting date.

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 interest deduction ceiling introduced in 2008, 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.

## Insurance risks

Conergy takes out different insurance policies for the products it sells, which largely cover the faults for which the Company might be liable. Furthermore, Conergy has taken out employers' liability and product liability insurance as well as insurance against breakdown of machinery and business interruption.

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. Deductibles and liability caps have also been stipulated in part. Conergy's assets, liabilities, cash flows and profit or loss might be substantially affected if losses cannot be claimed in full under existent insurance policies, if existent insurance claims are disputed by the insurance company in question and thus not paid or if the insurance premiums that Conergy must pay are increased in future.

## Utilisation of government grants

Conergy SolarModule GmbH & Co. KG, which has a factory in Frankfurt (Oder), has received a total of about EUR 36 million in government grants in its capacity as a Conergy Group company. These grants impose obligations and are based on statutory requirements. They may have to be returned if the conditions for the grant or the requirements are not being met at all or no longer.

Given these parameters, it cannot be precluded that the government will bring claims for repayment against Conergy AG and/or Conergy Group companies in future. In particular, such a demand for repayment cannot be fully precluded because the Company changed its strategy with respect to the Frankfurt (Oder) plant in the fourth quarter of 2011, with the effect that the factory is focusing solely on module production for the time being. A total of EUR 10.5 million in grants were obtained for the plant's wafer and cell production, which has been suspended for now.

Conergy reserves the right to continue applying for government grants in future too. 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.

## Environmental risks

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.

Compared to the international competition, Conergy's production facilities in Germany are subject to stricter environmental laws. This location factor may cause Conergy to incur considerable additional expenses and thus affect the Company's earnings. Moreover, the risk exists that environmental regulations will preclude or limit modifications to, or expansions of, production plants.

It cannot be precluded furthermore that the land, which Conergy has rented or owns, contains previously unknown residual pollution or hazardous soil changes or that the activities of Conergy will create such conditions in future. In such an event, the authorities might require Conergy to participate in examinations or clean-ups of such contamination. Besides harming the Company's reputation, this might also trigger substantial expenses and adversely affect Conergy's assets, liabilities and profit or loss.

## 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. 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 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.

## Macroeconomic risks

Conergy 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.

What the fallout of the current global economic crisis, which continues unabated, and in particular of the euro zone states' sovereign debt crisis might be in the medium and long term is not clear at this time. The increase in public debt due to a variety of rescue packages, including the so-called euro zone rescue fund, already caused Spain to cut the support for photovoltaics at the start of 2012. That other countries will make such cuts as well cannot be precluded. Moreover, tax increases in connection with the rescue fund might also reduce the funds available for investments in PV installations.

If Greece leaves the euro single currency union, this might entail considerable risks for Conergy. Conergy sells its products in the Greek market too, and has receivables against Greek customers. Greece's withdrawal from the euro zone and the reintroduction of the drachma, might make Conergy's products much more expensive for Greek buyers and thus crimp demand for them, assuming that the drachma would be devalued against the euro. This would have negative effects on Conergy's operating activities in Greece. There would also be the risk in this event that Conergy's Greek debtors would be unable to repay their euro-denominated liabilities. Conergy purchases its products worldwide and also sells them worldwide. The Company maintains business locations in various countries in Europe and beyond and thus is subject to diverse countries' legal and actual parameters. Moreover, Conergy must adapt to the prevailing local economic, legal and tax conditions and is subject to changes in these areas. As a result, in some countries Conergy might be exposed to foreign exchange controls; insufficient economic, logistical or social infrastructure; existing or imminent restrictions on trade; insufficiently developed legal and administrative systems; potentially even war or terrorism. Every one of these factors could have an adverse effect on Conergy's business activities and opportunities for growth in affected countries and thereby have negative effects on its assets, liabilities, cash flows and profit or loss.

Conergy depends on the climate and weather in the regions where it installs and operates PV plants. Inclement weather may cause substantial delays in the construction of plants and make it impossible to complete the given plant when due under the contract. Furthermore, it is possible that, as the climate changes, the weather conditions in the countries in which we operate may undergo long-lasting changes and thereby affect the attractiveness of such markets. Weather conditions could thus have material adverse effects on Conergy's assets, liabilities, cash flows and profit or loss.

## Opportunities

Aside from resulting in the risks described above, the relevant scenarios can also give rise to opportunities. Conergy's innovative products, good business relationships with the most important suppliers of crystalline and thin film solar modules, established network of industry partners as well as its broad, international customer base and strong premium brand offer good prospects for the future. In the next years, Conergy will further strengthen the positioning of its brand, further optimise its systems, expand its production and partner network in the marketplace and most importantly continue to strengthen its customer relationships with installers, wholesalers, strategic marketing partners and financial investors. At the time it sold voltwerk electronics GmbH to the Bosch Group in December 2011, subject to the condition precedent or reservation that the relevant cartel office approve the transaction, Conergy also ensured through long-term contracts with Bosch that it would have access to high-quality inverters. This positioning might give rise to the following opportunities and the resulting positive effects on Conergy'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 partly or wholly offset the positive effects of these opportunities.

## Increased profitability of PV units

Falling prices for solar modules and other system components can lead to a noticeable reduction in the cost of investments in PV units per kWp of installed output. The profitability of PV units in certain markets might noticeably improve if the reduction in systems prices were to outpace any renewed adjustment of governmental support, provided refinancing options are reasonable and interest rates attractive. The attractiveness of PV units as interesting and secure investment options for end customers and investors alike would increase if this development were to occur in tandem with the availability of sufficient funds.

## 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. However, any decline in systems prices is expected to have a substantial impact on the demand for photovoltaic 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 not just in the core photovoltaics markets but also in emerging markets such as China or India. 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.

## Changes in the markets in Europe, North America and Asia-Pacific

The German government's support policies also offer opportunities for Conergy despite the aforementioned sudden cuts in subsidies effective April 2012. Since changing its strategy at the end of 2011, Conergy has focused on rooftop installations for which the smallest cuts, relatively speaking, and at the same time the highest growth rates are expected in Germany. The market forecasts for Germany indicate that installations on private rooftops will account for comparatively strong growth. This factor combined with the relatively small cut for on-roof installations starting in April 2012 could create a growing market. Home owners also don't have any reason to speculate on further reductions in the price of solar modules and thus delay their decision to install a rooftop tarting in Mai 2012 due to a monthly fixed feed-in-tariff reduction. On the whole, this scenario opens up strong growth opportunities in the German residential rooftop system business for Conergy as a competent partner for personal consumption and rooftop units.

Italy launched a “Made in Europe” support programme in 2011. Under this programme, the feed-in tariffs for PV installations will be raised by 10 percent in 2012 as well if it can be documented that at least 60 percent of the value of a PV unit was added within the EU. With modules, mounting systems and inverters manufactured in Germany, Conergy thus is perfectly positioned for benefiting from this local content policy, which is being heavily promoted in Italy, and will be able to gain a larger group of customers for its products.

The Greek government designated photovoltaics a key industry in 2011. Greece considers solar electricity to be particularly viable. The country could increasingly supply the European market with solar electricity as an export product. The feed-in tariff for electricity from photovoltaics – which is relatively high compared to other countries – is funded through a fee that is levied on the consumption of electricity. This programme is unlikely to suffer from the current crisis because the fee is not tied to the country’s budget. Likewise, investment grants for new installations are funded through EU programmes that also do not depend directly on the Greek state. As one of Conergy’s key European markets, Greece thus continues to offer opportunities for photovoltaics despite its ongoing sovereign debt crisis.

The market in the United Kingdom, where we established Conergy UK Limited at the end of 2011, also developed very well. We expect the UK to remain a rather attractive European market in spite of the cuts in the support programmes that were scheduled for March 2012.

Market forecasts for North America and Asia-Pacific are equally positive. The positive growth trend in both regions is likely to continue in 2012 and 2013. As a result, the solar installation volume will shift to the markets outside of Europe in the medium term – mainly the United States, China, India and Japan – because growth rates are expected to be higher here. Conergy will continue to expand its sales organisations in these countries in order to exploit these opportunities for growth.

Strong growth is expected for the US market, where Conergy has several subsidiaries, in 2012. The 1603 Treasury Program, which was successful in recent years, was not extended for new installations in 2012 but up to 30 percent of the costs of installing a PV unit may still be deducted.

Asian markets’ forward momentum has continued undiminished for a number of years. Particularly China, India, Japan and Thailand offer excellent opportunities for expanding photovoltaics. Conergy serves a large portion of the Asian market through its Singapore-based subsidiary, especially the Thai market, where new installations quintupled in 2011. Both the Philippine and the Malaysian market are deemed to offer further opportunities. The Near East, which is also served by Conergy’s subsidiary in Singapore, will offer opportunities also.

## Report on anticipated developments

### Global economic developments

The ramifications of the sovereign debt crisis in Europe will continue to affect the global economy in 2012. There is the potential risk that political institutions might be unable to get a handle on the situation, causing yet more European countries to slide into a recession and the export sector in emerging countries to continue weakening, highly destabilising the financial system in the process. But the current forecasts do assume that the situation will ease over the year. Monetary policy is expected to continue giving new impetus to the advanced economies because it is generally assumed that the central banks will keep interests very low. Global production is expected to rise by 3.4 percent in 2012, and by 4.0 percent in 2013.

Economic research institutes expect aggregate production within the euro zone to decline minimally by 0.1 percent in 2012. This is due to the sovereign debt crisis and the related recession in several European countries. Experts believe that GDP will drop substantially in Greece and Portugal, but Italy and Spain are also coming under pressure. GDP growth in some of the EU ascension countries is considered very good.

Germany’s economy is forecast to weaken, after two years of robust growth. Poor economic conditions in other countries are putting a damper on the country’s export sector, which has been very strong to date. Whilst the economy should gather momentum in the course of 2012, the growth rates of the past two years will not be attained. GDP is expected to rise by 0.5 percent in 2012, and by 1.7 percent in 2013.

In the United States, the country's structural problems will continue to hamper aggregate production in 2012. Economic research institutes expect the US economy to trend upward, as before, but without gaining any real momentum. GDP growth is expected to be 1.9 percent in 2012 and 2.2 percent in 2013.

Emerging countries' economic momentum is also forecast to weaken in 2012 but growth rates will remain high. Asia on the whole is expected to grow by 7.3 percent in 2012 and by 7.8 percent in 2013. The forecast for China calls for growth of 8.0 percent in 2012 and 8.5 percent in 2013. Experts believe that the Latin American countries will expand economically by 4.1 percent in 2012 and 4.8 percent in 2013.

## Developments in the industry

Global demand for solar modules grew yet again in 2011, after reaching a new high in 2010. Crumbling prices helped to offset regulatory interventions in support programmes for solar energy, thereby keeping yields for PV plants at an attractive level. As far as future developments are concerned however, the governments of the mature European markets must be expected to make dramatic adjustments. As a result, global demand might stagnate in 2012 or even decline a bit for the first time.

Germany, Italy and France – Europe's most mature markets – already lost some of their momentum in 2011. In addition all three countries are debating at the political level how to structure governmental support for solar energy in future. Whilst the governments aim to continue promoting photovoltaics, they want to limit growth at the same time. For instance, the Federal Ministry for the Environment and the Federal Ministry of Economics and Technology announced plans in February and March 2012 to make unscheduled adjustments in the support schemes for photovoltaics in Germany. This entails cutting the feed-in tariffs for solar power systems by up to 30 percent, and plants exceeding 10 megawatts shall no longer be eligible for any feed-in tariffs whatsoever. Furthermore, in future only between 85 percent and 90 percent of the kilowatt hours generated shall benefit from feed-in tariffs under a so-called "market integration model". The original plan was to lower the feed-in tariffs effective 1 July 2012. In conjunction with the effective date of 1 April 2012, the substantial narrowing of the parameters thus constitutes a hard intervention in the market. Whilst we are unable at this time to provide a conclusive assessment of how exactly this will affect the market volume in Germany, it is expected to shrink noticeably. It cannot be precluded that the market volume in the three largest European countries will fall by up to 50 percent in the aggregate because France and Italy have also enacted strong cuts in their support programmes. This is significant insofar as these three markets still accounted for about 60 percent of global demand in 2011.

By contrast, the markets in North America and Asia Pacific will continue to grow. This trend is expected to continue in 2013 also. Sustained demand growth is anticipated for the coming years, especially in Asia Pacific. The region is expected to attain a market volume that is comparable to the European market in the foreseeable future. China, India, Japan and Thailand are considered promising markets. The excess supplies of solar modules will dissolve but gradually owing to the substantial slowdown this past year and the anticipated downturn in global demand for solar modules in both 2012 and 2013. This trend will continue to affect prices in 2012 as well but the price digression is expected to flatten out starting in 2013.

## Outlook

For now, the global solar market is shaped by the movement of the prices for the material components of a PV plant, as well as political parameters. As in years past, there is some uncertainty in this respect such that the Group's plans can consider these aspects only in part. The German government's most recent proposals show how difficult it is to make reliable market assessments, now that the parameters for what still is the most important single market have been changed on very short notice. The ramifications of these changes are not yet known in detail because the announcement and implementation of the policy were separated by just a few weeks. This has intensified the planning uncertainty with respect to this market.

Management's focus in the coming years will be on boosting profitability and generating a positive cash flow. The Management Board believes, given continued excess capacities and falling feed-in tariffs for electricity from photovoltaics, that price pressures will continue unabated in 2012 as well. Conergy also expects global demand to stagnate or even decline. We do not expect to be able to fully offset the price pressures despite our expanded sales activities in all of our markets. Accordingly, sales in 2012 are expected to be lower year on year.

Conergy initiated and implemented numerous steps in recent years to return the Company to profitability yet again. Resulting one-off effects had an unforeseen effect on the Company's earnings in 2011. The Management Board expects the positive effects of these steps to make themselves felt in 2012 and EBITDA to improve to a low positive value. This presupposes a moderate decline in the price of solar modules.

On the whole, the Management Board expects unit sales to rise continuously in the coming years, with the commensurate positive effect on sales and especially earnings. But this presupposes largely stable political parameters for the solar industry as well as moderate changes in the prices for the central components of a solar electricity system.

Hamburg, 21 March 2012
Conergy AG
The Management Board

# Consolidated financial statements as at 31 December 2011

## CONSOLIDATED FINANCIAL STATEMENTS



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CONERGY GROUP



### Disclosures and comments on the income statement



### Disclosures and comments on the consolidated balance sheet



### Other disclosures

# Consolidated income statement of the Conergy Group*

| EUR million | Note | 2011 | 2010 |
|---|---|---|---|
| Sales | 8 | 754.1 | 913.5 |
| Changes in inventories of finished goods and work in progress | | −17.9 | 19.1 |
| Cost of materials | | −608.9 | −715.7 |
| **Gross profit** | | **127.3** | **216.9** |
| Personnel expenses | 9 | −86.3 | −85.3 |
| Other own work capitalised | | 0.2 | 0.1 |
| Other operating income | 10 | 27.4 | 33.6 |
| Other operating expenses | 11 | −152.7 | −135.2 |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA )** | | **−84.1** | **30.1** |
| Depreciation, amortisation and impairment losses | 12 | −98.7 | −43.9 |
| **Earnings before interest and taxes (EBIT)** | | **−182.8** | **−13.8** |
| Non-operating income | | 69.1 | 1.2 |
| Non-operating expenses | | −15.3 | −15.9 |
| **Non-operating result** | 13 | **53.8** | **−14.7** |
| **Earnings before taxes (EBT)**** | | **−129.0** | **−28.5** |
| Income taxes | 14 | −35.5 | −13.5 |
| **Income from continuing operations after taxes** | | **−164.5** | **−42.0** |
| Income from discontinued operations after taxes | 6 | 2.4 | −2.9 |
| **Income after taxes** | | **−162.1** | **−44.9** |
| **Changes in value recognised in equity** | | | |
| Exchange differences from the translation of foreign subsidiaries | | −1.5 | −1.8 |
| **Comprehensive income***** | | **−163.6** | **−46.7** |
| **Income after taxes** | | **−162.1** | **−44.9** |
| Thereof attributable to: | | | |
| Shareholders of Conergy AG (consolidated profit or loss) | | −162.3 | −44.7 |
| Minority shareholders | | 0.2 | −0.2 |
| **Comprehensive income/loss***** | | **−163.6** | **−46.7** |
| Thereof attributable to: | | | |
| Shareholders of Conergy AG | | −163.8 | −46.5 |
| Minority shareholders | | 0.2 | −0.2 |
| Earnings per share (in EUR)**** | 15 | | |
| Basic | | −1.65 | −0.90 |
| Diluted | | −1.65 | −0.90 |
| Earnings per share (in EUR) from continuing operations**** | 15 | | |
| Basic | | −1.67 | −0.84 |
| Diluted | | −1.67 | −0.84 |

* Statement of comprehensive income
** Corresponds to earnings from ordinary activities
*** Corresponds to the sum of income after taxes and changes in value recognised in equity
**** Previous year's figures adjusted due to the ordinary capital reduction

