SolarWorld AG

Group Management Report 2005

SOLARWORLD
THE SUNPOWERED COMPANY®

Advantage

Selected Corporate Indicators

Income statement figures	2005 €m	2004 in €m	Var. in %
Sales	356.0	199.9	+ 78
EBITDA	108.3	49.3	+ 120
EBIT	88.6	32.9	+ 169
Consolidated net profit	52.0	18.1	+ 187

Balance sheet figures	2005 €m	2004 €m	Var. in %
Total assets	446.6	276.3	+ 62
Non-current assets*	217.5	181.2	+ 20
Current assets*	226.8	91.3	+ 148
Equity	217.1	124.5	+ 74
Liabilities*	221.6	144.2	+ 54

Selected indicators	2005	2004	Variation
Equity ratio	48.6%	45.1%	3.5 %-Punkte
Return on equity	23.9%	14.6%	9.4 %-Punkte
ROCE – Return on capital employed**	25.1%	15.7%	10.6 %-Punkte
Sales return	14.6%	9.1%	5.5 %-Punkte
Acid-test ratio***	1.37	0.45	+ 0.92

Employee indicators	2005	2004	Variation
No. of employees****	759	616	+ 23
Sales per capita	469 t€	325 t€	+ 44
Value added per capita	168 t€	105 t€	+ 60
EBIT per capita	117 t€	53 t€	+ 121
Personnel cost ratio	10.6%	15.4%	- 4.8 %-points

* excl. deferred taxes
** EBIT/ total capital – current liabilities
*** Total cash + securities/current liabilities
**** as at the cutoff date 31.12.

SolarWorld Stock Indicators

ISIN (International Securities Identification Number) DE0005108401//
WKN (Wertpapier-Kenn-Nummer) 510840

Prime Standard/TecDAX	2005	2004***
Number of shares	12.700 m	11.550 m
Earnings per share*	4.09 €	1.57 €
Dividend per share **	0.50 €	0.18 €
Opening price at beginning of year	33.25 €	5.50 €
Closing price at year-end	113.0 €	32.91 €
Development in per cent	+ 240%	+ 498%

* as at the cutoff date 31 Dec.
** dividend proposed to the Annual General Meeting
*** adjusted to the bonus shares issued in 2005

Indicators Development in a 5-year period

Sales (€m)

2005	**356.0**
2004	199.9
2003	98.5
2002	108.9
2001	82.1

EBITDA (€m)

2005	**108.3**
2004	49.4
2003	11.7
2002	11.7
2001	20.7

Consolidated net income/net loss for the year (€m)

2005	**52.0**
2004	18.1
2003	-5.4
2002	-1.5
2001	8.7

EBIT (€m)

2005	**88.6**
2004	32.9
2003	-3.1
2002	2.4
2001	13.4

Capital expenditure (€m)

2005	**57.3**
2004	32.3
2003	30.9
2002	93.8
2001	49.7

Equity (€m)

2005	**217.1**
2004	124.5
2003	107.5
2002	110.0
2001	103.4

Employees

2005	**759**
2004	616
2003	525
2002	407
2001	300

Total assets (€m)

2005	**446.6**
2004	276.3
2003	274.8
2002	237.5
2001	211.8

Quarterly Comparison of the Consolidated Income Statement

in t€	Q1 2005	Q2 2005	Q3 2005	Q4 2005
Sales revenues	57,908	78,712	110,523	108,828
Change in inventory of finished goods	9,319	275	515	2,278
Own work capitalized	0	0	0	3,359
Other operating income	2,686	3,867	3,801	4,502
Cost of materials	-37,809	-44,478	-67,067	- 61,548
Staff costs	-8,265	-9,255	-9,041	- 11,219
Depreciation and amortization	-4,360	-4,530	-4,898	- 5,899
Other operating expenses	-6,106	-6,571	-7,835	- 9,078
Operating result	**13,373**	**18,020**	**25,998**	**31,223**
Net financial income	-1,400	-1,096	-1,656	- 698
Earnings before taxes on income	**11,973**	**16,924**	**24,342**	**30,525**
Income taxes	-4,542	-5,860	-9,278	12,102
Consolidated net profit/loss	**7,431**	**11,064**	**15,064**	**18,423**

SolarWorld Group: Business Development at home and abroad

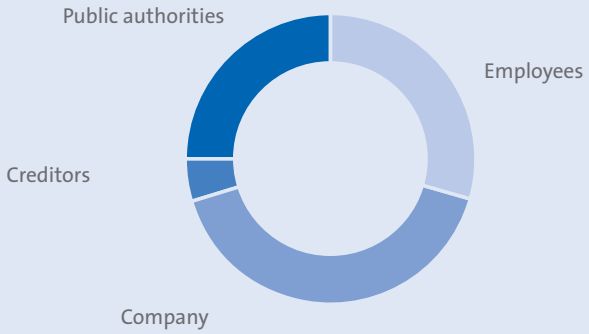
Sales revenues (€m)	Reporting period 2005	Previous year 2004	+/- €m	+/- in %
Total	356.0	199.9	+ 156.1	+ 78.1
Germany	264.0	141.0	+ 123.0	+ 87.2
Abroad	92.0	58.9	+ 33.1	+ 56.2

Statement of Added Value Creation of the SolarWorld Group

Origin	Added value creation t€	%	Added value creation t€	%
Sales revenues	355,971	95.5	199,933	107.5
Other revenues	16,873	4.5	-14,025	-7.5
Result of operations	372,844	100.0	185,908	100.0
Cost of materials	210,902	56.6	93,005	50.0
Depreciation/Amortization	19,687	5.3	16,456	8.9
Other expenses (net)	14,734	4.0	12,090	6.5
Value added	127,521	34.2	64,357	34.6

Distribution	2005 t€	%	2004 t€	%
Employees	37,780	29.6	30,833	47.9
Company	51,982	40.8	18,114	28.1
Creditors	5,977	4.7	4,989	7.8
Public authorities	31,782	24.9	10,421	16.2
Value added	127,521	100.0	64,357	100.0

Distribution of value added 2005



Our employees from the group's wafer, solar cell and module divisions are standing here in the new production halls for wafer crystallization.

Annual Review –

January - June

Launch of the GEX (German Entrepreneurial Index):
SolarWorld AG has been listed in this quality index of Deutsche Börse AG for owner-managed companies since its inception.

Synergies in research and development:
The group establishes a new technology center for semiconductor materials in Freiberg in cooperation with industrial partners and the Fraunhofer Institute.
P. 70

Strengthening of capital and finance situation for further expansion:
The expansion of production in Freiberg is supported by a capital increase and structured finance schemes.
P. 37, 54

Large-scale contract for Spanish power plant in Tenerife:
SolarWorld AG supplies solar modules of around 2.1 megawatts (MW) to Instituto Tecnológico y de Energías Renovables (ITER), Spain's largest solar power project.

Key for cost-effective raw material supplies for the future:
The first Joint Solar Silicon prototype plant for the production of solar-grade silicon enters the crucial test phase. Long-term agreement with large silicon manufacturer Wacker GmbH complements the group's silicon strategy.
S. 37, 38

JANUARY / FEBRUARY

MARCH / APRIL

Highlights 2005

New production site with efficient TCVP technology developed in-house:
Expansion in the group's crystallization capacity by 60 MW to 180 MW.
P. 39

Political presence at the Freiberg site:
The Saxon state premier Milbradt (CDU), Saxon minister of economics and labour Jurk (SPD) und undersecretary of state Habermann (SPD) visit the site to inform themselves about the economic strength of modern solar power production.

Doubling of capital stock to Euro 12.7 million by means of issue of bonus shares:
Stock exchange listing will take effect on 20 June 2005.
P. 46

Launch of new SolarWorld brands:
SolarWorld AG presents its new brands Sunmodule, Sunkits and Sunplug as well as assembly systems of the Sunfix series at the international trade fair Intersolar 2005 in Freiburg and at the 20th European Photovoltaic Conference WIP in Barcelona, Spain.

The Annual General Meeting decided to double the dividends:
The actionists` engagement is rewarded with a dividend of 0.36 €.

MAY / JUNE




Annual Review –

July - December

Establishment of the distribution subsidiaries SolarWorld California Inc. and SolarWorld Ibérica S.L.:
Group starts expansion of its international business.
P. 29

Further silicon supplies secured:
The SolarWorld Group concludes a long-term contract with US silicon producer Hemlock Semiconductor Corporation (HSC).
P. 37, 38

Foundation stone for the group´s largest-ever expansion project laid:
With Waferfab II, capacity will be expanded to initially 220 MW by the end of 2006.
P. 89

Recycling of Germany´s oldest large-scale solar power station:
Old modules are recycled into new silicon wafers by means of a recycling process developed in-house.

Swedish minister of state visits Swedish production site:
The Swedish head of government Persson visits the module production facilities of subsidiary GPV in Gällivare.
P. 38

Dr. Guido Westerwelle (FDP) and the Saxon minister of finance Dr. Metz (CDU) visit the state-of-the-art high-tech production facilities of the SolarWorld Group.

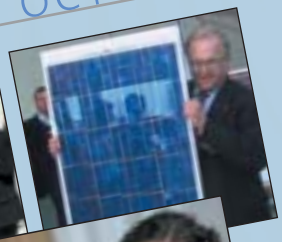
First cut of the spade for state-of-the-art tracking technology:
Germany's largest solar power plant based on light-activated control systems (around 580 kW) will achieve an increase in solar yield of up to 30 per cent upon completion
P. 41

JULY / AUGUST

SEPTEMBER / OCTOBER








Highlights 2005

Establishment of the Joint Venture RGS Development BV:
The innovative RGS pilot plant for the material-preserving production of silicon wafers will be established by the beginning of 2007.
P. 38, 39

The stock 2005
The SolarWorld Stock is "Top Stock of the Year" with a 240% growth.

First-time award of SolarWorld AG´s Einstein-Award:
The first award winners were the chairman of the "World Council for Renewable Energy", and "Alternative Nobel Prize" laureate, Dr. Herrmann Scheer, and the Director General of the UN Environmental Programme, Prof. Dr. Klaus Töpfer. Both personalities have committed themselves to the worldwide establishment of sustainable energy production for many years.

The sales and earnings forecasts for 2005 were clearly exceeded.

NOVEMBER / DECEMBER

Responsibility

Dipl.-Wirtschaftsing. Frank Henn
(CSO)

Dipl.-Ing. Boris Klebensberger
(COO)

Dipl.-Ing. Frank Asbeck
(CEO)

Dipl.-Kfm. tech. Philipp Koecke
(CFO)

Entrepreneurial action in the spirit of sustainable development means for us assuming responsibility in the economic, ecological and social context.

But it also means leading and controlling a company according to the principle of value-driven management. Our stockholders, employees and customers and most especially future generations are to benefit from the value creation of our company. With our business model based on the power of the sun we can act according to this principle.

Dipl.-Ing. Frank H. Asbeck,
Chairman and CEO of SolarWorld AG

PREFACE OF THE CHAIRMAN

Dear Employees, Customers, Stockholders and Friends of SolarWorld AG,

what would SolarWorld be without its consistent commitment to the further development of clean, high quality solar power technology? That we can point the way to the future as well as identify and make use of opportunities in the solar market is something we have proven again and again. That is part of our "youthful" corporate history and our success. With the acquisition of the crystalline solar activities of the Shell Group we are now taking the leap into a new dimension. We are in fact moving up to join the Top 3 of the solar world league.

Our most important assets in the powerful implementation of our growth strategy are and will remain our employees. Without their performance and their commitment we would hardly have been able to make the above move. Their dedication and will to succeed determine the pace at which we can grow innovatively and create substance. That is what has turned us into what SolarWorld is today: the largest independent and fully integrated solar manufacturer in the world. We bring together all production steps – from the raw material to the turn-key solar power plant – in the form of highly advanced production facilities in our company. That is our strength and our characteristic feature!

That the strength of our success bears the faces of our employees is also illustrated by this annual report. This commitment of every individual is born by a positive corporate culture – or to put it more simply and more casually: by the fun at work! This identification with the company and with its values and the resulting motivation is something that becomes tangible in the company every day. In this context we are looking forward to our new colleagues in the USA, in Germany and in other parts of the world. Our team performance will grow further with them.

Responsibility

Our values and our philosophy are built on a one hundred per cent clean business model. My colleagues on the board and I undertake to observe this responsibility of sustainability in every corporate decision we take. The crystalline solar activities that we took over from Shell also fit into our business in great harmony.

Internationally the solar market is characterized by great dynamism. In order to be able to position yourself with a powerful performance in the market you have to have an edge. This advantage points the way for us. Shaping the solar present and future by doing active research and development and setting benchmarks is of great importance in our company. Our employees develop the most advanced products that meet the SolarWorld standards of technology, quality and sustainability. Our technological edge is reflected in our product range which we further completed last year, for example by adding the new SolarWorld module generation or our innovative Suntrac® technology by which we make our modules follow the position of the sun like sunflowers. These are technologies of the future that bring us ever closer to the full competitiveness of solar energy.

With the acquisition of the Shell business we are creating a sustainable and at the same time global SolarWorld. As a result we are represented in all regions of the world, above all in the high-growth US market where we are rising to become the largest solar producer with SolarWorld Industries. At our traditional locations we will continue to grow. In the process we will consistently rely on our strength of full integration and our edge as the technology leader.

And our stockholders who invest in our SolarWorld and who believe in the solar future in the worldwide energy supply will participate in the success of the company by way of an excellent stock price development of our shares, a sound corporate substance and – again this year – the distribution of a dividend. Your trust in the past, the present and the future deserves our wholehearted thanks.

The future is exciting. We are looking forward to sharing it with you.

Yours very sincerely,

Dipl.-Ing. Frank H. Asbeck
Chairman and CEO of SolarWorld AG

Responsibility

PREFACE OF THE CHIEF FINANCIAL OFFICER

Dipl.-Kfm. tech. Philipp Koecke,
Chief Financial Officer of SolarWorld AG

Dear Stockholders, Employees and Friends of SolarWorld AG,

Sustainable success demands substance! That is the benchmark by which the capital market measures us! Because it is not the short-term successes – as the dot-com euphoria illustrated in the stock markets in the past – but the sustainable value increases and the preservation of corporate substance. These are also the criteria according to which our company is permanently monitored, assessed and measured.

The value development of our stock of more than 239 per cent in the last 12 months reflects the strength of substance of SolarWorld AG from the point of view of the investors.

The values that we have created in our fairly young corporate history are documented among other things by the current level of fixed assets of 217.5 million €. Group-wide a total volume of 297.8 million € has been invested in the past few years. We have always vigorously advanced the expansion of the group against the backdrop of positive market structures and a growing international demand.

The financing principles of our growth follow the demands of a value-driven management. This means for us that we need to generate sufficient Cash Flow, have a sound equity base




and supply ample liquidity, maintain independence and diversify our financial sources. SolarWorld can point to such a sound financing profile. A group-wide liquidity level of 118 million € in the form of securities and cash in hand is juxtaposed to structured financing based on a credit volume of 70 million €. In addition, the company recently had an influx of liquidity of 233 million € resulting from a capital increase. In financing we also adopted new approaches as was shown in the recent placement of our bond.

For well over six years now we have been operating in the international capital markets. At the stock exchange we are the solar pioneer who even weathered the storms of turbulent stock exchange times and continued its growth strategy at all levels of the value chain with consistency and level-headedness combined with dynamism. These are the parameters that our stockholders have rewarded. In the process we have supplied our constantly growing group of shareholders with a reliable and ever more transparent information policy and reporting system meeting international standards as a result of which we gained the trust of the capital market also in this respect. The present annual report provides evidence of this claim.

But what would SolarWorld AG be if it did not move ahead consistently? We have just made a very strong strategic move by taking the leap into the solar world market that offers enormous opportunities in the energy industry. The manufacturing facilities that we have added in the course of the acquisition of the crystalline Shell activities will boost our substance in the international context.

A look into the future will strengthen our resolve to manage our growth on a value-driven basis also in the international context. We accept to be measured by this benchmark.

Sincerely yours,

Dipl.-Kfm. tech. Philipp Koecke,
Chief Financial Officer of the SolarWorld AG

Dr. Georg Gansen
(Deputy Chairman
of the Supervisory Board)

Dr. Alexander von Bossel,
LL.M (Edinb.)
(Member of the Supervisory Board)

Dr. Claus Recktenwald
(Chairman
of the Supervisory Board)

REPORT OF THE SUPERVISORY BOARD

Dr. Claus Recktenwald, Attorney,
Chairman of the Supervisory Board
of SolarWorld AG

Dear Shareholders and
Friends of SolarWorld AG!

With this report, the Supervisory Board provides information about its activities in the 2005 fiscal year. It thus subjects itself voluntarily to tighter reporting obligations. In line with these obligations, it has also disclosed the complete minutes of all Supervisory Board meetings to the company's auditors.

The Supervisory Board was last elected at the Annual General Meeting of 27 May 2003. In the year under review, it again performed its duties in accordance with the law and the articles of association. It was in continual dialogue with the Board, advising the Board on the management of the company and monitoring the management activities. At the same time, the Supervisory Board reviewed the efficiency of its own activities.

The Supervisory Board was directly involved in all decisions of fundamental importance to the company. The Board provided regular, timely and comprehensive information on all relevant matters related to corporate planning and the strategic development of the company, its earnings, assets and financial position and the current business trend. It also covered the risk management system operated, both in written and oral reports.

Responsibility

In the 2005 fiscal year, the Supervisory Board held six formal meetings, including four ordinary quarterly meetings, on 7 January, 21 February, 14 March, 3 April, 25 September and 22 December 2005. In addition, it met the Board in the framework of project- and group-related work meetings, decision-making processes and several coordination meetings.

The Supervisory Board meetings focused on 'good corporate citizenship' within the meaning of the German Corporate Governance Code as well as personnel questions including payment discussions, questions related to employee profit-sharing schemes in the group, staff training schemes, the discussion of key reporting areas with the auditors, questions related to the capital increase, the discussion about benefits of bonus shares, a visit to the GPV module factory in Gällivare, North Sweden, the integration of subsidiaries into the Group, specific activities in countries abroad, in particular the US and Spain, the worldwide commodity situation with the specific back-up activities of SolarWorld AG, data protection and the acquisition of Shell's silicon-based solar activities. It adopted the required resolutions and brought its opinions and will to bear in its deliberations with the Board of Management.

Following the declaration of compliance, repeated at the Annual General Meeting of 25 May 2005, the Supervisory Board resolved and submitted the following declaration at its meeting of 24 January 2006 for the completed financial year and the new financial year and made it accessible to all shareholders pursuant to section 161 of the German Stock Corporation Act (AktG):

'The Supervisory Board has complied with and complies with the recommendations of the 'Government Commission German Corporate Governance Code', published by the Federal Ministry for Legal Affairs in the official section of the electronic Federal Gazette, to the extent that these recommendations are directed to the Supervisory Board and do not relate to the presentation of the compensation of individual members of the Board of Management.'

On the same day, the Board of Management of SolarWorld AG adopted a comparable declaration under the German Corporate Governance Code and submitted it in accordance with section 161 of the AktG. Concerning the disclosure of the compensation of individual members of the Board of Management, hitherto considered not to be required, the Supervisory Board continues to be of the opinion that the disclosure of the total amount, the sole amount of relevance according to the International Financial Reporting Standards (IFRS) which are applicable to the consolidated financial statements, proves the appropriateness of the compensation and does not provide grounds for further interest on the part of shareholders. Moreover, a

breakdown of the remuneration of the Supervisory Board was already submitted to the relevant Annual General Meeting of 25 May 2005. Nevertheless, the Supervisory Board's current declaration of compliance with the German Corporate Governance Code deviates from the previous declaration insofar as it now also approves the regular publication of the individualized remuneration of the Supervisory Board. The report prepared by the Supervisory Board according to section 3.10 of the German Corporate Governance Code includes information on the fact that the Annual General Meeting of SolarWorld AG on 25 May 2005 resolved to introduce a remuneration for the Supervisory Board with effect from 1 January 2005, which comprises the following elements: the members of the Supervisory Board receive an annual compensation of 17,500.00 euros, the deputy chairman of the Supervisory Board receives one and a half times that amount, i.e. 26,500.00 euros, the chairman of the Supervisory Board receives twice that amount, i.e. 35,000.00 euros, plus VAT, where required. This remuneration was paid in 2006 for the 2005 fiscal year with retroactive effect. In addition, every Supervisory Board member received a fee of 250.00 euros for every meeting attended as well as for the Annual General Meeting, i.e. a further 1,750.00 euros, plus VAT, where billed, which was deducted as input tax by the company. In addition, every Supervisory Board member receives a performance-related extra fee accounting for 300.00 euros per cent and share of the dividend distributed for each completed fiscal for the first time for 2005. Where required, VAT is also paid on the performance-related extra fee is also paid. It is due as of the end of the Annual General Meeting at which the underlying dividend payment was resolved.

Concerning the remuneration of the Board of Management, the Supervisory provides the following report about the breakdown of the remuneration: every Board member shall receive a fixed annual compensation, agreed with the Supervisory Board and payable in twelve monthly installments at the end of every month. In addition, every Board member shall receive a variable performance-linked compensation made up of an individually negotiated euro amount per cent and share of the dividend distributed to the shareholders. This compensation shall be paid within a period of four weeks after the Annual General Meeting that resolved the underlying dividend payment.

In its report, due under section 3.10 of the German Corporate Governance Code (GCGC), the Supervisory Board also states that in its view a cap agreement within the meaning of section 4.2.3 of the German Corporate Governance Code is not required. On the one hand, a stock option programme is not provided as an element of compensation; on the other hand, the performance-related compensation that Board members may receive in addition to the fixed compensation is already sufficiently limited by means of the definition of a percentage.

Concerning section 3.4 of the German Corporate Governance Code, the Board of Management's information and reporting duties have been specified and implemented by means of regular Board meetings, the submission of a written agenda for the Board meetings to the Supervisory Board members and the subsequent submission of corresponding minutes of the Board meetings to the Supervisory Board members.

In accordance with section 7.2.1 of the GCGC, the Supervisory Board, which also claims independence for the entire board within the meaning of section 5.4.2 of the GCGC, received a statement from BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Bonn, the auditors elected at the Annual General Meeting of 25 May 2005 as auditors for the 2005 fiscal year, stating the auditors'

independence. BDO, also supported by the corresponding statement for 2004, had previously been commissioned to audit the accounts, the annual financial statements and the management report on the one hand and the consolidated financial statements and the Group management report prepared by SolarWorld AG in accordance with IFRS on the other. They granted an unqualified audit certificate, taking account of the companies associated with SolarWorld AG. The audit of the accounts, annual financial statements and management report of SolarWorld AG did not provide any grounds for objections.

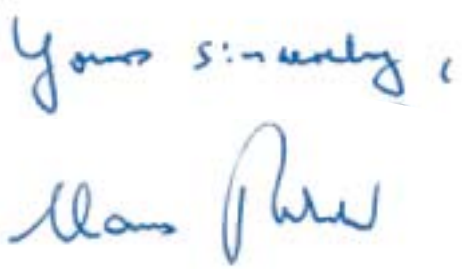
The unqualified auditors' certificate was granted on 10 March 2006. The Supervisory Board approved the audit report and the audit result after the discussion with the auditors on 16 March 2006, following prior meetings at BDO on 22 December 2005 at which the audit mandate was discussed and on 20 February 2006, the final meeting, each involving the CFO and the former one also involving the spokesman of the Board.

The audit of the annual financial statements and management report of SolarWorld AG and the consolidated financial statements and consolidated management report carried out by the Supervisory Board itself did not provide any grounds for objections either. At the meeting on 16 March 2006, attended by the Board and the company's tax consultant, final deliberations on the details were held. More detailed investigations were not required since there were no doubts about the results stated by the auditors' company and the auditors did not refer to any specificities that could have caused the Supervisory Board to hold a divergent view.

The Board of Management submitted a proposal to the Supervisory Board concerning the appropriation of profits, which was accepted by the Supervisory Board.

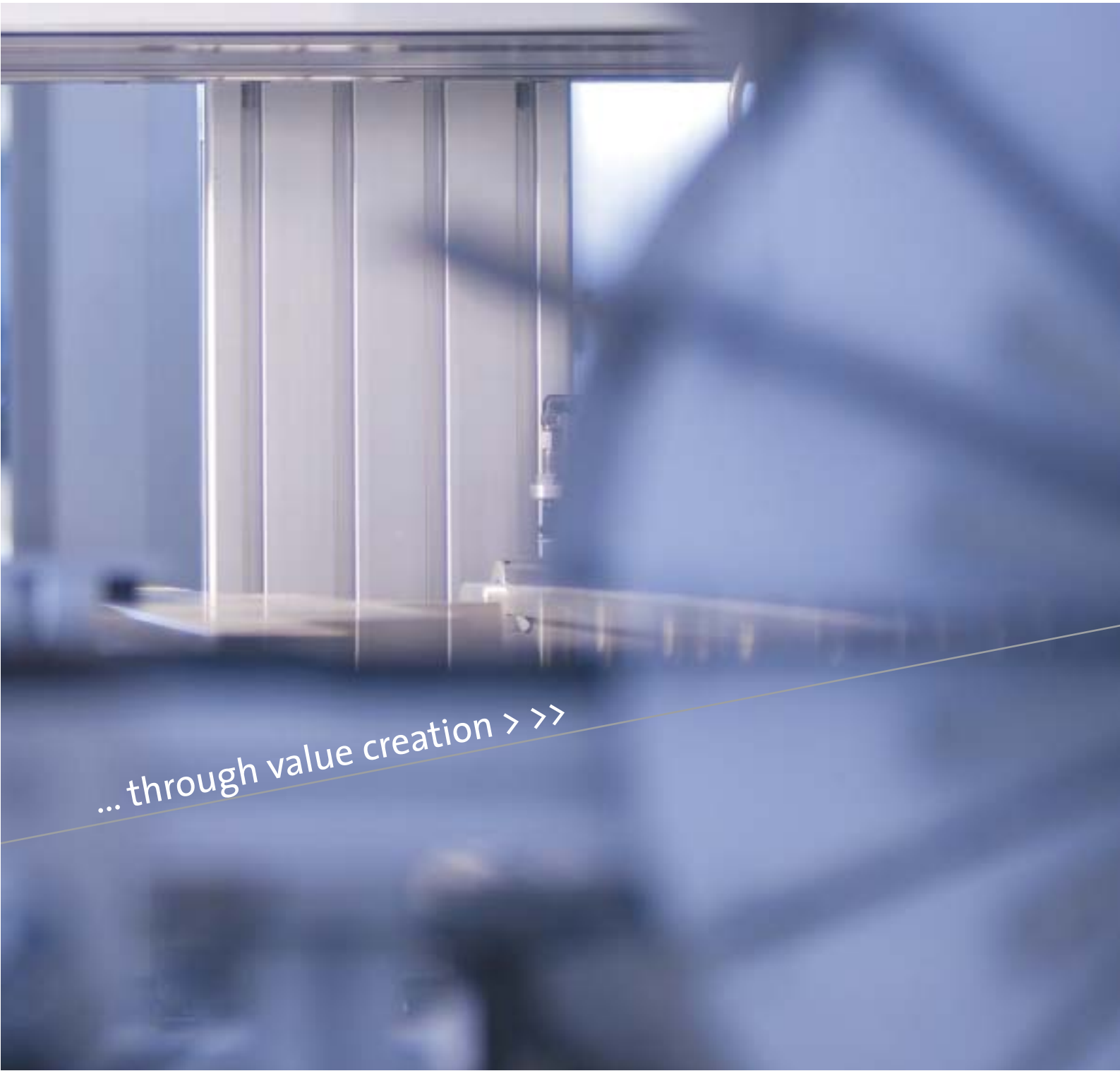
As in previous year, the Board of Management and all employees of SolarWorld AG have again done an excellent job. Our thanks and acknowledgements again go to all employees and the respective managements of the subsidiaries of SolarWorld AG, Deutsche Solar AG, Deutsche Cell GmbH, SolarFactory GmbH, Gällivare Photovoltaik AB and the staff of the remaining foreign subsidiaries.

Bonn, 20 March 2006



The Supervisory Board
(Dr. Claus Recktenwald)
- Chairman -

Strength


... through value creation > >>

Strength

>> Our solar company is characterized by full vertical integration. "Everything from a single source" means that processes, products and thus quality can be actively controlled and optimized in every single production step. At all levels we have a quality management system, state-of-the-art technology, our own research, batch tracking, one hundred per cent exit control, experience in the market and international distribution. For our customers at all stages of the value chain this means the highest proven degrees of efficiency, good mechanical stability and thus an optimum of product quality.