# Consolidated balance sheet of the Conergy Group

| EUR million | Note | 31.12.2011 | 31.12.2010 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 16 | – | 1.0 |
| Intangible assets | 16 | 4.2 | 10.2 |
| Property, plant and equipment | 17 | 81.3 | 164.4 |
| Financial assets | 18 | 1.5 | 1.6 |
| Other assets | 19 | 1.2 | 0.9 |
| Deferred tax assets | 14 | 3.1 | 35.1 |
| | | **91.3** | **213.2** |
| **Current assets** | | | |
| Inventories | 20 | 86.4 | 169.5 |
| Trade account receivable | 21 | 83.2 | 103.2 |
| Financial assets | 18 | 8.4 | 4.6 |
| Other assets | 19 | 26.9 | 63.9 |
| Cash and cash equivalents | 23 | 23.8 | 36.7 |
| | | **228.7** | **377.9** |
| Assets classified as held for sale and discontinued operations | 6 | 22.4 | 22.3 |
| | | **251.1** | **400.2** |
| **Total assets** | | **342.4** | **613.4** |
| **Equity attributable to the shareholders of Conergy AG** | | | |
| Capital stock | | 159.8 | 398.1 |
| Capital reserves | | 8.0 | 323.9 |
| Other reserves | | –146.9 | –650.4 |
| | | **20.9** | **71.6** |
| **Non-controlling interests** | | **0.0** | **–0.2** |
| **Total equity** | 24 | **20.9** | **71.4** |
| **Non-current liabilities** | | | |
| Provisions | 25 | 39.3 | 41.5 |
| Borrowings | 27 | 87.7 | 11.1 |
| Other liabilities | 29 | 1.8 | 2.0 |
| Deferred tax liabilities | 14 | 0.1 | 0.5 |
| | | **128.9** | **55.1** |
| **Current liabilities** | | | |
| Provisions | 25 | 18.8 | 10.8 |
| Current portion of non-current borrowings | 27 | – | – |
| Borrowings | 27 | 53.6 | 280.5 |
| Trade accounts payable | 28 | 88.2 | 161.7 |
| Other liabilities | 29 | 20.9 | 28.1 |
| Current income tax liabilities | 14 | 1.7 | 2.9 |
| | | **183.2** | **484.0** |
| Liabilities in connection with assets held for sale and discontinued operations | 6 | 9.4 | 2.9 |
| | | **192.6** | **486.9** |
| **Total equity and liabilities** | | **342.4** | **613.4** |

# Consolidated statement of cash flows of the Conergy Group

| EUR million | Note | 2011 | 2010 |
|---|---|---|---|
| **Operating result from continuing operations** | | **−182.8** | **−13.8** |
| Depreciation and amortisation | | 98.7 | 43.9 |
| Change in non-current provisions | | 0.2 | 5.0 |
| Other non-cash income (–)/expenses (+) | | 17.4 | −1.1 |
| Gains (–)/losses (+) from disposal of fixed assets | | 0.9 | 0.5 |
| **Result from operating activities before changes in net working capital** | | **−65.6** | **34.5** |
| Increase (–)/decrease (+) in inventories | | 50.3 | −73.3 |
| Increase (–)/decrease (+) in trade receivables | | 10.1 | 8.7 |
| Increase (–)/decrease (+) in trade payables | | −67.8 | 41.8 |
| Change in other net assets/Other non-cash items | | 28.6 | 4.9 |
| Income taxes paid (–)/received (+) | | −2.7 | 0.5 |
| **Net cash generated from operating activities, continuing operations** | | **−47.1** | **17.1** |
| Net cash generated from operating activities, discontinued operations | 6 | 1.9 | −9.2 |
| **Net cash generated from operating activities (total)** | 31 | **−45.2** | **7.9** |
| Cash inflows from sales of property, plant, equipment and other assets | | 1.6 | – |
| Cash outflows for investments in property, plant and equipment and intangible assets | | −14.6 | −14.6 |
| Acquisition of subsidiaries less cash acquired | | – | – |
| Cash receipts from the sale of subsidiaries | | 25.3 | 0.4 |
| Change in non-current financial assets | | 2.4 | 4.2 |
| Interest received | | 0.9 | 0.9 |
| **Net cash generated from investing activities (total)** | 31 | **15.6** | **−9.1** |
| **Cash flow before financing activities** | | **−29.6** | **−1.2** |
| Capital contributions | | 13.9 | – |
| Cash payments in connection with the acquisition of equity | | −3.6 | – |
| Change in borrowings | | 124.3 | 22.4 |
| Cash outflows for retirements of debt | | −105.0 | −20.7 |
| Interest paid | | −14.2 | −16.9 |
| Cash payments for dividends | | – | – |
| **Net cash generated from financing activities (total)** | 31 | **15.4** | **−15.2** |
| **Change in cash from operating activities (total)** | | **−14.2** | **−16.4** |
| **Cash and cash equivalents as at 01.01.** | | **38.0** | **54.4** |
| Change from exchange rate changes | | 0.0 | – |
| **Cash and cash equivalents as at 31.12.** | 23 | **23.8** | **38.0** |
| Thereof cash and cash equivalents from discontinued operations/assets held for sale | | 0.0 | 1.3 |

# Consolidated statement of changes in equity of the Conergy Group

| | Equity attributable to the shareholders of Conergy AG | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Other reserves | | | | |
| | | | | Valuation adjustments recognized directly in shareholders' equity | | | |
| **EUR million** | **Capital stock** | **Capital reserves** | **Retained earnings*** | **Currency changes** | **Total** | **Non-controlling interests** | **Total equity** |
| **As at 01.01.2010** | **398.1** | **321.8** | **−604.8** | **0.9** | **116.0** | **0.0** | **116.0** |
| **Owner-based changein capital** | | | | | | | |
| Capital increase | – | – | | | – | – | – |
| Dividend payments | | | – | | – | – | – |
| Taxes on items recognised directly in equity | | −1.0 | | – | −1.0 | – | −1.0 |
| Cost of capital increase | – | – | – | – | – | – | – |
| Other change | | 3.1 | | | 3.1 | | 3.1 |
| **Non-owner changesin capital** | | | | | | | |
| Comprehensive income/loss | | | −44.7 | −1.8 | −46.5 | −0.2 | −46.7 |
| **As at 31.12.2010** | **398.1** | **323.9** | **−649.5** | **−0.9** | **71.6** | **−0.2** | **71.4** |
| **As at 01.01.2011** | **398.1** | **323.9** | **−649.5** | **−0.9** | **71.6** | **−0.2** | **71.4** |
| **Owner-based change in capital** | | | | | | | |
| Capital increase | 110.0 | 5.5 | | | 115.5 | – | 115.5 |
| Dividend payments | | | – | | – | – | – |
| Taxes on items recognised directly in equity | | 1.2 | | – | 1.2 | – | 1.2 |
| Ordinary capital reduction | −348.3 | −319.0 | 667,3 | | | | |
| Cost of capital increase | – | −3.6 | – | – | −3.6 | – | −3.6 |
| **Non-owner changes in equity** | | | | | | | |
| Comprehensive income/loss | | | −162.3 | −1.5 | −163.8 | 0.2 | −163.6 |
| **As at 31.12.2011** | **159.8** | **8.0** | **−144.5** | **−2.4** | **20.9** | **0.0** | **20.9** |

* Including consolidated profit or loss

# Notes to the consolidated financial statements of the Conergy Group

## 1. Reportable segments

| Segments | Germany | | Europe* | | Americas | |
|---|---|---|---|---|---|---|
| EUR million | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| External sales | 173.7 | 328.2 | 267.2 | 323.7 | 70.0 | 63.0 |
| Intersegment sales | 0.8 | 0.5 | 0.1 | 1.4 | 0.4 | 0.0 |
| **Segment sales (total)** | **174.5** | **328.7** | **267.3** | **325.1** | **70.4** | **63.0** |
| Other operating income | 3.0 | 3.4 | 5.8 | 7.6 | 0.5 | 1.5 |
| Segment result (EBIT) | 1.6 | −2.8 | −0.6 | −5.0 | −4.9 | −10.3 |
| Segment investments | 0.1 | 0.2 | 0.9 | 0.5 | 0.1 | 0.1 |
| Depreciation/amortisation | −0.5 | −1.8 | −1.5 | −3.1 | −0.1 | −9.1 |
| Thereof impairment losses | −0.2 | −1.4 | −1.3 | −2.4 | – | −8.9 |
| Employees FTE** (as at 31.12.) | 93 | 94 | 174 | 253 | 86 | 77 |

* Excluding Germany
** Full-time equivalents

## 2. General comments

Conergy AG (hereinafter also referred to as “Conergy” or the “Company”) along with its subsidiaries (the “Conergy Group”) is a 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 21 March 2012, 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 22 March 2012; They were approved by the Supervisory Board at its meeting on 23 March 2012. 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) and the related interpretations of the International Accounting Standards Board (IASB), as applicable 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 and the related Interpretations 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 2011 were satisfied in full. There were basically 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.

| | Asia-Pacific | | Components | | Holding | | Reconciliation | | Continuing operations* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | | | | | | | | | | |
| | 140.3 | 110.2 | 102.9 | 88.4 | – | – | – | – | 754.1 | 913.5 |
| | 6.5 | 0.4 | 307.1 | 401.3 | 429.5 | 588.8 | −744.4 | −992.4 | – | – |
| | **146.8** | **110.6** | **410.0** | **489.7** | **429.5** | **588.8** | **−744.4** | **−992.4** | **754.1** | **913.5** |
| | 2.4 | 6.3 | 10.7 | 5.1 | 38.6 | 38.7 | −33.6 | −29.0 | 27.4 | 33.6 |
| | −15.7 | 7.4 | −65.1 | 27.9 | −98.1 | −27.4 | 0.0 | −3.6 | −182.8 | −13.8 |
| | 1.7 | 0.7 | 11.3 | 12.2 | 0.4 | 0.8 | – | – | 14.5 | 14.5 |
| | −2.1 | −0.6 | −91.8 | −22.1 | −2.7 | −7.2 | – | – | −98.7 | −43.9 |
| | −1.6 | – | −71.2 | −0.2 | – | −4.1 | – | – | −74.3 | −17.0 |
| | 151 | 144 | 750 | 762 | 207 | 239 | – | – | 1,461 | 1,569 |

In order to make the presentation more precise, items in the consolidated balance sheet and in the consolidated statement of comprehensive income were combined and explained as necessary in these notes. The statement of comprehensive income has been prepared using the nature of expense method. Assets and liabilities are classified as non-current (and current. 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 as separate line items in the balance sheet, the income statement and the statement of cash flows (cash flow from operating activities). Assets and liabilities held for sale are summarised in an aggregate balance sheet item. 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 consolidated 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 and amended standards and interpretations had to be applied for the first time by Conergy in the 2011 financial year:

**| IAS 24 rev. 2009 (Amendment), Related Party Disclosures (1 January 2011)**

The amendment of IAS 24 simplifies the reporting duties of government-related entities. Certain related party transactions that arise from a government's equity interests in private companies are exempt from some of the disclosure obligations contained in the revised standard. In addition, the definition of related parties was fundamentally revised and inconsistencies were removed. The revised definition has not led to the identification of additional related parties. Conergy AG and its subsidiaries are not state-owned entities. Insofar initial application of IAS 24 rev. 2009 did not result in any changes in presentation.

**| IAS 32 (Amendment), Classification of Rights Issues (1 February 2010)**

This amendment concerns the accounting for subscription rights as well as options and warrants denominated in a foreign currency at the issuer. Such rights must now be recognised as equity and no longer as liabilities if both the number of the instruments to be obtained and the foreign currency amount were fixed in advance and all previous owners of equity securities of the same class are granted this right on a pro rata basis. This amendment did not affect the presentation of the Conergy Group's assets, liabilities, cash flows and profit or loss.

**| Various Standards, Improvements to IFRSs 2010 (1 July 2010 and 1 January 2011)**

In May 2010, the IASB published its third cycle of the "Improvements to IFRSs", which contains a total of 11 amendments to six standards and one interpretation aimed at removing inconsistencies and clarifying the wording in some cases. The collection of amendments includes a transitional provision for each amended IFRS. While the adoption of the following new guidance led to changes in the accounting policies, it did not affect the Group's assets, liabilities, cash flows and profit or loss and their presentation in the 2011 consolidated financial statements.

- IFRS 3 Business Combinations: Clarifies that the choice to measure certain components of non-controlling interests at the fair value applies only to non-controlling interests that are present ownership instruments; also contains additional transition requirements for contingent consideration as well as clarifications related to the accounting of share-based payment transactions of the acquiree.

- IFRS 7 Financial Instruments – Disclosures: Clarifies the presentation of the interaction between quantitative and qualitative disclosures on risks arising from financial instruments as well as changes in disclosures on past due and impaired financial assets and collateral received.

- IAS 1 Presentation of Financial Statements: Clarifies that the analysis of the individual components of other comprehensive income may be made either in the statement of changes in equity or in the notes.

- IAS 27 Consolidated and Separate Financial Statements: Clarifies that certain subsequent amendments of IAS 27 (2008) respecting IAS 21, IAS 28 and IAS 31 shall be applied prospectively.

- IAS 34 Interim Financial Reporting: Clarification of disclosures required in interim financial statements.

- IFRIC 13 Customer Loyalty Programmes: Clarification of estimates of the fair value of award credits.

In addition, the following interpretations also had to be applied in the 2011 financial year for the first time:

**| IFRIC 14 (Amendment), IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (1 January 2011)**

This amendment of IFRIC 14 is relevant in those cases where an entity is subject to minimum funding requirements and makes prepayments in order to fulfil these minimum funding requirements. It allows entities in such cases to recognise the benefit from such an advance payment as an asset. The Conergy Group is not subject to minimum funding requirements. The amendment of this interpretation therefore did not affect the presentation of the Group's assets, liabilities, cash flows and profit or loss.

**| IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (1 July 2010)**

The new interpretation establishes that equity instruments used to extinguish financial liabilities (e.g. by means of conversion) should be measured at the fair value of the equity instruments or the fair value of the financial liability, whichever is more reliably determinable. Any difference between the carrying amount of the liability and the initial measurement amount of the equity instrument shall be recognised in profit or loss. IFRIC 19 was taken into account in these consolidated financial statements in connection with the mixed cash and non-cash capital increase (debt/equity swap) that was carried out in the 2011 financial year.

**| IFRS 1 (Amendment), Limited exemptions from Comparative IFRS 7 Disclosures for First-time Adopters (1 July 2010)**

This amendment contains exemptions for first-time adopters of the IFRSs. Given that Conergy already publishes IFRS financial statements, these amendments did not have any effect on the assets, liabilities, cash flows and profit or loss of the Conergy Group.

All IFRS/IAS and interpretations to be applied for the first time in the 2011 financial year had already been adopted by the EU at the time Conergy AG's consolidated financial statements were released.

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

**Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (1 July 2011)**

These two amendments contain exemptions for first-time adopters of the IFRSs. Given that Conergy already publishes IFRS financial statements, these amendments do not have any effect on the assets, liabilities, cash flows and profit or loss of the Conergy Group.

**IFRS 7 (Amendment), Disclosures – Transfer of Financial Assets (1 July 2011)**

On 7 October 2010, the IASB published an amendment of IFRS 7 regarding the required disclosures on financial instruments. This amendment requires additional disclosures on the transfer of financial assets, e.g. in securitisation transactions. These disclosures basically concern the type of transfer, the risks that might remain with the transferring company as well as additional disclosures if a disproportionately large number of transfers were effected at the end of the reporting period. This amendment is not expected to have significant effects on the assets, liabilities, cash flows and profit or loss of the Conergy Group because this is purely a disclosure standard. Conergy is examining at this time whether the amendment will give rise to additional disclosure obligations in future.

**IFRS 9 Financial Instruments (1 January 2015)**

This standard is an aspect of the project that will replace IAS 39 with the aim of simplifying the accounting for financial instruments. This project has been divided into three stages. Now that the project's first phase has been completed, IFRS 9 contains amended requirements respecting the classification and measurement of financial assets (issued in November 2009), the classification and measurement of financial liabilities as well as the derecognition of financial instruments (issued in October 2010). Instead of the four different measurement categories used to date, the amendment will only contain the measurement categories, "amortised cost" and "fair value". This classification is based on both the characteristics of the instrument and an entity's business model relative to the corresponding instruments. Financial instruments that do not meet the definitions of the "amortised cost" category must be measured at fair value through profit or loss. Selected equity instruments may be recognised at fair value directly in equity. As designed, this new category does not correspond to the previous category, "available-for-sale financial assets". Changes in the fair value of financial liabilities recognised at the fair value through profit and loss that are attributable to changes in the credit risk of that liability shall be presented in other comprehensive income instead of in profit or loss together with the fair value changes. The standard must be applied for the first time for reporting periods beginning on or after 1 January 2015. Earlier application of the new standard is permitted but Conergy is not considering doing so at the present time. The Conergy Group is reviewing at present how application of the new standard will affect the Group's assets, liabilities, cash flows and profit or loss.

**IFRS 10, IFRS 11 and IFRS 12 as well as Amendments of IAS 27 and IAS 28 (1 January 2013)**

In May 2011, the IASB published a package to revise the concept of consolidation (IFRS 10) as well as the accounting for joint arrangements (IFRS 11) and interests in other entities (IFRS 12).

IFRS 10 Consolidated Financial Statements supersedes the requirements of IAS 27 in respect of control over and consolidation of subsidiaries as well as SIC-12 Consolidation – Special Purpose Entities. The new standard provides a uniform definition of the concept of control. Thereunder, control is being exercised when the following three elements of control have been satisfied: (1) Power over the investee, (2) exposure, or rights, to variable returns from involvement with the investee and (3) the ability to use power over the investee to affect the amount of the investor's returns. The standard also contains detailed requirements specifying the three elements in various scenarios.

IFRS 11 Joint Arrangements supersedes IAS 31 as well as attendant SIC-13. IFRS 11 governs the joint control of activities by two or more parties. In contrast to IAS 31, IFRS 11 now only distinguishes between two kinds of joint activities – joint operations and joint ventures. These two activities are delineated based on the parties' respective rights and obligations. In contrast to IAS 31, the existence of a separate legal entity is no longer decisive to classification as a joint venture. In addition, pursuant to IFRS 11 joint ventures must be accounted for using the equity method. IFRS 11 eliminates the choice in IAS 31 regarding proportionate consolidation.

IFRS 12 Disclosure of Interests in Other Entities combines the disclosures on subsidiaries, joint activities and associates as well as unconsolidated structured entities. IFRS 12 requires disclosures that go above and beyond those required under the previous standards, especially in respect of the risks related to an investment and their effect on the entity's assets, liabilities, cash flows and profit or loss.

The new standards must be applied for the first time to reporting periods beginning on or after 1 January 2013. First-time application may result in significant changes in the Company's assets, liabilities, cash flows and profit or loss because in future previously unconsolidated entities must be included in the consolidated financial statements or consolidated entities must be deconsolidated. Furthermore IFRS 11 may also lead to the classification of joint activities. Early application is permitted. The Conergy Group is reviewing at present how application of this standard will affect the Company's assets, liabilities, cash flows and profit or loss.