For our company it means we can internally control procurement and ensure a secure supply situation.

I. BUSINESS AND OVERALL FRAMEWORK

1. Group structure and business activity

1.1 Legal Group structure

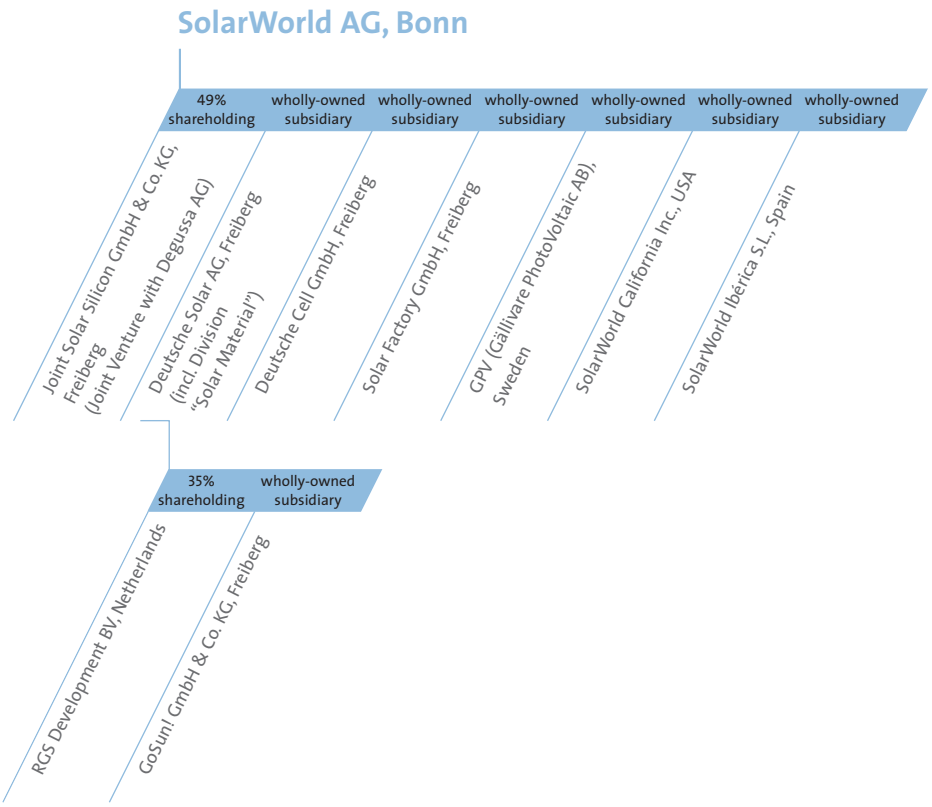
SolarWorld Aktiengesellschaft, Bonn is the SolarWorld Group's parent company. It is also responsible for the operative business, i.e. trade in modules and kits. The shares in SolarWorld AG have been admitted to the regulated market of the Frankfurt stock exchange (Prime Standard/TecDAX).

The financial statements of the wholly-owned subsidiaries Deutsche Solar AG/Freiberg, Deutsche Cell GmbH/Freiberg, Solar Factory GmbH/Freiberg, GPV/Sweden, SolarWorld California Inc./USA and SolarWorld Ibérica S.L./Spain are fully consolidated.

In addition, SolarWorld AG holds a 49 per cent share in the Freiberg-based silicon joint venture Joint Solar Silicon GmbH & Co. KG, recognized at equity in the consolidated financial statements. The remaining 51 per cent are held by the specialty chemicals company Degussa AG.

The subsidiary Deutsche Solar AG, in turn, holds RGS Development BV based in the Netherlands jointly with the Dutch research institute ECN (Energy Research Center of the Netherlands) and the investment company Sunergy Investco. The 35 per cent share in this joint venture is recognized at equity in the annual financial statements of Deutsche Solar AG.

Legal Group structure



1.2 Business areas and organizational structure

The SolarWorld Group is a company dedicated to research and development, production and sales of solar power technology products (photovoltaic products). The business operations break down into four business areas reflecting the company's vertical integration.

The solar value chain starts with the 'Wafer & raw materials' division managed by the subsidiary Deutsche Solar AG. The company's core activities are the production of solar wafers from solar-grade silicon and the safeguarding of supplies of raw materials. The 'Solar Material' division is responsible for the processing and recycling of raw materials. In addition, Deutsche Solar AG has a shareholding in an innovative production process (RGS Development BV) in parallel to its major research and development centre. Deutsche Solar AG also organizes the Group's entire logistic operations.

The 'Cell' division, pooled in the subsidiary Deutsche Cell GmbH, produces solar cells from solar silicon wafers, a basic material. The cells have all the technical properties required in order to produce power from solar energy.

In the 'Module' division, solar cells are interconnected into larger units, the modules. They are then framed and sealed in a weather-tight way. The solar power modules are the final solar product, ready to produce power and feed it into the power grid or directly supply it to customers. The modules are produced by the subsidiaries Solar Factory GmbH in Freiberg and GPV (Gällivare Photovoltaic AB) in Sweden.

The 'Trading' division operated by SolarWorld AG is responsible for the sale of solar modules and the SolarWorld kits for complete solar power stations. In the case of high-capacity, central solar power stations, SolarWorld AG also offers turn-key constructions for its customers.

1.3 Main sites

The main production site at which the Group operates a state-of-the-art integrated solar production facility is Freiberg in Saxony. All key business activities of the Group from research and development as well as raw materials processing via wafer, cell and module production to the control of the central logistics flows are located in Freiberg. The Group has a further production site in Gällivare in the north of Sweden, where it operates a module factory to supply the Scandinavian market and other markets. The trading division is based at the SolarWorld AG's head office in Bonn. This is also where the Board of Management and the Supervisory Board are based. SolarWorld AG's foreign operations are operated by subsidiaries in Madrid, Spain and San Diego, USA.

1.4 Management and supervision

The bodies of SolarWord Aktiengesellschaft – as parent company/holding company – include the Annual General Meeting, the Board of Management and the Supervisory Board.

SolarWorld AG's Board of Management
SolarWorld AG's **Board of Management** is comprised of four members in charge of the management and representation of SolarWorld AG, pursuant to the law (sections 77 and 78 of the German Stock Corporation Act), the articles of association (sections 5 and 6) and the terms of reference.

The Board of Management of SolarWorld AG is comprised of:

- **CEO Dipl.-Ing. Frank H. Asbeck (46)**
  Founder of the company and Chairman and CEO of SolarWorld AG since 1998
- **CFO Dipl.-Kfm. tech. Philipp Koecke (34)**
  In charge of finance and capital market communications since May 2002
- **COO Dipl.-Ing. (Master of Business Engineering) Boris Klebensberger (36)**
  Member of the Board of Management of SolarWorld AG since October 2001, in charge of the operating business at the production sites
- **CSO Dipl.-Wirtschaftsing. Frank Henn (40)**
  In charge of national and international sales operations since September 2003

Total expenses for Board compensations in the 2005 financial year amount to € 2,061 thousand (previous year: € 1,151 thousand). They include the variable components of € 950 thousand for 2004 (previous year: € 342 thousand). A variable board compensation is paid on top of the fixed compensation discussed with the Supervisory Board in order to provide an incentive. For further details reference is made to the report of the Supervisory Board, outlining the compensation of the Board of Managment and the Supervisory Board compensation.

The Supervisory Board of SolarWorld AG

The Supervisory Board advises and oversees the Board of Management. It appoints the members of the Board of Management. The legal basis for the work of the Supervisory Board of SolarWorld AG is the German Stock Corporation Act as well as the articles of association and the terms of reference. The members of the Supervisory Board of SolarWorld AG were reelected at the Annual General Meeting of 27 May 2003 until the AGM that decides about the ratification of the acts of the Supervisory Board for the 2007 fiscal year.

The members of the Supervisory Board of SolarWorld AG:

- **Dr. Claus Recktenwald, Chairman of the Supervisory Board (47)**
  Attorney/partner in the law firm Schmitz Knoth Wüllrich Marquardt, Bonn/Cologne/Berlin
  Other Supervisory Board mandates:
  Chairman of the Supervisory Board of Solarparc AG, Bonn
  Deputy Chairman of the Supervisory Board of Deutsche Solar AG, Freiberg
- **Dr. Georg Gansen, Deputy Chairman of the Supervisory Board (46)**
  Attorney, legal officer of Deutsche Post AG, Bonn
  Other Supervisory Board mandates:
  Deputy Chairman of the Supervisory Board of Solarparc AG, Bonn
  Deputy Chairman of the Supervisory Board of Deutsche Solar AG, Freiberg
- **Dr. Alexander von Bossel, LL.M (Edinb.), member of the Supervisory Board (40)**
  Partner at CMS Hasche Sigle, partnership of attorneys and tax consultants, Cologne.
  Other Supervisory Board mandate:
  Member of the Supervisory Board of Solarparc AG, Bonn

The remuneration of the Supervisory Board members reflects not only their responsibility and scope of activity but also the economic position and success of the company. The members of the Supervisory Board receive a compensation detailed in the report of the Supervisory Board, comprised of fixed and variable components. Moreover, the company pays the premiums for appropriate insurance protection for legal liability from the Supervisory Board activities (D&O insurance). The Supervisory Board compensation of 2004 totalled € 32 thousand, including variable compensation components of € 5 thousand. The remuneration for 2005 was paid retroactively in 2006. Its level and individualized amounts are also outlined in detail in the report of the Supervisory Board.

The Annual General Meeting of SolarWorld AG

Shareholders can exercise their rights and their votes at the Annual General Meeting (AGM). As a matter of principle, each share in SolarWorld AG confers one vote at the AGM. The shareholders in SolarWorld AG

have the opportunity to exercise their vote in person at the AGM or have it exercised by a proxy of their own choosing or by a representative provided by the company and acting on their behalf in accordance with their instructions.

The next AGM of SolarWorld AG will be held in Bonn in the International Congress Centre Bundeshaus Bonn (former plenary hall of the Federal Government, 'Wasserwerk') on Wednesday, 24 May 2006.

Shareholders having a certificate proving their right to vote issued by the custodian bank for the shares held in custody as at the beginning (0:00 h) of 3 May 2006 (record date/application) and submitting it to the company or the authorized registration body by 17 May 2006 are entitled to participate in the forthcoming Annual General Meeting of SolarWorld. In the framework of a transition regulation concerning the UMAG (section 16 of the EU Stock Corporation Act), existing rules in the articles of association continue to apply until the next AGM adopts new rules concerning the UMAG in May 2006, i.e. shares carry participation and voting rights if they are deposited at the beginning (0:00 h) of 3 May 2006.

The business units of the SolarWorld Group
In the operative business units, the managing directors or CEOs of the individual subsidiaries are responsible for the strategic management and operative implementation. As at 31 December 2005 they were as follows:

- **Deutsche Solar AG, Freiberg**
  CEO: Prof. Dr. Peter Woditsch
  CTO: Dipl.-Ing. (Master of Business Engineering) Boris Klebensberger
- **Deutsche Cell GmbH, Freiberg**
  Management: Dipl.-Ing. (Master of Business Engineering) Boris Klebensberger
  Dr. Ralf Lüdemann
- **Solar Factory GmbH, Freiberg**
  Management: Prof. Dr. Peter Woditsch
- **Gällivare Photovoltaic AB, Gällivare, Sweden**
  Executive Director: Andreas Hinzer
- **SolarWorld California Inc., San Diego, USA**
  President: Jacob Brown
  Treasurer: Dipl.-Ing. Faried Muscati
- **SolarWorld Ibérica S.L., Madrid, Spain**
  Executive Directors: Dipl.-Ing. Faried Muscati
  Dipl.-Wirtschaftsing. Frank Henn
- **Joint Solar Silicon GmbH & Co. KG, Freiberg, Germany**
  Executive Director: Dr. Armin Müller
  Dr. Ray Sonnenschein

The Supervisory Board of Deutsche Solar AG comprises Dipl.-Ing. Frank H. Asbeck, Dr. Claus Recktenwald and Dr. Georg Gansen. The members of the Supervisory Board of the Swedish subsidiary GPV are Dipl.-Ing. Frank H. Asbeck, Dipl.-Kfm. tech. Philipp Koecke and Dipl.-Ing. Boris Klebensberger.

Corporate Governance

For SolarWorld AG, a listed capital market-oriented company, corporate governance is a commitment with which management clearly commits to good, responsible corporate management and control. Since the adoption of the Code in February 2002, SolarWorld AG has submitted an annual declaration of compliance pursuant to section 161 of the German Stock Corporation Act (AktG), publicly stating the extent to which it complies with the recommendations. This declaration is made accessible to the public in the Annual Report and at www.solarworld.de:

Declarations of compliance with the German Corporate Governance Code by the Board of Management and the Supervisory Board of SolarWorld AG pursuant to section 161 of the German Stock Corporation Act.

On 24 January 2006, the **Supervisory Board of SolarWorld AG** adopted and issued the following declaration concerning the completed fiscal year 2005 and the new fiscal year 2006 in accordance with section 161 of the German Stock Corporation Act:

The Supervisory Board has complied with and continues to comply with the recommendations of the 'Government Commission German Corporate Governance Code' published by the Federal Ministry for Justice in the official part of the electronic Federal Gazette, to the extent that these recommendations affect the Supervisory Board and do not relate to the individualization of the Board of Management compensations.

On 24 January 2006, **the members of the Board of Management of SolarWorld AG** issued the following declaration of compliance for the completed fiscal year 2005 and the current fiscal year 2006:

The Board of Management has complied with and continues to comply with the recommendations of the 'Government Commission German Corporate Governance Code' published by the Federal Ministry for Justice in the official part of the electronic Federal Gazette, to the extent that these recommendations affect the Board of Management and do not relate to the individualization of the Board of Management compensations.

In 2005, the legal environment for corporate governance changed significantly in Germany. Several laws with a relevance for the capital markets were applicable in 2005 in order to strengthen corporate integrity and investor protection in a sustained manner (Investor Protection Improvement Act/AnSVG since Oct. 2004; Balance Sheet Control Act/BilKoG and Balance Sheet Reform Act/BilReg since Dec. 2004; Act on Corporate Integrity and the Modernization of the Right of Rescission/UMAG since Nov. 2005). The 'German Corporate Governance Code' (GCGC) in its version of 2 June 2005 takes account of these legal changes.

In SolarWorld AG, the principles of good corporate governance are manifested in particular by:

- close cooperation between the Board of Management and the Supervisory Board, aimed at enhancing the long-term corporate value.
- implementation of a high standard concerning transparent communication with the capital market,

which will have a positive long-term impact on investment decisions. Moreover, the SolarWorld management attaches a lot of importance to optimum implementation of the new legal obligations related to the capital market and has therefore created the corresponding internal structural and organizational conditions to meet the requirements.
In 2005, these included ad hoc announcements on development of relevance to the share price, the disclosure of directors' dealings on the company's website, notifications on changes in voting rights pursuant to section 25 of the German Securities Trading Act (WpHG) and the prudent handling of insider information. As a matter of principle, the company observes the fair disclosure principle, i.e. the principle of equal treatment of all shareholders, in providing information. In order to guarantee timely and consistent information of all shareholders and investors, SolarWorld AG makes intensive use of the company's website as a communication medium, along with printed reports. This website is updated on a daily basis. In the framework of current PR activities, an annual financial calendar provides information on the established publication dates of the reports at the beginning of the fiscal year.

- effective cooperation between the Board of Management and the Supervisory Board, aimed at creating long-term value added and guided by economic, ecological and social principles.
- facilitation of the execution of shareholders' rights in person by means of the appointment of a proxy to exercise shareholders' instructions at the AGM.

To date, SolarWorld AG has not yet complied with the voluntary commitment to disclose the compensation of individual Board members since the Supervisory Board and the company are of the view that the sum total of the remuneration of the Board proves the appropriateness of compensation to the shareholders and the publication of individual remunerations would not create any value added. The remuneration of the Board members is fixed by the Supervisory Board on the basis of a performance-related approach, taking account of the personal performance for the company as well as the economic situation, the performance and the future perspectives of the company against the background of the market environment. However, the German Act on Disclosure of Board Member Compensation (VorstOG), applicable to consolidated financial statements as of 31 December 2005, provides for the possibility of dispensing with the legal disclosure obligations if the shareholders do not see any need for additional information and incorporate this into their articles of association.

1.5 Key products, services and business processes

SolarWorld offers solar products along the entire value chain. The 'Solar Material' division increasingly offers cell recycling also to external customers. Both mono-crystalline and polycrystalline units are manufactured at all production levels. The Deutsche Solar AG's wafers are produced in all formats customary in the market under the Solsix multi® and Solsix mono® brands and are geared to the customers' individual needs and requirements. The currently dominating standard format is the multi-crystalline wafer dimensioned 156 mm x 156 mm x 240 µm.

For the most part, the high-performance products DCM (mono) and DCP (poly) in the 125 and 156 formats produced by Deutsche Cell GmbH are used for the Group's module production for further processing, which in turn produces various products for the trading business.

SolarWorld AG offers its customers various types of modules. The top seller is the standard module SW 210, based on 6-inch cell technology and offered in performance classes of up to 230 watts. The portfolio also comprises the 5-inch module in performance classes of 155 to 175 watts and the compact 6-inch module in the performance class of 130 to 150 watts, newly included in the product portfolio.

The Sunkits®, kits offered by SolarWorld AG comprise Sunmodules® modules and all components required for the installation of grid-coupled solar systems. These include the Sunplug® inverter, which is ideally tailored to the requirements of the high-quality modules offered by SolarWorld. The DC cable of the Suncable® brand is also produced according to SolarWorld specifications and is a component of the kits, as are the installation rack systems developed by the company itself and offered under the Sunfix® brand. The kit systems are individually tailored to customers' needs. Under the Energiedach® brand, SolarWorld AG offers a roof integration solution which comprises unframed laminates which directly represent the roof skin. This is the first in-roof system in Germany certified by the SolarProof label of the German inspection authority TÜV. In the trading segment, the company has offered a rack and assembly system developed for open-air projects (Sunfix®) since 2005. With the open-air rack, it has developed a system optimally tailored to customer requirements in terms of adjustment to the terrain, minimum soil sealing and one hundred per cent recyclable materials. Furthermore, a solar tracking system, specifically modified for SolarWorld modules and inverters, has been developed in cooperation with a leading German manufacturer of solar systems tracking the sun in two axes (Suntrac®/see VI.4.5 Future products and services).

1.6 Key sales markets and competitive position

The SolarWorld Group is a global player. As in previous years, its key market was Germany in the 2005 fiscal year. Group-level export sales accounted for 25.8 per cent.

The subsidiary Deutsche Solar AG is one of the world market leaders (15 per cent worldwide market share) in the production of solar silicon wafers. In its Europe and Asia business it holds an established and significant position with double-digit market shares. The wafer manufacturer's export sales accounted for around 40 per cent. The key sales markets were China, Taiwan, Japan, India, Spain and Italy.

In the fiscal year under review, the solar cell and solar module business units primarily operated for the Group. In the module segment, the Swedish subsidiary GPV sold part of its production in Scandinavia. The main sales markets are grid-connected applications in Sweden and Denmark. The Swedish module subsidiary GPV is market leader in the Scandinavian markets.

In the module trading business, the key market was Germany, accounting for around 90 per cent of activities. In Germany, the world's largest market, SolarWorld AG achieved a market share of around 12 per cent in 2005 (total German market: according to current estimates by industry experts around 500 to 600 MWp of newly installed solar capacity in 2005). Most of the customers of SolarWorld AG are in the specialized wholesale trade. The company holds a particularly strong competitive position in the wholesale trade for electric appliances. An additional market segment successfully served by SolarWorld AG is

the implementation of large-scale projects in the megawatt range. In 2005, the company completed two stationary large-scale solar projects and a technologically innovative tracking-based solar plant, building solar power stations with an output of around 10 MW. The company has thus expanded its competitive position in the large-scale plant segment.

The export ratio in the trading business was more than 10 per cent in the 2005 fiscal year. The most important foreign market was Spain, where SolarWorld AG founded the Madrid-based wholly-owned subsidiary SolarWorld Ibérica S.L. in order to boost its operations in Spain.

In order to establish operations in the US, SolarWorld AG founded the San Diego-based SolarWorld California Inc.

Further sales markets abroad were Austria and Switzerland. The company continually explores potential new sales markets, for instance in countries along the eastern Mediterranean coast.

As a matter of principle, SolarWorld AG focuses its activities abroad on individual key sales market with a significant market volume. Its goal is to establish a significant competitive position in these selected regions. This approach ensures a high level of efficiency in tapping foreign markets.

1.7 Legal and economic factors

As all innovative energy technologies, photovoltaic power is supported by public grant schemes in order to promote the development of the photovoltaic market. The legal basis for the promotion of solar energy in Germany is the German Act on Renewable Energies (EEG). The EEG guarantees the purchase of power produced from renewable energies and fixes clear feed-in compensation rates. A similar promotion scheme exists for instance in Spain (see I.3.2 Industry-specific background conditions). The intensity of growth in the solar market is determined by the statutory framework in all markets.

Demand is also affected by the development of the price of fossil fuels. An increase in prices of oil, coal and gas improves the competitive position of renewable alternative fuels, in particular with final customers taking a purchasing decision.

The offering is also generally affected by the availability of raw materials, primary and additional products.

2. Corporate control, targets and strategy

2.1 Internal corporate control system

The Board of Management of SolarWorld AG uses earnings before interest and taxes (EBIT) and earnings before income taxes (EBT) as its target and control figures. Both indicators are determined on a monthly basis at group level and for each business unit. By means of a group-wide integrated financial control system, every group company fixes and analyzes essential indicators and target figures, compares planned and actual results, evaluates the deviations and reports them to the Board, where required new targets will be fixed.

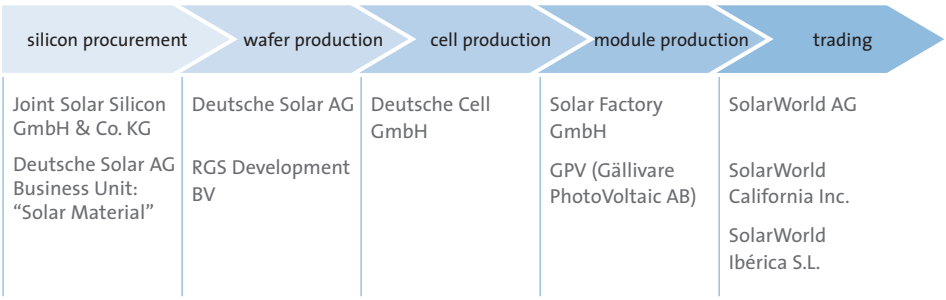
One of the key control parameters is the cash flow and the operating result of the individual business units, which are managed as profit centers. The profit center approach allows for international comparisons and ensures transparency at every stage of the value chain. The costs or production costs are therefore highly transparent and can be compared at group level. Constant cost optimization is an essential goal of the internal control systems.

2.2 Strategy

SolarWorld AG, a vertically integrated company, has established a sustainable position in the international solar market. The integration strategy aims at determining and optimizing the development of technology at all production stages so as to leverage synergy effects and also benefit cost-wise, and deriving high-quality final products from the experience gained at all levels of the value chain. A crucial element of this strategy is for each individual value-added area to work profitably.

Due to the implementation of this strategy, the SolarWorld Group and its subsidiaries have been able to establish themselves as the quality leader in the international solar power market.

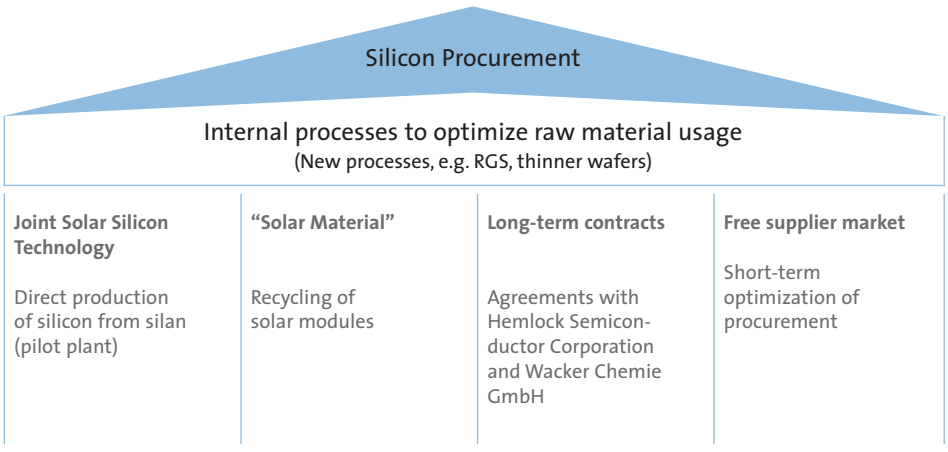
Strategy of vertical integration of the solar value chain



The group also benefits from its strategic position as an integrated entity in the procurement of primary products. The international solar market comprises various individual markets: from the wafer on to the cell and module market. In the wafer market in particular, potential new market entrants face high market access barriers since the establishment of this core sector is intensive in both capital and know-how. The wafer business is therefore correspondingly profitable and plays an important strategic role in the Group.

Raw material procurement also plays a strategic key role. The Group uses a combination of different internal and external procurement paths.

Group raw material procurement strategy



SolarWorld AG exclusively focuses on its core competences, the solar power business. This concentration is also based on the clear strategic decision to continually expand competences in the core business and fully dispense with non-solar marginal activities.

The strategy pursued by SolarWorld is also manifested by the corporate philosophy and culture. All business activities are based on an approach of responsibility in dealing with people, the environment and resources, with a view to contributing to a sustainable and positive development of the living conditions for all humankind. As a 100% renewable energy company, the SolarWorld Group embodies the sustainability standard both internally and externally, creating a high identification potential among its employees and high attractiveness for customers and investors.

3. Overview of Business Development

3.1 Macroeconomic background conditions

Economy picking up

The economic situation in Germany improved noticeably in 2005. The Federal Statistical Office calculated a rise of 0.9 per cent in the Gross Domestic Product (GDP) for the full year. Corrected for the lower number of working days in comparison with the previous year the increase amounted to 1.1 per cent.

The driver of this growth was the export strength of the local economy. In 2005 the title of Export World Champion again went to the Federal Republic of Germany. Thus, German exports exceeded the 70 billion € mark for the first time in November 2005. The export activities of the German economy were stimulated by the lively world trade and by the EUR-Dollar exchange rate which was again more favorable in the second half of the year. In addition, OPEC states increasingly bought goods from Germany with their boosted revenues from oil sales. In addition to the high demand from abroad the domestic demand for German industrial goods has also picked up. What remained weak was the consumption of private households. Construction industry investments declined.

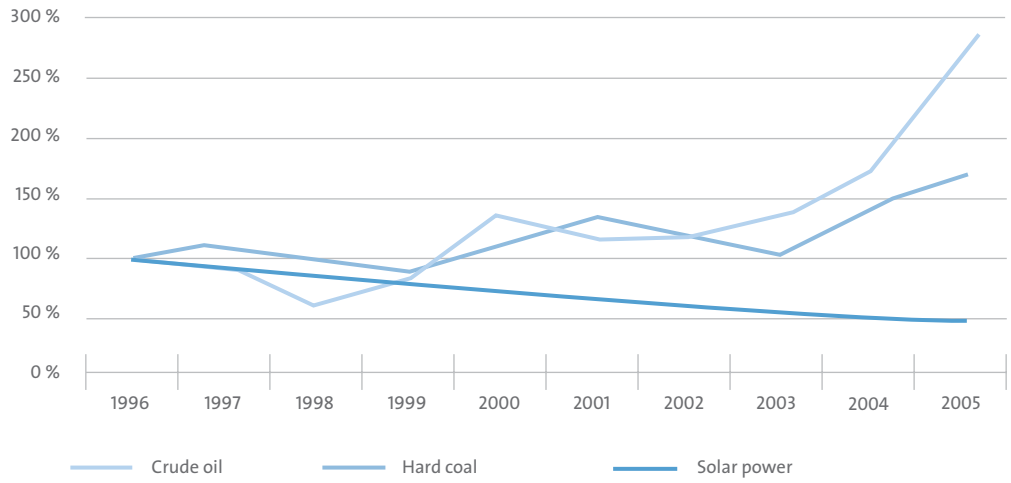
Conventional energy price driver 2005

The already depressed consumer climate was further dampened by the high energy prices which shot up to record levels in 2005. According to the calculations of the Federal Statistical Office the conventional energies were the price drivers in 2005 causing the inflation rate in Germany to go up to 2.0 per cent. Without the increased energy costs the inflation rate would have amounted to only 1.1 per cent.

The background to the price hike in the international oil markets was the continued rise in oil demand that the supply could hardly keep up with. In addition to the growing scarcity of the free production capacities the increasing concern about the security of supply from the crisis regions of the Arab world determined the mood at the spot and futures markets. The average price for North Sea oil Brent Blend rose in 2005 by more than 40 per cent to 54.50 US-dollars per barrel in comparison with the previous year according to the figures of the German oil industry association in Hamburg. In the petroleum-intensive economy of the USA the price for the WTI oil variety exceeded the 70 US-dollar mark for the first time in history.

As a result of the link between natural gas prices and oil, gas prices showed double digit growth. Gas customers in Germany had to undergo several price increases in the course of the year. Calculations by the Federal Statistical Office show that natural gas prices in Germany went up by more than 25 per cent in the course of the year. Even more expensive than gas for citizens in Germany was heating oil whose price increased by some 30 per cent.

Relative price development of fossil energy sources oil and coal vs. solar power



Sources: BAFA, Tecson, BWE, UVS 2005

Prices paid for electricity in Germany were also as high as never before in 2005. Thus, the price at the Leipzig Electricity Exchange EEX in the electricity futures market jumped to a maximum of more than 53 € per Megawatt hour for deliveries in 2006. At the beginning of the year 2005 the comparable electricity price had still been below 35 €. The power utilities justified the price leaps by referring to higher procurement prices and to the emission trading for CO2 certificates. Critics, on the other hand, blame the lack of competition in the electricity market. The Federal Antitrust Agency initiated appropriate investigations. Price differences between conventional electricity and electricity from renewable sources have been further reduced in favor of power from the wind, the sun and other sources.

Climate policy internationally extended

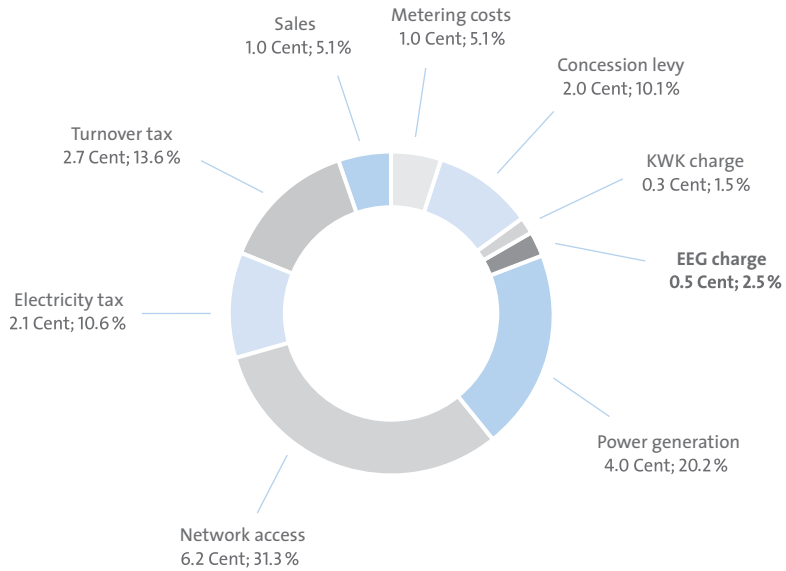
The importance of climate protection to the international community of states further increased in 2005. In February 2005 the Kyoto protocol came officially into force having been ratified by Russia at the end of 2004. Furthermore, the international community of states at the Montreal climate conference in late 2005 adopted a timetable for the further development of the Kyoto protocol designed to further reduce the emission of greenhouse gases. Some of the measures to avoid emissions include investments into the expansion of renewable energies, for example by installing clean energy generating technologies in developing countries.

3.2 Industry-specific background conditions

Policy on renewable energies confirmed after elections

In Germany a climate-friendly energy policy will remain part and parcel of the government program after the parliamentary elections in the autumn of 2005. The expansion of renewable energies has been confirmed in line with the plans of the previous government. The new Federal Minister of Environment Sigmar Gabriel came out unequivocally in favor of climate-friendly energy technologies like solar technology as an indication of Germany's innovative strength.

Breakdown of electricity price for household customers (19.8 Cent/kWh)



Sources: RWE AG, VDN, EEX, Bundesverband Erneuerbare Energien e.V.; as at June 2005

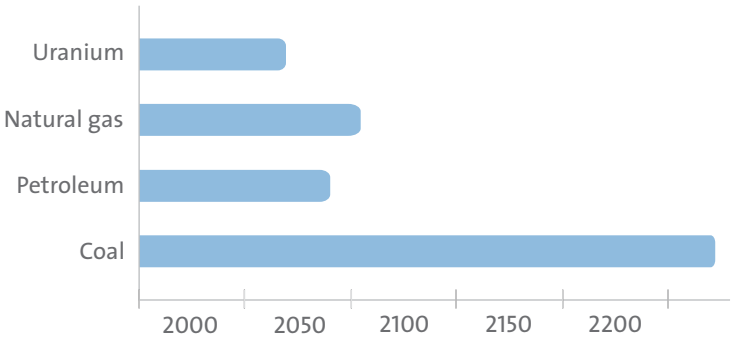
Per average household (monthly power consumption 300 kWh) the additional burden due to the EEG charge amounts to about 1.50 € per month.

Industry invests in expansion of renewable energies

In the year just ended investments into the expansion of renewable energies continued to increase. Thus, the largest German financial services group Allianz announced investments into renewable energy projects of 500 million €. One Allianz study showed that the damage to the insurance industry from climate change had increased dramatically. The energy giant BP also significantly enhanced its capital expenditure volumes for clean energy.

On the whole, the high energy prices and the concerns about increasing scarcity and less supply security further boosted the political and economic interest in renewable energies in 2005. This development had positive repercussions on the demand for the products and services of the SolarWorld Group.

Reach of finite fossil energy reserves



Source: Bundesanstalt für Geowissenschaften und Rohstoffe (BGR), Energy Study 2004

EU supports German funding for renewable energies

At the European level the development of renewable energies has also made a lot of headway in the last few years. Worldwide the EU holds a leading position in the technologies for the use of renewable energies. From 2002 until 2006 the EU has invested 440 million € in the research and development of the utilization of renewable energies. The objective is to meet the commitments from the Kyoto protocol and to structure the European energy mix in such a way that the share of renewably energies will reach 12 per cent by the year 2010. Europe's dependence on oil and natural gas imports is to be reduced appropriately.

In a report out at the end of the year 2005 the EU Commission explicitly praised the German funding policy for the expansion of power generation from renewable energies as being very efficient. The law on renewable energies (EEG), says the Commission, was an ideal and cost-effective tool to promote climate-friendly electricity. Other states within the EU were called upon to improve their policies on the promotion of clean power generation.

German solar power market with double digit growth

In the Federal Republic of Germany the establishment of renewable energies has made further progress. The funding program, especially of solar energy, has met with a broadly based social and political consensus right across party preferences.

Against this backdrop the solar power market in Germany has achieved double digit growth and has maintained its position as the world's leading solar market ahead of Japan.

According to industry associations and industry observers the market volume went up by some 20 per cent in the year 2005. The newly installed amounted to between 500 and 600 MWp in Germany. The total photovoltaic power output installed in Germany (cumulative) thus exceeded the mark of one gigawatt for the first time in 2005 amounting to more than 1,300 MWp at the end of the year – which corresponds to the installed capacity of a large nuclear power station.

International solar power market

The second largest European market is **Spain** which has a similar feed-in regulation to that in Germany. The amount of money paid per kWh is linked to the development of the regular electricity price. The compensation paid for plants with an output of up to 100 kW amounted to 42 Cent per kW in 2005. Bureaucratic obstacles and a lack of material available limited growth in 2005. Experts estimate all the same that the market volume rose to approximately 30 MW in comparison with the previous year. In the course of the year under review the Spanish government increased the targets for solar expansion. Until the year 2010 total photovoltaic capacity is to reach 400 MW.

After a relative standstill the solar market in the **USA** showed some movement again in 2005. The background is the passing of the new national law on energy (Energy Bill) that provides for tax concessions for the purchase of solar power plants. Furthermore, some Federal States have launched regional funding programs. Most progress has been made by the State of California where the regulatory authority has prepared a comprehensive 2.7 billion USD funding program for the power market to be introduced in 2006 (see VI.1.2 Future industry situation: “California Solar Initiative“).

In response to its enormous energy demand the People’s Republic of **China** has started to prepare the introduction of a feed-in law for renewable energies along the lines of the German example. Other states have taken important solar policy decisions. Thus, **Italy** has passed a funding law with attractive rates of compensation that does, however, stipulate capacity limits which were already reached before then end of the year.

Against the background of an economic growth forecast of 5 to 6 per cent annually, **South Korea** also adopted an electricity feed-in act for renewable energies two years ago in order to reduce its dependency on energy imports. It is the aim of the Korean government to increase the proportion of renewable energies in total energy consumption from 3 to 5 per cent. Compensation rates partly exceed the levels fixed in Germany. This is accompanied by ambitious plans concerning intensive research and development activities in the photovoltaic sector so that South Korea has become an important sales market for solar products, additionally underpinned by the overall framework conditions.

The international solar wafer market was characterized by the high demand from the international solar cell industry in 2005. As the production of solar silicon wafers is technologically sophisticated requiring high investments the number of protagonists in this market segment is limited. This strengthened the positions especially of leading providers like Deutsche Solar AG. At the same time the wafer industry had to manage the effects of the emerging scarcity of the raw material silicon. The raw materials producers did indeed decide to expand their capacities to service the international demand. Yet, the implementation of such an investment decision takes about two years as a rule. This caused price increases at the raw materials level which the wafer industry passed on to its customers.

The range of market participants is clearly larger at the level of the international solar cell industry. In the course of the year capacities increased as much as the number of providers. The high demand by the module industry that processes the cells could not be fully met because of the limited supply. Even more diverse than the cell industry is the structure of the international module industry. Building up this stage of the production is substantially less capital-intensive and can be completed more rapidly than in the case of cell fabrication or even wafer production.

On the whole the international solar market is estimated by industry observers to have grown by between 20 and 30 per cent in 2005 (equivalent to some 1,250 MWp).

3.3 Effects of the background conditions on the business development 2005

From the point of view of the corporate management the macroeconomic as well as industry-specific background conditions portrayed had a positive impact on the SolarWorld Group's business development both nationally and internationally.

3.4 Major events influencing the business development

The SolarWorld Group took some major steps in the 2005 fiscal year to ensure current and future growth. Thanks to the agreement on the production under license of the SolarWorld quality modules by Suntech Power Inc. in China the Group has been able to expand considerably its sales of modules and kits. Sales and earnings could be improved as a result.

The Group has continued to enhance its finance position. SolarWorld AG managed to generate a liquidity inflow of 43 million € from the successful placement of a capital increase with institutional investors in the spring of 2005. These proceeds reflect a flexible implementation of group-wide expansion. By way of financial agreements with partner banks in combination with grants and subsidies the Group has received additional funds to the tune of 135 million € for the expansion of production at the Freiberg site with which the further expansion of wafer, cell and module capacities has been initiated.

Furthermore, the Group subsidiary Deutsche Solar AG has concluded contracts with Hemlock Semiconductor Corporation (HSC) from Michigan and Wacker-Chemie GmbH on the long-term supply of the raw material.

3.5 Business development 2005

a) Wafers and raw materials

Raw materials supply strengthened internally and externally

Deutsche Solar AG further strengthened the basis for raw materials procurement during the fiscal year. In order to secure an essential component of the long-term supply with raw materials the company entered into long-term contracts with leading manufacturers of the international silicon industry. The framework agreements with Hemlock (starting 2006) and Wacker-Chemie (starting in 2007) will each run for ten years.

In parallel to strengthening the external procurement channels the Group has also expanded the internal processes of obtaining raw materials. The activities for raw materials processing were switched to continuous operation in the second quarter. The raw materials volumes processed were increased by 75 per cent by the end of the year. In order to further expand the internal raw materials processing and generation Deutsche Solar AG broke the ground for the construction of an additional production building (DS 901). This is where new processing technologies resulting from the company's own R & D will be employed to tap additional quantities of silicon.

Recycling output tripled

As another step in material generation Deutsche Solar AG has expanded the recycling of used solar modules and cells in its "Solar Material" division. The volume of recycled cell material has been tripled in comparison with the previous year. In the third quarter the company received the assignment to recycle the formerly largest German open air solar power plant built in 1983 on the North Sea island of Pellworm. The solar modules are more than 20 yearold products from the AEG-Telefunken company. The thermal processing of the modules was started as early as in the fourth quarter.

In order to secure the full-scale recycling of the constantly growing volumes of solar materials Deutsche Solar AG has submitted the draft of a return system for photovoltaic products. The objective is to cooperate with industry associations and companies in developing a voluntary waste disposal solution that would pre-empt sovereign regulations by European or national legislators.

Innovative technologies: Joint Solar Silicon and RGS Development

After some research-intensive preliminary work the SolarWorld associated company Joint Solar Silicon GmbH & Co. KG (JSSI) has built and commissioned its pilot plant. First samples from the innovative separation process of silicon from Silan were successfully melted into wafers and then further processed. With the JSSI process the Group holds the key to an innovative type of efficient solar silicon production.

As another successful result of its intensive research activities in the area of efficient raw materials use Deutsche Solar AG established RGS Development BV with headquarters in the Netherlands in cooperation with the Dutch research institute ECN (Energy Research Centre of the Netherlands) and the investment company Sunergy Investco in the fourth quarter of the year. The new Joint Venture will put into practice the Ribbon Growth on Substrate (RGS) process for the production of solar wafers (see III. Research & Development) contributed by Deutsche Solar AG. Through the industrial use of the RGS technology silicon use may be reduced by 40 per cent. Together with the consistent reduction of further production expenses this may lead to significant cost savings in wafer production. The patents for this future-oriented technology have been contributed by Deutsche Solar AG to RGS Development BV on an exclusive basis. The objective of the partners is to build a pilot plant by the beginning of 2007.

Expansion of crystallization and wafer capacities

In the course of the first half of the year Deutsche Solar AG commissioned a new production hall (DS 202) for the expansion of crystallization activities. The first twelve furnaces of the new TCVP (Temperature Controlled Volume Process) technology developed in-house successfully started their operation here. On the whole the new production facility offers a great deal more space so that future expansion of crystal-

lization activities will be easily possible by adding more furnaces. In 2005 the Group, by taking this expansionary step, enhanced its crystallization capacities in comparison with the previous year by 60 megawatt (MW) to 180 MW. The investment volume amounted to 24 million €.

Crystallization is the first step in the production of solar silicon wafers. In the crystallization furnaces solar silicon is melted at high temperatures and then cooled down again. Through an accurately controlled cooling process the material crystallizes into silicon blocks that are subsequently precision-cut into columns and wafers. The hall has a useful area of 5,600 square meters distributed over two production floors.

In parallel to increasing crystallization capacity the company also boosted the capacities in the existing wafer production by way of a number of optimization measures to 180 MW (previous year: 120 MW).

This spells the end of the expansion of wafer production in the existing buildings. For further expansion Deutsche Solar AG has started the construction of a second production building (DS 1000) in which capacities will be stepped up gradually. The realization of Waferfab II is the group's biggest expansion project to date.

Logistics activities strengthened and optimized
In response to the strong group-wide growth the logistics activities were strengthened and optimised. To this end Deutsche Solar AG, acting as a service provider to the Group, built and commissioned a new office building next to the existing logistics center. The central control of the Group's entire logistics flows is the very basis of the smooth and rapid supply to customers.

Wafer sales grow by one third to 160 MW
In the full year the sale of silicon wafers increased by one third or 40 MW to 160 MW. This growth again accelerated in the fourth quarter when wafer sales rose to an all-time high of 48 MW. While Deutsche Solar AG also sold silicon columns externally in the first half of the year in addition to wafers this activity was wound down along with the expansion in production capacity.

b) Cells

Doubling of capacities completed

The expansion of cell manufacturing capacities from 30 MW to 60 MW was completed at the end of the year. In view of the problems individual suppliers of equipment had ranging all the way to the insolvency of one contractor the realization of this expansion was a respectable achievement of the entire team of Deutsche Cell GmbH. Their dedication could of course not compensate for the delays incurred. To cover the additional need for solar cells the group used alternative sourcing options.

Further expansion decided upon

In order to continue the expansion of cell operations, Management has decided to expand capacity at Freiberg to 160 MW, with planned additional capacity of 60 MW. Almost all the equipment for the construction of the new production line has already been ordered. The new production facility will be established in the existing cell production building on Level 1.

Cell sales slightly increased

As a result of the delay in the expansion program cell sales remained below budget. In comparison with the previous year they increased to a total of 37.0 (previous year: 36.3) MW. After the majority of the new plant components had been installed by the end of the fiscal year Deutsche Cell GmbH produced a new record volume in the fourth quarter on a quarterly basis. The sales volume reached 13.4 MW in the fourth quarter and was thus higher than in the entire first half of 2005.

c) Modules

Capacities rise to 60 MW

In harmony with the upstream production stages in the group the module business also increased its capacities as scheduled. On a group-wide basis the imputed production capacities of the factories in Sweden and Freiberg were around 60 MW. In addition, SolarFactory GmbH has initiated the construction of its second module factory at the Freiberg site, with a planned additional output of 60 megawatts (MW). The technical equipment was largely installed in the year under review. Test production has started. The new production is a further technical development of the first fully automatic production line inaugurated at the end of 2003. Building on our own know-how and the operation and optimization of the first factory the second Freiberg module factory now constitutes a leap forward in automation and process technology.

Module range expanded – new US module certified

The Swedish subsidiary GPV started production of the solar power module certified by the US testing authority UL. The certification is a prerequisite for distribution in the USA.

In addition, the group has rounded out its entire module range. Solar Factory GmbH produces the SW 210 at Freiberg which is the main product in the group-wide module business. This bestseller consists of 6 inch cells and has a power output of up to 230 watt. 60 per cent of group module sales are accounted for by this standard high quality product.

The compact module SW 140 with up to 150 watt of power output is produced in Sweden. This module also consists of solar cells of the 6 inch generation. In addition GPV produces modules with 5 inch cells.

The standard product SW 165 with a power output of up to 175 Watt comes in a polycrystalline and a mono-crystalline version. It is also the basis of the roof integration laminate – a module without a frame for direct installation into the roof – which is also produced by GPV. The Swedish group subsidiary also manufactures smaller modules in limited quantities for grid-independent applications in Scandinavia.

Module sales of the two subsidiaries Solar Factory and GPV climb to more than 40 MW
Group-wide solar module sales of the two module production facilities in Freiberg and in Sweden climbed by more than one third to 43.5 (previous year: 31.3) MW. While Solar Factory GmbH shipped 28 (previous year: 20) MW sales of GPV amounted to 15.5 (previous year: 11.3) MW.

d) Trading
SolarWorld kits (Sunkits®) in focus
In 2005 SolarWorld AG significantly enhanced its trading business. In comparison with the prior year industry sales more than doubled to about 65 MWp. In addition to the group's own production a major contribution to this was made by the licensing agreement with Suntech Power Inc. in China. The group regularly checked the quality of the modules from the Far East on the spot into which major input products of the group are installed, and additionally had the products certified in Germany.

In the period under review the emphasis of the trading business was on the distribution of individually tailored kits under the brand name Sunkits®. By hiring new employees this high-margin business was further professionalized and strengthened. The kit business was supplemented and optimized by the introduction of new components under the SolarWorld brand umbrella (Sunplug®, Sunfix®, Suncable®). SolarWorld AG also enhanced the niche business of roof integration solutions. The share of the SolarWorld-Energiedach® (energy roof) in total sales amounted to about one per cent.

Project business increased to 10 MW
With a total of three large-scale plants together amounting to 10 MW SolarWorld AG significantly strengthened its business in the field of major solar projects. The company built the open-air projects for the customer Solarparc AG on a turn-key basis using rack systems that were developed in-house. A particularly innovative solution was the realization of a double axis tracking solar power plant with an output of 580 kW in Freiberg/Saxony. With a highly advanced light-activated control system for each of the 125 trackers the plant generated a 30 per cent higher solar yield than conventional fixed power plants.

Sound and reliable customer relations in 2005
The majority of domestic customers comes from wholesaling (electrical, sanitary, solar). Reliability and quality were again the focus of the business in 2005. The primary objective of Sales was to achieve high customer satisfaction and to identify the degree of this satisfaction by way of customer surveys. A survey conducted at the end of the year showed a consistently positive customer response.

Foreign sales more than doubled
The sale of SolarWorld modules and kits abroad was specifically improved in selected target markets (see I.1.6 Major sales markets and competitive position). In comparison with the previous year sales were doubled to more than 5.5 MW.

Presence at international exhibitions increased
To nurture and establish international customer relations the SolarWorld Group was again represented at important international fairs and exhibitions in the year 2005 (ISH Frankfurt in March 2005/Intersolar Freiburg in June 2005). For the purpose of the further expansion of its international activities in growing markets the company also presented itself at the most important energy and environmental exhibition in Spain, the "Genera Energy and Environment International Fair" in Madrid as well as the 20th "European Photovoltaic Solar Energy Conference and Exhibition", one of the major international industry meetings of the solar industry in Barcelona, Spain. As a back-up measure to the entry in the US market the group was also represented at the "SolarPower" in Washington DC.

3.6 Procurement

Due to its integrated structure the group possesses a sound procurement position. The Wafers and Raw Materials division secured its supply by way of a whole of dovetailing measures. Internal processing, recycling as well as innovations in raw material generation and wafer production made an important contribution to raw materials procurement while external supply agreements covered the remaining needs.

The other divisions benefit from the group's strong position in wafer production. The comprehensive supply of high quality input products was therefore secured for cell production, for example. The procurement situation was rounded off in the Modules and Trading divisions by the use of additional, external options. In Trading, for example, the licensing agreement with Suntech Power opened up an additional procurement channel.

The procurement of components in the systems business of Trading is broadly based. Through individual agreements the company has secured long-term access to important key components like for example inverters.

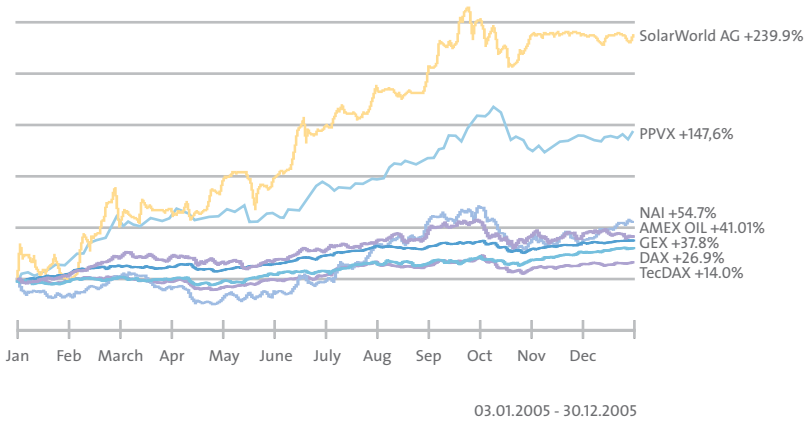
3.7 The stock

Sunny stock market climate
At the international stock exchanges 2005 was a year of lively trading and good stock price developments. The stock markets in Europe, USA and Asia all reported sound growth rates. The background to this good mood included the strong shape of the world economy and the low return levels in the bond markets.

Thus the European standard stocks in the EuroSTOXX increased by 21 per cent to 3,578 points in a year-on-year comparison, while the German DAX went up by 27 per cent to 5,408 points. Even better was the development of investments in sustainable securities. The Nature Stock Index NAI, in which SolarWorld AG is also listed, gained 55 per cent to 3,524 points and thus outperformed the international oil stock index AMEX OIL which reported 41 per cent value growth to 986 points.

The stock markets in Germany were inspired by the heavy demand for securities in the renewable energy industry. Several companies in the solar industry made their first appearance on the floor of the stock exchange and met with a lively demand from investors. Against the background of rising prices for oil and other traditional energies the solar power companies were the clear winners in the stock markets in the stock exchange year 2005. The international stock index for the solar power industry PPVX (Photon Photovoltaic Stocks Index) climbed by 148 per cent to 2.332 points.

The SolarWorld share compared with key share indices



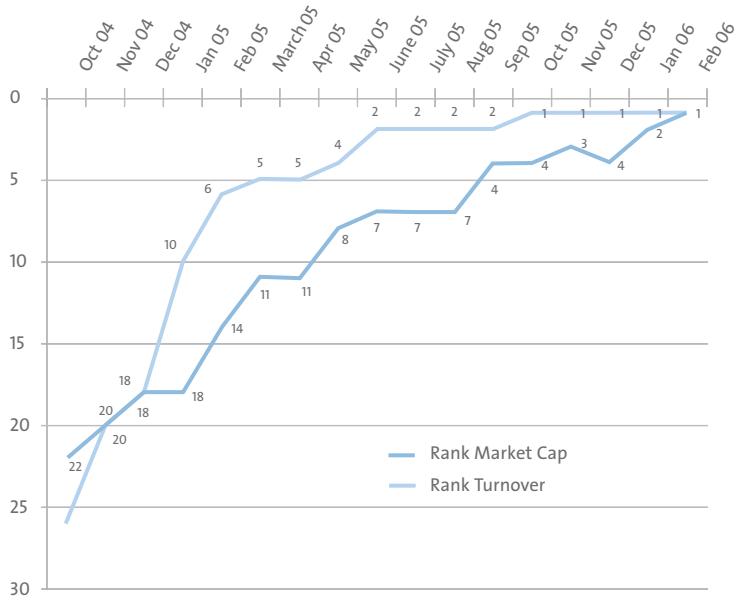
SolarWorld again best index company

Stock of the Year 2005 with some 240 per cent of value growth

For the second year in succession and as the first share in 53 years, the SolarWorld AG share showed the strongest value growth among all 110 key German stocks in the H-DAX (pooling shares of all companies in the DAX, MDAX and TecDAX indices). The SolarWorld AG share was therefore again awarded the title 'Top Stock of the Year' in 2005. The closing price of the SolarWorld stock on 30 December 2005 was 113.0 €. In comparison with the opening price on 3 January 2005 the stocks thus gained 240 per cent (see "Top Stock of the Year 2005" on the inside back cover of the present annual report).

The Prime All Share Index rose by 28 per cent to 2,043 points by comparison. The technology index of Deutsche Börse AG – TecDAX – gained 14 per cent to 596 points in the course of the year. One year after inclusion in the TecDAX the SolarWorld AG stock has thus firmly established itself in the top group of the index. Measured by trading volume SolarWorld AG held the number one spot in December 2005. In terms of market capitalization it was in fourth place. In addition to the TecDAX, NAI and PPVX SolarWorld AG is also listed in the German SME index GEX which increased by 38 per cent to 1,464 points, and in the European renewable energies index ERIX.

Ranking of SolarWorld AG in the TecDAX



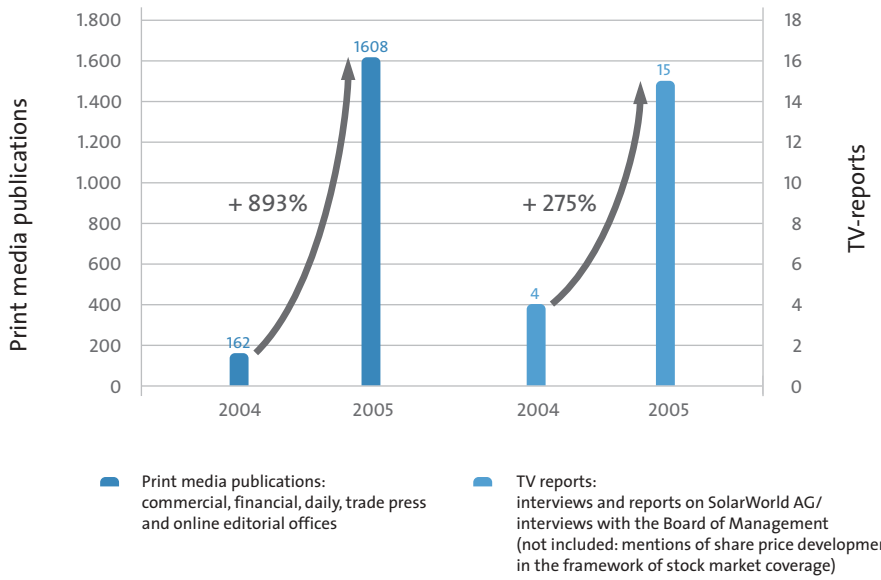
Source: Deutsche Börse AG

Transparency as the basis of Investor Relations work

Road Shows with emphasis on international investors

SolarWorld AG meets the highest international transparency standards as a result of being listed in the quality segment of Deutsche Börse AG, the Prime Standard. The high quality quarterly reporting in German and English offers both German and international investors a regular, up-to-date insight into the market and the development of the company. With the objective of creating up-to-the-minute transparency on current developments the company again intensively used the Corporate News Channel of EquityStory AG/DGAP for the communication of company news in German and English in 2005 in addition to the Ad Hoc reporting. What is more, the company's own homepage offered every investor and the interested public the opportunity to receive the current news of the day as well as to check on publication dates in the financial calendar. A very strong presence in the editorial sections of the media as well as intensive Public Relations work offered the general public additional information on the company and the market.