**| IFRS 13 Fair Value Measurement (1 January 2013)**

Given the adoption of IFRS 13, the IFRSs now contain uniform guidance on determining fair values. IFRS 13 must be applied to financial instruments as well as to non-financial assets and liabilities measured at the fair value. In addition, IFRS 13 also provides for additional disclosures on the determination of fair values. For instance, the disclosures on the fair value hierarchies, which so far have applied only to financial instruments, now must also be applied to the fair values of non-financial assets and liabilities.

**| IAS 1 (Amendment), Presentation of Items of Other Comprehensive Income (1 July 2012)**

The amendment of the standard prescribes presenting the elements of other comprehensive income in future broken down by those that will be reclassified to the period's profit or loss at a later date and those that will not be reclassified in subsequent periods. The taxes attributable to the individual items must be allocated accordingly. As it is purely a presentation standard, first-time application of IAS 1 will not affect the Company's assets, liabilities, cash flows and profit or loss but the presentation of other comprehensive income will change accordingly.

**| IAS 12 (Amendment), Recovery of Underlying Assets (1 January 2012)**

Under IAS 12, the measurement of deferred tax assets or liabilities recognised on temporary differences related to assets is contingent on whether or not the Company expects to realise the carrying amount by a disposal of the asset or its ongoing use. The amendments give rise to an exception from the fundamental principles of IAS 12 for investment property that is measured as investment property using the fair value model in IAS 40. The exception entails including the rebuttable presumption that the carrying amount is usually recovered on disposal. This amendment is unlikely to affect the Group's assets, liabilities, cash flows and profit or loss because the Company does not own any investment property.

**| IAS 19 (Amendment), Employee Benefits (1 January 2013)**

The amendment of the standard mainly concerns the accounting for defined contribution plans and eliminates the 'corridor' method for recognising actuarial gains and losses. The revision requires recognising all actuarial gains and losses in other comprehensive income at the time they arise. Furthermore the amended standard also requires application of a uniform discount rate when measuring liabilities and determining the revenue from a fund's assets. Initial application of this standard is unlikely to have a material effect on the Company's assets, liabilities, cash flows and profit or loss because the Conergy Group does not have material defined contribution pension plans or comparable pension plans.

**| IAS 32 (Amendment), Offsetting Financial Assets and Financial Liabilities (1 January 2014) and IFRS 7 (Amendment), Disclosures Offsetting Financial Assets and Financial Liabilities (1 January 2013)**

The requirements for netting set out in IAS 32 were basically retained and merely made more specific by means of additional application guidance. What is new in IFRS 7 are the disclosure obligations in connection with certain netting arrangements such as the gross amount of the affected financial assets and financial liabilities prior to netting and the amount of the financial assets and financial liabilities that are the purpose of netting arrangements without any netting having been performed in the balance sheet. Since these amendments mainly concern additional disclosures in the notes, they will not affect the assets, liabilities, cash flows and profit or loss of the Conergy Group. We are currently reviewing the effects of these amendments on the presentation in the notes.

**| IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (1 January 2013)**

This interpretation must be applied to all kinds of natural resources obtained from a surface mine. It explains when and how to account for stripping costs in the production phase. This interpretation will not have any effect on the Group's assets, liabilities, cash flows and profit or loss because it concerns an activity that is not pursued by the Conergy Group.

With the exception of IFRS 7 (Amendment), Disclosures – Transfer of Financial Assets (1 July 2011), these revised and new standards and interpretations had not been adopted by the EU by the time the Company's consolidated financial statements were completed. The option to apply them early was not used.

**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.

The Conergy Group focuses on long-term project development work, among other things. Project development encompasses both the planning and construction 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. The first two stages of the project business entail project development and financing. The construction of the unit – which comprises engineering, procurement and construction ("EPC") – is carried out with the help of subcontractors which, in the case of photovoltaics units, are usually 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 shall 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 accordance with 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 development, planning and construction of solar power 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 revenue 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 percentage-of-completion 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. Since the 2010 financial year, acquisition-related ancillary costs have been expensed irrespective of whether they are directly attributable to the acquisition or not. Contingent acquisition costs are recognised at the acquisition-date fair value. On initial consolidation, identifiable assets, liabilities and contingent liabilities that were acquired in connection with a business combination are measured at their acquisition-date fair value. Non-controlling interests may be accounted at the fair value of the pro rata identifiable net assets either including or excluding goodwill. 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**
Changes in the proportion of the ownership interest in subsidiaries are treated as equity transactions and thus taken directly to equity as long as the parent company controls the subsidiary. As a result, increases and decreases in an existing majority interest are treated as transactions between equity investors. Disposals of an ownership interest in a subsidiary that do not result in a loss of control thus do not 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 therefore also do not 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 at 31 December 2011.

**Companies included in the consolidated financial statements**
Besides Conergy AG as the parent company, the consolidated financial statements also comprise 7 domestic (previous year: 10) and 17 foreign subsidiaries (previous year: 22). Additional required information regarding ownership interests pursuant to Section 313 para. 2 German Commercial Code is included in the list of shareholdings, which is part of the notes and which is published together with the consolidated financial statements and the Group management report in the electronic Federal Gazette.

In the 2011 financial year, the following changes occurred with respect to the companies included in Conergy's consolidated financial statements:

| | 2011 | | | 2010 |
|---|---|---|---|---|
| **Number of fully consolidated subsidiaries** | **Germany** | **Abroad** | **Total** | **Total** |
| **As at 01.01.** | **10** | **22** | **32** | **44** |
| Additions | – | – | - | 2 |
| Disposals | 3 | 4 | 7 | 7 |
| Additions / Disposals through changes in consolidated Group | – | –1 | –1 | –7 |
| **As at 31.12.** | **7** | **17** | **24** | **32** |

Eight companies were no longer included in consolidation in the 2011 financial year either as a result of mergers or sales in connection with the Conergy Group's reorganisation or because they were insignificant.

The 24 fully consolidated subsidiaries of Conergy AG contain one company that is classified as held for sale in accordance with IFRS 5.

The following table lists the significant subsidiaries included in consolidation:

| | Domicile | Percentage of shares owned |
|---|---|---|
| **Germany** | | |
| Conergy Deutschland GmbH | Hamburg | 100.0 |
| **Rest of Europe** | | |
| Conergy Italia S. p. A. | Vicenza (Italy) | 100.0 |
| Conergy M. E. P. E. | Athens (Greece) | 100.0 |
| Conergy S. A. S. | Brignoles (France) | 100.0 |
| Conergy Espana SLU | Madrid (Spain) | 100.0 |
| **Americas** | | |
| Conergy Inc. | Santa Fe (USA) | 100.0 |
| Conergy Inc. | Alberta (Canada) | 100.0 |
| **Asia-Pacific** | | |
| Conergy Pty. Limited | Sydney (Australia) | 100.0 |
| Conergy Renewable Energy Singapore Pte. Ltd. | Singapore (Singapore) | 100.0 |
| Sun Technics Energy Systems Private Limited | Bangalore (India) | 100.0 |
| **Components** | | |
| Conergy SolarModule GmbH & Co. KG | Frankfurt (Oder) | 100.0 |
| Mounting Systems GmbH | Rangsdorf | 100.0 |
| Mounting Systems Inc. | Sacramento (USA) | 100.0 |
| voltwerk electronics GmbH* | Hamburg | 100.0 |

*voltwerk electronics GmbH was sold to the Bosch Group in December 2011 and as at 31.12.2011 was classified as for sale in accordance with IFRS 5

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

| Company | Country | Percentage of shares owned |
|---|---|---|
| Cap-Aus Pty. Limited | Australia | 100.0 |
| Conergy Austria GmbH | Austria | 100.0 |
| Conergy Energia Solar Ltda. | Brazil | 100.0 |
| Conergy (Shanghai) Trading Co., Ltd | China | 100.0 |
| Conergy Real Estate Verwaltungs GmbH | Germany | 100.0 |
| Conergy SolarModule Verw. GmbH | Germany | 100.0 |
| Conergy (Thailand) Ltd. | Thailand | 99.9 |
| EPURON Pte. Ltd. | Singapore | 100.0 |
| EPURON Renewable Energy Private Limited | India | 99.9 |
| EPURON Yenilenebilir Enerji Projeleri Limited Sirketi | Turkey | 100.0 |
| SunTechnics AG | Switzerland | 100.0 |
| SunTechnics (China) Limited | China | 100.0 |
| VoltSol SL | Spain | 100.0 |

These companies essentially discontinued their operations. Conergy plans to either liquidate them or merge them into existing subsidiaries. Their total sales, profit or loss and equity is less than one percent of the Group's consolidated sales, profit or loss and equity.

As already disclosed in the note on the Company's accounting policies, the Conergy Group focuses on long-term project development work, among other things. Project development encompasses both the planning and construction 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. In this context, there are basically two types of project companies. For one, project companies that were founded in order to carry out the construction of energy farms and, for another, so-called intermediate holding companies that have a stake in the operating project companies. Project companies that serve as intermediate holding companies were – as in the previous year – not consolidated in the 2011 financial year given their insignificance to the Conergy Group's assets, liabilities, cash flows and profit or loss. Operating project companies are generally consolidated as soon as construction begins. Please see the disclosures on the principles governing the consolidation of subsidiaries for additional details on the general approach to the deconsolidation or consolidation of project companies.

The number of intermediate holding companies existent as at 31 December 2011 developed as follows during the financial year:

| | 2011 | | | 2010 |
|---|---|---|---|---|
| Number of intermediate holding companies | Germany | Abroad | Total | Total |
| **As at 01.01.** | **10** | **4** | **14** | **26** |
| Additions | – | – | – | – |
| Disposals | 8 | – | 8 | 12 |
| **As at 31.12.** | **2** | **4** | **6** | **14** |

The number of project companies existent as at 31 December 2011 developed as follows during the financial year:

| | 2011 | | | 2010 |
|---|---|---|---|---|
| Number of project companies | Germany | Abroad | Total | Total |
| **As at 01.01.** | **44** | **143** | **187** | **267** |
| Additions | – | – | – | 4 |
| Disposals | 38 | 100 | 138 | 84 |
| **As at 31.12.** | **6** | **43** | **49** | **187** |
| **Thereof fully consolidated** | 1 | 2 | 3 | 14 |

A total of 3 (previous year: 14) out of the 49 (previous year: 187) project companies were fully consolidated as at 31 December 2011.

The disposals mainly result from eliminations and the sale of so-called shelf companies.

For more information, please see note 6 with respect to the changes arising from acquisitions and disposals by sales.

Conergy Deutschland GmbH, Hamburg, Conergy SolarModule GmbH & Co. KG, Frankfurt (Oder), Conergy Services GmbH, Hamburg and Mounting Systems GmbH, Rangsdorf 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).

**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 under equity in comprehensive income and separately as "currency changes" 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 table shows the reconciliation of the currency changes recognised in equity:

| EUR million | 2011 | 2010 |
|---|---|---|
| **As at 01.01.** | −0.9 | 0.9 |
| Exchange differences from the translation of foreign subsidiaries | −2.0 | −1.8 |
| Reclassification due to the sale of a foreign operation | 0.6 | – |
| **As at 31.12.** | −2.3 | −0.9 |

The following significant exchange rates were material to currency translation:

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **1 EUR** | **Closing rate/Average exchange rate** | |
| **USD (USA)** | 1.29/1.39 | 1.34/1.33 |
| **AUD (Australia)** | 1.27/1.35 | 1.31/1.44 |
| **SGD (Singapore)** | 1.68/1.75 | 1.71/1.81 |

## 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. Write-downs are recognised as 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 expenses and received services are only recognised at the time the technical and economic feasibility of the project can be demonstrated and the costs can be reliably assessed.

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 was expensed in the 2011 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 and country entities) 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 net realisable value, whichever is greater. The recoverable amount determined for the cash generating unit in connection with an impairment test corresponds to its value in use. 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. Please see the section on expected developments (outlook) in the Group management report for information on the underlying planning assumptions. Thereafter, the net present value (NPV) is determined based on sustained income achievable on average in the form of a perpetual yield, with no growth rate being assumed.

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.

The base rate represents an alternative risk-free investment with a matching maturity. The interest rate curve for government bonds was used as a basis for determining the base rate because the factors related to zero coupon bonds with matching maturities derived from the interest rate curve ensure compliance with the matching maturity requirement. The base rate is always determined based on the circumstances of the currency area where the cash generating unit generates its cash flows.

The capital-market driven market risk premium is determined by establishing the differential return on investments in a representative market portfolio comprising equity stakes (shares) and risk-free investments. Application of a uniform market risk premium for all countries with developed capital markets is done with the assumption that the market risk premiums in these countries generally are comparable. This market risk premium is supplemented by an adequate country risk premium as necessary in the case of less developed countries. The country risk premium considers risks such as political, legal or regulatory risks, default risks and risks under tax law.

The beta factor is determined based on historical beta factors (e.g. Bloomberg data) of relevant peer group companies. Listed companies with comparable product and service offerings as well as markets were deemed to be peer group companies.

The peer group companies' credit spreads were determined to ascertain the borrowing costs. Using the rating of bonds the peer group companies had issued, if applicable. In cases where no rating was available, the credit spread was approximated based on a typified peer group rating. This credit spread is added to the respective risk-free base rate to determine the borrowing costs.

The country-specific interest rate after taxes that was used to discount the estimated series of payments was between 8.3 and 17.9 percent (previous year: between 8.8 and 12.5 percent). The determination of the rate of return on capitalisation after taxes as part of the goodwill impairment test was based on the assumption that discounting pre-tax cash flows using a pre-tax discount rate leads to the same result as discounting after-tax cash flows using an after-tax discount rate. The after-tax interest rates listed above correspond to pre-tax interest rates of 8.3 to 17.9 percent (previous year: 8.8 to 15.8 percent).

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

Goodwill was written down by EUR 1.0 million (previous year: EUR 10.9 million) in the 2011 financial year based on the annual impairment test pursuant to the planning for 2012 through 2014 and was related to the segment Europe. The value in use of the cash-generating unit was utilised as the measurement basis. As at 31. December 2011 no goodwill has been recognised accordingly.

**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 |
| Operating 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. 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 13.9 million in borrowing costs (previous year: EUR 14.6 million) were recognised as an expense.

**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 basically 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 the non-operating result. Depreciation is recognised based on the useful life of the leased assets or the lease term, whichever is shorter. Payments received from possible operating leases with Conergy being the lessor are recognised in profit or loss pro rata temporis over the lease period.

**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 accounts receivable, loans and receivables, investments held to maturity as well as primary 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 the initial recognition of purchases or sales of non-derivative financial instruments made at market rates. Whether it is derecognised depends on whether or not all risks and opportunities were transferred. 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 instruments measured at fair value can be classified and allocated to measurement levels according to the materiality of the factors and information underlying the respective measurement. A financial instrument is allocated to a level in accordance with the materiality of the input factors to their overall measurement, specifically, according to the lowest level material to their measurement on the whole. The measurement levels are broken down according to a hierarchy of input factors.

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

With the exception of money market funds and other listed securities that are measured at Level 1, the financial instruments recognised at fair value in the consolidated balance sheet (as well as the disclosures regarding the fair values of financial instruments) are based on the Level 2 information and input factors described above. No reclassifications from or into another measurement level were made.

**Financial assets**

Financial assets are divided into the following measurement categories:

| Financial assets measured at fair value through profit or 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 through profit or 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 through profit or loss. Derivative financial assets must be allocated to this category unless hedge accounting is applied.

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 using the effective interest method. Conergy's portfolios currently do not contain any 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 accounts receivable as well as other financial assets.

If there is objective evidence that an impairment loss on the asset has occurred as a result of one or more events after its initial measurement, the amount of the loss is measured as the difference between the receivable's carrying amount and the present value of the expected future cash flows discounted at the original 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.

The fair values of derivative financial instruments with residual maturities of less than 12 months are recognised in current financial assets or financial liabilities whereas those with residual maturities of more than 12 months are recognised in non-current financial assets or financial liabilities.

As in the previous year, the special rules applicable to hedge accounting were not applied during the reporting year; as a result, all changes in the value of derivative hedging instruments were recognised in profit or loss.

**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 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 pre-defined project segments (milestone method). The milestones are defined in coordination with the responsible engineers based on construction and production processes. Sales 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, sales in the amount of the contract costs are 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 revenue based on the pro rata share of the revenue corresponding to the estimated stage of completion. Losses from construction contracts are immediately recognised in full in the financial year during which the losses become apparent, irrespective of the stage of completion achieved.

The construction contracts are shown in trade accounts receivable or payable. Contract work is recognised as trade accounts receivable 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 accounts payable 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 revenue 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; they are measured at amortised cost.

**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 costs to sell 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 costs to sell, then an impairment loss corresponding to the difference must be recognised. The previously recognised impairment loss must be reversed if the fair value less costs to sell increases at a later date. The write-up must be limited to the impairment loss previously recognised for the relevant assets or their amortised cost.

**Discontinued operations**

Discontinued operations 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. Own shares are to be 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. Conergy AG and its subsidiaries do not hold treasury shares.

**Earnings per share**

Earnings per share are calculated by dividing the net income or loss for the period attributable to the shareholders of Conergy AG by the number of the average number of shares outstanding. Any shares sold or bought back during a given period are taken into account on a pro rata basis for the period during which they were outstanding. With regard to the capital decrease that was resolved on 25 February 2011 and completed when it was was recorded in the Commercial Register on 23 June 2011 (reverse share split), the calculation of earnings per share in accordance with IAS 33 is based on the assumption that the number of shares was reduced at the beginning of the period. The calculation of the previous year's figure as also adjusted to the new number of shares. The subsequent mixed non-cash and cash capital increase was recorded in the Commercial Register on 21 July 2011. Starting on 22 July 2011, the total of 110,034,191 new shares issued in this connection were considered on a pro rata basis (159/360 days) in the determination of the average number of shares outstanding during 2011. There were no dilutive effects during the reporting periods shown.