Editorial coverage 2005



The most recent developments in stock corporation law and capital market law were organizationally embedded in our Investor Relations work. Changes in voting rights according to the Securities Trading Act (WpHG) and Directors Dealings businesses according to the Law on the Improvement of Investor Protection (AnSVG) were immediately and transparently communicated in line with the legal provisions for the protection of investors. By way of insider lists the confidential handling of insider information until ad hoc publication was guaranteed within the group in line with the relevant provisions of the law.

The enhancement of contacts with international institutional investors was one of the priorities of the road shows in 2005. Within the framework of more than 25 road shows and investors' conferences at the international financial centers SolarWorld AG presented its strategy, market and corporate development. As the first German solar company the group intensified its contacts with US investors in response to the high international demand. On the occasion of the publication of the quarterly figures telephone conferences with analysts and investors were offered to substantiate the expectations of the capital markets.

In addition to its listing in the technology index TecDAX SolarWorld AG is also represented in the SME index German Entrepreneurial Index (GEX/under www.deutsche-boerse.com), in the Nature Stocks Index (NAI/www.nai-index.de), in the Photon Photovoltaic Stocks Index (PPVX/www.photon.de) as well as – since the autumn of 2005 – in the newly created European ecology index European Renewable Energy Index (ERIX/www.deutsche-boerse.com), in which SolarWorld AG is one of ten international companies in the market of renewable energies.

Dividend policy

Against the background of the very good business development in 2005 the Board of Management and the Supervisory Board will propose an increase in dividend to the AGM in May 2006. Accordingly, the dividend is to be increased to 0.50 (previous year: 0.18 taking into account the issued bonus shares) Cent per share.

Capital stock and shareholder structure

Issue of bonus shares – capital increase from corporate funds

On 25 May 2005 the AGM had among other things approved the issue of bonus shares. The allocation of these bonus shares and thus the listing at the stock exchange became effective on 20 June 2005. The bonus shares were allocated to the shareholders in line with their shares in the capital stock held so far (ratio 1:1) so that the relative percentage shares did not change. The basis of this allocation was a capital increase by way of converting part of the capital reserves of SolarWorld AG formed until 31 December 2004. As a result the capital stock of the company increased from 6,350,000 € to 12,700,000 €. The new shares come under the same ISIN DE0005108401 and WKN 510840 numbers as the old ones.

Development of capital stock 2005

Due date	Capital stock	Measures
01.01.2005	5,775,000 €	
16.02.2005	6,350,000 €	Capital increase up to 10 per cent of the approved capital to institutional investors
17.06.2005	12,700,000 €	Increase of capital stock of the company by way of a capital increase from corporate funds/issue of bonus shares
31.12.2005	12,700,000 €	

The capital stock of the company thus amounted to 12.7 million € as at 31 December 2005 divided into 12.7 no-par-value bearer shares with an imputed par value of 1 €. Since the IPO in November 1999 the capital stock has thus more than quadrupled by the balance sheet date of 31 December 2005.

Share ownership as at 31 December 2005

	Shares
Frank Asbeck Family	27.6%
FMP Corp.*	9.96%
Free Float	62.44%

* Notice according to §§ 21 ff. WpHG from FMP Corp./USA dated 03.08.2005

After the end of the reporting period the share of voting rights of FMR Corp. increased from 9.96 to 10.35 per cent as a function of the capital stock of 12.7 million € according to a notification pursuant to §§ 21 ff. WpHG dated 6 January 2006. Within the framework of the capital increase (excluding subscription rights) executed on 7 February 2006 (see IV. Supplementary Report) the capital stock of the company increased to 13.965 million € divided into 13.965 million no-par-value bearer shares with an imputed par value of 1 €.

3.8 Overall management assessment of the business development

For SolarWorld AG 2005 was a very successful year. On a group-wide basis the company was able to increase sales and earnings significantly over the already good prior year. All business segments contributed to the very good group earnings while practicing consistent cost management at the same time. The group grew particularly strongly in the high-value wafer business. Here, the company benefited from its market position, its prudent safeguarding of raw material supplies and its decision to engage in long-term capacity expansion. The trading business also boasted high margins. The professionalism of the sales function and of customer relations in the last two fiscal years produced some tangible results. The SolarWorld Group was able to grow more vigorously than the rest of the industry.

3.9 Comparison of actual and forecast business development

In the course of the continuously and vigorously growing demand SolarWorld AG kept correcting its sales and earnings forecasts upwards in 2005. The forecast for 2005 was clearly exceeded by the company. This development was substantially influenced by the strong market growth with high demand surpluses and an increased price level for solar products.

Substance

... through resources > >>

Substance

II. EARNINGS, FINANCIAL AND ASSET SITUATION

>> Long-term success demands a solid stand. In the course of its young corporate history SolarWorld AG has created a strong basis by building highly advanced manufacturing locations as well as a strong capital base. We have positioned ourselves successfully from silicon as the raw material all the way to turn-key solar power plants. A sound financing structure reflects the healthy corporate situation lending expression to our strength by international standards. Our further growth at all stages of the value chain of solar power technology in the markets of the future begins here.

II. EARNINGS, FINANCIAL AND ASSET SITUATION

1. Earnings situation

1.1 Earnings development

In 2005 the earnings situation continued to improve significantly over the previous year. The earnings figures rose substantially in comparison with sales which is attributable to strict cost management in all segments (see II.1.4 Development of major P&L items). Earnings before interest, tax and depreciation/amortization (EBITDA) increased over 2004 by 120 per cent to 108.3 (previous year: 49.3) million €. The group-wide result before interest and tax (EBIT) climbed by 169 per cent to 88.6 (previous year: 32.9) million €. The EBIT margin therefore advanced to 24.9 (previous year: 16.5) per cent. With a relatively small change in the financial result of minus 4.9 (previous year: minus 4.4) million € the pre-tax profit rose by 194 per cent to 83.8 million €. The group's net income after tax reached 52.0 million € and thus almost tripled (plus 187 per cent) in comparison with the previous year (18.1 million €). The return on sales improved to 14.6 (previous year: 9.1) per cent. The return on equity jumped to 23.9 (previous year: 14.6) per cent. All business segments contributed to this high-margin result while practicing stringent cost management at the same time.

The operating result rose especially vigorously in the Trading and Wafers divisions. While EBIT increased in Trading to 24.1 (previous year: 3.7) million € it improved in the Wafers segment to 52.5 (previous year: 14.3) million €. Due to the extended time of the production expansion the EBIT in the Cells division turned out to be somewhat lower than in the previous year at 8.8 (previous year: 10.6) million €. In the Modules division the EBIT added up to 6.9 (previous year: 3.9) million €.

Within the framework of the usual consolidation effects the sum of the individual results is higher than the figure for the group.

1.2 Sales development

Due to the high demand group sales increased by 78 per cent to 356.0 (previous year: 199.9) million €. A contribution to this was also made by the internationalization of the business (see segment breakdown in consolidated accounts).

External sales of the Trading business more than doubled to 229.9 (previous year: 103.7) million €. For Wafers they rose to 115.2 (previous year: 82.2) million €. External sales for Cells amounted to 8.2 million € in 2005. Inter-company sales in the Modules division amounted to 2.7 (previous year: 1.5) million €.

1.3 Order development

On a group-wide basis SolarWorld AG reported a stable and good order situation. In the Wafers and Raw Materials divisions Deutsche Solar AG extended the reach of its orders in the course of the year. Customer relationships were placed on a longer term basis. In the course of the year the Cells and Modules divisions were confronted with a continuously high order situation due to a massive demand from within the group. In the Trading business the orders for the full year 2005, if still open, were placed at an early point in time. The emphasis of the orders was on solar kits. Orders for modules were secondary in terms of volume. On the whole the orders received were focused on businesses for 2006. The SolarWorld AG order books at the end of the year represented the production of the year 2006 according to a conservative estimate. In the project business the company had an order volume of 10 MW in the first half of the year which was completely worked off in the course of the year.

1.4 Development of major P&L items

Other operating income amounting to 14.9 million € essentially includes the regular write-backs of parts of the accrued investment grants (see II. 2.2 Financing analysis). The analysis of major cost blocks confirmed the consistent cost management in the entire group. In comparison with sales costs showed a distinctly under-proportionate development. Thus, the rate of staff costs (personnel expenditure compared to sales) improved substantially to 10.6 (previous year: 15.4) per cent with personnel expenditure having risen to 37.8 (previous year: 30.8) million €.

Other operating expenditure of 29.6 (previous year: 22.7) million € also developed much less vigorously in comparison with the development of sales.

In view of the significant increase in the business volume the rise in the financial result of minus 4.9 (previous year: minus 4.4) was also under-proportionate and is the reflection of the successful interest and credit management.

1.5 Multi-period overview of the earnings situation

SolarWorld AG Multi-Period Income Position

	Jan.-Dec. 2001 t€	Jan.-Dec. 2002 t€	Jan.-Dec. 2003 t€	Jan.-Dec. 2004 t€	Jan.-Dec. 2005 t€
Sales revenues	82,116	108,896	98,477	199,933	355,971
Change in inventories of finished goods	1,814	3,239	26,198	-14,658	12,387
Own work capitalized	1,988	143	0	0	3,359
Other operating income	13,056	5,748	10,332	10,616	14,856
Operating performance	**98,974**	**118,026**	**135,007**	**195,891**	**386,573**
Cost of materials	-53,115	-72,795	-87,992	-93,005	-210,902
Staff costs	-9,188	-13,478	-18,638	-30,833	-37,780
Depreciation and amortization	-7,272	-9,274	-14,828	-16,456	-19,687
Other operating expenses	-16,010	-20,071	-16,651	-22,706	-29,590
Sub-total	-85,585	-115,618	-138,109	-163,000	-297,959
Operating result	**13,389**	**2,408**	**-3,102**	**32,891**	**88,614**
Financial result	-288	-4,046	-6,174	-4,356	-4,850
Income taxes	-4,417	153	3,863	-10,421	-31,782
Group profit/loss for the year	**8,684**	**-1,485**	**-5,413**	**18,114**	**51,982**

Ratios

Return on sales (Group profit or loss for the year/sales revenues)	10.6%	-1.4%	-5.5%	9.1%	14.6%
Cost of materials ratio (Cost of materials plus change in inventories/sales revenues)	62.5%	63.9%	62.7%	53.8%	55.8%
Staff cost ratio (Staff costs/sales revenues)	11.2%	12.4%	18.9%	15.4%	10.6%

2. Financial situation

2.1 Principles and aims of financial management

Maintaining a balanced and sound ratio between equity and borrowed capital is the basis of the financial management of SolarWorld AG. A healthy equity ratio (48.6 per cent in 2005) is a clear sign of a solid financial structure as well as a central ratio for the assessment by external financial analysts. In the calculation of ROCE (Return on capital employed) SolarWorld AG reaches 25.1 per cent for the year 2005 which is clearly above the interest rate for borrowed capital. A double digit return on the equity capital is another target quantity for the control of the financial management. The stability and continuous improvement of the financial ratios will lead to a permanently improved credit worthiness and thus to more and more favourable financing facilities in the capital market.

The indicated soundness of the financial situation of SolarWorld AG is the prerequisite for the implementation of another central concern of the financial management of the company: to control and continuously optimize its capital requirements flexibly and in a spirit of partnership with the banks. SolarWorld AG therefore relies on a mix of different financing sources – a plan that the company was able to implement in a perfect manner in 2005 (see II.2.2 Financing analysis).

Other principles of financial management relate to the provision of sufficient and readily available liquidity so as to be able to implement financing projects. In addition, the very conservative treatment of futures transactions and currency hedging strategies is always based on a completed underlying business transaction.

Interest hedging for long-term credit obligations is as a matter of principle always done for congruent time periods and valued and adjusted on the merits of each situation.

2.2 Financing analysis

The capital increase excluding subscription rights that the company placed with institutional investors in the first half of 2005 generated a capital influx of 43.1 million €. On the borrowed capital side the company obtained additional liquidity of 10 million € by continuously placing SolarWorld bearer bonds.

In the context of further expansion financing for the Freiberg companies the group has negotiated long-term loan agreements with IKB Deutsche Industriebank (IKB) and SachsenLB as the respective syndicate lead bank. Under the leadership of IKB a banking syndicate will make available 55 million € for the expansion of the solar cell and solar module production in Freiberg. SachsenLB as the lead bank will provide Deutsche Solar AG with credit facilities of about 80 million € to expand its wafer production.

The liabilities of the entire group developed clearly positively in comparison with the overall expenditure. The short-term liabilities to banks could be reduced from 25.3 to 14.6 million € in spite of an increased

number of business transactions. In the long-term liabilities to banks there was an increase of 13.3 to 55.0 million € for investments mainly at the Freiberg location.

Currency hedging transactions on a larger scale were not necessary in the period under review because most of the operational business took place in the Euro region. The businesses in the Yen and Dollar regions were hedged project by project. The financing of deals in the USA is almost completely covered by income from this market which is why here again no hedging measures were required.

Pension accruals do not exist. Instead the company has established a profit-oriented employee participation model with a distribution factor integrated into the pay structure (see II.3.4 Human Resources and social affairs). This system depends on the results of the individual companies as well as the result of the group.

The accrued investment grants are completely carried under long-term liabilities according to IFRS and amount to 56.5 (previous year: 38.6) million € at the balance sheet date. These public funds for the build-up of production in Freiberg are subject to a depreciation horizon of between 10 and 15 years. The grants and subsidies are written back as other operating income via the Profit & Loss statement during the depreciation period.

Of great importance to the financial constitution is the development of liquidity which was very sound on the balance sheet date (see II. 2.5 Liquidity analysis).

The complete coverage of long-term assets by the equity capital (see II.3.1 Asset structure analysis) illustrates our balanced financial situation.

2.3 Importance of ex-balance sheet financing instruments to the financial situation

Ex-balance sheet financing instruments were not employed in the financing of the group.

2.4 Investment analysis

The company made investments into the expansion of the solar business along the entire solar value added chain.

Investments

(in million €)	Wafers	Cells	Modules	Trading
Intangible assets	0.2	0.0	0.0	0.2
Property, plant and equipment	32.8	0.1	18.7	0.6
At equity shareholdings	3.1	0.0	0.0	1.7
	36.1	**0.1**	**18.7**	**2.5**

2.5 Liquidity analysis

The liquidity situation of the group continued to improve significantly in the course of the year. After the company had not owned any securities at the end of the previous year it accumulated a securities portfolio of 22.3 million € by the balance sheet date. They are all low risk investments. The portfolio contains no individual titles (stocks). The portfolio of stocks can be liquidated at any time and therefore constitutes immediately available liquidity. In comparison with the previous year the liquid funds more than tripled to 95.9 (previous year: 27.0) million €. The share of securities and liquid funds (together: 118.1 million €) in the balance sheet total rose to 26.5 (previous year: 9.8) per cent.

First degree liquidity, the so-called "cash ratio" (securities + liquid funds in relation to the short-term debts) stood at 1.37 as at the balance sheet date 31 December 2005, an excellent liquidity ratio by international standards. Second degree liquidity, the so-called "quick ratio" (securities + liquid funds + funds available at short notice in relation to the short-term debts) reached 1.64 and third degree liquidity, the so-called "current ratio" (short-term assets in relation to short-term debts) stood at 2.63 which is also well below average by international standards.

SolarWorld AG's operating cash flow for the 2005 fiscal year rose to 126.3 million €, an increase of more than 150 per cent year-on-year. The cash flow from operating activities includes the changes in inventories and other working capital. The cash flow from operating activities also includes an inflow of 23.5 (previous year: 5.5) million € from investment grants received, which are therefore also associated with the payments made for investments in fixed assets.

Cash and cash equivalents at the end of the period comprise the balance of the liquid funds shown in the balance sheet of 95.9 (previous year: 27.0) million € and the liabilities payable on demand shown under current liabilities of 0 (previous year: 0.134) million €, more than tripling by 68.9 million €.

2.6 Multi-period overview of the financial situation

SolarWorld AG Multi-Period Financial Position

	31.12.2001 t€	31.12.2002 t€	31.12.2003 t€	31.12.2004 t€	31.12.2005 t€
Group profit/loss for the year	8,684	-1,485	-5,413	18,114	51,982
Liabilities (non-current and current)*	88,291	119,734	158,270	144,178	221,567
Shareholders' equity	103,428	109,989	107,543	124,488	217,056
Total assets	211,798	237,535	274,842	276,289	446,579

*excl. deferred taxes

Ratios

Return on equity (Group profit or loss for the year/equity)	8.4%	-1.4%	-5.0%	14.6%	23.9%
ROCE (EBIT/(total capital + current liabilities))	8.3%	1.4%	-1.6%	15.7%	25.1%
Cash ratio ((Total cash + marketable securities)/current liabilities)	1.00	0.22	0.27	0.45	1.37
Quick ratio ((Total cash + marketable securities and accounts receivable)/ current liabilities))	1.39	0.55	0.58	0.74	1.64
Current ratio (Total current assets/current liabilities)	2.22	1.34	1.37	1.53	2.63

3. Asset situation

3.1 Asset structure analysis

The group has a very sound asset structure at the balance sheet date. The long-term assets are fully covered by the equity capital. While fixed, tangible assets increased by 19.9 per cent to 217.5 million €; the equity capital expanded by 74.4 per cent to 217.1 million €. The equity ratio climbed to 48.6 (previous year: 45.1) per cent. The complete debts of 221.6 million € are more than compensated by the short-term assets of 226.8 million €. The entire asset structure of the group (the relationship between short and long-term assets and the relationship between the assets and liabilities sides) reflect the very good corporate situation and lend expression to the strength of SolarWorld AG in an international comparison.

3.2 Ex-balance sheet assets

At the balance sheet date the group did not have any assets that were not carried in the balance sheet.

3.3 Importance of ex-balance sheet financing instruments to the asset situation

Ex-balance sheet financing instruments have no influence on the asset situation of the group.

3.4 Human Resources and social affairs

In the course of the expansion the number of staff increased during 2005. As at 31 December 2005 the group employed a total of 759 staff. In the course of the year the group created 143 new jobs. In the 2005 fiscal year, there were no changes in the composition of SolarWorld AG's Board of Management or Supervisory Board. In Deutsche Solar AG, the position of CFO was eliminated.

Group headcount as at 31 December 2005

	As at 31.12.2005	As at 31.12.2004	Change compared with balance sheet date of previous year +/-
Deutsche Solar AG	489	403	+ 86
Deutsche Cell GmbH	70	62	+ 8
Solar Factory GmbH	63	51	+ 12
GPV AB	70	48	+ 22
SolarWorld AG	63	52	+ 11
SolarWorld Ibérica S.L.	2	0	+ 2
SolarWorld California, Inc.	2	0	+ 2
Total	**759**	**616**	**+ 143**

Staff fluctuation in 2005, as in the previous years, was extremely low amounting to less that 2 per cent (national average: about 10 per cent) – an indication of a very good working climate. Staff management follows the principles of an open corporate culture. There are flat hierarchies an open-doors atmosphere. The high job satisfaction of the employees leads to a healthy development in the growth of our work-force and a stable employment structure.

Regular departmental meetings assure the flow of information and make for smooth cooperation. A high level of communication between the employees makes it possible to resolve conflicts quickly, if there are any.

In addition to these elementary factors a profit-oriented employee participation model introduced in Freiberg in 2003 in the context of an in-house collective bargaining settlement contributes to employee retention.

As a major income component the premium which is partly paid out and partly retained in the company for five years plus interest, is made up to the tune of 50:50 by the business success of the group and the performance of the subsidiary where the staff member in question is employed. The same employee participation model but with different basic amounts was launched in early 2005 for the employees at the Bonn location where the employee participation is completely paid out in the subsequent year. For executive staff there are as a rule individually negotiated variable components to supplement the employee participation model (see I.1.4 Management and Supervision).

In Germany the SolarWorld Group offers its employees a company pension plan which, primarily by way of conversion of remuneration, constitutes an attractive possibility of an additional old age pension. There is the option of choosing either a direct insurance scheme or a pension fund insurance.

Personnel development is an important aspect in the SolarWorld Group. A training plan is available for the individual and demand-oriented education and training of employees. At the Bonn location a total of 75 such measures were conducted in fiscal year 2005 in company-specific fields such as engineering and sales as well as in open topics like quality management, foreign languages, customer management or

public speaking. Further training at the production locations mainly took the form of work-specific training for operators, labourers and skilled workers as well as engineers, technologists and administrative staff. Sandwich-type, long-term skill improvement measures (foreman training, distance learning, evening courses) were supported by the company.

In the subsidiaries in Freiberg a working group was created in the context in-company health promotion that identifies factors impairing health at the place of work and prepares and proposes solutions. The objective is to further reduce sickness rate (at group level: 3.18 per cent in 2005/sickness rate in Germany in 2005 according to the Federal Health Ministry: 3.3 per cent) and to encourage and implement preventive measures. In order to be able to derive concrete measures for the health and occupational protection of employees and, at the same time, to measure the satisfaction with working conditions the Freiberg companies in cooperation with the AOK health fund conducted a comprehensive employee survey. The evaluation forms the basis for further measures of in-company health promotion. The SolarWorld Group has taken precautionary measures early on to prepare for the event of an avian flu pandemic by stocking the Tamiflu® drug for its employees.

A regularly meeting occupational safety committee as well as annual safety instructions of all employees also serve to guarantee occupational and health protection.

In staff recruitment the company relies not only on active personnel marketing at universities but also on personal connections. Through partnership contacts to scientific establishments the group succeeds in attracting qualified high potentials from the field of universities, institutes and higher education establishments.

Trainees at SolarWorld AG and its subsidiaries have a better than average chance of being offered permanent employment due to the expansion of the company. As at the cutoff date 31 December 2005 29 trainees were employed group-wide (previous year, as at the cutoff date: 27 trainees).

Trainees in the SolarWorld Group

	Graduation of trainees in 2005	New trainees in 2005 as
Bonn	5 industrial clerks (3 were offered permanent employment, 2 started a university education)	4 industrial clerks 1 information manager
Freiberg	5 process mechanics (5 were offered permanent employment)	9 process mechanics
Total	**10**	**14**

3.5 Multi-period overview of the asset situation

SolarWorld AG Multi-Period Financial Position

Assets	31.12.2001 t€	31.12.2002 t€	31.12.2003 t€	31.12.2004 t€	31.12.2005 t€
Non-current assets*	110,624	150,680	165,857	181,238	217,495
Current assets	98,856	83,491	100,610	91,334	226,803
Total assets	**209,480**	**234,171**	**266,467**	**272,572**	**444,298**

* excl. deferred taxes

Equity	31.12.2001 t€	31.12.2002 t€	31.12.2003 t€	31.12.2004 t€	31.12.2005 t€
Shareholders' equity	103,428	109,989	107,543	124,488	217,056
Non-current liabilities*	43,836	57,467	85,004	84,361	135,428
Current liabilities	44,455	62,267	73,266	59,817	86,139
Total equity	**191,719**	**229,723**	**265,813**	**268,666**	**438,623**

*excl. deferred taxes

Ratios

Equity ratio (Equity/total assets)	48.8%	46.3%	39.1%	45.1%	48.6%
Capitalization ratio (Non-current assets/total assets)	52.2%	63.4%	60.3%	65.6%	48.7%
Cover ratio I (Equityl/non-current assets*)	0.93	0.73	0.65	0.69	1.00
Cover ratio II (Equity + non-current liabilities/non-current assets*)	1.33	1.11	1.16	1.15	1.62

*excl. deferred taxes

Advantage


... through research > >>

Advantage

>> The long-term value increase of our company correlates with our innovative strength. Research and development have the highest priority for us and are practiced at all stages of the value chain. The regular optimization of the quality of our products at every step of production, the consistent reduction of solar production costs and the steady further development of new technologies strengthen our international competitiveness and our top position in the technology field. The future begins with us in our company.

III. RESEARCH AND DEVELOPMENT (R&D)

1. Alignment of the R&D activities in the SolarWorld Group

Organization
In fiscal year 2005 the SolarWorld Group further stepped up the Research & Development activities in Freiberg. Investments into the expansion of R&D were made and the function was also staffed up.

Through the group-wide research and development significant contributions could be made to improving product quality, saving costs as well as further enhancing capacity. The head of this unit is Dr. Armin Müller. In his capacity as "Head of Research and Development" he coordinates and controls the R&D work in the group reporting directly to the Board.

The research work is performed close to the product in the form of projects with project management depending on priority being vested either in the R&D or in the production unit. If needed the group uses external institutes and universities with whom there is close cooperation. In 2005 the group cooperated with more than 18 institutes and universities as well as a number of customers and suppliers. The handling of the R&D work in the form of projects makes it possible to allocate human and monetary resources for limited periods as well as to integrate external know-how.

Objective of the research activities
In the framework of the research activities the SolarWorld Group covers the entire production chain of solar module making using crystalline silicon. The objective is to attain and secure a top position in technology from raw materials via wafer and cell production all the way to module manufacturing.

Research & Development time frame

R&D Projects	Project duration	Development aim
Short-term	Up to one year	Projects to cut costs and improve quality in wafer, cell and module production on the basis of existing technologies
Medium-term	1 to 3 years	Development of new technologies and equipment for the manufacture of solar power components on the basis of crystalline silicon
Long-term	Projects >3 years	Strategic development of new solar power technologies

At all the project time levels there is currently R&D work going on in the group. On the whole, more than 19 research projects were being worked on in 2005 along the entire production chain and in the area of preliminary research.

Alignment of the important R&D activities in the SolarWorld Group

Project	Time frame	Description	Objective
WIKO	Medium-term	Development of a re-usable mould to cast ingots	Mould prototype by 2006
Speed	Medium-term	Development of a new crystallization plant to cut cycle times and increase ingot weights	Plant and process development until 2008
NEON	Medium-term	Development of large (210 x 210 mm²) and thin (up to 150 µm) silicon wafers	New wafer products to reduce specific silicon consumption/wafer 2006
Ökoprofit	Medium-term	Development of a system to optimize the consumption of auxiliary materials in solar cell production	Cost reduction in cell production
Reliability of Modules	Medium-term	Investigations on the reliability of solar modules when using standard and new materials	Prolongation of reliable function and service life of solar modules
JSSI	Long-term	Development of an inexpensive process to produce solar-grade silicon	High quality and inexpensive solar-grade silicon
RGS	Long-term	Development of a plant and a new type of crystalline silicon wafer based on the RGS process	Inexpensive wafers for solar cell production
Herkules B	Long-term	Micro-crystalline thin-layer silicon cells on different substrate	Evaluation of an alternative photovoltaic technology

2. Acquisition of R&D know-how

Know-how from third parties was not acquired. Industrial property rights concerning the RGS process were transferred to what is Deutsche Solar AG today as a result of the acquisition of the then Bayer Solar GmbH by SolarWorld AG.

3. R&D expenditure, research rate, research intensity

The R&D expenditure in fiscal 2005 reached roughly the level of the previous year. The total R&D expenditure of the group was government-funded to the tune of 34.8 per cent.

Annual comparison of R&D expenditure

	2005	2004	2003
Absolute amount of R&D expenditure	8.33 m €	8.5 m €	4.5 m €

In 2005 investments were increasingly made into the characterization and analysis of wafers, solar cells and solar modules. The R&D facilities in Freiberg built up over the last few years like the physics lab, the chemistry lab and the lab for auxiliaries and consumables as well as the lab for module characterization have been supplemented by additional advanced equipment. Furthermore, investments were made into test systems in the context of developing new technologies for the wafer production in Freiberg (DS 1000) as well as for the "Speed" project.