**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 fulfilment of the contract and the cost upon termination of the contract.

Provisions for expected expenses under warranty obligations are recognised at the time the respective products are sold using the management's best estimate of the expenses required for settling the obligation.

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 or have essentially been adopted into law in the respective countries 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 32.3 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. The tax rate of Conergy SolarModule GmbH & Co. KG is 28.1 percent.

**Contingent liabilities and receivables**
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. Accordingly contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Pursuant to IAS 37, contingent assets are not recognised as long as the economic benefit and thus the realisation of income is virtually certain.

**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 consideration 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 payment**
All obligations under share-based payment transactions are recognised – as required for cash-settled

share-based payments under IFRS 2. All work obtained in return for the options is recognised in staff 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 and binominal 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 subsequent periods.

## 4. Assumptions and exercise in judgement

**Management's material margin in judgement**
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. In this connection, please also see the disclosures in the risk report of Conergy's Group management report.

**Estimates and assumptions**
Below is a description of the judgement the Management Board exercised in decisions concerning the application of the Company's accounting policies which had an effect on the amount of the assets and liabilities recognised in the balance sheet. 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 Conergy Group's business 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 at 31 December 2011, EUR 6.8 million (previous year: EUR 12.3 million) in receivables from construction contracts were recognised in trade accounts receivable.

**| Trade accounts receivable**
Allowances for doubtful receivables require substantial assessments of individual receivables based on the creditworthiness of the respective customer, current economic developments and an analysis of historical loan charge-offs. As at 31 December 2011, trade accounts receivable included allowances of EUR 16.1 million (previous year: EUR 14.6 million).

**| Impairment of goodwill**
The Group tests goodwill for impairment at least once a year (see note 12). This requires estimating the recoverable amount of those cash generating units to which the goodwill has been allocated. The recoverable amount is the higher of fair value less costs to sell and the cash generating unit's value in use. 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 at 31 December 2011, no goodwill existed (previous year: EUR 1.0 million).

**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 costs to sell 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 discounting rates. As at 31 December 2011, the carrying amount of the Company's property, plant and equipment – which essentially concerns the Frankfurt (Oder) production site – was EUR 81.3 million (previous year: EUR 164.4 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 at the lower of carrying amount and realisable value less costs to sell 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 at 31 December 2011, no deferred tax assets were recognised for tax loss carryforwards of EUR 291.2 million (previous year: EUR 156.7 million) in corporate income taxes and EUR 210.4 million (previous year: EUR 78.5 million) in municipal trade tax because it is currently 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.

For further details, please see the information provided in note 14.

**Provisions**

The determination of provisions for warranties for restructuring measures 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. The amount of the provisions for warranties is also based on estimates rooted largely in historical data. Provisions are recognised 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, and legal risks requires substantial estimates that can change over time as a result of new information. These estimates may change as a result of new information becoming available. The Company avails itself of internal experts and 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 is calculated 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 is determined in accordance with generally accepted measurement methods based on discounted cash flow analyses using prices achieved in observable current market transactions.

## 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 Corporate Treasury 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 is available to our employees in this connection. Maximum amounts that greatly limit the risk from underlying (project) transactions of the hedges 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 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.

## 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 sales of a certain member of the Conergy Group are recognised in currencies different from those of the associated costs ("transaction risk").

A significant portion of transactions is carried out in US dollars (USD). The risks from US dollars 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. 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 can have a negative impact on Conergy's gross profit margin. Unfavourable conditions (notably rising commodities prices due to the rising US dollar) can trigger additional expenses in the procurement of raw materials in the short term, in turn substantially affecting Conergy's earnings and liquidity.

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". Corporate Treasury also hedges currency and interest rate risks related to the project business, as necessary. Furthermore, the Conergy Group optimises its currency risks by pushing natural hedging measures – i. e. by matching cash outflows under delivery contracts with cash inflows from external revenue in the same currency.

**Interest rate 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 borrowings (under the syndicated loan) are subject to variable interest rates. Borrowings in the 2011 financial year generally were structured in euros. The Conergy Group is exposed to additional interest rate risks in connection with the 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 – are used to possibly implement these hedges.

Conergy initially entered into five fixed-rate swaps in connection with the 2007 Syndicated Loan Agreement, which is subject to variable interest rates, to hedge rising interest rates. These fixed-rate swaps (for EUR 15.0 million each as at 31 December 2010), including the discharge, served to hedge the 2007 Syndicated Loan Agreement (term loan) against rising interest rates and have expired as at 31 December 2011.

**Liquidity risks**

The Conergy Group centrally manages its liquidity risk – i.e. the risk of being unable to fulfil current and future payment obligations for lack of adequate cash and cash equivalents. Based on the insights gained with respect to the liquidity situation from groupwide financial planning tools, Conergy now utilises liquidity planning that covers a period of 13 weeks and is rolled over from week to week as well as a continuous planning update that covers the period until year's end. Cash and cash equivalents are available to ensure the Group's solvency and ability to fulfil payment obligations when due. They consist of operating payment streams as well as of changes in current financial liabilities. Furthermore provisions are recognised for unplanned cash inflows or outflows that fall short of or exceed targets. Liquidity is mainly assured by means of overnight money and term deposits.

In addition, a total of EUR 263.1 million in funds are available under the loan agreement (2011 Syndicated Loan Agreement) made on 8 July 2011 between Conergy AG and Conergy SolarModule GmbH & Co. KG (as the borrowers), other significant companies of the Conergy Group (as guarantors) and ten banks led by Commerzbank International S.A., Luxembourg. This new loan agreement took effect at the time the capital increase adopted by the Extraordinary General Meeting on 25 February 2011 in return for cash and non-cash contributions was recorded in the Commercial Register on 21 July 2011. The existing 2007 Syndicated Loan Agreement was replaced on 21 July 2011 upon implementation of the Restructuring Term Sheet, which the Company and the banks had stipulated on 17 December 2010. Please see the disclosures in the notes on financial liabilities ( note 27) in respect of the implementation of the restructuring plan.

**Credit risks**

Credit risks from trade accounts receivable 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 30).

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. There is also customary collateral in place.

**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 maximum 100.0 percent in the medium term, i. e. a maximum 1:1 ratio of net financial liabilities to equity.

As before, it is our foremost economic goal in the 2012 financial year to improve the key performance indicators EBITDA, EBIT, working capital and gearing.

## 6. Changes in the consolidated group

**Acquisitions**
No acquisitions were made in the financial year just ended.

**Discontinued operations**
The discontinued operations include the EPURON division, which focused mainly on wind energy and bioenergy projects.

As part of this disposal, in December 2010 Conergy sold EPURON's German and French wind project business (including the respective operating assets) to an investment fund of Impax Asset Management Ltd., one of the leading specialists for listed and private equity funds in the European renewable energies market. The combined asset/share deal between Conergy's subsidiary Momentum Renewables GmbH (formerly: EPURON GmbH) and Impax New Energy Investors II L.P. comprises the former's German wind energy development activities in Hamburg, all its equity interests in three operational wind farms in East Germany, the plant management business of CSO Energy GmbH as well as 100 percent of EPURON's wind energy business in France.

The following major projects based on concentrated solar power (CSP) technology were sold in Spain in the first quarter of 2011. Except for the wind energy project business in Australia, which was sold in November 2011, as well as the biogas project business that was sold to RES Projects GmbH (a leading, Munich-based specialist for the development and implementation of biomethane plants) in early February 2011, all other activities in the EPORUN segment were already discontinued in 2010. Assets and liabilities resulting chiefly from the former project business that will not be or were not transferred in connection with the disposal were allocated to continuing operations.

The assets scheduled for disposal and the related liabilities of the discontinued operations in 2010 are categorised as follows:

| EUR million | 31.12.2010 |
|---|---|
| | |
| **Assets** | |
| Goodwill | 0.8 |
| Intangible assets | 0.0 |
| Property, plant and equipment | 0.7 |
| Inventories | 7.8 |
| Other assets | 2.1 |
| Cash and cash equivalents | 0.3 |
| | **11.7** |
| **Liabilities** | |
| Borrowings | 0.0 |
| Trade payables | 1.0 |
| Other liabilities | 0.1 |
| | **1.1** |

There were no discontinued operations as at the 31 December 2011 balance sheet date.

The net income from discontinued operations is as follows:

| EUR million | 2011 | 2010 |
|---|---|---|
| | | |
| Sales | 6.1 | 4.0 |
| Other expenses and income | −3.7 | −6.4 |
| **Income from discontinued operations before taxes** | **2.4** | **−2.4** |
| Income taxes | 0.0 | −0.5 |
| **Income from discontinued operations after taxes** | **2.4** | **−2.9** |
| Thereof | | |
| valuation gains/losses from value adjustments of assets and liabilities | – | – |
| Profit/loss from disposals | – | 3.7 |
| comprised taxes | – | – |

Discontinued operations account for the following net cash flows:

| EUR million | 2011 | 2010 |
|---|---|---|
| | | |
| Cash flow from operating activities | 1.9 | −9.2 |
| Cash flow from investing activities | 0.1 | 0.8 |
| Cash flow from financing activities | 0.3 | −0.2 |
| **Cash flow from discontinued operations** | **2.3** | **−8.6** |

**Assets and liabilities held for sale**

In the 2010 financial year, the assets and liabilities of Güstrower Wärmepumpen GmbH, which belonged to the Components segment, were classified as "held for sale". In the first quarter of 2011, Conergy sold this subsidiary, which is specialised in the production and sale of heat pumps, to SmartHeat Inc. This NASDAQ-listed company is a leading provider of heat transfer and energy conservation solutions in the Chinese market. Conergy's entire equity interest in Güstrower Wärmepumpen GmbH was transferred to SmartHeat Inc. under the sale. In addition, Güstrower Wärmepumpen GmbH also took over Conergy's land.

The assets and liabilities of Conergy's Swiss subsidiary in the Europe segment, Conergy (Schweiz) GmbH, were also classified as "held for sale" in the 2010 financial year. In the first quarter of 2011, Conergy sold its Swiss solar thermal products business to Capital Stage AG, a private equity company specialising in companies and projects in the clean-tech sector. Conergy's entire equity interest in its Swiss subsidiary was transferred to Capital Stage. The assets and liabilities of the Company's Cypriot subsidiary in the European segment were also classified as "held for sale". Both companies were sold in the second quarter of 2011.

In March 2011, the assets and liabilities of Conergy's Swiss subsidiary, SunTechnis Fabrisolar AG, belonging to the Europe segment were also classified as "held for sale". The company was sold in the second quarter of 2011.

The assets and liabilities of the subsidiary, voltwerk electronics GmbH, were also designated as held-for-sale assets and liabilities because the entity was sold to the Bosch Group, which is headquartered in Stuttgart, in December 2011. This sale is subject to the condition precedent or reservation that the relevant cartel office approve the transaction.

The assets and related liabilities scheduled for disposal are categorised as follows:

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| | | |
| **Assets** | | |
| Goodwill | 0.0 | 2.9 |
| Intangible assets | 3.9 | 0.7 |
| Property, plant and equipment | 1.2 | 1.3 |
| Inventories | 16.7 | 4.0 |
| Other assets | 0.6 | 0.7 |
| Cash and cash equivalents | 0.0 | 1.0 |
| | **22.4** | **10.6** |
| **Liabilities** | | |
| Borrowings | – | – |
| Trade payables | 4.5 | 0.2 |
| Other liabilities | 4.9 | 1.6 |
| | **9.4** | **1.8** |

The sales mentioned above and further sales of smaller companies as at the time of sale had the following effect on the Group's assets and liabilities:

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| | | |
| **Assets** | | |
| Intangible assets | 0.9 | 0.0 |
| Property, plant and equipment | 1.2 | 0.2 |
| Inventories | 14.3 | 1.4 |
| Other assets | 3.2 | 2.7 |
| | **19.6** | **4.3** |
| **Liabilities** | | |
| Borrowings | 0.0 | 0.0 |
| Trade payables | 1.5 | 4.6 |
| Other liabilities | 5.2 | 3.5 |
| | **6.7** | **8.1** |

## 7. Segment disclosures

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

Segment reporting is based on the organisational structure of the Conergy Group in the 2011 financial year. The individual organisational units are allocated to the operating segments solely according to economic criteria, irrespective of their ownership structure under German corporate law. In its function as the Company's chief operating decision maker, the Management Board is not given any information on segment assets and liabilities. Given the absence of internal reporting, there are no disclosures on segment assets and liabilities in respect of reportable segments.

**Reportable segments**
Conergy is divided into the segments Germany, Europe without Germany, Americas, Asia-Pacific, Components and Holding.

The Components segment develops and manufactures system components such as solar modules, module frames, and mounting systems, as well as electronic components. Until 31 December 2011, Conergy produced solar cells and solar modules in its Frankfurt (Oder) solar factory, developed electronic components such as inverters, connection boxes, monitoring systems, and tracking systems in Hamburg and Bad Vilbel, and had 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 well as in Sacramento, California. Mounting systems are developed and produced by our subsidiary Mounting Systems GmbH and are sold not only within the Group but also to external customers under their respective brand names.

The sale of voltwerk electronics GmbH in December 2011 to the Stuttgart-based Bosch Group means that the Company will no longer engage in the development and manufacturing of electronic components. Regarding its Frankfurt (Oder) solar factory, Conergy will focus on module production. Under this new business model, wafer and cell production will be suspended until further notice. The cells required for module production will be purchased instead. The Company will continue to review the profitability of both areas on an ongoing basis against the backdrop of the market's development. Capacities for restarting production on short notice are available if changes in the market make it profitable once again to resume manufacturing in one or both of these areas.

The segments Germany, Europe without Germany, Americas and Asia-Pacific sell the products manufactured by the Components segment and the complete systems and components purchased by Conergy, to wholesalers, installers and end customers (primarily farmers, private households, and investors). The Company's distribution activities also include the planning, construction as well as operations management and maintenance of photovoltaic systems (known as EPC activities: engineering, procurement, and construction). Conergy offers several different types of service: the sale of individual components or the sale of complete systems with coordinated components and/or planning and engineering services, as well as turnkey plant construction with or without operations management and maintenance. The services that Conergy offers range from construction planning to components, all the way to the construction of photovoltaic plants.

Conergy also develops, finances, implements and operates large-scale PV projects in these segments. Conergy's 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 plants. Conergy also arranges debt and equity financing for these operating companies and the marketing of equity interests to investors. The Holding segment essentially comprises the activities of the Conergy AG's Shared Services as well as purchasing and logistics. The "Reconciliation" column is shown separately. During reconciliation, intragroup business transactions are eliminated and income and expenses not directly attributable to the segments are disclosed.

The accounting standards applied to segment reporting correspond to those applied for Conergy as a whole. The number of employees corresponds to the number of full-time employees. Part-time employees are taken into account on a pro rata basis in accordance with their contractual working hours.

The following table contains the reconciliation of the reporting segments' earnings before interest and taxes (EBIT) to the Group's earnings before taxes:

**Reconciliation of the segment result**

| EUR million | 2011 | 2010 |
|---|---|---|
| Operating result of the reported segments | –182.8 | –10.2 |
| Operating result reconciliation | 0.0 | –3.6 |
| **Operating result (EBIT)** | **–182.8** | **–13.8** |
| Non-operating result | 53.8 | –14.7 |
| **Earnings before taxes (EBT)** | **–129.0** | **–28.5** |

**Cross-segment disclosures**
Cross-segment sales in Germany were EUR 199.0 million (previous year EUR 384.0 million) Sales outside Germany reached EUR 555.1 million (previous year: EUR 529.5 million).

Sales of EUR 124.4 million (previous year: EUR 151.0 million) can be related to Italy and EUR 83.1 million (previous year: 86.3 million) to Australia.

As in the previous year, no single customer accounted for more than ten percent of the Conergy Group's sales in the 2011 financial year. All disclosures regarding sales are classified by the location of the respective Conergy company's head office.

For more details, please see the section on the Group's profit or loss in the management report.

A total of EUR 83.2 million (previous year: EUR 171.6 million) of the Group's non-current assets amounting to EUR 85.5 million (previous year: EUR 175.6 million) are attributable to Germany.

# Disclosures and comments on the income statement

## 8. Sales

Sales are comprised of the following:

| EUR million | 2011 | 2010 |
|---|---|---|
| Sales from the sale of goods | 497.2 | 633.8 |
| Revenue from services rendered (incl. projects) | 224.1 | 246.0 |
| Services realised under construction contracts (PoC) | 32.8 | 33.7 |
| | **754.1** | **913.5** |

## 9. Personnel expenses

| EUR million | 2011 | 2010 |
|---|---|---|
| Wages and salaries | −70.4 | −67.6 |
| Social security costs | −15.9 | −17.7 |
| | **−86.3** | **−85.3** |

The social insurance costs also contain the contributions to private and public institutions for the period after retirement. These payments relate exclusively to defined-contribution pension plans such as Germany's statutory pension scheme.

Personnel expenses include EUR 1.4 million in termination benefits (previous year: EUR 0.4 million).

## 10. Other operating income

The other operating income is comprised of the following:

| EUR million | 2011 | 2010 |
|---|---|---|
| Income from the reversal of provisions | 7.4 | 5.2 |
| Cash receipts from the sale of subsidiaries | 6.3 | – |
| Currency changes | 3.8 | 13.9 |
| Write-up from receivables | 1.7 | 6.8 |
| Other operating income | 8.2 | 7.7 |
| | **27.4** | **33.6** |

The income from the reversal of provisions mainly concerns the reversal of unused provisions that had been recognised in connection with guarantee risks related to the project business.

The income from the sale of subsidiaries stems largely from the disposal of Güstrower Wärmepumpen GmbH (Components segment) and the sale of Conergy's Swiss subsidiary, Conergy (Schweiz) GmbH (Europe segment), in the first quarter of 2011.

The income from changes in foreign exchange rates largely comprises gains from foreign exchange differences arising between the dates on which foreign currency receivables and payables are generated and paid, as well as foreign currency gains arising on the measurement at the reporting date exchange rate. Any resulting foreign exchange losses are recognised in "Other operating expenses".