R&D characteristic figures

	2005	2004
Research rate		
R&D expenditure as a function of sales	2.3%	4.3%
Research intensity		
R&D expenditure as a function of total expenditure	3.1%	5.8%

New product rate

In the year 2005 various newly developed products were launched first in production and subsequently in the market by the group (see I.1.5 Key products, services and business processes).

R&D new product rate

	Product	Share of total production End of 2005
New wafer formats	Multi-crystalline 156 x 156 mm² x 240 µm	70 %
	Mono-crystalline 125 x 125 mm² x 210 µm	4.1 %
New cell formats	Multi-crystalline solar cells 156 x 156 mm²	Launched in first quarter 2005, since then almost 100 %
	Mono-crystalline solar cells 125 x 125 mm²	End of 2005 almost 0 %

In the framework of the development of new wafers and cells new modules in the output classes of 130 to 150 Wp and 200 to 220 Wp were developed and launched in the market in 2005 (see I.1.5 Key products, services and business processes).

The share of new wafer products with the new wafer thickness of 240 µm and smaller amounted to 93 per cent of production of Deutsche Solar AG by the end of 2005. This means that in comparison with 2004 almost completely new products were manufactured by Deutsche Solar AG.

After the expansion of the production capacities based on the newly developed TCVP technology this new material could also be launched in the market. Towards the year-end of 2005 5.4 per cent of the overall production was performed on the basis of this new material.

4. R&D employees

Employees in Research & Development

	2005	2004	2003
Employees working directly for R&D	24	23	11
Total number of employees in the group	759	616	525
Relation	3.2*	3.7	2.1

* Additionally in 2005 up to 130 employees were active part-time in R&D projects, especially in the context of operational trials and process tests. In the JSSI project, a Joint Venture in which Degussa AG holds 51 per cent, 5 employees (previous year: 5 employees) were involved in addition to the two general managers.

More than 70 per cent of the employees in the areas of research and development hold degrees from universities, higher education establishments and technical colleges.

5 Major R&D results in 2005

"Solar Material" – processing of different silicon grades further developed
R&D projects in the framework of silicon generation aim at a broadening of the raw materials base and at cost reductions.

The processing of silicon raw materials that come up as by-products in the electronics industry and that cannot be used directly in solar cell production are allocated to the "Solar Material" division of Deutsche Solar AG. From the optimization of the etching process to the cleaning of the surfaces – with the aim of minimizing the use of chemicals and reducing the costs – all the way to the recycling of wafers and cells go the activities that the group is working on in a joint project with partners from industry, scientific institutes and higher education establishments. A number of different processes for the processing of various silicon grades were developed and established in an attempt to come up with a method of generating the raw material silicon.

Other efforts concentrate on the removal of negatively doped silicon elements and/or the production of n-doped silicon discs for new solar cell structures. This work was done in a joint European project (NESSI) together with a number of higher education establishments and scientific institutes. It was successfully completed in 2005.

Recycling 2005
The pilot plant built in 2003 for the recycling of defective modules and/or spent modules that had reached the end of their service life was able to prove successfully in large-scale tests involving several tens of thousands of recycled cells and wafers that the pilot plant alone already makes a positive contribution to energy consumption. In the meantime this successful technology could be applied to a number of different solar module systems.

The recycled wafers that were processed into cells in the industrial cell production process possessed the same or sometimes better degrees of efficiency than solar cells made from new wafers.

Joint Solar Silicon GmbH & Co. KG – Transfer to technical scale
In the Joint Solar Silicon GmbH (JSSI), a Joint Venture of Degussa AG and SolarWorld AG, work is being done on the development of a method for the inexpensive production of solar-grade silicon by the decomposition of silan according to a new process. The major development work could be completed in 2004 at the laboratory scale. On the basis of these results the process was transferred to the technical scale in 2005 and the plants required for this were developed. The development work at the technical scale was successfully pushed ahead in the year 2005 and the first silicon volumes were produced at the 2-ton scale.

Wafers – Improvement of productivity and quality
The improvement of the crystallization process both downstream of casting as well as of the Bridgman and HEM (Heat Exchange Method) processes aim at an improvement the yields and an increase of the quality. Appropriate technology assessments are the basis for future further developments. Thus, it was possible in 2005 to further shorten the process cycles by further developing the production formulations used and in doing so to further increase productivity and quality.

The development of a melting and crystallization plant already successfully completed in 2004 formed the basis of the capacity enhancements at Deutsche Solar AG since January of 2005. In addition to very good material quality this new development is characterized particularly by improved space-time yields made possible by process cycles that are up to 30 per cent shorter.

The development of a re-usable mould was another priority in 2005. Some first mould prototypes could be subjected to testing close to production conditions.

In addition, the development of a new coating process for the coating of the crystallization crucibles also made it possible to cut production costs and improve coating quality.

Among the special successes of the group's R&D is the conclusion of a project to develop thin wafers of 240 µm and 210 µm. In this process multi-crystalline wafers dimensioned 156 mm x 156 mm x 240 µm and mono-crystalline wafers dimensioned 125 mm x 125 mm x 210 µm were developed. These formats have been introduced in the production and help to further reduce the silicon demand per wafer. Another research project for the production of even thinner wafers has been started.

With the RGS process (Ribbon Growth on Substrate) the group is adopting an approach, together with two partners from the Netherlands that will make it possible to produce silicon discs at high speed with the help of a simple casting process. The solar wafers are produced by applying silicon to a carrier material. No sophisticated cutting process is required as a result of which material wastage is minimized and the use of silicon is reduced by about 40 per cent. A "pre-production" plant has been constructed, funds for the construction of the plant have been obtained, and a project for the realization of this process has been initiated. The wafers produced on a demonstration plant have by now reached a degree of efficiency of 13.0 per cent.

Cells – Development of processes for cost-efficient cell production
R&D prioritiy in cell production as the introduction of thin wafers of 240 µm whose main products are solar cells with a thickness of 220µm. As a result of the introduction of this product in the second half of 2005 a major contribution could be made to the cost reduction along the entire value chain. For the continuous further development of thinner cells investigations were also conducted into the use of wafers that are 210 µm and thinner.

Work on the conversion of cell production from 125 x 125 mm (5 inch) wafers to 156 x 156 mm (6 inch) wafers formed another development priority and led to the complete conversion of cell production to the 156 x 156 mm format in the first quarter of 2005.

The further expansion of the cell production of Deutsche Cell GmbH at Level 1 will be performed on the basis of state-of-the-art cell technology now available. In addition, the most recent R&D findings were included in the further development of the cell production line, thus increasing the competitiveness of the production line. A texturing unit serving the acid texturing of solar wafers and representing a key element of the overall concept is implemented in the production lines on the basis of the 2005 R&D results.

Modules – R&D to accompany continuous production
The newly established module production is being supported by a number of R&D activities. Projects for the further development of the solar module in terms of its material composition and construction as well as to increase the productivity of the production process have been initiated. A special subject of investigation is the production of "strings" by way of improved soldering technology.

"Crystal Clear" – EU-wide research cooperation
Within the framework of the 6th Research Program the EU has initiated integrated projects for joint research along the entire photovoltaic value chain. The most important and the biggest project in this context is "Crystal Clear". All the renowned research institutes in the area of photovoltaic technology within the European Union as well as a large number of partners from industry are participating in the project. The SolarWorld Group will also take part in the project.

The most significant contributions made so far are the production of silicon ingots with masses of 400 kg as well as the provision of life-cycle data on eco-efficiency for scientific studies. Contributions to these studies were inter alia presented at the 20th European Photovoltaic Solar Energy Conference in Barcelona in 2005.

Technology center for semi-conductor materials (THM) established in Freiberg
For the further expansion of the research scene for photovoltaic technology at the Freiberg location the new technology centre for semi-conductor materials (THM) designed to dedicate itself to R&D into modern semi-conductor technology was established at the Freiberg site in 2005 in cooperation with the semi-conductor companies Siltronic AG and FCM resident at the location as well as two institutes of the Fraunhofer Gesellschaft (FhG). The joint research focused in the THM will benefit the optimization of the materials employed along the entire solar value chain. The objective of the joint research establishment is the improvement of manufacturing technologies using possible synergies between photovoltaic tech-

nology and other semi-conductor industries. With their recognized competences in the areas of material preparation and processing of semi-conductors, growing of crystals, solar cell technology as well as analysis and characterization the institutes of the Fraunhofer Gesellschaft are ideal cooperation partners.

Industrial property rights
The group owns property rights and property rights registrations along the entire solar value chain. The major process steps covered by property rights or property rights registrations are as follows:
- Production of solar silicon as raw material for ingots
- Production of mc silicon ingots, columns and wafers
- Production of components for solar modules

The research activities have produced more than 15 families of property rights and property rights registrations in the areas of ingot, wafer and module making and more than 25 families of property rights and property rights registrations in the area of making solar silicon.

In the year 2005 six new property rights were registered. Furthermore, the property rights for the RGS process were transferred from Bayer AG (former Bayer Solar GmbH division) to today's Deutsche Solar AG.

IV. SUPPLEMENTARY REPORT

1. Disclosure of transactions of special relevance

SolarWorld acquires crystalline solar activities of the Shell Group
On 2 February 2006, SolarWorld AG announced the takeover of 100 per cent of the crystalline solar activities of the Shell Group, subject to the approval by the anti-trust authorities. The agreement, signed by the two parties, comprises the transfer of the Shell sites in Vancouver, Washington State, and Camarillo, California, hosting the production of solar-grade silicon crystals, wafers, cell and modules, the solar cell production in Gelsenkirchen, the marketing companies in Munich, Singapore and South Africa and the research and development department in Munich specializing on crystalline silicon technology. In Vancouver, Washington, in the north west of the USA, a production site for mono-crystalline solar-grade silicon columns complements US production. The production capacities transferred to the SolarWorld Group under this agreement total around 80 megawatts (MW). In the framework of the agreement, SolarWorld AG has also secured the option to participate in the development of copper-based solar technology (CIS) in future.

Capital increase and shareholding in Solarparc AG
Against the backdrop of the accelerated expansion of the group-wide solar business, the Board of Management decided and placed a capital increase against cash and non-cash contribution, excluding subscription rights, on 7 February 2006 with the approval of the Supervisory Board. A total of 1.265 million no-par value shares were issued to institutional investors (see IV.2 Impact of transactions of special relevance). In the framework of the capital increase SolarWorld AG also acquired a 29 per cent share in Solarparc AG, a company specializing on the construction, operation and placement of large-scale solar power stations. For this transaction, the company shares were measured as at the cutoff date. The capital increase based on the company's approved capital was implemented pursuant to section 4 of the articles of association in combination with the relevant provisions of the German Stock Corporation Act, according to which the Board is authorized, with the approval of the Supervisory Board, to increase the capital stock by up to ten per cent, excluding subscription rights. Due to the issuance of the new shares, the capital stock of SolarWorld AG rises to 13.965 million shares.

SolarWorld admitted to the European stock index Dow Jones STOXX 600
According to the disclosure of the Zurich-based index operator STOXX Ltd. of 21 February 2006, SolarWorld will be admitted to the European Dow Jones STOXX 600 index with effect from 20 March 2006. The widely recognized STOXX 600 represents the 600 largest European listed companies, measured in terms of the capitalization of the free float. SolarWorld AG will be listed in the utilities segment.

2. Impact of transactions of special relevance

SolarWorld AG the new number one in the US solar market
Subject to scheduled implementation following the approval by the Federal Anti-Trust Agency, SolarWorld AG has become the largest producer of solar power technologies in the USA with the additional capacity from the takeover of Shell's business. The SolarWorld Group thus leverages excellent growth opportunities and creates a globally operating company with a production and marketing presence in the world's fastest-growing solar markets. The mono-crystalline solar technology generates optimum efficiency rates and thus ensures the required efficiency in terms of raw material usage. Historically, this competence dates back to the development performance of former Siemens Solar, taken over by the Shell Group in 2002.

The solar cell factory in Gelsenkirchen, newly added to the portfolio, ideally complements the SolarWorld Group's high-quality cell production in Freiberg. Furthermore, the new marketing activities in South Africa and Singapore provide SolarWorld AG with a presence in promising markets in Africa and Asia.

The 'lucky deal', which will not impact SolarWorld AG's financial situation if it is executed according to plan, takes place against the backdrop of the strategic decision to expand capacity and group presence in the most strongly expanding solar markets. The new operations ideally match the existing portfolio and strengthen the group's position in meeting the growing demand for solar power all over the world. The SolarWorld Group's expansion plans in Freiberg are not affected by the takeover of the new sites.

Transfer of employees – Cash inflow of 233.7 € m from capital increase
SolarWorld AG will continue to employ the 579 Shell Solar employees. An employment guarantee of one year has been granted for all employees. The group intends to retain all staff beyond that period.

The customers of Shell Solar will not be affected by the change. They will obtain the familiar reliable service from SolarWorld AG in future.

The new sites will initially be operated at a capacity utilization of approx. 50 per cent, soon to be increased to 100 per cent. In this context, SolarWorld AG will intensify both internal and external silicon procurement. In order to consistently take advantage of the growth stimuli arising from the acquisition of the solar silicon activities of the Shell Group, the Board of Management of SolarWorld AG has decided and placed a capital increase against cash and non-cash contribution with the approval of the Supervisory Board. The net issuing proceeds of 233.7 € m will be used to fundamentally strengthen the group's financial and asset situation with a view to investing into the silicon area by means of backward integration.

Solar farms – an ideal complement for the group's international business
The integration of Solarparc AG into group activities is a further factor reflecting the group's growth strategy. Against the background of a significant increase in the group's future production potential due to the takeover of Shell Solar, the business operations of Solarparc AG ideally complement the group's sales opportunities. Solarparc AG is a leading supplier of high-capacity solar power farms eligible to tap the capital market. With the acquisition, SolarWorld AG integrates a further element of the solar value chain in the distribution segment.

Solarparc AG plans to establish new solar power stations of the megawatt category both in Germany and abroad. Its aim is to construct innovative plants based on the tracking technology. These Suntrac® systems generate up to 30 per cent higher solar yields compared to stationary systems. They are ideally suited for the construction of solar parks in sunny regions such as Spain or California. Due to the expansion in the USA in the wake of the takeover of Shell activities, the shareholding in Solarparc creates additional sales opportunities in the fast-growing US market, in particular in sunny California.

Turnover growth of 20 per cent from transactions
The new activities will create turnover growth of around 20 per cent year-on-year in 2006. As the takeover of all crystalline solar activities from Shell had not been completed at the date of preparation of the present report, more far-reaching statements on the effects of the Shell-related transactions are not yet possible.

Admission to European index reinforces investor interest
The admission of SolarWorld AG to the European Dow Jones STOXX 600 index, announced on 21 February 2006, meets a widely recognized investment criterion which many, in particular international investors, take as basis for their investment decision.

3. Overall statement on the economic situation

Assessment of the economic situation by Management

The group's economic situation is assessed very positive by SolarWorld's Management, taking account of the earnings, financial and asset situation resulting from the consolidated financial statements for 2005 and outlined above.

V. RISK REPORT

SolarWorld AG and its subsidiaries are operating in a quickly growing, technically sophisticated market of the future. Against the background of an appropriate further development of the group entrepreneurial decisions are always exposed to a number of risks that may have repercussions on the asset, finance and earnings situation of the company.

In the SolarWorld Group risk management is integrated as a continuous process in all important corporate processes and units and at all levels of corporate management. It acts as an effective system of early warning and analysis of risks and opportunities.

1. Management system for risks and opportunities

1.1 Risk management system regarding financial instruments

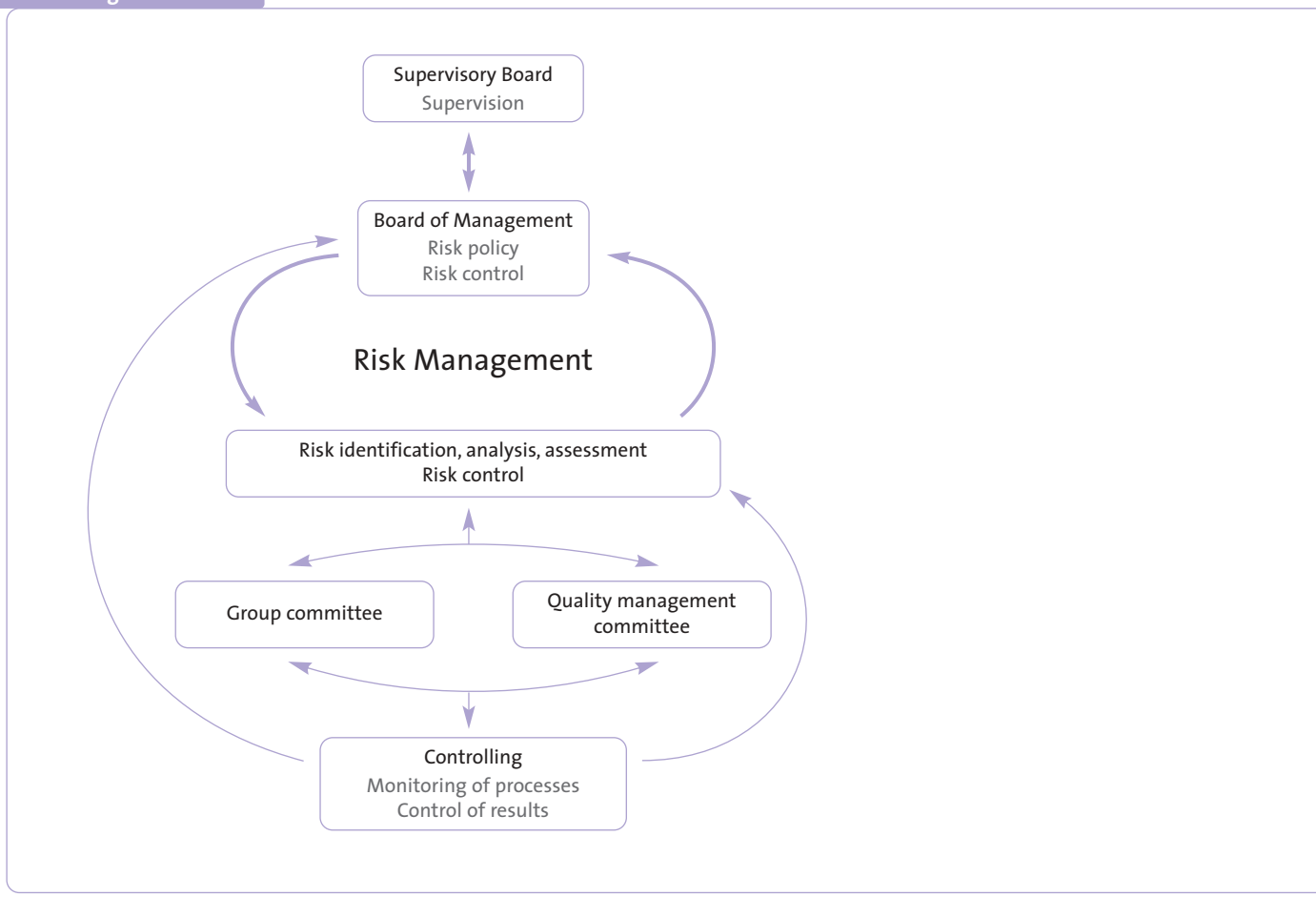
In SolarWorld AG and its subsidiaries the steering and control of financial instruments is directly attached to the Board of Management and the General Managers. Important risks are monitored by direct reporting and the constant control of market conditions and necessities. The link of individual instruments to directly allocable projects is a major control tool minimizing the dependence of fluctuating markets.

SolarWorld AG employs a wide variety of equity and debt instruments thus diversifying the financing of the group very widely. Before they are applied new instruments are carefully vetted by the internal Controlling Department and external consultants for their potential risk fields.

1.2 Management system for other risks

A risk identification and early warning system is established in the SolarWorld Group in specific management committees and is thus an integral part of all decisions and business processes. This risk and control culture is supplemented at management level by a flat organizational structure with short information and communication paths as well as high level of staff integration. The latter is substantiated by the company's own "Business Ethics" (guidelines for responsible action).

Risk Management



The **Supervisory Board** in its supervisory capacity is a superior body of risk monitoring and is regularly kept informed by the Board of Management about relevant questions of the risk situation and risk management as well as coordination measures initiated. It is integrated in decisions of fundamental importance to the group.

The **Board of Management** determines corporate strategy and the risk policy geared to it. In the **group committees** that meet regularly in the course of the year and are made up of members of the Board of Management as well as representatives of the operational business units risks from the business segments are defined, assessed and monitored by the unit managers in regular reports. Against the background of the acceptable overall risk the Board of Management then decides to what extent risks that make strategic sense to the success of the business can be accepted in a controlled way, minimized by appropriate hedging strategies, transferred to third parties, or generally avoided. Developments that threaten the existence of the group can be identified early within the framework of these committees as well as via the flat organization and communication structures in the case of events occurring at short notice.

A cross-group **quality management committee** supplements the risk identification and early warning system. Processes standardized according to DIN EN ISO 9001:2000 make possible risk potentials more transparent and enable risks to be identified early. The group's internal guidelines and approval procedures, processes and quality targets defined in the "Quality Management System" of the SolarWorld Group are controlled, monitored and documented regularly in internal and external audits. By way of the annual "Management Review" laid down in the quality management system the risks defined are controlled, assessed and secured against by the Board of Management.

A quarterly report to be drawn up according to international standards by SolarWorld AG being listed in the Prime Standard additionally guarantees a regular portrayal of the group-wide business development thus contributing to the supervision and control of the economic risks inherent in the ongoing business. Monthly internal reporting monitors and aggregates in a timely fashion the corporate and risk strategies formulated by the Board of Management.

In order to keep the remaining risks under control and/or eliminate them altogether the group has taken out insurance for risk reduction whose coverage concepts are constantly reviewed because of our continuous growth.

The early risk warning system is assessed by the auditors on an annual bases. They report the result of their assessment to the group management and the Supervisory Board.

1.3 Opportunities management system

In the committees of group management that deal specifically with the identification of risks, opportunities are continuously recorded and assessed in the same way, and if possible and economically sensible, the Board of Management will initiate appropriate measures.

2. Individual risks

2.1 Environmental and industry risks

Economic background conditions
The weak economic growth of the past few years has not been reflected in the photovoltaic industry. In 2005 the photovoltaic market again showed double-digit growth making it one of the strong growth markets (see I.3.2 Industry-specific background conditions). In spite of the weak economic environment and scarce silicon resources the solar industry will develop with double-digit growth rates (see VI.1.2 Future industry situation/VI.5.1 Opportunities arising from the development of general conditions).

Regulatory background
The competitiveness of solar power correlates in the medium term both nationally and internationally with the national public funding programs. In Germany the law on renewable energies (EEG) stipulates a minimum compensation by the grid operators. Internationally the expansion of renewable energy generation is also considerably gaining in importance through national funding programs (Examples: USA, Spain, China).

In Germany the coalition agreement of the CDU/SPD government coalition says that the EEG will be continued in its basic structure but that the economic efficiency of the various compensations is to be reviewed by 2007. Thus, the political will to continue the funding of renewable energies in Germany is very strong. Also at the European level the development of renewably energies has made a lot of progress in the last few years (see I.3.2 Industry-specific background conditions/VI.1.2 Future industry situation).

Even with changing political majorities at different federal levels a departure from the currently practiced energy policy is highly unlikely both in the Federal Republic of Germany and in the EU.

In order to continuously reduce the dependence on funding programmes as well as to compensate for the annual 5 per cent decrease of compensation demanded by the EEG, the SolarWorld Group is working on an appropriate annual cost reduction effective across all stages of the solar value chain.

Against the background of a worldwide trend towards solar power funding the strategy of internationalization adopted by the SolarWorld Group serves to diversify risks. A change in funding conditions in individual regional sales markets would only have temporary effects because of the increasing diversification of sales activities of the group to different European and international markets and a continuous opening up of new solar markets. Because of the strong worldwide demand for solar energy and the strong distribution structures within the group at different levels of the value chain sales could be re-directed in the world market.

At the same time the SolarWorld Group is actively engaged in industry as well as professional associations to sharpen awareness at the political level for the economic and ecological potential of solar energy. In addition, the group offers political decision-makers the opportunity to visit the company officially to get

a first-hand impression of the high-tech production technology and the associated economic clout of solar power technology.

Tougher competition and consolidation process
In the internationally growing solar market increasing professionalism, tougher competition and a consolidation of the industry seem to be emerging. Some international players in the worldwide solar market operate in large conglomerates that offer the possibility of cross-subsidies.

It is to be expected that the consolidation will take place at the end of the value chain in the area of less capital- and know-how-intensive solar segments. Acquisitions in the solar cell and solar module manufacturing field are therefore just as likely in the industry as those of trading and R&D companies.

The SolarWorld Group is completely vertically integrated and possesses a high level of technological know-how – also in the more capital-intensive sectors of wafer and cell production that therefore offer higher barriers to market entry. Due to this strong position, especially in wafer production, it is unlikely that the SolarWorld Group will be affected by future consolidation processes in the market. In addition, the SolarWorld Group possesses highly modern production facilities as well as internal technological know-how. The full vertical integration secures the supply of the necessary feedstock for cell and module production. This gives the group the possibility of continuing to implement its plans for capacity expansion as well as of strengthening its market position.

In addition, the SolarWorld Group is working on a continuous reduction of production costs and an improvement of efficiency: Thus, the group has been able over the last few years to reduce production costs by up to 7 per cent p.a. by optimizing cost and material inputs, by rationalizing processes and by achieving economies of scale. The SolarWorld management estimates that this rate can be continued into the future at a similar level. By way of its full integration this cost effect can be generated across the entire solar production range in the SolarWorld Group. These efficiency gains make it possible for the group to remain competitive.

2.2 Corporate strategy risks

In order to position itself successfully and lastingly in the world market against the background of ever tougher competition group management continuously assesses strategic alliances at all levels of the value chain. Corporate strategy risks therefore include risks that result from such acquisitions and investments.

These activities are necessary for the continued existence of the company because of their future focus, but due to the inherent uncertainties they are also fraught with risks.

Examinations of the feasibility of such projects as well as an analysis of the risks involved are performed ahead of time with all due care. In the SolarWorld Group these processes are accompanied as standard procedure by experienced law firms and audit companies. The well-founded evaluation of objects (“Due

Diligence Examination") serves to control and reduce risks. Risks once recognized can be reflected in the contractual agreements or if necessary, the negotiations can be broken off.

2.3 Business management risks

Procurement risks
The procurement of raw materials required for production is tight in view of the worldwide increase in the demand for solar feed and intermediate products and the limited number of suppliers. This carries the risk for the industry of material scarcity and volatile prices. The silicon demand of the solar industry has increased dramatically in the last few years and is by now higher than that of the semi-conductor industry. Due to these temporary bottlenecks the spot market prices for solar silicon have increased sharply doubling in the year 2005. Internationally silicon production is being expanded. However, the run-up times for a new plant ready for production amounts to between 18 and 24 months.

By way of its integrated business model (see I.2.2 Strategy) the essential supply function is performed internally in the group right across the individual production steps of wafers, cells and modules. Supplementary, temporary procurement options are provided long-term by way of capacity expansions in the areas of wafer, cell and module production. The longer build-up of capacities in silicon and wafer production due to production technology has already been counteracted by the group initiating appropriate growth strategies in good time in the last few years. As back-up there are a large number of measures along the entire solar production chain that serve the efficient use of the raw material silicon, an increase of the yields and a reduction of the costs in the entire SolarWorld Group (see I.3.5 Business development 2005/III. Research and Development).

The SolarWorld Group bases its procurement strategy for the raw material silicon on four pillars in order to counteract the risks in silicon procurement (see I.2.2 Strategy).

Risk of technological change
The solar power market is subject to strong technological change characterised by improved products and services and by changes in customer demands.

So as to be able to follow and/or shape technological change the group has extensive research and development activities across all stages of the value chain. Through cooperation with scientific establishments the group follows the logic of accompanying the development and innovations in the solar power technology and in doing so to take an influence on possible trends and developments at an early point in time. Thus, for example, Deutsche Solar AG has a close cooperation with the Technischen Universität Bergakademie Freiberg in the areas of microelectronics and semi-conductor materials (see III. Research and development).

The crystalline solar power technology pursued by SolarWorld AG (products from both mono- and polycrystalline silicon) is currently turning out to be the leading one in technological as well as economic terms. Crystalline technologies today have a worldwide market share of more than 90 per cent in solar

hardware. Innovative thin layer technologies are largely either still in the laboratory or in optimization stage or were not accepted by the market in the first place. It is the conviction of the SolarWorld management and external experts that the crystalline technologies will continue to dominate the market for photovoltaic products and also retain cost leadership in the next decade.