The other operating income also comprises a multitude of minor individual items related to the Group's 25 consolidated companies shown under continuing operations.

## 11. Other operating expenses

The other operating expenses are comprised of the following:

| EUR million | 2011 | 2010 |
|---|---|---|
| Distribution costs | −24.1 | −21.0 |
| Usage fees and maintenance costs | −16.0 | −15.2 |
| Warranty costs | −16.0 | −15.7 |
| Third-party services (incl. temporary staff) | −14.5 | −18.8 |
| Legal and consulting expenses | −12.1 | −21.5 |
| Rental and lease expenses | −10.9 | −12.3 |
| Bad debt allowance | −10.4 | −5.7 |
| Currency changes | −6.9 | −0.6 |
| Other operating expenses | −41.8 | −24.4 |
| | **−152.7** | **−135.2** |

The expenses for third-party services essentially concern contract and temporary workers that the Components segment incurred in connection with production at the Frankfurt (Oder) solar module factory.

At EUR 12.1 million legal and consulting expenses were reduced by EUR 9.4 million (previous year: EUR 21.5 million). The reduction is related to especially the previous year, which was burdened by consulting fees in connection with the syndicated loan and the restructuring concept. The successful implementation of both measures took place in the financial year 2011. Consulting expenses were largely incurred, specifically in the areas finance (banks), legal affairs, restructuring, auditing and consulting. This also contains external IT and project development services.

The allowances on receivables were due to a lack of creditworthiness on the part of customers. Whilst write-downs of receivables were EUR 5.7 million the previous year, write-downs in the financial year just ended were EUR 10.4 million, of which a large portion EUR 3.6 million was caused by a single Greek customer.

The increase in other operating expenses to EUR 41.8 million (previous year: EUR 24.4 million) results amongst others from EUR 15.8 million in one-time expenses that were triggered by the Company's decision to focus on module production at the Frankfurt (Oder) solar factory.

In 2011 the other operating expenses also contained EUR 2.3 million in expenses for communications and office equipment (previous year: EUR 2.5 million); EUR 2.1 million in insurance, contributions, fees and other charges (previous year: EUR 2.0 million); as well as EUR 3.1 million in expenses for travel, meals and entertainment (previous year: EUR 3.9 million).

The miscellaneous other operating expenses comprise a multitude of minor individual items related to the Group's 25 consolidated companies shown under continuing operations.

## 12. Depreciation, amortisation and impairment losses

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

| EUR million | 2011 | 2010 |
|---|---|---|
| Impairment of goodwill | −1.0 | −10.9 |
| Impairment of own development services | −0.2 | −0.1 |
| Impairment of other intangible assets and of property. plant and equipment | −73.1 | −6.1 |
| Depreciation and amortisation | −24.4 | −26.8 |
| | **−98.7** | **−43.9** |

The useful lives that apply groupwide to depreciation and amortisation as well as the principles governing impairment losses are provided in the disclosures on the Company's key accounting policies.

All goodwill was tested for impairment in the fourth quarter of 2011, as usual, in the light of our financial planning for 2012 through 2014. This resulted in an impairment loss of EUR 1.0 million (previous year: EUR 10.9 million) on goodwill. Impairment losses on property, plant and equipment are due mainly to the write-down of the wafer and cell production facilities owing to our changed strategy for the Frankfurt (Oder) production plant in the components segment. In the previous year, the impairment losses on property, plant and equipment basically concerned write-downs of land and buildings belonging to Conergy Real Estate GmbH & Co. KG (Holding segment).

## 13. Non-operating result

Conergy's non-operating result in the 2011 financial year was EUR 53.8 million (previous year: EUR −14.7 million). It comprises EUR −15.3 million in non-operating expenses (previous year: EUR −15.9 million) and EUR 69.1 million in non-operating income (previous year:

EUR 1.2 million). See below for details on the individual categories of the non-operating result.

**Interest result**

The interest result is made up as follows:

| Interest result | | |
|---|---|---|
| **EUR million** | **2011** | **2010** |
| **Expenses** | | |
| Interest and similar expenses* | −13.0 | −14.0 |
| Interest expense from derivatives (held for trading) | −0.9 | −0.6 |
| **Income** | | |
| Other interest and similar income* | 1.4 | 1.2 |
| Interest income from derivatives (held for trading) | – | – |
| **Total** | **−12.5** | **−13.4** |

* For financial assets and liabilities not recognised at fair value

**Other non-operating expenses and income**

The other non-operating expenses and income are comprised of the following:

| Other non-operating expenses and income | | |
|---|---|---|
| **EUR million** | **2011** | **2010** |
| **Expenses** | | |
| Interest expense added back to interest-bearing provisions | −1.3 | −1.2 |
| Other non-operating expenses | −0.1 | −0.1 |
| **Income** | | |
| Other non-operating income | 67.7 | – |
| **Total** | **66.3** | **−1.3** |

Interest expense from interest added back to non-current provisions largely concerns provisions for warranties.

The non-operating income contains one-time income from the capital increase in July 2011 and the related waiver by the lenders of EUR 67.7 million in debt.

## 14. 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 | 2011 | 2010 |
|---|---|---|
| Current income taxes | −2.7 | −2.5 |
| Deferred income taxes | −32.8 | −11.0 |
| | **−35.5** | **−13.5** |

The deferred tax expense of EUR 32.8 million mainly results from the non-inclusion of deferred tax assets on tax loss carryforwards.

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 | 2011 | 2010 |
|---|---|---|
| **Income from continuing operations before taxes** | **−129.0** | **−28.5** |
| Income from discontinued operations before taxes | 2.4 | −2.4 |
| **Earnings before taxes (total)** | **−126.6** | **−30.9** |
| Theoretical income tax rate for the Company in percent | 31.5 | 31.5 |
| **Expected tax income (+) /expense (–)** | **39.9** | **9.7** |
| Effects of tax rate changes in future years | 0.0 | −0.1 |
| Municipal trade tax additions/deductions | −0.9 | −2.2 |
| Effects of previous years' taxes recognised in the financial year | −0.6 | −11.1 |
| Effects due to tax rates deviating from the theoretical income tax rate | −0.9 | 2.0 |
| Effects of non-taxable income | 0.0 | 1.4 |
| Permanent effects | −0.8 | −0.9 |
| Effects of non-deductible expenses | −0.9 | −2.9 |
| Effects of the non-recognition and retrospective application of deferred tax assets on temporary differences and loss carryforwards | −67.2 | −12.0 |
| Other differences | −4.1 | 2.1 |
| **Current income taxes (total)** | **−35.5** | **−14.0** |
| Effective income tax rate in percent | −28.1 | −45.2 |
| Thereof current income taxes from discontinued operations | 0.0 | −0.5 |
| **Current income taxes from continuing operations** | **−35.5** | **−13.5** |
| Effective income tax rate in percent | −27.5 | −47.3 |

As in the previous year, 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 16.5 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; 33.3 percent in France; between 38.1 and 44.0 percent in the USA; 30 percent in Australia; and 31.4 percent in Italy.

Deferred taxes recognised in the balance sheet stem from the following items:

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| **EUR million** | **2011** | **2010** | **2011** | **2010** |
| | | | | |
| Intangible assets | 9.7 | 13.0 | 0.1 | 0.2 |
| Property. plant and equipment | 1.5 | 0.0 | 0.0 | 0.1 |
| Receivables and other financial assets | 0.2 | 1.2 | 2.8 | 0.8 |
| Inventories | 1.2 | 0.3 | 1.1 | 0.2 |
| Trade receivables | 1.3 | – | 1.4 | – |
| | | | | |
| Provisions | 1.4 | 1.1 | 0.1 | 0.2 |
| Other liabilities | 1.5 | 0.5 | 2.2 | 0.6 |
| Trade accounts payable | 0.0 | 0.1 | 6.1 | 0.0 |
| | | | | |
| Tax loss carryforwards | – | 20.5 | – | – |
| | **16.8** | **36.7** | **13.8** | **2.1** |
| Thereof non-current | 12.0 | 34.7 | 2.4 | 0.3 |
| | | | | |
| Netting | 13.7 | 1.6 | 13.7 | 1.6 |
| **Deferred taxes recognised** | **3.1** | **35.1** | **0.1** | **0.5** |

No deferred tax assets were recognised on deductible temporary differences in the amount of EUR 162.0 million (previous year: EUR 80.2 million), most of which are non-current.

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.

As at the balance sheet date, no deferred tax assets were recognised for all corporate income tax and municipal trade tax loss carryforwards of EUR 291.2 million and EUR 210.4 million. In the previous year, the corporate income tax and municipal trade tax loss carryforwards amounted to EUR 220.4 million and EUR 145.0 million, respectively, of which EUR 63.7 million and EUR 66.5 million, respectively, were recognised as deferred tax assets.

The unrecognised tax loss carryforwards can be used as follows:

| **EUR million** | **2011** | | **2010** | |
|---|---|---|---|---|
| | **CIT/SS*** | **MTT*** | **CIT/SS*** | **MTT*** |
| | | | | |
| Up to 1 year | – | – | – | – |
| 1 to 5 years | 11.8 | – | 48.0 | 13.4 |
| More than 5 years | 279.4 | 210.4 | 172.4 | 131.6 |
| | **291.2** | **210.4** | **220.4** | **145.0** |

* CIT= Corporate income tax, SS = Solidarity surcharge, MTT = Municipal trade tax

The changed shareholder structure following the completion of the December 2008 capital increase as well as the takeover of Dresdner Bank AG (in January 2009) and the merger of Dresdner Bank AG with Commerzbank AG (in May 2009) eliminated tax loss carryforwards on a pro rata basis under Section 8c para. 1 German Corporate Income Tax Act. Conergy continues to review whether the restructuring provision in Section 8c para. 1a German Corporate Income Tax Act – which was introduced as part of the so-called Bürgerentlastungsgesetz-Krankenversicherung for the purpose of enhancing the deductibility of health insurance premiums on 16 July 2009 – applies to the December 2008 capital increase and the indirect changes in the shareholder structure in 2009 because the loss carryforwards will not be eliminated as at this time if this provision is applicable.

By its ruling dated 26 January 2011, the European Commission decided in a formal investigation (C 7/10) that the restructuring provision under Section 8c para. 1a German Corporate Income Tax Act constitutes an unlawful government grant. The letter of the German Ministry of Finance dated 30 April 2010 already made it unlawful to apply the restructuring provision. In the German government's view, this is not a harmful grant. On 7 April 2011, the German government thus filed suit to vacate the EU Commission's decision (case number T-205/11). The outcome of these proceedings is uncertain. Pursuant to Section 34 para. 7c German Corporate Income Tax Act, which was amended through the 2011 German Tax Simplification Act (Steuervereinfachungsgesetz), the restructuring provision may be applied only if the Court among others issues a final and absolute decision declaring the Commission's decision null and void and finding that the provision pursuant to Section 8c para. 1a German Corporate Income Tax Act does not constitute a government grant.

Moreover the Hamburg Tax Court (ruling dated 4 April 2011 – 2K 33/10) and the Münster Tax Court (ruling dated 1 August 2011 – 9V 357/11 K, G) have both raised doubt as to the constitutionality overall of the limitation on loss carryforwards under Section 8c para. 1 German Corporate Income Tax Act. The Hamburg Tax Court has asked the Federal Constitutional Court to review the requirements of Section 8c German Corporate Income Tax Act (case # 2 BvL 6/11). The ruling of the Federal Constitutional Court is pending.

The Conergy companies carried out comprehensive measures in 2011 to reduce liabilities. In this connection, shareholders of Conergy AG contributed their claims under loans by means of in-kind contributions in return for new Conergy AG shares. The shareholder structure of Conergy AG has changed in the wake of these debt-reduction measures. Pursuant to a binding statement from the tax authority however, this change does not result in the elimination of the loss carryforwards pursuant to Section 8c para. 1 German Corporate Income Tax Act. The binding statement of the tax authority shall be binding only if the actual facts correspond in all material respects to the facts described in the application for a binding statement.

Indirect or direct acquisitions of equity interests in the capital stock of Conergy AG may result in the application of Section 8c German Corporate Income Tax Act and hence the elimination of recognised and unrecognised tax loss carryforwards after the reporting date.

Deferred tax liabilities of EUR 35.1 million (previous year: EUR 28.6 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.

## 15. Earnings per share

| | | 2011 | 2010* |
|---|---|---|---|
| Result from continuing operations applicable to shareholders of Conergy AG | EUR million | –164.7 | –41.8 |
| Result applicable to shareholders of Conergy AG | EUR million | –162.3 | –44.7 |
| Adjusted result from continuing operations | EUR million | –164.7 | –41.8 |
| Adjusted result applicable to shareholders of Conergy AG | EUR million | –162.3 | –44.7 |
| Weighted average number of shares issued | Shares | 98,359,550 | 49,761,116 |
| Adjusted weighted average number of no-par shares issued | Shares | 98,359,550 | 49,761,116 |
| | | | |
| **Basic earnings per share** | | | |
| from continuing operations in EUR | EUR | –1.67 | –0.84 |
| from discontinued operations in EUR | EUR | 0.02 | –0.06 |
| **Earnings per share applicable to shareholders of Conergy AG** | **EUR** | **–1.65** | **–0.90** |
| | | | |
| **Diluted earnings per share** | | | |
| from continuing operations in EUR | EUR | –1.67 | –0.84 |
| from discontinued operations in EUR | EUR | 0.02 | –0.06 |
| **Earnings per share applicable to shareholders of Conergy AG** | **EUR** | **–1.65** | **–0.90** |

*Previous year's figures adjusted due to the ordinary capital reduction

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.

Conergy AG's accumulated loss as at 31 December 2010 was EUR 689.2 million. The net loss pursuant to the annual financial statements of Conergy AG according to the German Commercial Code as at 31 December 2011 was EUR 32.1 million.

At the Extraordinary General Meeting on 25 February 2011, the Company's shareholders voted to reduce the capital stock of Conergy AG from EUR 398,088,928, denominated in 398,088,928 no-par bearer shares (no-par shares) having a pro rata interest in the capital stock of EUR 1.00 per share, to EUR 49,761,116, denominated in 49,761,116 no-par bearer shares, and thus for an 8:1 reverse stock split. The resolution regarding the capital decrease was recorded in the Company's Commercial Register on 23 June 2011. The Extraordinary General Meeting on 25 February 2011 also resolved to raise the capital stock by up to EUR 187,790,283 once it had been reduced. Existing shareholders were granted a subscription right. At the same time, some of the existing lenders under the 2007 syndicated loan agreement were given the option to subscribe to the Company's new shares in return for contributing their loan receivables from the Company to the extent that subscription rights had not been exercised by existing shareholders or were excluded because they were fractional shares. The Company's existing shareholders exercised their right to subscribe to new shares during the two-week subscription period, which ended on 12 July 2011, subscribing a total of 13,226,962 new shares with an aggregated pro rata interest in the Company's capital stock of EUR 13,226,962 at a subscription price of EUR 1.05 per new share. Subsequently, some of the lenders under the 2007 syndicated loan agreement subscribed a total of 96,807,229 shares in return for contributing their loan receivables from the Company, the nominal amount of which was discounted by 40 percent. The total number of shares issued has been 159,795,307 since 21 July 2011. The implementation of the capital increase in return for cash and in-kind contributions was recorded in the appropriate Commercial Register on 21 July 2011.

Development of the number of issued shares in the 2011 financial year:

| | Number of shares |
|---|---|
| **Opening balance on 1 January 2011[1]** | **49,761,116** |
| **Capital increase on 22 July 2011** | **110,034,191** |
| of which cash capital increase | 13,226,962 |
| of which non-cash capital increase | 96,807,229 |
| **Closing balance on 31 December 2011** | **159,795,307** |

[1] The calculation of earnings per share in accordance with IAS 33 is based on the assumption that the number of shares was reduced at the beginning of the period

# Disclosures and comments on the consolidated balance sheet

## 16. Intangible assets and goodwill

| EUR million | Goodwill | Industrial property rights | Own development services | Other intangible assets and advance payments made | Total |
|---|---|---|---|---|---|
| **As at 01.01.2010** | | | | | |
| Cost | 41.4 | 8.7 | 25.4 | 10.8 | 86.3 |
| Cumulative amortisation and impairment losses | −26.5 | −7.9 | −20.6 | −3.8 | −58.8 |
| **Net carrying amount** | **14.9** | **0.8** | **4.8** | **7.0** | **27.5** |
| **Development in 2010** | | | | | |
| Net carrying amount as at 01.01.2010 | 14.9 | 0.8 | 4.8 | 7.0 | 27.5 |
| Currency changes | 0.0 | 0.1 | 0.1 | 0.1 | 0.3 |
| Investments | 0.0 | 0.3 | 1.5 | 1.6 | 3.4 |
| Disposals | −0.1 | 0.0 | 0.0 | −0.4 | −0.5 |
| Reclassification to current assets | −2.9 | −0.7 | – | 0.0 | −3.6 |
| Amortisation | – | −0.1 | −1.2 | −2.8 | −4.1 |
| Impairment losses | −10.9 | – | −0.1 | −0.9 | −11.9 |
| Transfers | – | 0.1 | – | – | 0.1 |
| **Net carrying amount as at 31.12.2010** | **1.0** | **0.5** | **5.1** | **4.6** | **11.2** |
| **As at 31.12.2010** | | | | | |
| Cost | 30.2 | 8.5 | 27.0 | 11.8 | 77.5 |
| Cumulative amortisation and impairment losses | −29.2 | −8.0 | −21.9 | −7.2 | −66.3 |
| **Net carrying amount** | **1.0** | **0.5** | **5.1** | **4.6** | **11.2** |
| **Development in 2011** | | | | | |
| Net carrying amount as at 01.01.2011 | 1.0 | 0.5 | 5.1 | 4.6 | 11.2 |
| Currency changes | – | 0.0 | 0.0 | 0.1 | 0.1 |
| Investments | – | 0.2 | 0.9 | 0.7 | 1.8 |
| Disposals | – | 0.0 | −0.3 | 0.0 | −0.3 |
| Reclassification to current assets | – | 0.0 | −3.9 | 0.0 | −3.9 |
| Amortisation | – | −0.2 | −1.1 | −3.1 | −4.4 |
| Impairment losses | −1.0 | – | −0.2 | −1.0 | −2.2 |
| Transfers | – | – | – | 1.9 | 1.9 |
| **Net carrying amount as at 31.12.2011** | **–** | **0.5** | **0.5** | **3.2** | **4.2** |
| **As at 31.12.2011** | | | | | |
| Cost | 29.1 | 8.5 | 21.5 | 14.3 | 73.4 |
| Cumulative amortisation and impairment losses | −29.1 | −8.0 | −21.0 | −11.1 | −69.2 |
| **Net carrying amount** | **–** | **0.5** | **0.5** | **3.2** | **4.2** |

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

Research and development costs of EUR 0.7 million (previous year: EUR 0.7 million) were expensed.