In addition, the SolarWorld Group has adopted a promising approach in the area of silicon saving wafer technology (see I.3.5 Business development 2005: Ribbon Growth on Substrate) that will lead to cost savings in crystalline wafer technology.

2.4 Human resources risks

The future economic success of the SolarWorld Group significantly depends on the dedication, motivation and skills of employees as well as on having qualified staff in key positions. The increasing competition in the market also involving the risk of a lack of qualified staff in personnel recruitment must be counteracted by taking appropriate internal action within the group.

In order to minimize the risk of fluctuation of individual staff, especially those in key positions, an open corporate culture is practiced in the group resulting in high employee motivation (the fluctuation rate is well below average/see II.3.4 Human Resources and social affairs). Furthermore, the group offers its employees a diversity of skills improvement and training facilities as well as performance-related compensation systems. The group counteracts the risks of adequate representation, especially in key positions, by way of the deputies and authorities as laid down in the quality management system. This is supplemented by easy-to-understand structures and a high level of personal responsibility of individual staff members.

The requests for personnel resources to ensure that business plan targets are reached is quantified and qualified by an integrated procedure for the determination of personnel needs within the framework of quality management.

A law firm specialized in labor and contract law provides legal security to the group in all personnel matters relating to the law. In addition, internal employees from the personnel department will be continuously trained to know the current legal situation in jurisdiction. In order to counteract the risk of insider dealing according to the law on improving investor protection the group has made appropriate internal provisions: Employees and external service providers who have access to insider information are informed appropriately by SolarWorld AG, and the company keeps an insider list.

2.5 Information technology risks

Furthermore, the group counteracts potential risks that may result from the rapid change in the area of IT by stepping up the activities to secure trouble-free operation to the same extent that the use of these technologies increases.

Thus, at SolarWorld AG hardware systems are employed in the central departments that are particularly fail-proof according to the state of the art. In addition, the risk of possible failures of the electronically supported information processing systems can be reduced by separating the IT systems from production and administration. As a result the risk of failure in the entire group is rendered virtually impossible.

In addition, the growing risk of vagabonding computer viruses is counteracted by several redundancies in the protection system and by the employment of the most advanced software. The connections to external networks necessary for the work processes are secured by certified, multi-layer firewall techniques as well as by a system of mirroring the data at different, high security locations. Access to the internal network and its data volume is thus adequately protected. The secure access transactions of employees to the internal network are guaranteed by the latest transport protocols and encryption techniques involving certificates. Automated storage of core data at short intervals makes sure that in the event of possible data losses fast recovery of the information will be possible.

2.6 Financial management risks

Financial risks
As described under Items II.2.1 “Principles and aims of financial management“ and II. 2.2 “Financial analysis“ the financial management strives for a balanced, sound relationship between equity capital and debt capital. This leads to a strong diversification of the risks of having different financing sources. Thus, SolarWorld AG has been able in the last few years to strongly diversify its credit base drawing funds from a variety of credit lines and project financing plans (so-called structured financing). Through the placement of capital increases and the issue of fixed interest securities (bearer bonds) the group could also further strengthen its position on the equity side. The healthy mixture of all measures leads to a certain independence of the strong banking scene. Financing risks are thus primarily limited to project financing. EU notification is another component in the financing concept of SolarWorld AG. Currently, for example some 35 per cent of the investments at the Freiberg location are funded by EU, national government and state government.

Liquidity risks are very low due to a high available level of liquid funds. The latest capital increase in the year 2006 strengthens this position even further (see IV. Supplementary report). There therefore exists a very sound equity capital basis for future investments of SolarWorld AG. The operating Cash Flow of the group further increases its liquidity in the course of the year leading to a very sound liquidity situation of all companies in the group.

Risks from payment flow fluctuations are coped with by taking out credit insurance. In the fiscal year under review no major defaults occurred. In the trading business SolarWorld AG handles a large number of business transactions by way of cash in advance. This also makes a contribution to optimising payment flows.

Exchange rate risks
As an internationally operating group SolarWorld AG is exposed to price and exchange rate fluctuations. This applies particularly to the US dollar exchange rate and the Japanese yen. In order to minimize the

risk the company engages in active exchange rate management. As far as businesses in US dollars are concerned the company has natural hedges in the form of counter businesses in the US dollar region. Open items are appropriately covered with futures transactions for congruent periods. With reference to the Japanese yen a futures oriented hedging strategy is pursued with the help of various derivative financing instruments. As a result, the exchange rate risk in the expected payment flows (in combination with an underlying transaction in the respective foreign currency) is minimized. The financing instruments concerned are employed in line with the relevant risk assessment and under observation of the detailed rules and regulations.

Interest rate risks
The group has secured historically very low interest rates for both short- and long-term credits. Risks related to changes in interest rates are regularly monitored based on close examination of changes in conditions in international capital markets so as to facilitate direct responses to potential changes. In a limited number of individual cases the company optimizes the variable interest burden by using special interest hedging instruments like for example swap contracts and structured products.

The risk of rising interest rates might lead to the financing of solar systems becoming more expensive for customers. This might reduce the attractiveness of solar products. As the entire production of the group for the year 2006 has already been sold out a possible decline in demand will not constitute a risk in the short run. The international alignment of the group causes this risk to be clearly reduced.

2.7 Other risks

Legal risks
In order to counteract the possible legal risks that may result from the diversity of tax, competition, patent, anti-trust and environmental legislation the SolarWorld Group bases all its decisions and the design of its business processes on comprehensive legal advice from both internal lawyers and proven external experts. Risks from litigation and patent infringements are not known. Other legal risks are also not known.

Warranty and liability risks
SolarWorld AG gives a warranty of 25 years on the photovoltaic modules it sells whose details are precisely defined. The warranty essentially refers to the achievement of certain performance characteristics of the modules.

A high quality standard (group-wide certification according to DIN EN ISO 9001: 2000) is secured by employing the most advanced technology along the entire value chain, by having a process-integrated quality monitoring at all production stages as well as by doing integrated research and development in the SolarWorld Group.

The risk of having claims launched against the company on a major scale due to this warranty can be described as extremely low. The assessment of the very long-term durability, especially the long-term

achievement of major technical performance features of photovoltaic modules, has been confirmed by different investigations of third parties. There is therefore no reason why any reserves have to be accrued for the purely theoretical risk of being confronted with claims resulting from the warranty.

The product and environmental protection demands are met by the group by taking the appropriate quality assurance measures and by training the relevant officers adequately.

To secure against operational risks SolarWorld AG has taken out comprehensive insurance coverage according to conventional market concepts. At regular intervals the coverage concepts are reviewed on the basis of site inspections and management discussions and then adjusted to the dynamic development of the group.

3. Overall assessment of the group's risk exposure

In connection with the risks described in the risk report under Item V.2. the view of the Board of Management is that there are no negative deviations from the forecast values. At this point in time the Board of Management is not aware of any other risks.

VI. FORECAST REPORT

Preliminary comment

The comments below are largely related to operations excluding the crystalline solar activities taken over from Shell. At the reporting date, the closing process and the forecast accounts had not yet been completed. The group will report about more far-reaching effects of the takeover in future quarterly reports, once the transaction has taken economic effect.

1. Economic framework in the next two fiscal years

1.1 Future macroeconomic situation

Sustained recovery of economic activity

According to economists of the Ifo Institute, the world economy will continue its brisk growth trend in 2006 and will expand more strongly than in 2005. Although the development of GDP will slightly decrease in the USA, China and Japan will record a further increase in growth. The experts expect Europe to achieve an increase of 1.4 per cent in GDP, with growth of 2.0 per cent. For Germany, the recovery of the economy is expected to proceed at an overall economic growth rate of 1.7 per cent. The researchers expect a persistently strong demand for exports as well as a significant recovery in the propensity to consume. Thus, the macroeconomic framework continues to be fundamentally positive for the development of the solar industry.

Persistently high energy prices

As before, energy prices will remain at a high level in 2006. The worldwide demand for oil will again rise to record levels. The International Energy Agency (IEA) expects an increase of 2.2 per cent to 85.1 million barrels per day. The imponderables concerning the safeguarding of oil supplies from conflict states (Iran, Iraq) are expected to continue and thus fuel prices time and again. Accordingly, the prices of other sources of energy such as natural gas and heating oil will also be high. In Germany, for the first time there may be price cuts in the charges for the usage of the power grids due to the supervision of the Federal Grid Agency which came into being in mid-2005. However, lasting price cuts are not to be expected. The high energy prices are expected to continue to boost economic interest in alternatives such as solar power technology.

1.2 Future industry situation

In 2006 and 2007, growth in the solar industry will be limited by the relative scarcity of raw material silicon. As of 2008/2009, the availability of raw material supplies is expected to rise. According to the analysts of the Swiss Sarasin bank, the average growth rate is expected to be 20 per cent over the next two years (see VI.5 Opportunities). Growth will vary in individual markets. According to estimates by the European Photovoltaic Industry Association EPIA, the German market will remain stable at 2005 levels for the next two years. As of 2008, experts expect a renewed significant increase in newly installed annual capacity. On the other hand, the rest of Europe will already see enormous growth as of 2006. In view of the EPIA, this applies in particular to Italy and Spain. According to the company, growth will also be generated in the Scandinavian market where new promotion schemes have boosted the markets in Denmark and Sweden.

The USA are about to see an upturn in the solar industry. The former world market leader had fallen substantially behind Japan and Germany in the past but has now launched new promotion schemes in various federal states so that strong growth is to be expected. This applies in particular to California, where the regulation authority PUC adopted one of the world's largest promotion programs for the installation of solar power systems (California Solar Initiative – CSI) in January 2006. The initiative designed for a period of ten years and funded with a budget of about three billion US-dollars, entails, among others, financial support for solar power systems with a capacity of up to 1.0 MW of initially 2.80 US dollar per watt of output. This corresponds to a grant of around 25 to 30 per cent to the acquisition costs customary in the market. With the solar initiative, launched in agreement with the political parties, the authority aims to bring 3,000 MW of solar capacity onto California's roofs by 2017. Following a transition period in 2006, the program will be fully applicable as of 2007.

Further growth is expected throughout the USA due to federal legal regulations concerning tax incentives for the promotion of solar power applications.

The solar market also continues to grow in Asia. For Japan, EPIA experts expect growth of around 10 per cent. Japan is a highly closed market and has thus traditionally not been attractive to foreign competitors. China and Korea, two countries aiming at a significant expansion in their solar power output, offer better opportunities. For Asia excluding Japan but including India, EPIA expects growth rates of 25 up to more than 30 per cent over the next two years.

Individual segments of the industry will also be affected by the persistently high level of demand in the international power market in combination with limited supplies. Not all capacity available will be fully utilized. At the same time, innovative developments such as material-preserving wafer production will increase in importance. The wafer industry is not expected to go through a consolidation process. However, takeovers and mergers are expected at the levels of less know-how-intensive cell and module production as well as in the trading and distribution companies.

The group operates in a positive industry environment as it has a presence on the fastest-growing markets and is able to organize the availability of raw materials well by means of its integrated structure.

2. Expected earnings situation

2.1 Expected development of earnings

The Board of Management of SolarWorld AG expects earnings for the entire year 2006 to grow by more than 20 per cent year-on-year, excluding the potential takeover of Shell's solar activities. The group will operate in an attractive margin situation again in 2006. This applies to all business divisions. The solar cell business will exceed the previous year's results against the backdrop of the completion of the expansion activities in Freiberg.

2.2 Expected development of turnover

For the 2006 fiscal year, the Board of Management of SolarWorld AG expects an increase in turnover of up to 40 per cent year-on-year depending on the takeover date of the Shell activities. Adjusted for the acquisition of Shell Solar the expected growth in turnover stands at more than 20 per cent. The turnover forecast is based on anticipated quantitative growth from the group's production facilities based on overall stable or even increasing market prices. Sales have been secured due to the positioning in high-growth solar markets in combination with strong demand. Due to continuous expansion, turnover will grow in the double digit range again in 2007.

2.3 Expected development of dividends

The continuity of dividends distributed by SolarWorld AG is a token of the sound constitution of the company and serves the goal of continually sharing business results with shareholders. That is why the Board of Management and the Supervisory Board will propose distribution of a dividend for the sixth year in succession to the Annual General Meeting in May 2006 (see I.3.7 The stock).

3. Expected financial situation

3.1 Planned financing measures

The takeover of the solar activities of Shell will be accompanied by corresponding financing measures in future. The type and scope of these activities are subject to the closing of the transaction.

3.2 Planned capital expenditure

The group will continue its investment activities along the entire value chain. Investments are planned for all production areas from the Wafer and Raw Materials division via the Cell division all the way to the Module division. In addition, investments will be channeled into the further expansion of international business.

3.3 Anticipated liquidity trend

The company's liquidity will continue to improve in 2006. This will be substantially attributable to the capital increase implemented in early 2006, which ensures an inflow of cash of 233.7 € m. The group's liquidity situation will also be characterized by solidity and excellent indicators by international standards.

4. Orientation of the group in the next two fiscal years

4.1 Planned changes in business policy

Due to the acquisition of the crystalline solar activities of Shell Solar, the business of the SolarWorld Group will expand significantly. The takeover is not expected to cause any fundamental changes in corporate policies. The growth history of the SolarWorld Group, focusing on solar energy, will continue.

4.2 Future sales markets

In the wake of the takeover of the crystalline solar energy business of the Shell Group – subject to approval by the anti-trust authorities – the SolarWorld Group will expand its position on the international solar power market. Due to its repositioning as the largest supplier of solar power technology in the USA, the foreign US market will gain substantially in terms of its relevance for the entire group business.

The group faces in particular a strong internationalization of its trading business. Excluding the new activities from the Shell Solar takeover, the Trading division expects to double the proportion of sales abroad. By 2008, the proportion of business generated abroad is to grow to 50 per cent. The Trading segment will in particular expand in markets in which the company had already gained a very promising position in the 2005 financial year. In Spain, where dynamic market growth is expected due to attractive feed-in compensation, SolarWorld AG is planning to double its sales volumes year-on-year. In Austria and Switzerland, too, SolarWorld AG will continue its growth-oriented business approach.

In Scandinavia, the Swedish module subsidiary GPV expects a significant increase in sales, which will rise by a factor of 5 to 1.5 MW in 2006.

Depending on local conditions and the availability of merchandise, new markets can be approached flexibly. All European countries bordering on the Mediterranean are potentially attractive markets. In Asia, the South Korean market will be accessed in the short to medium term. This Asian country has established attractive conditions for an expansion of solar power technology.

4.3 Future use of new processes

The use of new processes is part and parcel of continuous process optimization in production. These processes are usually based on corresponding research activities. The company expects a future optimization of wafer production from the establishment of the RGS technology developed in-house (see I.3.5 Business development/see III. Research and Development). The company expects to use the new process as of 2007 in a pilot plant. Due to new material-preserving processes in wafer production, the company will reduce its usage of materials. In view of scarce resources, this will increase the utilization intensity of the raw material.

In the framework of the takeover of Shell's crystalline solar operations, the company has agreed an option for the future participation in the activities to develop the CIS technology. This technology uses solar cells on the basis of copper, indium and selenium. Today's niche technology may gain in importance in the future.

4.4 Future research and development

The group will consistently continue its R&D activities to develop new processes and technologies providing efficiency and cost benefits to solar production.

With the completion of the development of commercial-scale operations in the first half of 2006, the transfer of the strategically important Joint Solar Silicon process to a first production site with a capacity of 850 tons p.a. is planned.

4.5 Future products and services

The product portfolio is constantly complemented and rounded off as part of SolarWorld AG's continuous business policy. In the wake of the expansion of the large-scale plant business, SolarWorld AG will offer large-scale plants with solar tracking modules under the Suntrac® brand in future.

New products are developed on the basis of existing products. The group will continue to expand the internal services of its logistics center, which is operated as a commercial entity. The state-of-the-art logistics center will thus be able to optimally handle goods with a total capacity of 100 MW. The material will be directly supplied to the construction site for our customers. The smooth operation of logistics flows reduces costs and thus increases earnings.

4.6 Future business development

a) Wafers and raw materials
The takeover of the crystalline solar activities of Shell Solar will add around 50 MW of new capacity in the current year. This capacity relates to a production site for the production of mono-crystalline solar-grade silicon columns in Vancouver, Washington-State, in the north west of the USA. The mono-crystalline solar technology generates optimum efficiency rates and thus ensures efficient raw materials usage. Due to the limited availability of raw materials, the utilization rate will initially stand at 50 per cent.

Expansion of Waferfab II
In the framework of the expansion of wafer production, Deutsche Solar AG will expand its production capacity with Waferfab II to initially 220 megawatts (MW) by the end of 2006. The building and the infrastructure will be designed with a view to increasing capacity to a minimum of 270 MW in future. Construction work for the new factory is planned to be terminated by mid-2006 so that the infrastructure will then be available.

Production increase of 10 per cent
At the Freiberg site, Deutsche Solar AG will almost fully utilize its existing wafer capacity of 180 MW. The group expects production to grow by 10 per cent compared to 2005.

Further development of silicon reprocessing and recycling
In the context of its continuous expansion, Deutsche Solar AG will continue to expand its capacity for the production of solar-grade silicon as planned. The capital expenditure on a new production site will lead to a doubling of existing reprocessing capacity. The investment volume for the new production hall, which covers a usable floor space of approx. 1,700 m², amounts to around 5 € m. The new production site will use newly developed technologies which can also be used to reprocess raw material grades that have not been economically usable this far. Deutsche Solar AG will offer its silicon reprocessing competences as a service to other companies in future.

In this context, recycling technology will be further expanded and will be subject to research activities. Recycling will continually be adjusted to new technologies.

b) Cells
Due to the takeover of Shell Solar, the Cell division will gain additional capacity of 80 MW. This relates to solar cell production facilities in Camarillo, California and in Gelsenkirchen. Against the backdrop of limited supplies of raw materials, the overall utilization rate will be 50 per cent.

Expansion in Freiberg to 160 MW by the end of 2006
Deutsche Cell GmbH will gain new capacity in the first half of 2006. In parallel, the expansion of Level 1 to 160 MW will be continued. The installation of the extra capacity is to be completed by the end of 2006.

c) Modules
The completion of the takeover of Shell Solar will create extra capacity of 25 MW for the Module division in Camarillo, California.

Commissioning of new factory in Freiberg – GPV increases output by 25 per cent
In 2006, Solar Factory GmbH will successively ramp up its new state-of-the-art automated factory and shift to regular operation. Overall, the company plans to produce an output of 56 MW in the two module factories. The Swedish subsidiary GPV expects a production increase of around 25 per cent to more than 16 MW in 2006.

d) Trading
Due to the takeover of the sales activities of Shell Solar, marketing offices in Munich, Singapore and South Africa will be added to existing operations and will contribute to the consistent internationalization of the trading business. Over and above these activities, the participation in Solarparc will offer an additional distribution opportunity for high-capacity solar power farms.

Excluding the new activities, the company expects its trading business to grow by around 50 per cent compared to 2005. Sales abroad are expected to more than triple.

Via its shareholding in Solarparc AG, the company intends to increasingly market its new Suntrac® technology of large-scale tracking systems. Sales in the large-scale segment will therefore rise substantially.

4.7 Future procurement

The future procurement of raw materials and primary products for the group has been secured by means of long-term contracts. This also relates to supplies for the new sites transferred to the group in the framework of the takeover of Shell Solar. The company plans to provide part of its own resources to production in these sites in parallel to the raw materials newly obtained under the agreement.

As before, the trading business will be supported by production under license in China, complementing the group's own supplies, in 2006.

4.8 Future legal corporate structure

In the framework of the takeover of the solar crystalline Shell companies, the structure of the company will not change. As the closing process had not yet been concluded when the group management report was prepared, the specific future legal corporate structure cannot be portrayed yet. The new members will complement existing companies.

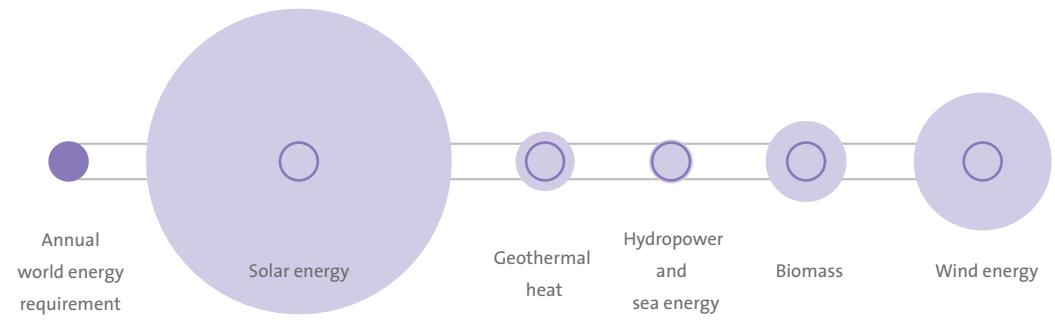
5. Opportunities

5.1 Opportunities arising from the development of general conditions

Steady increase in demand for power – Unlimited usability of solar power
Solar power offers an enormous potential. According to scientists, the energy emitted by the sun to the earth within 90 minutes corresponds to the amount of energy consumed within one year. The energy emitted by the sun exceeds the world's primary energy consumption by a factor of more than 10,000. At several billion years, the availability of solar energy also completely outperforms the dimensions of traditional energy resources. Analysts of Société Général are convinced that solar energy will increase substantially in importance, simply due to the finite nature of other sources of energy.

At the same time, the world's energy consumption is rising dramatically. In its World Economic Outlook 2005 the International Energy Agency (IEA) expects an increase in worldwide demand for energy of 50 per cent by 2030. According to Société Général, renewable energies play an enormously important role in order to meet this surge in demand.

Annual supply of renewable energies vs. world energy requirement



Source: ForschungsVerbund Sonnenenergie, 2005

Opportunities arising from climate protection

The annual damage from the emission of greenhouse gases is constantly growing, as stated by Allianz AG in a report in 2005 on the effects of the climate change on insurance claims. That is why the Allianz Group intends to increasingly invest in renewable energies and corresponding companies.

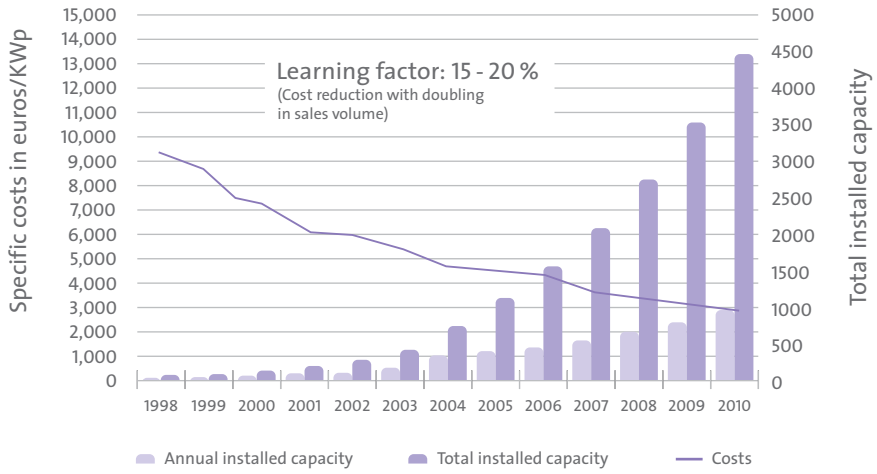
Controlling CO_2 emissions is a priority issue on the agenda of the Kyoto climate protection protocol. The introduction of the EU-wide system of emission trading in 2005 reflects this increase in the economic importance of climate protection. According to the German Institute for Economic Research (DIW), German solar power stations reduced emissions of the greenhouse gas by around 220,000 tons in 2004. At a stock market price of 25 € per ton of CO_2 (end of January 2006), this corresponds to the avoidance of a CO_2 volume worth 5.5 €m. In particular in view of an increase in CO_2 prices, the attractiveness of investments in solar power stations will probably rise steadily for companies affected by emission trading. This will create additional marketing opportunities for SolarWorld AG, which operates in the large-scale plant business.

Declining costs of solar power and rising energy prices ensure rapid competitiveness

Market observers are convinced that energy prices will continue to rise in the medium term. Goldmann Sachs expects the oil price to rise to 120 dollars per barrel over the next few years. In the wake of this price increase, the prices of all other energies will also rise. This will also impact electricity prices, the direct indicator for the efficiency of solar power. Energy supplies in Germany will increasingly focus on gas and coal in future. Gas prices are directly coupled to oil prices. For opportunity reasons, the price of coal will also rise. At the same time, the price of solar power ex works will drop substantially due to the shift to mass production. It is therefore to be expected that the price of solar power will drop by 5 to 7 per cent annually. The bottleneck in silicon supplies will open up as of 2008. According to experts, the solar power technology will therefore be fully competitive as of the middle of the next decade. In particular in comparison with the more expensive peak load power, solar power will prove to be a competitive substitute and will be able to compete with the price of conventional peak load power at the European power exchange. Power from photovoltaic plants is excellently suited to ease the load in the peak load period (from 11:00 a.m. to 3:00 p.m.). The peak load demand tends to be highest at around noon, which is also when the photovoltaic plants feed the highest levels of power into the grid.

Investments in solar plants will therefore not depend on political promotion schemes and will probably be additionally boosted.

Development of costs in the photovoltaic industry

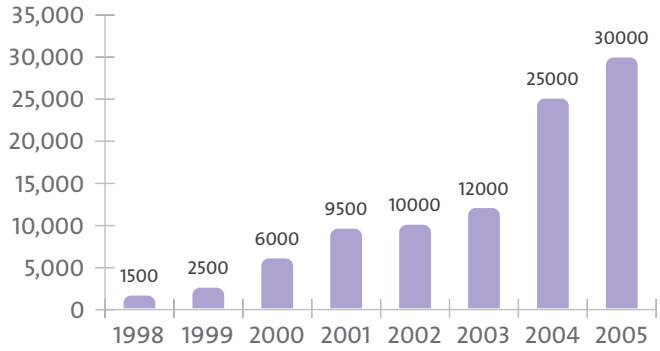


Source: UVS e.V. Solarwirtschaft.de

Enhanced security of supplies – Positive economic track record concerning employment effects

In the words of Norbert Walter, Chief Economist at Deutsche Bank, solar energy reduces 'the vulnerability of entire economies to price surges of crude oil and natural gas, heating oil and fuels' in combination with other sources of renewable energies. In order to secure energy supplies, worldwide political support of solar energy is therefore to be expected in the future – in particular since the promotion of photovoltaic power also makes a lot of sense for other macroeconomic reasons such as job creation. According to calculations carried out by the German Institute for Labor Market and Occupational Research (IAB) on behalf of the German Federal Labor Office, the total fiscal costs of unemployment amounted to an average of 19,600 € annually per unemployed person in 2004. The solar industry created around 30,000 jobs in recent years, saving unemployment costs of 588 €m according to this calculation. These savings go far beyond the solar power compensation paid in 2004 under the German Act on Renewable Energies (EEG), quantified as 204 €m by the German Association of Grid Operators (VDN). Jobs in other energy sectors are not adversely affected. Hence, the nuclear power industry only employs 6,500 persons, a number totally unaffected by the Act on Renewable Energies (EEG).

Development of employment in the photovoltaic industry

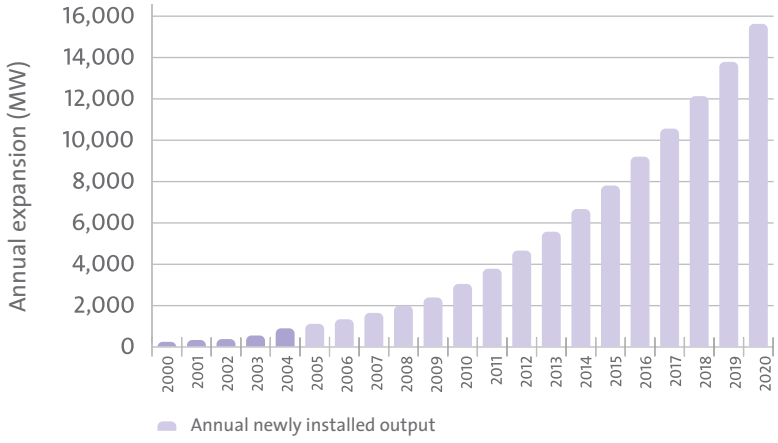


Source: Bundesverband Solarwirtschaft e.V. (BSW), January 2006

Continuous growth expected across the board

The overall conditions mentioned above have led a number of renowned bank researchers and analysts to forecast brisk growth for the international solar energy market across the board. According to the conservative view held by the Swiss Sarasin bank, annual growth rates will total twenty per cent and more by the middle of the next decade. From then on until 2020, growth rates will continue to be in the double-digit range.

Long-term forecast for the worldwide PV market



Source: Sarasin, 2005

5.2 Opportunities for corporate strategies

The group sees good opportunities of participating in the growth of the international solar power market outlined above to a particular extent due to its position as a fully integrated company focusing solely on solar power. As the group operates at all stages of the value chain, it is able to offer secure supplies of future sales volumes to its customers and thus guarantee a high level of reliability. This also applies to product quality since the group influences every stage in the production chain. Due to its full integration, the group is also less susceptible to price fluctuations for primary products. Full integration also offers good opportunities for the future development of profits in particular since the group is the world market leader in the high-value wafer business which forms part of the value chain.

As the group exclusively operates in the solar power sector, it can respond flexibly to market opportunities. Any clashes of interest with other divisions, as is for instance the case with global competitors for which the solar power sector is only one of many different business areas, are completely ruled out.

5.3 Competitive opportunities

The intensive and differentiated research and development activities create major opportunities of enhancing the efficiency and cost-effectiveness of individual processes at all stages of the value chain and obtaining a competitive edge due to the establishment of new processes and the implementation of new research findings. The latter applies in particular to the Wafers and Raw Materials division, which therefore obtains the opportunity time and again to be the spearhead of technological innovation and expand its own high-value business.

6. Overall Management statement of the group's expected development

SolarWorld AG will steadily continue its growth path. Both sales and earnings will continue to rise in this context. Following the acquisition of Shell's activities, the integration of the new sites and employees are a focus of future business, as is the planned expansion of production in Freiberg. The group will underpin its position as one of the world's largest producers of solar power technology and continually develop its R&D activities in order to maintain its technology and quality leadership in the long run.

Performance

Performance

>> The protagonists of our success are our employees. Our rapid corporate development would not have been possible so quickly, precisely and successfully if our employees had not always defined performance as work in time. Because only if you act in the market quickly and with quality can you secure a respectable position. Dedicated and qualified employees are our most important assets whom we do every thing to promote. In the context of our growth we have created many hundreds of new jobs and have strengthened the local economy with the trend still rising. The evidence is provided right here: The photo on the reverse shows our employees in Freiberg on the building site of the new wafer production and thus at their jobs of the future.

VII. CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal year ended 31 December 2005

Income statement

	Notes	2005 t€	previous year t€
1. Sales revenues	19	355,971	199,933
2. Change in inventories of finished goods	9	12,387	-14,658
3. Own work capitalized	20	3,359	0
4. Other operating income	21	14,856	10,616
5. Cost of materials	22	-210,902	-93,005
6. Staff costs	23	-37,780	-30,833
7. Depreciation and amortization	24	-19,687	-16,456
8. Other operating expenses	25	-29,590	-22,706
9. Operating result		**88,614**	**32,891**
10. Result from shares measured at equity	26	-754	-134
11. Interest income	43	1,881	767
12. Interest expenses	43	-5,977	-4,989
13. Profit before income tax		**83,764**	**28,535**
14. Taxes on income	27	-31,782	-10,421
15. Group profit for the year		**51,982**	**18,114**
16. Earnings per share	29		
a) Net profit for the period (in t€)		51,982	18,114
b) Weighted average number of shares outstanding (in 1,000)		12,547	11,550
c) Earnings per share (in €)		**4.14**	**1.57**

Balance sheet

Assets

	Note	31.12.2005 t€	Prev. Year t€
A. Noncurrent assets		**219,776**	**184,955**
I. Intangible assets	6,31,32	34,474	34,845
II. Property, plant and equipment	7,31,33	178,445	145,786
III. Financial assets	8,31,34	4,576	607
IV. deffered taxes on the assets side	27,35	2,281	3,717
B. Current assets		**226,803**	**91,334**
I. Inventories	9,36	84,923	46,746
II. Trade accounts receivable	10	20,790	12,957
III. Income tax claims	37	492	505
IV. Other receivables and assets	11,38	1,877	3,600
V. Wertpapiere	12,39	22,247	0
VI. Liquid funds	40	95,897	27,036
VII. Prepaid expenses	41	577	490
		446,579	**276,289**

Liablities

	Note	31.12.2005 t€	Prev. Year t€
A. Noncurrent assets	42	**217,056**	**124,488**
I. Subscribed capital		12,700	5,775
II. Capital reserve		136,792	100,592
III. Reserve for currency translation		-286	-33
IV. Accumulated profit		67,850	18,154
B. Current assets		**143,384**	**91,984**
I. Noncurrent debt	16,43	54,998	41,737
II. Other noncurrent liabilities	13,44	56,477	38,550
III. Noncurrent provisions	15,45	3,537	3,547
IV. Other noncurrent liabilities	16,46	20,416	527
V. deffered taxes on the liabilities side	27,47	7,956	7,623
C. Short-term borrowings		**86,139**	**59,817**
I. Short-term borrowings	16,43	14,613	25,326
II. Trade accounts payable	16	25,312	14,289
III. Income tax liabilities	48	24,136	8,148
IV. Current provisions	15,45	11,057	8,287
V. Deferred income	48	205	202
VI. Other current liabilities	16	10,816	3,565
		446,579	**276,289**

Statement of changes in equity (in t€)

	Subscribed capital	Capital reserve	Translation reserve	Accumulated results	Total
Balance as at 31.12.2003	**5,775**	**100,592**	**97**	**1,079**	**107,543**
Differences from currency translation			-130		-130
Group profit for the year				18,114	18,114
Dividends paid				-1,039	-1,039
Balance as at 31.12.2004	**5,775**	**100,592**	**-33**	**18,154**	**124,488**
Capital increase	6,925	36,200			43,125
Differences from currency translation			-253		-253
Group profit for the year				51,982	51,982
Dividends paid				-2,286	-2,286
Balance as at 31.12.2005	**12,700**	**136,792**	**-286**	**67,850**	**217,056**

Cash flow statement

		Notes	2005 t€	previous year t€
	Net profit before taxes		83,764	28,535
+	Depreciation and amortization		19,687	16,456
+	Net interest income		4,096	4,222
+	Result from at equity measurement		754	134
+/-	Loss/gain from disposal of non-current assets		63	87
+	Proceeds from investment grants		23,510	5,540
-	Reversal of special item for investment grants		-5,582	-4,920
	Subtotal		126,292	50,054
-/+	Increase/decrease in inventories		-38,177	10,543
-/+	Increase/decrease in other net working capital		10,409	18,110
	Cash flow generated from operations		98,524	78,707
-/+	Taxes reimbursed/paid		-11,601	1,522
=	**Cash flow from operating activities**	**52**	**86,923**	**80,229**
-	Cash outflow for investments in non-current assets		-57,344	-32,304
+	Cash inflow from sale of non-current assets		88	130
=	**Cash flow from investing activities**	**52**	**-57,256**	**-32,174**
+	Proceeds from non-current borrowings		33,106	12,366
-	Redemption of non-current borrowings		-30,896	-40,328
-	Interest paid		-3,704	-3,479
+	Proceeds from addition to equity		43,125	0
-	Disbursements due to dividends paid		-2,286	-1,039
=	**Cash flow from financing activities**	**52**	**39,345**	**-32,480**
	Net change in cash and cash equivalents		69,012	15,575
-	Exchange rate effects on cash and cash equivalents		-17	3
+	Cash and cash equivalents at beginning of period		26,902	11,324
=	**Cash and cash equivalents at end of period**	**52**	**95,897**	**26,902**

Notes

General information

1. Principles and accounting and measurement methods

SolarWorld AG has prepared its consolidated financial statements in accordance with international reporting standards, the International Financial Reporting Standards (IFRS), as applicable in the European Union. This approach is based on the duty arising from section 315a sub-section 1 of the German Commercial Code (HGB) in combination with Article 4 of the Regulation (EU) No. 1606/2002 of the European Parliament and Council of 19 July 2002 concerning the application of international accounting standards. All binding standards and interpretations were applied. In addition, all disclosures and explanations required under section 315a sub-section 1 HGB are published, additionally required under the German Commercial Code in the case of consolidated financial statements prepared according to IFRS over and above the disclosure requirements under IFRS.

The consolidated financial statements were prepared in thousand euro (t €).

The key measurement basis of the financial statements is (amortized) costs.

The following specific accounting and measurement methods have been applied in exercising the options available:

Joint ventures are recognized at equity. In determining manufacturing costs, interest on external capital is not included. Investment grants received are not deducted from the cost of acquisition or manufacturing of the investments for which the grants have been received but are carried under liabilities. Concerning the remaining specific accounting and measurement methods applied, the accounting and measurement principles outlined below are referred to.

The income statement is prepared on the basis of the nature-of-expense method. The balance sheet has been structured according to maturities.

2. Basis of consolidation

The consolidated financial statements include SolarWorld AG and the following companies:

- Gällivare PhotoVoltaic AB, Gällivare, Sweden, a wholly-owned subsidiary (previous year: 100%),
- SolarWorld California Inc., San Diego, USA (CA), a wholly-owned subsidiary (previous year: 0%),
- SolarWorld Ibérica S.L. Madrid, Spain, a wholly-owned subsidiary (previous year: 0%),
- Deutsche Solar AG, Freiberg, Saxony, a wholly-owned subsidiary (previous year: 100%),
- Solar Factory GmbH, Freiberg, Saxony, a wholly-owned subsidiary (previous year: 100%),
- Deutsche Cell GmbH, Freiberg, Saxony, a wholly-owned subsidiary (previous year: 100%)

of SolarWorld AG; in addition

- Go!Sun GmbH & Co. KG, Bonn, a wholly-owned subsidiary (previous year: 0%)

of Deutsche Solar AG.

3. Consolidation principles

The annual financial statements of the domestic and foreign companies included in consolidation are reconciled to uniform accounting and measurement methods for the consolidated financial statements.

In capital consolidation, the acquisition costs of a shareholding are eliminated against the acquiree's equity attributable to the parent company at the acquisition date. Consolidation differences are allocated to the asset items if their carrying amounts differ from their fair values. Any remaining excess of acquisition costs over net assets acquired is recognized as goodwill.

Receivables and liabilities, expenses and income from intercompany transactions are eliminated.

4. Currency translation

In the consolidated financial statements, all balance sheet items (with the exception of equity) as well as contingent liabilities and other financial liabilities of Gällivare PhotoVoltaic AB were translated from the national currency (SEK) to euro (€) at the closing rate of 9.39 (previous year: 9.02) and those of SolarWorld California Inc. were translated from the national currency (US dollars) to euro (€) at the closing rate of 1.18 as the subsidiaries included in the consolidated financial statements settle large parts of their business transactions in their national currencies. Application of the temporal method of currency translation would not have led to significantly different results.

Expense and income items were translated at the annual average rate of 9.28 (previous year: 9.13) for Gällivare PhotoVoltaic AB and at the transaction rate of 1.18 for SolarWorld California Inc..

Any differences resulting from currency translation are taken directly to a translation reserve on the basis of the current rate method.

5. Management estimates and assessments

The preparation of the consolidated financial statements in conformity with IFRS requires the use of estimates for certain items affecting the recognition and measurement of assets and liabilities in the balance sheet and the amount and presentation of income and expenses in the Group's income statement as well as the disclosure of contingent assets and liabilities. The main assumptions and estimates relate to the assessment of the recoverability of intangible assets, in particular goodwill, the establishement of uniform group-wide useful lives for property, plant and equipment, the collectability of receivables and the accounting and measurement of provisions. The assumptions and estimates are based on the current knowledge available. Concerning the expected business development, the specific factors taken into account are the circumstances prevailing at the date of preparation of the consolidated financial statements and the future development of the global and sectoral environment. The most complex assumptions are those required for the goodwill impairment tests. The specific details of these assumptions are outlined under note 6.

Accounting and measurement principles

6. Intangible assets

Purchased intangible assets are capitalized at cost and amortized on a straight-line basis over a useful life of 4 to 15 years. Research expenses incurred in the generation of intangible assets are immediately offset as expenses. Development costs are treated in the same way, as research and development are correlated and thus cannot be reliably separated. Permanent impairments are carried as impairments.

In accordance with IAS 22 (Business Combinations), goodwill, including goodwill from capital consolidation, was capitalized and amortized on a straight-line basis over its anticipated useful life of up to a maximum of 20 years until and including the 2003 fiscal year. As the group has applied the rules of the revised versions of IFRS 3, IAS 36 and 38, which were not compulsory until the consolidated financial statements for the 2005 fiscal year, since the 2004 fiscal year the goodwill recognized in the consolidated balance sheet as at the end of the 2003 fiscal year is no longer amortized. Instead, it is subjected to an impairment test on an annual basis. This test was carried out for the first time as at 31 December 2004. The test did not result in a need for impairment. The management carried out another impairment test as at 31 December 2005. The outcome of this test again proved the recoverability of the reported goodwill.

For the purposes of the impairment test, the carrying amounts of the only two essential goodwill units were allocated to the cash generating units (CGUs) concerned, i.e. Deutsche Solar AG (wafer production) and Gällivare PhotoVoltaic AB (module production, Sweden). Prior to as well as after the implementation of the impairment test – given the absence of a need for impairments –, the carrying of the goodwill related to the CGU Deutsche Solar AG was € 29,587 thousand, and the carrying amount of the goodwill related to the CGU Gällivare PhotoVoltaic AB totalled € 2,136 thousand.

The recoverable amounts were determined as the fair values less costs to sell. The determination was based on the DCF method. In order to determine the recoverable amount, the cash flow forecasts based on the most recent plans approved by the management were used. The forecasts, in turn, are based on the fundamental assumptions outlined below. Fundamental assumptions are the assumptions most closely connected to the recoverable amount of the CGU in that it shows the highest level of sensitivity to any changes in these assumptions.

Concerning the CGU Deutsche Solar AG, the forecasts are based on the following fundamental assumptions:

- significant short-term increase in the price of raw materials (silicon), followed by a decline in raw material prices in the medium term; this assumption is based on the relevant market studies by third parties;
- increase in sales volumes up to 220 MW by 2007; this assumption is based on the expected market growth rates on the basis of average past growth rates, taking account of production capacity;
- annual decline in sales market prices in the single-digit percentage range; this assumption is based on the relevant market studies by third parties.

The goodwill portion attributable to the CGU Gällivare PhotoVoltaic AB is not significant in proportion to total goodwill shown. It is therefore not necessary to disclose the relevant underlying assumptions.

The cash flow forecasts of the CGU Deutsche Solar AG were based on detailed budget accounts prepared by the company for a period of five years. For the period beyond that timeframe, an extrapolation based on the last detailed planning period was effected. The growth rate applied was lower than the market growth assumptions of external studies of the photovoltaic market.

In order to calculate the recoverable amount, the future cash flows of the CGU Deutsche Solar AG were discounted with a risk-adjusted discount rate after tax of 6.2% (previous year: 6.5%). For the detailed planning period a slightly lower discount rate was to be expected.

7. Property, plant and equipment

Property, plant and equipment are measured at cost, less scheduled depreciation due to depletion. Costs include all costs directly attributable to the manufacturing process and appropriate portions of the necessary material and production overheads. These include production-related depreciation and production-related proportionate costs of the company pension scheme and the company's voluntary fringe benefits. Interest paid on borrowings is not capitalized.

The useful lives applied to buildings range from 15 to 45 years. Buildings and leasehold improvements on third-party land are depreciated over the respective term of the lease agreements or the useful life, if lower. Most depreciation rates are in the range of 2 to 4% per annum. For machinery and fixtures, the useful lives applied are up to ten years in most cases. Office and operating equipment subject to normal use is depreciated over 3 to 5 years.

In accordance with IAS 17, leased property, plant and equipment in which the company was the economic owner, i.e. carried all the risks and rewards incident to ownership of the assets, are measured at

their fair values unless the net present value of the lease payments is lower. The depreciation costs and useful lives correspond to those of comparable purchased assets.

In accordance with IAS 36, intangible assets and property, plant and equipment are impaired as at the balance sheet date if an indication for impairment exists and if the impairment test carried out in that case shows that the recoverable amount of the asset item has dropped below its carrying amount. For assets that are allocatable to a goodwill-carrying CGU, the impairment test is carried out on an annual basis, regardless of the presence or absence of an indication for impairment. Reference is made to note 6 in this respect. In the fiscal year under review, no impairment indications existed for other material asset items and CGUs.

8. Shares measured at equity

The shares measured at equity include the 49% share of SolarWorld AG in a joint venture with the Degussa Group to develop production of solar-grade silicon, legally organized in Joint Solar Silicon GmbH & Co. KG, Freiberg.

The shares measured at equity also include the 35% share in RGS Development B.V., Petten (Netherlands). This is a joint venture with two Dutch partners.

9. Inventories

Inventories include raw materials, consumables and supplies, work in progress, finished goods and merchandise as well as advance payments made on inventories. They are measured at acquisition costs, which are determined in a uniform manner and, depending on the type of inventory, are measured partly on the basis of average prices and partly according to the FiFo method, or at manufacturing costs. Manufacturing costs comprise direct costs and appropriate parts of the necessary material and production overheads as well as production-related depreciation directly attributable to the manufacturing process. In addition, the proportionate production-related costs of the company pension scheme and the company's voluntary fringe benefits are included. Administrative costs are included to the extent to which they are allocatable to production. Borrowing costs are not included. Measurement as at the balance sheet date is based on the lower of cost or net realisable value less the cost incurred until the sale. As a matter of principle, the net realisable value of the final product is applied. Due to the specificities of production in the company and the sector, work in progress and finished goods are combined with merchandise.

Inventories carried at the lower net realisable value only account for an immaterial proportion of total inventories.

The advance payments carried under inventories are partly denominated in US dollars. Since they do not represent monetary items in accordance with IAS 21.16, they were not measured at the closing rate. As the payments do not bear interest in accordance with the agreement but are based on a financing transaction, they were compounded at the matching interest rate.

10. Trade accounts receivable

Trade accounts receivable are carried at their nominal amounts. If there are any doubts about the collec-

tability of the receivables, trade accounts receivable are carried at the lower recoverable amount. Besides the required specific bad debt allowances, portfolio-oriented valuation allowances derived from empirical values are carried for identifiable risks from the general credit risk. Receivables denominated in foreign currencies are measured at the mean rate of buying and selling rates at the balance sheet date.

11. Other receivables and assets
As a matter of principle, other receivables and assets are recognized at their nominal amounts. Corresponding value adjustments are effected to take account of any identifiable single risks and the general credit risk.

12. Marketable securities
In accordance with IAS 39, marketable securites which the company does not intend to hold to maturity are recognized as trading assets and carried at the stock market or market price.

13. Accrued investment grants
In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) investment grants received are accrued and reversed with an effect on results over the useful lives of the respective asset items. This item is thus spread over the periods of the useful lives of the property, plant and equipment items for which grants have been received in order to successively increase the pre-tax earnings of future fiscal years. This earnings increase contrasts with corresponding depreciation expenses, which are therefore netted out. In addition, tax effects will arise, with the reversal of the accrued investment grants, which causes an increase in earnings, being exempt from income tax to the extent to which they result from tax-free investment grants received.

14. Pension schemes
The group's company pension scheme is exclusively based on defined contribution plans. Under these plans, the company pays contributions to state or private pension insurance institutions due to statutory or contractual obligations or on a voluntary basis. Upon payment of the contributions, no further obligations exist for the company. The annual amounts are carried under staff costs.

15. Other provisions
According to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), provisions are measured at the best possible estimate of the expenditure required to settle the obligation. No provisions are formed for expenditure. Other provisions are formed where a third-party obligation exists which will lead to a probable future outflow of resources and where this outflow can be reliably estimated.

If a provision must not be formed since one of the criteria is not met but the probability of an outflow of resources is not remote, the correponding obligations are reported as contingent liabilities. Provisions for obligations which will probably not lead to an outflow of resources in the subsequent year are formed at the level of the present value of the expected outflow of resources.

Provisions include both provisions and accruals.

16. Other liabilities

Financial debt, trade accounts payable and other liabilities are recognized at the higher of nominal or repayment value. Liabilities denominated in foreign currencies are translated on the basis of the closing rate. Liabilities from finance leases are recognized at their value in accordance with IAS 17.

The advance payments carried under other liabilities are partly denominated in US dollars. Since they do not represent monetary items, they are not measured at the closing rate. Since the long-term contracts are implicitly based on a financing component but the advance payments received do not bear interest in line with contractual arrangements, they were compunded at the matching interest rate.

17. Recognition of income and expenses

Sales revenues or other operating income are recognized upon the performance of the service or the transfer of the risk to the customer.

In the 2005 fiscal year, sales revenues and recognized receivables were carried in accordance with the percentage of completion method according to IAS 11 for the first time. All underlying transactions (project to build large-scale solar systems, in particular open-site systems) were completed and settled at the end of the fiscal year so that the consolidated financial statements as at 31 December 2005 do not include any sales and receivables from the application of the percentage of completion method.

Operating expenses are recognized with an effect on results when the service is used or when they are incurred. Provisions for guarantees are formed at the date of recognition of the corresponding sales revenues. As a matter of principle, dividends are recognized at the date on which they are distributed.

18. Research and development expenses

Research costs and development costs which may not be capitalized are carried with an effect on results when they are incurred.

Notes to individual items of the income statement

19. Sales revenues

Sales revenues and a breakdown of sales revenues according to divisions and regions are provided in the segment report in the notes to the consolidated financial statements. Sales revenues relate to the following products and services:

	2005 t€	Previous year t€
Module production (group and third-party production)	196,071	103,004
Proceeds from projects	36,544	2,200
Cell	8,183	11,490
Wafer	115,173	83,239
	355,971	**199,933**

The proceeds from projects result from the construction of large-scale solar power plants.

20. Own work capitalized

Own work capitalized relates to the construction of two photovoltaic plants operated by Go!Sun GmbH & Co. KG, a company included in consolidation.

21. Other operating income

	2005 t€	Previous year t€
Reversal of accrued investment grants	5,662	4,919
Expenditure grants	3,067	2,979
Foreign exchange gains	850	1,261
Reversal of provisions	721	158
Miscellaneous other operating income	4,556	1,299
	14,856	**10,616**

Foreign exchange gains primarily comprise gains from changes in exchange rates in between the dates of origination and payment of receivables and liabilities denominated in foreign currencies as well as exchange gains from the measurement at closing rate. Corresponding exchange losses are reported under other operating expenses.

22. Cost of materials

	2005 t€	Previous year t€
Cost of raw materials, consumables and supplies and purchased merchandise	199,652	85,905
Cost of purchased services	11,250	7,100
	210,902	**93,005**

The cost of materials ratio (cost of materials including changes in inventories and own work capitalized as a percentage of the aggregate operating performance) is 57% (previous year: 54%).

23. Staff costs

	2005 t€	Previous year t€
Wages and salaries	32,843	27,083
Social security contributions, pension costs and benefits	4,937	3,750
	37,780	**30,833**

Staff costs comprise expenses for the employee profit-sharing scheme for the group companies and the group (employee profit-sharing scheme, GOMAB) totalling € 5,500 thousand (previous year: € 5,954 thousand).

24. Depreciation and amortization

A breakdown of depreciation and amortization is provided in the statement of changes in non-current assets.

25. Other operating expenses

	2005 t€	Previous year t€
Maintenance expenses	8,183	6,019
Selling expenses	3,726	2,275
Foreign exchange losses	1,096	1,757
Use of third-party personnel	2,814	1,996
Research expenses	1,342	4,168
Advertising and travel expenses	1,921	780
Insurance premiums	1,197	360
Rental and lease expenses	991	1,215
Write-downs of receivables and losses on receivables	423	0
Legal, consultancy and audit costs	969	453
IT services	312	165
Miscellaneous other operating expenses	6,616	3,518
	29,590	**22,706**

26. Result from shares measured at equity

	2005 t€	Previous year t€
Income from shares measured at equity (joint ventures)	0	0
Expenses from shares measured at equity (joint ventures)	-754	-134
	-754	**-134**

27. Taxes on income

Tax expenses break down as follows:

	2005 t€	Previous year t€
Actual tax expense (+)/income (-) Germany	29,671	7,168
Actual tax expense (+)/income (-) abroad	348	0
Actual tax expense (+)/income (-) total	**30,019**	**7,168**
Deferred tax expense (+)/income (-) Germany	1,597	2,912
Deferred tax expense (+)/income (-) abroad	166	341
Deferred tax expense (+)/income (-) total	**1,763**	**3,253**
Reported tax expense (+)/income (-) total	**31,782**	**10,421**

Income taxes include taxes on income paid or due in the individual countries and deferred taxes. Deferred taxes are calculated on the basis of temporary differences between the carrying amounts of assets and liabilities in the IFRS financial statements and those carried in the tax accounts, from consolidation transactions and realizable loss carryforwards. The calculation is based on the expected tax rates in the individual countries at the date of recognition of 40% for Germany, 28% for Sweden and 42.75% for the United States of America (California). These rates are always based on the legal regulations applicable or adopted at the balance sheet date. In terms of their origin, taxes on income predominantly relate to Germany, with a minor part payable in Sweden and the United States of America. No deferred income taxes have arisen for the activities in Spain.

Deferred taxes on tax loss carryforwards are only carried to the extent that it is highly probable that future taxable profits will be available against which the unused tax losses can be utilised. The Board of Management considers this prerequisite as being consistently met since the expectation of sufficient future positive earnings is derived from the constantly updated business plans and the group's strategic orientation. Therefore, no value adjustments of deferred tax assets were effected.

Recognition and measurement differences in individual balance sheet items and tax loss carryforwards resulted in the following recognized deferred tax assets and liabilities, shown below in non-netted and netted terms:

	Deferred tax assets		Deferred tax liabilities	
	2005 t€	Previous year t€	2005 t€	Previous year t€
Intangible assets and property, plant and equipment	8	8	8.801	9.137
Shares measured at equity	0	0	0	0
Current assets	1,908	368	5	0
Accrued investment grants	1,392	1,599	0	0
Other non-current liabilities	0	0	0	0
Current liabilities	384	270	733	179
Tax loss carryforwards	172	3,165	0	0
	3,864	**5,410**	**9,539**	**9,316**
Netting	-1,583	-1,693	-1,583	-1,693
Recognized deferred taxes	**2,281**	**3,717**	**7,956**	**7,623**

Deferred tax assets and liabilities are netted where they related to taxes levied by the same taxation authority and to the same taxable entity. Deferred tax claims or liabilities that would have to be carried in equity with no effect on results did not exist at either of the two cutoff dates.

The main differences between the nominal and actual tax rates in the year under review and the previous year are outlined below:

	2005 t€	Previous year t€
Earnings before taxes on income	83,764	28,535
Expected income tax rate (incl. trade tax)	40.0%	40.0%
Expected income tax expense (+)/income (-)	**33,506**	**11,414**
Deviating domestic and foreign tax burden	-865	-200
Tax reductions due to tax-free income	-1,316	-1,400
Taxes from other non-deductible expenses	480	300
Actual taxes unrelated to accounting period	5	600
Other deviations of tax expenses	-28	-293
Recognized income tax expense (+)/(-)	**31,782**	**10,421**
Effective income tax rate	37.9%	36.5%

28. Material expenses and income unrelated to accounting period

In the 2005 fiscal year no material expenses or income unrelated to the accounting period were generated (previous year: € 570 thousand).

29. Earnings per share

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the fiscal year. As there are no equity warrants or conversion rights outstanding, diluted earnings per share was not a relevant indicator.

In order to ensure the comparability of the amounts indicated under earnings per share, the previous year's number of shares, used in calculating earnings per share, was doubled to 11,550,000 shares compared with the actual number of shares shown in the previous year's financial statements since the Annual General Meeting of 25 May 2005 decided to double the capital stock out of retained earnings by issuing one bonus share per share held.

30. Segment reporting

a) Business segments

The SolarWorld Group operated four vertically integrated business segments on a worldwide basis in the 2005 fiscal year:

- the production of silicon wafers (wafer production) by Deutsche Solar AG,
- the production of solar cells (cell production) by Deutsche Cell GmbH,
- the production of solar modules (module production) by Gällivare PhotoVoltaic AB and Solar Factory GmbH,
- trade in solar modules (trading) by SolarWorld AG and its subsidiaries SolarWorld California Inc. and SolarWorld Ibérica S.L.

As a matter of principle, inter-segment sales and proceeds are based on the arm's length principle. Administrative services and the performance of holding functions are partly calculated on the basis of cost allocation keys.