## 17. Property, plant and equipment

| EUR million | Land and buildings | Technical equipment and machinery | Other plant and equipment | Advance payments made and assets under construction | Total |
|---|---|---|---|---|---|
| **As at 01.01.2010** | | | | | |
| Cost | 74.7 | 119.3 | 24.4 | 20.8 | 239.2 |
| Cumulative depreciation and impairment losses | −5.6 | −29.4 | −10.8 | −9.5 | −55.3 |
| **Net carrying amount** | **69.1** | **89.9** | **13.6** | **11.3** | **183.9** |
| **Development in 2010** | | | | | |
| Net carrying amount as at 01.01.2010 | 69.1 | 89.9 | 13.6 | 11.3 | 183.9 |
| Currency changes | 0.0 | 0.1 | 0.7 | 0.0 | 0.8 |
| Investments | 0.9 | 2.5 | 2.0 | 5.8 | 11.2 |
| Disposals | −0.8 | −0.2 | −0.9 | −0.4 | −2.3 |
| Reclassification to current assets | −0.7 | 0.0 | −0.5 | – | −1.2 |
| Depreciation | −2.6 | −17.1 | −3.0 | 0.0 | −22.7 |
| Impairment losses | −4.9 | 0.0 | −0.3 | – | −5.2 |
| Transfers | 0.0 | 6.3 | 0.1 | −6.5 | −0.1 |
| **Net carrying amount as at 31.12.2010** | **61.0** | **81.5** | **11.7** | **10.2** | **164.4** |
| **As at 31.12.2010** | | | | | |
| Cost | 73.4 | 130.5 | 24.3 | 16.9 | 245.1 |
| Cumulative depreciation and impairment losses | −12.4 | −49.0 | −12.6 | −6.7 | −80.7 |
| **Net carrying amount** | **61.0** | **81.5** | **11.7** | **10.2** | **164.4** |
| **Development in 2011** | | | | | |
| Net carrying amount as at 01.01.2011 | 61.0 | 81.5 | 11.7 | 10.2 | 164.4 |
| Currency changes | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 |
| Investments | 0.7 | 4.7 | 2.4 | 5.0 | 12.8 |
| Disposals | 0.0 | −0.8 | −0.3 | 0.0 | −1.1 |
| Reclassification to current assets | – | −0.2 | −1.0 | – | −1.2 |
| Depreciation | −2.4 | −14.9 | −2.7 | 0.0 | −20.0 |
| Impairment losses | −10.6 | −50.1 | −1.6 | −9.5 | −71.8 |
| Transfers | 0.2 | 1.8 | 0.2 | −4.1 | −1.9 |
| **Net carrying amount as at 31.12.2011** | **49.0** | **22.0** | **8.7** | **1.6** | **81.3** |
| **As at 31.12.2011** | | | | | |
| Cost | 74.3 | 136.0 | 25.5 | 17.8 | 253.6 |
| Cumulative depreciation and impairment losses | −25.3 | −114.0 | −16.8 | −16.2 | −172.3 |
| **Net carrying amount** | **49.0** | **22.0** | **8.7** | **1.6** | **81.3** |

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

## 18. Financial assets

Financial assets comprise the following items:

| EUR million | 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|---|
| | Total | Of which current | Total | Of which current |
| Loans and receivables | 9.7 | 8.2 | 6.2 | 4.6 |
| Available-for-sale financial assets | – | – | – | – |
| Held-to-maturity investments | – | – | – | – |
| Financial instruments held for trading | 0.2 | 0.2 | – | – |
| Derivatives in hedge accounting | – | – | – | – |
| **Total** | **9.9** | **8.4** | **6.2** | **4.6** |

## 19. Other assets

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Other assets | 28.1 | 64.8 |
| Thereof | | |
| Receivables from the tax office | 3.6 | 17.6 |
| Prepaid expenses | 1.8 | 2.0 |
| Other current assets | 22.6 | 45.2 |
| Thereof non-current | 1.2 | 0.9 |

Receivables of EUR 3.6 million (previous year: EUR 17.6 million) from the tax authority primarily concern VAT receivables and are due within one year.

The other current assets amounting to EUR 22.6 million (previous year: EUR 45.2 million) mainly comprise a receivable from MEMC Electronic Materials, Inc..

Among others, the reduction in miscellaneous other assets stems from payments received in April 2011 on a purchase price receivable posted at the close of 2010 for the disposal of the Company's German and French wind energy project business.

The other current assets also comprise a multitude of minor individual items related to the Group's 25 consolidated companies.

## 20. Inventories

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Raw materials and consumables | 13.6 | 28.3 |
| Work in progress | 21.1 | 33.4 |
| Finished goods and merchandise | 48.1 | 104.5 |
| Advance payments made | 3.6 | 3.3 |
| | **86.4** | **169.5** |

In 2011, the following inventories were recognised at their lower fair values net of distribution expenses:

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Raw materials and consumables** | | |
| Carrying amount before impairment | 18.8 | 28.7 |
| Less impairment | −5.2 | −0.4 |
| **Carrying amount** | **13.6** | **28.3** |
| **Work in progress** | | |
| Carrying amount before impairment | 26.8 | 34.6 |
| Less impairment | −5.7 | −1.2 |
| **Carrying amount** | **21.1** | **33.4** |
| **Finished goods and merchandise** | | |
| Carrying amount before impairment | 52.4 | 110.8 |
| Less impairment | −4.3 | −6.3 |
| **Carrying amount** | **48.1** | **104.5** |

Cost of materials increased in the 2011 financial year due to impairment losses on inventories amounting to EUR 15.2 million (previous year: EUR 7.9 million).

## 21. Trade accounts receivable

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Trade receivables before impairment losses | 99.3 | 117.8 |
| Less impairment losses | −16.1 | −14.6 |
| Trade receivables | 83.2 | 103.2 |
| Thereof | | |
| Receivables from production contracts | 11.8 | 18.8 |
| Advance payments received | −5.1 | −6.5 |
| | **6.7** | **12.3** |

Most trade accounts receivable have short residual lives. Hence their carrying amounts correspond mainly to the fair value at the balance sheet date.

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

Receivables from construction contracts developed as follows year on year:

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Accrued contract costs | 9.0 | 17.5 |
| Contract gains realised pro rata incl. carryforward effect | 2.8 | 1.3 |
| Less recognised contract losses | – | – |
| Less advance payments received | –5.1 | –6.5 |
| | **6.7** | **12.3** |

The aging structure of the trade accounts receivable that are not impaired was recognised is as follows:

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Trade accounts receivable according to balance sheet | 83.2 | 103.2 |
| Thereof | | |
| Neither impaired nor past due as of the balance sheet date | 41.2 | 54.1 |
| Not impaired as of the balance sheet date and past due within the following periods: | | |
| Less than 1 month | 17.7 | 25.1 |
| Between 1 and 2 months | 7.4 | 12.1 |
| Between 2 and 3 months | 4.6 | 4.3 |
| Between 3 and 6 months | 5.1 | 1.2 |
| Between 6 and 12 months | 1.4 | 2.0 |
| More than 12 months | 1.7 | 1.6 |
| | **37.9** | **46.3** |

As at 31 December 2011, trade accounts receivable that were due but not impaired amounted to EUR 37.9 million (previous year: EUR 46.3 million). Given specific credit management processes and separate assessments of individual credit risks, receivables that have not been written down are considered recoverable. Any future non-payment risk related to existing receivables has been adequately considered in the valuation allowances. Furthermore, receivables of a certain scope have been hedged through bank guarantees and reservations of title.

The following impairment losses were recognised in the reporting year:

| EUR million | 2011 | 2010 |
|---|---|---|
| **As at 01.01.** | **14.6** | **14.7** |
| Currency changes | – | – |
| Additions | 7.0 | 4.6 |
| Use | –3.6 | –1.6 |
| Reversals | –1.3 | –3.1 |
| Disposal | – | – |
| Reclassification to current assets | –0.6 | 0.0 |
| **As at 31.12.** | **16.1** | **14.6** |

Specific and global valuation allowances are recognised in the income statement under other operating expenses while reversals are recognised under other operating income.

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

## 22. Grants received

During the 2011 reporting period, Conergy Group companies received a total of EUR 0.9 million in non-reimbursable government grants for research and development projects (actual inflow of funds). Conergy did not obtain binding promises of grants in 2011 above and beyond this amount (subsidy notifications). Government grants are tied to specific projects subject to certain requirements and conditions. For instance, Conergy is obligated to leave subsidised assets in the subsidised plant for a period of five years (from the project's completion date) and/or to guarantee jobs for specific plants during the same period. For further details we refer to the “risk and opportunity report” in the Group management report.

The following subsidies were disbursed in the reporting period:

| EUR million | 2011 | 2010 |
|---|---|---|
| **As at 01.01.** | **36.8** | **36.1** |
| Received in the financial year | 0.9 | 0.9 |
| Recognised in income in the financial year | 0.9 | 0.2 |
| **As at 31.12.** | **36.8** | **36.8** |

## 23. Cash and cash equivalents

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Cash on hand/cheques | 0.3 | 0.3 |
| Bank balances | 23.5 | 36.4 |
| | **23.8** | **36.7** |

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 statement of cash flows as at 31 December 2010 contain EUR 1.3 million in cash and cash equivalents attributable to discontinued operations. As at 31 December 2011, the discontinued operations and disposal groups do not contain cash and cash equivalents.

## 24. Equity

The individual components of equity as well as their development in 2010 and 2011 follow from the statement of changes in equity of the Conergy Group.

**Capital stock**
At the Extraordinary General Meeting on 25 February 2011, the Company's shareholders voted to reduce the capital stock of Conergy AG from EUR 398,088,928, denominated in 398,088,928 no-par bearer shares (no-par shares) having a pro rata interest in the capital stock of EUR 1.00 per share, to EUR 49,761,116, denominated in 49,761,116 no-par bearer shares, and thus for an 8:1 reverse stock split. The resolution regarding the capital decrease was recorded in the Company's Commercial Register on 23 June 2011. Once it had been reduced, the capital stock was immediately raised by up to EUR 187,790,283. Existing shareholders were granted a subscription right. At the same time, some of the existing lenders under the 2007 syndicated loan agreement were given the option to subscribe to the Company's new shares in return for contributing their loan receivables from the Company to the extent that subscription rights had not been exercised or were excluded because they were fractional shares. The Company's existing shareholders exercised their right to subscribe to new shares during the two-week subscription period, which ended on 12 July 2011, subscribing a total of 13,226,962 new shares with an aggregated pro rata interest in the Company's capital stock of EUR 13,226,962 at a subscription price of EUR 1.05 per new share. Subsequently, some of the lenders under the 2007 syndicated loan agreement subscribed a total of 96,807,229 shares in return for contributing their loan receivables from the Company, the nominal amount of which was discounted by 40 percent. Following the completion of the capital measures the capital stock of Conergy AG thus is EUR 159.8 million. The implementation of the capital increase in return for cash and in-kind contributions was recorded in the appropriate Commercial Register on 21 July 2011.

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 capital stock until 9 June 2014 by a total of up to EUR 100,000,000 by once or repeatedly issuing up to 100,000,000 new no-par bearer shares in return for contributions in cash and/or in kind ("Authorised Capital 2009"). In principle, the shareholders are granted a subscription right. The new shares may also be acquired by one or more banks, subject to the obligation to offer them to the shareholders for subscription.

The Management Board is authorised hereby to exclude shareholders' subscription right with the approval of the Supervisory Board, once or repeatedly: (a) to the extent necessary in order to exclude fractional shares, if any, from shareholders' subscription right; (b) to the extent necessary in order to grant to the holders of options or conversion rights or obligations arising from bonds with conversion rights and/or options or a conversion obligation a subscription right to new shares in the scope to which they would be entitled as shareholders once they exercised the option or conversion right or fulfilled the conversion obligation; (c) to the extent that the new shares are issued in return for cash contributions and the pro rata amount of the capital stock attributable to all of the newly issued shares does not exceed the total of EUR 39,808,892 or, if lower, 10.0 percent of the capital stock extant both at the time this authorisation takes effect and at the time it is exercised for the first time ("maximum amount") and the issue price of the shares to be newly issued is not substantially lower than the market price of the Company's listed shares of the same class at the time the issue price is finally fixed; [and] (d) to the extent that the new shares are issued in return for in-kind contributions (especially in the form of companies, business units, equity stakes in companies or receivables).

The pro rata amount of the capital stock attributable to new or previously acquired treasury shares that are issued or sold in accordance with or under Section 186 para. 3 sentence 4 German Stock Corporation Act while this authorisation is in effect, subject to the exclusion of shareholders' subscription right, shall be offset against the maximum amount set forth in item (c) of the forgoing paragraph, as well as the pro rata amount of the capital stock attributable to shares that are or must be issued to satisfy bonds with conversion rights and/or options or a conversion obligation, to the extent that these bonds are issued while this authorisation is in effect subject to the exclusion of shareholders' subscription right in analogous application of Section 186 para. 3 sentence 4 German Stock Corporation Act.

The Management Board is further authorised, subject to the approval of the Supervisory Board, to determine additional details of the capital increase and the conditions of the share issuance.

The Management Board is also authorised pursuant to Article 5 para. 9 of the Company's Articles of Association, as amended by the resolutions of the Annual General Meeting on 5 October 2010, which were recorded in the Commercial Registry on 23 February 2011, to increase the Company's capital stock until 4 October 2015, with the approval of the Supervisory Board, by a total of EUR 99,044,464.00 by issuing a total of up to 99,044,464 new no-par bearer shares (no-par shares), once or repeatedly, in return for contributions in cash and/or in kind (Authorised Capital 2010). In principle, the shareholders are granted a subscription right. The new shares may also be acquired by one or more banks, subject to the obligation to offer them to the shareholders for subscription.

The Management Board is authorised in this connection to exclude shareholders' subscription right with the approval of the Supervisory Board, once or repeatedly: (a) to the extent necessary in order to exclude fractional shares, if any, from shareholders' subscription right; (b) to the extent necessary in order to grant to the holders of options or conversion rights or obligations arising from bonds with conversion rights and/or options or a conversion obligation a subscription right to new shares in the scope to which they would be entitled as shareholders once they exercised the option or conversion right or fulfilled the conversion obligation; (c) to the extent that the new shares are issued in return for in-kind contributions (especially in the form of companies, business units, equity stakes in companies, receivables or for the purpose of satisfying conversion or option rights or obligations). The Management Board is authorised, subject to the approval of the Supervisory Board, to determine additional details of the capital increase and the conditions of the share issuance.

Pursuant to Article 5 para. 8 of the Company's Articles of Association, as amended by the resolutions of the Annual General Meeting on 5 October 2010, which were recorded in the Commercial Registry on 23 February 2011, the Company's capital stock was increased by up to EUR 199,044,464.00 by issuing 199,044,464 new no-par bearer shares (no-par shares) with a pro rata interest in the capital stock of EUR 1.00 per share (Contingent Capital). This Contingent Capital Increase serves to grant no-par bearer shares to the holders or creditors of convertible bonds and/or bonds with warrants, profit participation rights and/or income bonds (or combinations of these instruments) that are issued by the Company or its direct or indirect associates under the authorisation granted by the Annual General Meeting on 5 October 2010 pursuant to Agenda item 7 in return for cash contributions and establish a conversion right or option to the Company's new no-par bearer shares or a conversion obligation. This contingent capital increase shall be executed only insofar as the options or conversion rights are exercised or insofar as the holders or creditors obligated to convert actually fulfil their conversion obligation and provided that no treasury shares or new shares issued under authorised capital are used to satisfy same.

The new no-par bearer shares shall participate in the Company's profit from the start of the financial year in which they are created through the exercise of options and/or conversion rights or through the fulfilment of conversion obligations. The Management Board is authorized to determine other details relating to the execution of the Contingent Capital Increase.

The Management Board has the right under Section 71 para. 1 German Stock Corporation Act to purchase the Company's treasury shares in the following cases: (a) if such purchase is necessary in order to avert severe, imminent harm to the Company; (b) if the shares are to be offered for purchase to persons who were or are employed with the Company or one of its associates; (c) if the purchase is made in order to compensate shareholders using shares in specific situations prescribed by law; (d) if the purchase does not entail any consideration; (e) by virtue of universal succession; and (f) pursuant to a resolution of the Company's Annual General Meeting to retire stock in accordance with the requirements regarding a reduction in the capital stock. The shares bought back under items (a) through (c) above, along with the Company's other treasury shares, which it already purchased or still retains, may not account for more than 10 percent of the capital stock.

The Management Board did not avail itself of the foregoing authorisations during the financial year such that the authorisations are available in full in terms of both their amount and their content.

At this time, Conergy AG is not authorised to purchase treasury shares under any resolution of its Annual General Meeting pursuant to Section 71 para. 1 no. 8 German Stock Corporation Act.

**Capital reserves**
The capital reserves comprise the excess of the issue price over the par value of the Conergy shares issued. They are 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.

The Company's capital reserves rose by EUR 2.1 million to EUR 323.9 million in the 2010 financial year on account of Commerzbank AG's reimbursement of excess fees related to the 2008 capital increase less the respective deferred taxes.

Whilst capital reserves fell in the 2011 financial year as a result of the reduction in capital by EUR 319.0 million, the subsequent capital increase caused capital reserves to increase thanks to the share premium on both the cash contribution (EUR 0.7 million) and the in-kind contribution (EUR 4.8 million). In addition, EUR 3.6 million in costs related to the capital increase less EUR 1.2 million in attributable deferred taxes were deducted.

**Other reserves**
Aside from appropriations from cumulative prior-period net income/losses, the expense and income items to be recognised directly in equity 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.

**Non-controlling interests**
Conergy holds non-controlling interests in Conergy Ceská Republika s.r.o. (Czech Republic) and SunTechnics Energy Systems Private Limited (India).

## 25. Provisions

The provisions developed as follows in the financial year:

| EUR million | Warranties | Restructuring | Legal disputes | Other | Total |
|---|---|---|---|---|---|
| **As at 01.01.2010** | **28.8** | **1.5** | **1.3** | **20.7** | **52.3** |
| Thereof non-current | 27.4 | – | – | 14.1 | 41.5 |
| Change in the basis of consolidation | −0.4 | – | 0.0 | – | −0.4 |
| Addition | 9.6 | 10.8 | 1.3 | 5.4 | 27.1 |
| Use | −2.3 | −1.0 | −0.5 | −6.6 | −10.4 |
| Disposal | −4.7 | 0.0 | −0.4 | −3.0 | −8.1 |
| Interest cost added back | 0.8 | – | 0.0 | 0.4 | 1.2 |
| Reclassification to current liabilities | −3.4 | – | – | −0.2 | −3.6 |
| Currency changes | 0.0 | – | 0.0 | 0.0 | 0.0 |
| **Balance as at 31.12.2011** | **28.4** | **11.3** | **1.7** | **16.7** | **58.1** |
| Thereof non-current | 27.0 | – | – | 12.3 | 39.3 |

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

The restructuring provisions only contain the expenses that are directly allocable to and necessary for the restructuring and that are unrelated to the Company's operating business in future. The additions in the 2011 financial year are mainly due to the change of module production in Frankfurt (Oder).

The other provisions basically contain expected losses from service contracts.

The line item, reclassification to current liabilities, shows the relevant disposals of the liabilities attributable to discontinued operations and disposal groups 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 expenses are recognised under other liabilities.

## 26. Stock options programme

Individual commitments under share-based payments enable the Company to link certain components of compensation to its share price or the latter's change over time. Conergy therefore maintains a share-based payment system for members of its Management Board based on stock appreciation rights (SARs) on shares of Conergy AG. The share-based payment programme based on stock appreciation rights constitutes a cash-settled share-based payment transaction as defined in IFRS 2.

Certain employees were eligible in the 2010 financial year to participate in the long-term incentive programme (LTIP 2010). Stock appreciation rights were options that entitled the owner to a claim for payment in cash of an amount corresponding to the difference between Conergy AG's share price and the exercise price. These options had a maturity of four years and a holding period of one and one half years from the date the SARs are issued. The stock appreciation rights could be exercised at any time during this exercise period, at the earliest however after at least one performance target has been met at least once. This performance target was tied to a specific price of Conergy AG's share on 30 consecutive trading days. The stock appreciation rights lapse in toto at the end of the holding period if the performance target is not met within the first 18 months. The corresponding stock appreciation rights have lapsed due to the performance of Conergy AG's share in 2011. A long-term incentive programme for the 2011 financial year was not reinstated.

Members of the Management Board participate in a share-based payment programme based on stock appreciation rights that is integral to each Management Board member's variable compensation. An individual percentage of the annual variable compensation (target amount) provides the basis for measuring the stock appreciation rights. The number of phantom stock options is determined based on the weighted average price of the Company's share on the last 30 days of the financial year for which the compensation is owed. Depending on the performance of Conergy's share price relative to a four-year performance period that starts on the issue date, an amount corresponding to no more than 250 percent of the target amount is paid to the participants upon the programme's expiry; the measurement is based on the weighted average share price during the 30 trading days preceding the payment date.

The stock option programmes for certain members of the Management Board lapsed because the respective director's contracts expired. Income of TEUR 56 (previous year: expenses of TEUR 27) was recognised under personnel expenses in connection with this stock option programme for the financial year just ended. A liability of TEUR 44 (previous year: TEUR 100) was recognised for the share-based payments as at 31 December 2011.

## 27. Borrowings

Borrowing are comprised as follows:

| EUR million | Total | up to 1 year | 1 to 5 years | more than 5 years |
|---|---|---|---|---|
| **As at 31.12.2011** | | | | |
| Liabilities to banks | 124.9 | 53.1 | 71.8 | – |
| Derivative financial instruments | – | – | – | – |
| Other borrowings | 16.4 | 0.5 | – | 15.9 |
| **Total** | **141.3** | **53.6** | **71.8** | **15.9** |
| **As at 31.12.2010** | | | | |
| Liabilities to banks | 277.7 | 277.7 | – | – |
| Derivative financial instruments | 1.0 | 1.0 | – | – |
| Other borrowings | 12.9 | 1.8 | – | 11.1 |
| **Total** | **291.6** | **280.5** | **–** | **11.1** |

To ensure sufficient operating liquidity, on 31 July 2007 Conergy AG, Momentum Renewables GmbH (formerly: EPURON GmbH), Conergy SolarModule GmbH & Co. KG and Conergy Deutschland GmbH had closed a syndicated loan for a total of EUR 600 million from originally 23 banks under the leadership of Commerzbank AG, Dresdner Bank AG and WestLB AG (EUR 400 million cash loan and EUR 200 million guarantee and documentary credit facility) ("2007 Syndicated Loan Agreement"). The cash loan was divided into two tranches and was intended for financing the construction of the production facility in Frankfurt (Oder) (Tranche A) and for financing Conergy Group's working capital requirements (Tranche B with a revolving facility of EUR 250 million). In addition, the loan provided a guarantee and documentary credit facility of EUR 200 million. Originally, Tranche A for EUR 150 million had to be paid back in half-yearly instalments until 31 December 2011, starting in 30 June 2008. Tranche B in the amount of EUR 250 million was originally scheduled for repayment by 31 July 2010. On 29 July 2010, Conergy originally had reached an agreement with its financing banks to extend all loans until the end of 2011. The parties had also agreed that the three instalments outstanding on the term loan (Tranche A) would also be suspended until the end of 2011. These agreements were subject to certain terms. Conergy and the banking syndicate had agreed in this connection to commission an independent auditing firm to prepare an independent business review. This independent business review came to the conclusion that follow-up financing for the current credit facility beyond 31 December 2011 would be rather unlikely unless the Company's capital base was strengthened. This conclusion triggered a suspensive condition, accelerating the maturity date of all loans to 21 December 2010.

On 17 December 2010 the Company reached an agreement with its creditors on a restructuring plan based on a Restructuring Term Sheet that basically entailed refinancing the Company's loan liabilities through a mixed cash and non-cash capital increase. The Extraordinary General Meeting on 25 February 2011 resolved to reduce the capital by a ratio of 8 to 1 in connection with the implementation of the restructuring plan. The resolution regarding the capital decrease was recorded in the Company's Commercial Register on 23 June 2011. The mixed cash and non-cash capital increase, which had also been adopted on 25 February 2011, followed immediately. The Company's shareholders exercised their subscription right during a two-week subscription period, which ended on 12 July 2011, by subscribing for shares worth a total of EUR 13,226,962 at a subscription price of EUR 1.05 per new share. Some of the existing lenders under the 2007 syndicated loan agreement were also given the option to subscribe to the Company's new shares in return for contributing their loan receivables from the Company to the extent that subscription rights had not been exercised or were excluded because they were fractional shares. After the subscription period, some of the lenders under the 2007 syndicated loan agreement subscribed a total of 96,807,229 shares in return for contributing their loan receivables from the Company, the nominal amount of which was discounted by 40 percent. The implementation of the capital increase in return for cash and in-kind contributions was recorded in the appropriate Commercial Register on 21 July 2011. These two steps enabled Conergy AG to reduce its liabilities by a total of EUR 182.6 million.

The new syndicated loan agreement (2011 Syndicated Loan Agreement) took effect after the capital increase was recorded in the Commercial Register on 21 July 2011, replacing the 2007 Syndicated Loan Agreement after the loans thereunder had been repaid. Conergy AG and Conergy SolarModule GmbH & Co. KG acting as borrowers, as well as other significant companies of the Conergy Group acting as guarantors, and ten banks led by Commerzbank International S. A., Luxembourg, closed this new loan agreement for EUR 263.1 million on 8 July 2011.

The scope of the collateral for the 2011 Syndicated Loan Agreement is basically identical to that for the

2007 Syndicated Loan Agreement. As is customary for such funding arrangements, the collateral made available for the 2007 Syndicated Loan Agreement was released and new collateral was created for the loan agreement dated 8 July 2011. Some of the collateral provided under the 2007 Syndicated Loan Agreement remained in place in modified form. The contracts underlying the respective collateral were basically amended to reflect that henceforth the existing collateral would serve as security for the liabilities of Zurich Insurance plc, German Office, and in part those of euro delkredere GmbH & Co. KG under the 2011 Syndicated Loan Agreement. In particular, the 2011 Syndicated Loan Agreement thus has been collateralised by pledging absolutely all equity interests in Conergy Deutschland GmbH, voltwerk electronics GmbH, Mounting Systems GmbH, Conergy SolarModule GmbH & Co. KG, Conergy SolarModule Verwaltungs GmbH, Conergy Services GmbH, Conergy Real Estate Verwaltungs GmbH, Conergy Real Estate GmbH & Co. KG, Momentum Renewables GmbH (formerly: Epuron GmbH), Conergy Inc. (USA), Conergy Projects Inc. (USA) and Conergy Pty. Ltd. (Australia). Conergy has also created senior collateral in favour of the lenders based on all of its material assets or conveyed, pledged or assigned them for security purposes to an entity holding the collateral.

Of the three-tranche 2011 Syndicated Loan Agreement, Tranche A in the amount of EUR 71.8 million will serve to fund existing liabilities under the 2007 Syndicated Loan Agreement; Tranche B provides a revolving facility of EUR 50.0 million and covers the Conergy Group's working capital requirements as well as other defined operating purposes; Tranche C in the amount of EUR 141.3 million finally serves to fund existing guarantees and cover additional guarantees as required. Whilst all tranches are due and must be repaid in full four years from initial drawdown, revolving loans utilised under Tranche B must either be repaid at the end of the respective interest period or allocated to a new interest period without having been repaid and newly granted; they may then be used until one month prior to final maturity.

The individual tranches of the 2011 Syndicated Loan Agreement are subject to interest at a variable 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 2011 Syndicated Loan Agreement provides for a markup of 1 percent per annum if Conergy AG, Conergy SolarModule GmbH & Co. KG or a guarantor under the 2011 Syndicated Loan Agreement fail to repay an amount due and payable in due time.

Unless any of the exceptions set out in the 2011 Syndicated Loan Agreement intervene, Conergy is obligated – if it borrows capital on the capital market, sells assets and receives insurance payments – to use the net proceeds for early repayment of both interest and costs outstanding first; if neither interest nor costs are owed, such net proceeds must be used to repay Tranche A and, once it has been repaid in full, Tranche B.

The 2011 Syndicated Loan Agreement also contains customary provisions regarding both voluntary and mandatory special loan payments. The 2011 Syndicated Loan Agreement contains requirements that have an impact on the Conergy Group's ability to exercise discretion in operational terms. Certain requirements 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 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 2011 Syndicated 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). Conergy AG and other Group companies may declare a dividend only if a predefined level of liabilities was met in the calendar quarter immediately preceding the date of the envisioned distribution. Moreover no creditor is obligated to satisfy a demand for payment by a borrower in the event of a change of control. In certain circumstances, the creditors have the right to terminate the loan agreement for cause, such right to be exercised by each bank individually. The aforementioned rights shall inure to the creditors during the first three years from the first drawdown under the loan agreement if they are enjoined, due to either corporate requirements internal to the given entity or regulatory requirements, from serving as a creditor on account of the change of control.

The loan agreement contains extensive disclosure requirements vis-à-vis the financing banks. The Company is also obligated to comply with certain financial covenants starting in 2014. These financial covenants shall be established in December 2013 by mutual agreement between the Company and the lenders. Absent an agreement the financial covenants shall be based on the Company's targets until 2014 less risk discounts. Any breach of the financial covenants that apply from 2014 may give the banks the right to call the tranches of the loan.

## 28. Trade accounts payable

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

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| | | |
| Trade payables | 88.2 | 161.7 |
| Thereof | | |
| Advance payments received | 8.3 | 12.2 |

## 29. Other liabilities

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| | | |
| Other liabilities | 22.7 | 30.1 |
| Thereof | | |
| Liabilities arising from salary or wage settlement for employees | 9.5 | 12.3 |
| Liabilities to the tax office | 4.4 | 9.2 |
| Accrued expenses | 2.1 | 2.8 |
| Deferred income | 1.9 | 3.3 |
| Liabilities related to social security | 0.4 | 0.6 |
| Miscellaneous other liabilities | 4.4 | 1.9 |
| | | |
| Non-current | **1.8** | **2.0** |

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 4.4 million (previous year: EUR 9.2 million) in liabilities to the tax authority primarily concerns import VAT liabilities due within one year.

The miscellaneous other liabilities in the amount of EUR 4.4 million (previous year: EUR 2.0 million) cover a multitude of elements in subsidiaries, each of which by itself is immaterial.

## 30. Reporting on financial instruments

The Conergy Group's risk management system for credit risks, liquidity risks and individual market risks (i.e. interest rate risks, currency risks and other price risks) is described in note 5 as well as in the risk report of the Group management report.

## 30.1 Disclosures on financial instruments by category

The following table shows both the carrying amounts and the fair values of the individual financial assets and liabilities for each individual category of financial instruments and reconciles them with the corresponding balance sheet item. As the balance sheet item “other assets” contains both financial instruments and non-financial assets (e. g. receivables from the tax office or prepaid expenses and accrued income), the column entitled “non-financial assets” serves to provide the necessary reconciliation.

**Carrying amounts and fair values of financial instruments**

| | 31.12.2011 | | | | |
|---|---|---|---|---|---|
| | Measured at amortised cost | | Measured at fair value | Non-financial assets | |
| **EUR million** | **Carrying amount** | **Fair value** | **Carrying amount** | **Carrying amount** | **Carrying amount shown in the balance sheet** |
| Trade accounts receivable | 83.2 | – | – | – | 83.2 |
| Loans and receivables | 83.2 | 83.2 | – | – | 83.2 |
| Financial assets | 9.7 | – | 0.2 | – | 9.9 |
| Loans and receivables | 9.7 | 9.7 | – | – | 9.7 |
| Derivatives in hedge accounting | – | – | 0.2 | – | 0.2 |
| Other assets | 18.1 | – | – | 10.0 | 28.1 |
| Loans and receivables | 18.1 | 18.1 | – | – | 18.1 |
| Non-financial assets | – | – | – | 10.0 | 10.0 |
| Cash and cash equivalents | 23.8 | – | – | – | 23.8 |
| Loans and receivables | 23.8 | 23.8 | – | – | 23.8 |
| **Financial assets (total)** | **134.8** | **–** | **0.2** | **–** | **135.0** |
| Thereof: Loans and receivables | 134.8 | – | 0.2 | – | 135.0 |
| Borrowings | 141.3 | – | – | – | 141.3 |
| Measured at amortised cost | 141.3 | 141.3 | – | – | 141.3 |
| Derivatives in hedge accounting | – | – | – | – | – |
| Liabilities held for trading | – | – | – | – | – |
| Trade accounts payable | 88.2 | – | – | – | 88.2 |
| Measured at amortised cost | 88.2 | 88.2 | – | – | 88.2 |
| **Financial liabilities (total)** | **229.5** | **–** | **-** | **–** | **229.5** |

| Carrying amounts and fair values of financial instruments | | | | | |
|---|---|---|---|---|---|
| | 31.12.2010 | | | | |
| | Measured at amortised cost | | Measured at fair value | Non-financial assets | |
| EUR million | Carrying amount | Fair value | Carrying amount | Carrying amount | Carrying amount shown in the balance sheet |
| Trade accounts receivable | 103.2 | – | – | – | 103.2 |
| Loans and receivables | 103.2 | 103.2 | – | – | 103.2 |
| Financial assets | 6.2 | – | – | – | 6.2 |
| Loans and receivables | 6.2 | 6.2 | – | – | 6.2 |
| Other assets | 37.5 | – | – | 27.3 | 64.8 |
| Loans and receivables | 37.5 | 37.5 | – | – | 37.5 |
| Non-financial assets | – | – | – | 27.3 | 27.3 |
| Cash and cash equivalents | 36.7 | – | – | – | 36.7 |
| Loans and receivables | 36.7 | 36.7 | – | – | 36.7 |
| **Financial assets (total)** | **183.6** | **–** | **–** | **–** | **183.6** |
| Thereof: Loans and receivables | 183.6 | – | – | – | 183.6 |
| Borrowings | 290.6 | – | 1.0 | – | 291.6 |
| Measured at amortised cost | 290.6 | 290.6 | – | – | 290.6 |
| Derivatives in hedge accounting | – | – | – | – | – |
| Liabilities held for trading | – | – | 1.0 | – | 1.0 |
| Trade accounts payable | 161.7 | – | – | – | 161.7 |
| Measured at amortised cost | 161.7 | 161.7 | – | – | 161.7 |
| **Financial liabilities (total)** | **452.3** | **–** | **1.0** | **–** | **453.3** |

The financial instruments at fair value are measured according to Level 2 based on their input factors.

Cash and cash equivalents, trade accounts receivable, other assets and current financial assets largely have short residual lives. Hence the carrying amounts correspond mainly 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.

Trade accounts payable as well as borrowings generally have short residual lives and are subject to variable interest rates. Their carrying amounts thus correspond to their fair values.

## 30.2 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 and the non-operating result.

| Net profit or loss by measurement category | | |
|---|---|---|
| EUR million | 2011 | 2010 |
| Loans and receivables | −7.1 | 13.8 |
| Held-to-maturity investments | – | – |
| Available-for-sale financial assets | – | – |
| Financial instruments held for trading | −2.2 | 0.8 |
| Financial liabilities measured at amortised cost | −4.7 | −0.5 |
| | **−14.0** | **14.1** |

Net gains from loans and receivables amounted to EUR −7.1 million. Of this amount, EUR 1.6 million (previous year: 12.7 million) result from currency translation and EUR −8.7 million (previous year: reversal of writedowns EUR 1.1 million) result from the writedown on receivables.

Net loss of EUR 2.2 million (previous year: net gain EUR 0.8 million) from financial instruments held for trading concern derivative financial instruments.

The net loss of EUR 4.7 million (previous year: EUR 0.5 million) from financial liabilities measured at amortised cost resulted from currency translation.

## 30.3 Maturity analysis

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

| EUR million | Carrying amount | Cash flows up to 1 year | Cash flows 1 to 5 years | Cash flows more than 5 years |
|---|---|---|---|---|
| **As at 31.12.2011** | | | | |
| Liabilities to banks | 124.9 | 57.1 | 90.7 | – |
| Derivative financial instruments | – | – | – | – |
| Other borrowings | 16.4 | 0.5 | – | 15.9 |
| Trade accounts payable | 88.2 | 88.2 | – | – |
| Obligations under rental and lease contracts | 30.4 | 11.4 | 16.8 | 2.2 |
| **As at 31.12.2010** | | | | |
| Liabilities to banks | 277.7 | 277.7 | – | – |
| Derivative financial instruments | 1.0 | 1.0 | – | – |
| Other borrowings | 12.9 | 1.8 | – | 11.1 |
| Trade accounts payable | 161.7 | 161.7 | – | – |
| Obligations under rental and lease contracts | 36.4 | 11.6 | 20.3 | 4.5 |

Cash outflows for interest payments related to financial liabilities with a maturity of up to one year are estimated at EUR 4.0 million (previous year: EUR 8.0 million). Particularly the 2011 refinancing package must be considered in this connection.

There are also annual payment obligations of EUR 1.5 million for the land at the Company's production sites in Rangsdorf and Frankfurt (Oder) that have a negative impact mainly on net interest income and are attributable to the Other financial liabilities.

The carrying amounts essentially correspond to the fair values of these liabilities. 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.

### 30.4 Disclosures on derivatives

The following transactions with derivative financial instruments existed at year's end:

| EUR million | 31.12.2011 | | | 31.12.2010 | | |
|---|---|---|---|---|---|---|
| | Nominal value | Positive market value | Negative market value | Nominal value | Positive market value | Negative market value |
| Interest rate swaps<br>Cash flow hedges | – | – | – | 37.5 | – | 0.9 |
| Forward exchange and currency option transactions<br>Fair value hedges | 3.9 | 0.2 | – | 31.7 | – | 0.1 |
| | **3.9** | **0.2** | **–** | **69.2** | **–** | **1.0** |

The positive market value of derivative financial instruments in the amount of EUR 0.2 million as at 31.12.2011 is shown under other financial assets. It was reported under borrowings in the previous year.

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.

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 derivative and primary financial instruments as at 31 December 2011 would have been EUR 10.4 million; it would have been mainly attributable to the currency risk arising from liabilities in US dollars.

An increase of one percentage point in all relevant interest rates as at 31 December 2011 would have reduced the non-operating result by EUR 1.2 million. Conversely, a decrease in all relevant interest rates would have improved the non-operating result by EUR 1.2 million.

## Other disclosures

### 31. In- and outflow of cash and cash equivalents

The consolidated statement of cash flows shows the changes in the Group's cash and cash equivalents resulting from the in- and outflow of funds during the financial year. The consolidated statement of cash flows 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 (EBIT) of EUR –182.8 million in the 2011 financial year (previous year: EUR –13.8 million), adjusted for non-cash items such as depreciation, amortisation and impairment losses, changes in non-current provisions as well as other non-cash income and expenses such as, for instance,

portions of the net gain/loss from currency translation, and writedowns of inventories and receivables, the cash outflow from operating activities before changes in net working capital (gross cash flow) was EUR 65.6 million. This compares to a cash inflow of EUR 34.5 million in the 2010 financial year.

Net cash outflows from operating activities after changes in the net cash flow from the Conergy Group's continuing operations in the 2011 financial year thus were EUR 47.1 million in the aggregate, compared to a cash inflow of EUR 17.1 million in the 2010 financial year. The net cash flow in the 2011 financial year results from the negative gross cash flow as well as additional cash outflows in the amount of EUR 7.4 million (previous year: cash outflow of EUR 22.8 million) related to the increase in the working capital. The increase in working capital was due in particular to the comparably large reduction in trade accounts payable by EUR 67.8 million (previous year: increase in trade accounts payable by EUR 41.8 million). During 2011 financial year, inventories decreased by EUR 50.3 million, compared to the 2010 financial year when inventories rose by EUR 73.3 million. In the previous year, trade accounts receivable fell by EUR 8.7 million while in the 2011 financial year there was a decrease in trade accounts receivable by EUR 10.1 million. Other net assets changed by EUR 28.6 million (previous year: EUR 4.9 million) due, among other things, to the recognition of provisions for the change of module production in Frankfurt (Oder). While Conergy had received tax refunds of EUR 0.5 million in the previous year, EUR 2.7 million in taxes had to be paid in the 2011 financial year.

The cash flow from operating activities related to the discontinued operations of EPURON – biomass, biogas, wind energy projects and CSP – in the 2011 financial year was EUR 1.9 million (previous year: EUR –9.2 million). This figure is shown in a separate item in the statement of cash flows. Overall, the cash outflow from operating activities amounted to EUR 45.2 million (previous year:: cash inflow of EUR 7.9 million).

**Investing activities**
In the 2011 financial year, EUR 15.6 million in net cash were provided by investing activities (previous year: cash outflow of EUR 9.1 million). This cash inflow is due especially to proceeds from the sale of subsidiaries amounting to EUR 25.3 million (previous year: EUR 0.4 million). The Group invested a net total of EUR 14.6 million (previous year: EUR 14.6 million) in property, plant and equipment as well as intangible assets. The inflow of funds from financial assets was EUR 2.4 million (previous year: inflow of EUR 4.2 million). The Conergy Group received interest payments of EUR 0.9 million (previous year: EUR 0.9 million).

**Financing activities**
A net total of EUR 15.4 million was generated from financing activities in the 2011 financial year (previous year: cash outflow of EUR 15.2 million). This cash inflow was due primarily to the restructuring of the Company's borrowings, which basically entailed refinancing liabilities in connection with the capital measures in the third quarter of 2011. In this context, the company received EUR 13.9 million from the capital increase executed in July 2011, for which it incurred costs of EUR 3.6 million. Conergy used the net proceeds from the capital increase subject to shareholders' subscription right to repay loans from its lenders in July 2011. The new loan agreement was also signed in July 2011. The proceeds of this loan were also used to discharge the remaining principal outstanding under the 2007 syndicated loan agreement. It has been extinguished as a result. Please see the section dealing with the terms and conditions of the syndicated loan agreement in regards to details of the new syndicated loan agreement in the section "net liabilities" (see note 27).

Add to that interest payments of EUR 14.2 million, which were down year on year (previous year: EUR 16.9 million).

## 32. Contingent liabilities and receivables, and other financial obligations

**Contingent liabilities and receivables**
Conergy has assumed a total of EUR 110.2 million in bank guarantees and documentary credits as part of the 2011 syndicated credit facility. The Company also had liabilities to other banks from EUR 18.9 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 25) to the extent that payment obligations are expected to arise from the guarantees issued.

In connection with pending legal disputes, Conergy currently assumes that it will be able to assert the claims made thereunder. In accordance with IAS 37, Conergy has not recognised possible receivables resulting from these claims.

**Rental and lease contracts**
The Group maintains operating leases primarily 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 | 31.12.2011 | 31.12.2010 |
|---|---|---|
| | | |
| Up to 1 year | 11.4 | 11.6 |
| 1 to 5 years | 16.8 | 20.3 |
| More than 5 years | 2.2 | 4.5 |
| | **30.4** | **36.4** |

**Obligations under finance leases**
Conergy has entered into finance leases for two photovoltaic projects that were financed by way of a sale-and-lease-back transaction.

The carrying amount of the inventories held under finance leases as at 31 December 2011 amounted to EUR 4.9 million.

The future obligations arising from finance leases are as follows:

| EUR million | 31.12.2011 |
|---|---|
| | |
| **Minimum lease payments** | |
| with a remaining term of one year or less | 0.4 |
| with a remaining term of one to five years | 2.2 |
| with a remaining term of more than five years | 5.1 |
| **Minimum lease payments** | |
| less unrealised finance costs | 2.8 |
| **Liabilities from finance leases** | **4.9** |

In the 2011 financial year, payments of EUR 1.1 million were made under finance leases.

**Purchase commitment and obligations to accept goods**
Conergy has undertaken to purchase solar wafers and solar modules from suppliers. These contracts have original 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 had 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. The amount to be purchased from MEMC in future was in line with the needs of the Conergy solar factory in Frankfurt (Oder); it includes a total sales volume of approximately USD 840 million. The wafer prices are based on the prevailing market price. The amount payable will be determined annually based on defined criteria. The prepayments in the amount of USD 26.6 million required thereunder from 2010 have already been made. MEMC is supposed to repay to Conergy the payments into the Refundable Capacity Reservation Deposit, which are to be fixed annually, over the term of the agreement. But the amount may be offset against MEMC's receivables if Conergy defaults or fails to perform. Given its strategic realignment and its related focus on module production at the Frankfurt (Oder) production plant, Conergy is currently negotiating with MEMC in order to change its purchase obligation to the cells required for module production.

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

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| | | |
| Up to 1 year | 182.4 | 145.7 |
| 1 to 5 years | 328.6 | 455.3 |
| More than 5 years | 237.1 | 348.9 |
| | **748.1** | **949.9** |

**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 1.5 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.

Insurance policies with a term of one year give rise to financial obligations in the amount of EUR 2.2 million.

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

| EUR million | 31.12.2011 | 31.12.2010 |
|---|---|---|
| | | |
| Up to 1 year | 3.7 | 2.8 |
| 1 to 5 years | 6.1 | 6.5 |
| More than 5 years | 131.0 | 127.3 |
| | **140.8** | **136.6** |

## 33. 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 to the extent that they occupy key positions, 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 non-consolidated 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 did not maintain business relationships with related parties as at 31 December 2011.

No loans were outstanding to members of the Management Board or Supervisory Board as at 31 December 2011.

The compensation report in the Group management 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. 6a sentence 5 through 8 and no. 6b German Commercial Code.

The total compensation paid to the members of the Management Board was TEUR 1,063 (previous year: TEUR 3,974).

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. A share-based payment was made to one member of the Management Board in the 2011 financial year.

| TEUR | 2011 | 2010 |
|---|---|---|
| | | |
| Fixed annual compensation | 769 | 2,050 |
| Compensation in kind/other benefits* | 285 | 399 |
| **Non-performance-based compensation** | **1,054** | **2,449** |
| Short-term variable compensation** | 65 | 1,498 |
| **Directly paid compensation** | **1,119** | **3,947** |
| Fair value of newly granted share-based payment (SAR) | 76 | 152 |
| **Total compensation according to HGB** | **1,195** | **4,099** |
| | | |
| Long-term variable compensation (benefits vested in the current year) | 44 | 100 |
| Change in value of existing benefits | −100 | −73 |
| **Share-based payment** | **−56** | **27** |
| | | |
| Total directly paid compensation | 1,119 | 3,947 |
| Long-term variable compensation (benefits vested in the current year) | 44 | 100 |
| Change in value of existing benefits | −100 | −73 |
| **Total compensation according to IFRS** | **1,063** | **3,974** |

* The other compensation components comprise non-cash compensation (e.g. company car, insurance) and allowances for pension insurance (relief fund) as well as the reimbursement of flights home and relocation expenses.; as for Dr. Biedenkopf it also comprises a onetime, contractually agreed upon, restructuring bonus of TEUR 205; as for Mr. Wilsdorf the compensation for the share-based remuneration of TEUR 34 on the basis of the termination agreement are included

** These figures are mainly based on provisions, assuming full target achievement

Dr. Sebastian Biedenkopf exercised a special right to terminate his contract effective at the end of February 2012. Subsequently, the Company and Dr. Sebastian Biedenkopf entered into a severance agreement after the close of the reporting year. Dr. Biedenkopf shall be paid a one-off termination benefit of TEUR 550 gross thereunder. This amount constitutes payment in full of all claims by Dr. Biedenkopf against the Company, in particular claims to fixed or variable compensation as well as claims to payment of phantom stock options allocated to him in the past.

Please see the compensation report contained in the Group management report for more details.

The Supervisory Board members received compensation totalling TEUR 406 (previous year: TEUR 373).

Business transactions with non-consolidated subsidiaries were conducted at arm's length.

The following table shows the scope of deliveries and services to related companies that were recognised in Conergy's consolidated financial statements at amortised cost:

| EUR million | 2011 | 2010 |
|---|---|---|
| Income | 0.3 | 0.3 |
| Expenses | 0.0 | 0.0 |
| Receivables | 0.2 | 1.0 |
| Liabilities | 0.5 | 0.7 |

## 34. Number of employees

The Group had 1,461 employees (expressed in full time equivalents), including managing directors and Management Board members, as of 31 December 2011 (previous year: 1,600).

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

| | 2011 | 2010 |
|---|---|---|
| Germany | 1,076 | 1,071 |
| Europe | 179 | 250 |
| Rest of world | 262 | 231 |
| | **1,517** | **1,552** |
| Thereof | | |
| Production | 507 | 459 |
| Administrative/technical area | 1,010 | 1,093 |
| | **1,517** | **1,552** |

Adjusted for the average number of employees in the discontinued operations, in the 2011 financial year 1,510 employees were employed with the Group on average (previous year: 1,496 employees).

## 35. Auditing fees

The total fees for the auditor of the consolidated financial statements in the financial year just ended amounted to:

| EUR million | 2011 |
|---|---|
| Auditing services | 0.3 |
| Other confirmation services | 0.1 |
| Tax consultancy services | 0.0 |
| Other services | 0.0 |
| | **0.4** |

These fees primarily include the fees for the audit of the consolidated financial statements as well as for the audit of the annual financial statements of Conergy and its significant domestic subsidiaries. Other expenses for confirmations are related to the review of Conergy AG's interim financial statements.

## 36. 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 publicly available on the Company's website.

## 37. Events after the reporting period

On 12 January 2012, the Supervisory Board of Conergy AG assigned the Supervisory Board's Chairman, Dr. Philip Comberg, to the Company's Management Board until 31 December 2012 in accordance with Section 105 para. 2 clause 1 German Stock Corporation Act (Aktiengesetz – AktG) effective immediately. He assumed the position of Management Board Chairman, which had been vacant since October 2010. Alexander Gorski serves as the Company's Chief Operating Officer and for its European subsidiaries. His term of office has been extended by two years to 31 December 2014. Effective immediately, the Supervisory Board also appointed Messrs Jan Vannerum and Marc Lohoff to the Company's Management Board until 31 December 2014. Jan Vannerum has taken over the office of Chief Financial Officer from Dr. Sebastian Biedenkopf, who resigned from the Company at the end of February 2012 at his own request. Marc Lohoff is Management Board member responsible for Conergy's activities in Asia-Pacific, North America and the Middle East.

In all likelihood, the sale of voltwerk electronics GmbH to the Bosch Group will be executed by 30 April 2012 at the latest. The cartel authorities responsible for reviewing mergers in the various countries defined in the agreement have approved the takeover. The condition precedent stipulated in the agreement has therefore been met.

Hamburg, Germany, 21 March 2012
Conergy AG
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 material opportunities and risks associated with the expected development of the Group.

Hamburg, 21 March 2012
Conergy AG
The Management Board

Dr. Philip Comberg    Alexander Gorski

Marc Lohoff    Jan Vannerum

## Independent Auditors' Report
### (Translation of the German version; in case of doubt only the German version is valid)

"We have audited the consolidated financial statements prepared by Conergy AG, Hamburg, comprising the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. 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 Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the 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 comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (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 fact that the existence of the Group and Conergy AG, Hamburg, as a going concern is jeopardized by risks. As stated in the Group management report in the section "Risk and opportunity report" under "Liquidity risks" the existence of the Group as a going concern is explained to be at risk due to the liquidity cover, which remains very thin and depends solely on earnings from operating activities, since it is uncertain whether not insignificant shortfalls in expected sales and earnings as well as in expected cash inflows from operating activities could be compensated through other actions, especially cash injections from shareholders and third-party lenders. The management board cannot judge at present whether the shareholders or third-party lenders would be willing to do so."

Hamburg, 22 March 2012
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Klimmer | Hantke |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

## 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.

## Contact

**Investor Relations**
Christoph Marx
Tel.: +49/40/271-42-1634
Fax: +49/40/271-42-1639
Email: investor@Conergy.de

**Corporate Communications**
Antje Stephan
Tel.: +49/40/271-42-1632
Fax: +49/40/271-42-1639
Email: presse@Conergy.de

## Imprint

**Published by**
Conergy AG
Anckelmannsplatz 1
20537 Hamburg
Germany

**Editor**
Christoph Marx and Bettina Gackenholz

**Concept, layout and production**
Agentur Punktlandung, Hamburg

Annual Reports, Interim Reports and further information on Conergy AG are available on the internet. We are pleased to send you printed versions of the Annual Report as well as additional information upon request.

# 2012 Financial calendar

**Thursday, 29 March 2012**

Publication of the 2011 financial statements

**Tuesday, 15 May 2012**

Publication of the interim report first quarter 2012

**Tuesday, 5 June 2012**

General Shareholders' Meeting

**Tuesday, 14 August 2012**

Publication of the interim report first half-year 2012

**Tuesday, 13 November 2012**

Publication of the interim report third quarter 2012

**Conergy AG**
Anckelmannsplatz 1
20537 Hamburg
Germany
**www.conergy-group.com**