In contrast to the previous year's presentation of the business segments, the information concerning the business segments provided below first lists the segment assets and segment liabilities inclusive of the inter-company receivables and liabilities and subsequently provides a reconciliation to consolidated group figures. The previous year's figures were restated accordingly.

Information on business segments for the 2005 fiscal year
(all amounts stated in million €)

	Wafer	Cell	Module	Trade	Eliminations	Consolidated
Sales						
External sales	115	8	3	230		
Inter-segment sales	51	54	107	0	-212	
Total sales	166	62	110	230	-212	356
Earnings						
Segment result	53	9	7	25	-4	90
Unallocated income						0
Unallocated expenses						-1
Earnings before interest and tax (EBIT)						89
Interest paid						-7
Interest received						2
Income taxes						-32
Net profit for the period						52
Other information						
Assets						
Segment assets	213	57	46	71	-37	350
Unallocated assets						97
Consolidated assets						447
Liabilities						
Segment liabilities	78	33	19	34	-37	127
Unallocated liabilities						103
Consolidated liabilities						230
Intangible assets and property, plant and equipment						
Capital expenditure	33	0	19	1		
Depreciation and amortization	12	5	2	1		

Information on business segments for the 2004 fiscal year

(all amounts stated in million €)

	Wafer	Cell	Module	Trade	Eliminations	Consolidated
Sales						
External sales	83	12	1	104		
Inter-segment sales	28	51	78	0	-157	
Total sales	111	63	79	104	-157	200
Earnings						
Segment result	14	11	4	5		34
Unallocated income						0
Unallocated expenses						-1
Earnings before interest and tax (EBIT)						33
Interest paid						-5
Interest received						1
Income taxes						-11
Net profit for the period						18
Other information						
Assets						
Segment assets	167	53	33	25	-32	246
Unallocated assets						31
Consolidated assets						277
Liabilities						
Segment liabilities	47	24	16	14	-32	69
Unallocated liabilities						83
Consolidated liabilities						152
Intangible assets and property, plant and equipment						
Capital expenditure	18	11	2	1		
Depreciation and amortization	10	4	1	1		

b) Geographical segments

The table below provides a breakdown of consolidated sales by regional markets, regardless of the place of production of the goods. The carrying amounts of the segment assets and the capital expenditure on property, plant and equipment and intangible assets are listed according to the location of the respective assets. The SolarWorld Group controls its activities via business segment results rather than regional profit contributions. A presentation of regional segment results would therefore not provide any relevant information.

Geographical segments fiscal year 2005

(€ m)

	Sales	Assets	Capital expenditure
Germany	264	429	52
Rest of Europe	45	15	1
Asia	39	0	0
USA	7	3	0
Rest of world	1	0	0
Total	**356**	**447**	**53**

Geographical segments fiscal year 2004

(€ m)

	Sales	Assets	Capital expenditure
Germany	141	269	31
Rest of Europe	30	8	1
Asia	27	0	0
USA	2	0	0
Total	**200**	**277**	**32**

Notes to the balance sheet

31. Development of intangible assets, property, plant and equipment and shares measured at equity

The breakdown and development of intangible assets, property, plant and equipment and shares measured at equity is provided in the table below:

Development of intangible assets, property, plant and equipment and shares measured at equity

	Acquisition or manufacturing costs						Depreciation/amortization					Carrying amounts	
	Balance 1 Jan. 2005	Reclassification	Addition	Loss	Currency difference	Balance 31.Jan.2005	Balance 01.01.2005	Addition	Loss	Currency difference	Balance 31.12.2005	Balance 31.12.2005	Balance Prev. Year
	t€	t€	t€	t€	t€	t€	t€	t€	t€	t€	t€	t€	t€
I. Intangible assets													
1. Concessions, industrial property rights and similar rights and values as well as licenses	6,729	277	380	102	0	7,284	3,708	1,012	86	0	4,634	2,650	3,021
2. Goodwill	37,018	0	0	0	0	37,018	5,194	0	0	0	5,194	31,824	31,824
	43,747	**277**	**380**	**102**	**0**	**44,302**	**8,902**	**1,012**	**86**	**0**	**9,828**	**34,474**	**34,845**
II. Property, plant and equipment													
1. Land	34,214	9,743	3,298	0	0	47,255	4,621	1,973	0	0	6,594	40,661	29,593
2. Machinery and fixtures	136,252	17,038	21,884	1,034	-207	173,933	44,642	15,433	951	-57	59,067	114,866	91,610
3. Other plant, office and operating equipment	5,389	-269	2,247	703	-5	6,659	2,549	1,269	652	-4	3,162	3,497	2,840
4. Construction in progress and advance advance payments made	21,761	-26,789	24,812	345	0	19,439	18	0	0	0	18	19,421	21,743
	197,616	**-277**	**52,241**	**2,082**	**-212**	**247,286**	**51,830**	**18,675**	**1,603**	**-61**	**68,841**	**178,445**	**145,786**
III. Shares measured at equity													
Shares measured at equity	1,494	0	4,723	0	0	6,217	887	754	0	0	1,641	4,576	607
	242.857	**0**	**57,344**	**2,184**	**-212**	**297,805**	**61,619**	**20,441**	**1,689**	**-61**	**80,310**	**217,495**	**181,238**

32. Intangible assets

Goodwill carried under intangible assets results from the following business combinations:

	31.12.2005 t€	Previous year t€
Goodwill from the acquisition of Deutsche Solar AG in 2000	29,587	29,587
Goodwill from the acquisition of Gällivare PhotoVoltaic AB in 2000 and 2001	2,136	2,136
Other goodwill	101	101
	31,824	**31,824**

33. Property, plant and equipment

At the balance sheet date the company had no leased property, plant and equipment to be capitalized.

34. Shares measured at equity

	31.12.2005 t€	Previous year t€
Joint Solar Silicon GmbH & Co. KG, Freiberg	1,63	607
RGS Development B.V., Petten (Netherlands)	2,813	0
	4,576	**607**

The participation in Joint Solar Silicon GmbH & Co. KG is held by SolarWorld AG. It is a 49% share in the assets, earnings and voting rights. The purpose of the company is the joint development of the production of solar-grade silicon with the Degussa Group, which holds the remaining share. In the fiscal year under review, SolarWorld AG made a contribution of € 1,666 thousand (previous year: € 612 thousand). The loss attributable to SolarWorld AG totalled € 510 thousand (previous year: € 134 thousand).

The share in RGS Development B.V. acquired in the 2005 fiscal year is held by Deutsche Solar AG. It is a 35% share in the assets, earnings and voting rights. The purpose of the company is the joint development of a new process for the production of silicon wafers to be used in solar cells. There are two further Dutch shareholders holding shares of 35% and 40%. The acquisition costs of the shareholding totalled € 3,047 thousand. The loss attributable to Deutsche Solar AG totalled € 244 thousand. Since there was no difference between the acquisition costs paid by Deutsche Solar AG and the proportionate carrying amounts of the assets of RGS Development B.V., a purchase price allocation was not required.

Both shareholdings represent jointly controlled operations within the meaning of IAS 31 since the main decisions concerning the business and finance policies can only be taken jointly.

35. Deferred tax assets

	31.12.2005 t€	Previous year t€
Deferred tax assets due to accounting and measurement variations compared with the tax balance sheets	2,109	572
Deferred tax assets due to tax loss carryforwards	172	3,145
	2,281	**3,717**

Deferred taxes are calculated in accordance with IAS 12 (Income Taxes). Value adjustments on deferred tax assets were not required. The development of this item is shown in the note on tax expenses.

36. Inventories

	31.12.2005 t€	Previous year t€
Raw materials, consumables and supplies	17,080	21,507
Work in progress	29,103	14,666
Finished goods and merchandise	19,704	10,531
Advance payments made	19,036	42
	84,923	**46,746**

In the above breakdown, finished goods of the group only comprised the photovoltaic modules and wafers of Deutsche Solar AG.

Advance payments made comprised an amount of € 18,503 thousand only to be offset against raw material supplies more than twelve months after the balance sheet date.

37. Income tax receivables

Tax receivables relate to refund claims concerning corporate and trade tax paid or corresponding taxes paid abroad due to excess tax prepayments and required changes in the tax assessments of previous years.

38. Other receivables and assets

These amounts primarily related to input tax refund claims.

39. Current securities

Financial assets measured at fair value are carried under securities. They are near-money market securities and shares in open-ended real estate funds, acquired with a view to optimizing liquidity management in terms of yields. Accordingly, the assets are held for the purpose of selling in the short term. The gains and losses from fair value changes are therefore recognized in net profit or loss in accordance with IAS 39.55 (a). In the 2005 fiscal year, this resulted in income of € 235 thousand (previous year: € 0 thousand), carried under other operating income.

40. Liquid funds
Liquid funds almost exclusively comprised bank balances. At the balance sheet date, most of these funds were invested as term or overnight money in various banks.

41. Prepaid expenses
Prepaid expenses comprise expenses paid in advance.

42. Equity
The capital stock totals € 12.7 million (previous year: € 5.775 million). The company's capital stock is comprised of common shares totalling 12,700,000 no-par value bearer shares.

Based on the authorization granted to the Board of Management by the Annual General Meeting of 29 May 2001, the Board of Management resolved on 16 February 2005, with the consent of the Supervisory Board, to raise the capital stock from € 5,775,000.00 by € 575,000.00 to € 6,350,000.00. The increase in the capital stock was registered in the commercial register on 18 March 2005.

The Annual General Meeting of 25 May 2005 resolved to increase the capital stock from € 6,350,000.00 by € 6,350,000.00 to € 12,700,000.00 out of retained earnings. The increase in the capital stock was registered in the commercial register on 7 June 2005.

Due to the measures listed above, the capital reserve was increased in the 2005 fiscal year through the recognition of a premium of € 42,550 thousand in the framework of an increase in subscribed capital, while it decreased by € 6,350 thousand due to the capital increase from retained earnings.

The ordinary Annnual General Meeting of 29 May 2001 authorized the Board of Management to increase the capital stock, with the consent of the Supervisory Board, by 31 December 2005 through the issue of new no-par value bearer shares against cash and/or non-cash contribution in one or several transactions, however, by a maximum of € 1,500,000.00. The Board of Management decides about an exclusion of subscription rights with the approval of the Supervisory Board.

Using the authorization, the capital stock was increased by € 575,000.00 upon the resolution of 10 June 2002 and by € 575,000.00 upon the resolution of 16 February 2005. The remaining authorized capital of € 400,000.00, available on 31 December 2005 due to the resolution by the AGM of 29 May 2001, forfeited at the balance sheet date.

At the AGM of 28 May 2002, the Board of Management was authorized to increase the capital stock by a total of € 675,000 by 31 December 2006 with the approval of the Supervisory Board.

At the AGM of 27 May 2003, the Board of Management was authorized to raise the capital stock by a total of € 1,200,000.00 by 31 December 2007 with the approval of the Supervisory Board. The AGM of 25 May 2005 resolved to repeal this authorization.

At the Annual General Meeting of 25 May 2005 the Board of Management was authorized to raise the capital stock by a total of € 2,100,000.00 by 31 December 2009 with the approval of the Supervisory Board.

The Annual General Meeting of 26 May 2004 resolved a conditional increase in the capital stock by an amount of up to € 2,887,500.00. This resolution was repealed by the Annual General Meeting of 25 May 2005.

The Annual General Meeting of 25 May 2005 resolved a conditional increase in the capital stock by up to € 3,175,000.00. The Board of Management was authorized to determine the further details of the capital increase with the approval of the Supervisory Board. Due to the capital increase out of retained earnings resolved on 25 May 2005, the capital stock has been conditionally increased by up to € 6,350,000.00.

The capital reserve comprises premiums from the issue of shares by SolarWorld AG less net issuing costs incurred (SIC 17).

Accumulated earnings comprise the past earnings of the companies included in consolidation to the extent to which they have not been distributed.

A detailed breakdown of the development of equity is shown in the statement of changes in equity.

43. Non-current and current financial liabilities

Financial liabilities have the following remaining terms:

	31.12.2005	Previous year
	t€	t€
Remaining term of up to 1 year	14,613	25,326
Remaining term of 1 to 5 years	40,938	30,746
Remaining term of more than 5 years	14,060	10,991
	69,611	**67,063**

The financial liabilities with a remaining term of more than 1 year mainly comprised the following loans:

- floating-interest loan of IKB/SLB with a remaining value of € 15,600 thousand with quarterly redemption of € 1,300 thousand,
- floating-interest syndicated loan of IKB/Dresdner Bank/Commerzbank with a remaining value of € 14,288 thousand with quarterly redemption of € 714 thousand,
- floating-interest syndicated loan of IKB/Dresdner Bank/Commerzbank with a remaining value of € 3,027 thousand with quarterly redemption of € 185 thousand,
- bond issued by SolarWorld AG totalling € 9,558 thousand with a fixed-interest coupon of 7%, maturing on 2 May 2011.

The bond was issued in 2004. Since then, market interest rates have not changed significantly. The remaining non-current financial liabilities have floating interest rates so that there are no major vairations between carrying amounts and fair values, either.

The group companies are liable for the liabilities to bank under the usual assignment of property, plant and equipment as well as inventories as collateral and the creation of land charges totalling € 24 million.

44. Accrued investment grants

This item comprises accrued investment grants and subsidies, including grants already to be reversed in the subsequent year. The previous year's figures have been restated accordingly. To this end, an amount of € 4,825 thousand, published in the previous year's financial statement, was reclassified from other current liabilities to the item 'accrued investment grants'.

45. Non-current and current provisions

	Balance as at 1.1.2005 t€	- Utilisation t€	Reversal t€	Addition t€	Balance as at 31.12.2005 t€
Employee profit-sharing scheme	5,954	5,239	99	5,500	6,116
Other obligations in the personnel sector	1,240	982	68	2,000	2,190
Repayment of grants	1,857	75	0	59	1,841
Obligations to customers	839	285	0	944	1,498
Anticipated losses relating to derivatives	763	306	457	978	978
Other provisions	1,181	985	97	1,872	1,971
	11,834	**7,872**	**721**	**11,353**	**14,594**

Provisions for obligations in the personnel sector comprise amounts for contributions to employee profit-sharing scheme, for variable compensation components for the members of the Board of Management and the Supervisory Board, for part-time early retirement schemes, for vacation carried over, for the German social insurance institution against industrial accidents and for the charge due under the German law relating to the severely handicapped.

The obligation to repay grants relates to investment grants to be repaid.

Obligations to customers comprise customer queries and customer bonuses.

The provisions for anticipated losses relating to derivatives are outlined below in the notes to the hedging policy.

Other provisions include in particular provisions for invoices not yet received, the cost of the preparation of annual financial statements, commissions and old liabilities.

The non-current provisions recognized in the balance sheet comprise the employees' benefit entitlements under the employee profit-sharing scheme, where credits are only paid after more than one year in accordance with the agreement. The previous year's figures were restated accordingly. To this end, an amount of € 3,347 thousand, published in the previous year's financial statements, was reclassified from current provisions to non-current provisions.

46. Other non-current liabilities

Other non-current liabilities comprise an amount of € 3,541 thousand (previous year: € 527 thousand) of employee entitlements acquired in previous years under the employee profit-sharing scheme and only payable in future periods, the exact levels of which have now been established. The figure published in the previous year's financial statements was reclassified from current liabilities. The entitlements carry 8.16% interest.

Other non-current liabilities comprise advance payments received from non-current contracts for wafer deliveries of € 14,538 thousand (previous year: € 0 thousand).

47. Deferred tax liabilities

Deferred tax liabilities fully result from the deviations of accounting and measurement principles applied in the recognition and measurement of assets, in particular fixed assets, from the principles applicable to the tax balance sheet. The development of this item is outlined in the note on tax expenses.

48. Current liabilities

Income tax liabilities comprise both corporate and trade tax liabilities established by the fiscal administration and calculated or estimated by the group companies as well as corresponding taxes payable abroad due to the tax laws, including amounts probably arising on completed or current tax audits.

Deferred income comprises income recognized in advance.

Current liabilities shown in the previous year's financial statements were partly reclassified to accrued investment grants and other non-current liabilities (cf. the relevant notes).

Other notes

49. Other financial commitments

	31.12.2005 t€	Previous year t€
Order commitments in respect of raw material and license agreements	394,460	41,300
Order commitments in respect of investments in property, plant and equipment	59,494	35,300
Obligations from multi-year lease agreements	6,535	5,300
	460,489	**81,900**

50. Contingencies and events after the balance sheet date

A comprehensive presentation of the corporate risks and events after the balance sheet date is provided in the group management report, prepared and published simultaneously with the present financial statements under German law. The report provides a comprehensive presentation of the expectations concerning the future development of sales prices and the overall market.

After the balance sheet date, SolarWorld AG concluded a contract on the acquisition of the silicon-based solar activities of the Shell Group. This event is also outlined in detail in the group management report.

51. Hedging policy

As an international player, the SolarWorld Group is invariably faced with changes in prices and exchange rates. Its corporate policy is to hedge against exposure to considerable price, currency and interest rate risks by means of framework agreements, maturities and hedges to an economically justifiable extent.

The subsidiary SolarWorld AG is a partner in a swap contract relating to existing loan liabilities to banks totalling € 20,800 thousand. The swap, relating to a current loan volume of € 15,600 thousand, is a combined cross currency interest rate swap based on Swiss francs and euros. Its fair value was € -18 thousand (previous year: € - 88 thousand). The contract will expire on 31 December 2008.

SolarWorld AG has two interest rate swaps, concluded in order to optimize its interest result. The two swaps have subscription amounts of € 5,000 thousand and € 2,500 thousand, respectively. At the balance sheet date, the first swap had a fair value of € -666 thousand and will mature on 21 March 2008, while the second swap had a fair value of € - 294 thousand and will mature on 7 July 2010. A swap which existed at the balance sheet date of the previous year no longer exists.

The fair values of the swap agreements were determined and confirmed by the banks involved based on generally accepted measurement models and methods (Black-Scholes, Heath-Jarrow-Morton), taking account of the yield curve. The determination was based on assumptions resulting from the swapped interest rates, the general market expectations impacting the yield curve and in one case the expected development of the exchange rate of the foreign currency.

Currency risks are primarily related to JPY on the sales side and to US dollars on the procurement side. Currency trends are continuously monitored; any risks not covered by offsetting transactions in the same currency are partly hedged, where economically reasonable.

Forward exchange transactions which existed at the previous year's balance sheet date in order to collateralise a merchandise purchase agreement totallying 1,585.6 million Japanese yen no longer exist.

All negative fair values of the existing derivative financial instruments were carried as liabilities and shown under current provisions. Positive fair values did not exist at the balance sheet date. The conditions for accounting for hedges according to the principles of IAS 39 were not met.

With the exception of employee loans which, however, are materially insignificant, no financial loans are granted to persons or companies outside the group.

Depending on the type and amount of the respective delivery, the group requests collateralization, seeks credit information/references or uses historical data from the previous development of the business relationship, in particular the payment behaviour, for all other deliveries to customers to avoid any payment defaults. All identifiable risks are taken into account by providing appropriate bad debt allowances.

The SolarWorld Group uses financial planning instruments for the early detection of its future liquidity situation. With their planning horizons of one to eight years, these systems show the expected development of liquidity. According to current plans, financial requirements are expected to be met.

52. Notes on the cash flow statement

Cash flow from operating activities

The cash flow statement for the year under review is based on earnings before taxes. Earnings before taxes, the basis of the calculation, are initially adjusted for non-cash income and expenses. The cash flow from operating activities takes account of the changes in inventories and other working capital. Furthermore, the cash flow from operating activites includes inflows of € 23,510 thousand (previous year: € 5,540 thousand) from the investment grants received, which are therefore also related to the payments made for investments in non-current assets.

The change in the net working capital also comprises the advance payments received to sell inventories and the advance payments made to acquire inventories, mainly based on long-term sales contracts for silicon wafers and the related long-term purchase contracts for raw silicon. The resulting inflows and outflows in the 2005 fiscal year were as follows:

	2005 t€	Previous year t€
Increase in advance payments received	16,033	0
Increase in advance payments made	-18,771	0
Increase (+)/decrease (-) in the cash flow	-2,738	0

Interest paid is presented in the determination of the cash flow from financing activities.

Cash flow from investing activities
The cash flow from investing activities includes payments to invest in fixed assets.

Cash flow from financing activities
The cash flow from financing activities includes the increase in financial debt and additions to equity. The outflow of cash from financing activities includes dividend payments to the shareholders of SolarWorld AG. This item also includes interest paid.

Cash and cash equivalents
Cash and cash equivalents are composed of the balance from liquid funds recognized in the balance sheet of € 95,897 thousand (previous year: € 27,036 thousand) and the liabilities payable on demand of € 0 thousand (previous year: € 134 thousand), shown under current liabilities.

53. Contingent liabilities
SolarWorld AG furnishes a clearly specified guarantee over 25 years for its photovoltaic modules. The guarantee mainly relates to the achievement of certain performance features of its modules. An exact description is available on the company's website.

The probability of SolarWorld AG being called to pay up under this guarantee to a significant extent in future is assessed as extremely low. The assessment of the long-term durability and in particular the long-term attainment of the key technical performance features of photovoltaic modules has been confirmed by various surveys carried out by third parties. That is why there is not reason to form provisions for the theoretical risk of availment under the guarantee. Moreover, such a provision would be impossible to quantify.

54. Related party disclosures

In the 2005 fiscal year, the following material transactions were effected with related parties:

Sales of photovoltaic modules to Solarparc AG, Bonn or related companies totalling € 37.9 million (previous year: € 5.6 million) and to Frank Heinz Asbeck Konzert- und Ballhaus Tivoli Sachsen GmbH & Co. KG totalling € 0.3 million (previous year: € 0.4 million). The CEO Frank Asbeck holds direct and indirect shares in both companies mentioned above. The module sales were effected in order to install and operate large-scale photovoltaic systems to feed power into the public power grid.

SolarHolding Beteiligungs-GmbH sold land with a production building previously rented by its subsidiary Solar Factory GmbH to Solar Factory GmbH at a total selling price of € 2.7 million. The CEO Frank Asbeck holds shares in SolarHolding Beteiligungs-GmbH; this company, in turn, was a shareholder of SolarWorld AG in the 2005 fiscal year.

Moreover, there are some real estate lease agreements concerning the rental of administrative and production buildings from SolarHolding Beteiligungs-GmbH.

The law firm Schmitz Knoth Wüllrich Marquardt, Bonn, related to the chairman of the Supervisory Board, Dr. Claus Recktenwald, within the meaning of IAS 24, provides legal counsel to and represents SolarWorld AG; with the approval of the Supervisory Board it received a total fee of € 0.3 million (previous year: € 0.1 million) for these services in the 2005 fiscal year.

The remuneration of the members of the Boards is listed under a separate note.

All transactions were carried out on the basis of the arm's length principle.

55. Employees

The average headcount was 687 (previous year: 570), breaking down as follows for the operating units or segments:

	2005 Headcount	Previous year Headcount
Wafer production	477	374
Cell production	35	60
Module production	116	79
Trade and group headquarters	59	57
	687	**570**

As at 31 December 2005, the headcount was 759 (previous year: 616).

56. Board of Management and Supervisory Board

In the 2005 fiscal year, the members of the Board of Management received total compensation of € 2,061 thousand (previous year: € 1,151 thousand) for the performance of their tasks in the parent company and the subsidiaries. This compensation includes variable compensation components of € 950 thousand (previous year: € 342 thousand).

In the 2005 fiscal year, the members of the Supervisory Board received total compensation, including cost reimbursements, of € 188 thousand (previous year: € 76 thousand) for the performance of their tasks in the parent company and the subsidiaries, plus statutory VAT. This amount includes variable compensation components of € 45 thousand (previous year: € 5 thousand) net.

Appointed members of the Board of Management:
- Dipl.-Ing. Frank H. Asbeck (CEO)
- Dipl.-Ing. Boris Klebensberger (COO)
- Dipl.-Kfm. tech. Philipp Koecke (CFO)
- Dipl.-Ing./Dipl.-Wirtschaftsing. Frank Henn (CSO)

At the balance sheet date, the CEO Frank Asbeck directly and indirectcly held 27.6% (previous year: 37.2%) of the shares in SolarWorld AG.

The Supervisory Board comprised the following members:
- Dr. Claus Recktenwald (chairman), attorney in Bonn
- Dr. Georg Gansen, attorney in Bonn
- Dr. Alexander von Bossel, attorney in Cologne

The Supervisory Board members did not provide any individual advisory or agency services within the meaning of the German Corporate Governance Code.

The CEO Frank Asbeck is a member of the Supervisory Board of Deutsche Solar AG, Freiberg and Gällivare PhotoVoltaic AB, Gällivare, Sweden.

The Board of Management members Boris Klebensberger and Philipp Koecke are members of the Supervisory Board of Gällivare PhotoVoltaic AB, Gällivare, Sweden.

The Supervisory Board members Dr. Claus Recktenwald, Dr. Georg Gansen and Dr. Alexander von Bossel are also members of the Supervisory Board of Solarparc AG, Bonn.

The Supervisory Board members Dr. Claus Recktenwald, Dr. Georg Gansen are also members of the Supervisory Board of Deutsche Solar AG, Freiberg.

57. Auditor fees

The fee recognized as an expense in the 2005 consolidated fiscal year, including cost reimbursements, for the auditors of the consolidated financial statements, BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, Hamburg/Bonn, comprised fees for:

a) audits of financial statements of € 313 thousand (previous year: € 254 thousand)
b) other certification and measurement services of € 36 thousand (previous year: € 13 thousand)
c) tax consultancy services of € 0 thousand (previous year: € 0 thousand)
d) other services provided for the parent company or any of its subsidiaries of € 38 thousand (previous year: € 5 thousand)

58. Corporate Governance

On 24 January 2006, the Board of Management and the Supervisory Board submitted the declaration of compliance required under section 161 of the German Stock Corporation Act for the 2005 and 2006 fiscal years, stating that the recommendations made by the 'Government Commission German Corporate Governance Code' are complied with and indicating which recommendations are currently not implemented. The declaration has been published on the company's website.

Bonn, 10 March 2006

Dipl.-Ing.
Frank Asbeck
(CEO)

Dipl.-Ing.
Frank Henn
(CSO)

Dipl.-Kfm. tech.
Philipp Koecke
(CFO)

Dipl.-Ing.
Boris Klebensberger
(COO)

Auditor's Report

We have audited the consolidated financial statements prepared by the SolarWorld AG, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2005. 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 § 315a Abs. 1 HGB 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 § 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 § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Bonn, den 10. März 2006

BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

Dr. Lüdenbach
Wirtschaftsprüfer

ppa. Lubitz
Wirtschaftsprüfer

Commercial glossary

Ad-hoc disclosure
Obligation on companies to immediately disclose any facts impacting the share price, pursuant to section 15 of the German Securities Trading Act.

Authorized capital
Scope for capital increases provided by the Annual General Meeting to the Board for a specified period of time.

Balance sheet
A company's assets arrayed against its liabilities as at a specific closing date.

BilKoG
German Balance Sheet Control Act. Effective since 21 December 2004

BilReG
German Accounting Regulations Reform Act.
Effective since 10 December 2004

Bundesverband Solarwirtschaft (BSW) (in form.)
Founded on 1 January 2006 by way of a merger between the Federal Association of the Solar Industry (Bundesverband Solarindustrie, BSi) and the German Federation of Solar Entreprises (Unternehmensvereinigung Solarwirtschaft, UVS).

Capital increase
Increase in the -> equity of a stock corporation by means of the issue of new shares.

Capital stock
Total of the par value of all stocks issued by a company.

Cash flow
Cash surplus generated from ordinary business activities. An indicator for a company's self-financing strength.

CEO
Chief Executive Officer

CFO
Chief Financial Officer

Closing process
Integration process in which newly acquired companies are integrated into existing structures. In the framework of this process, a new organizational structure is established, tapping potential positive synergies.

COO
Chief Operating Officer

Corporate News Channel
Active, voluntary communication and publication of corporate news by a company to the financial market via -> DGAP/EquityStory.

Cost leadership
Market position of a company characterized by a cost edge over its competitors.

CPUC
California Public Utilities Commission, a regulatory authority in the federal state of California, USA, regulating private power, telecommunications, natural gas, water and traffic utility companies. It controls the services and rates charged by companies operating in markets tending towards monopolies.

CSO
Chief Sales Officer

DAX
German Share Index. It is calculated on the basis of the share prices of the 30 German stock corporations with the greatest trading volumes listed in the -> Prime Standard.

Deferred taxes
Deferred taxes result from differences in the tax burden if the tax profit differs from the commercial-law profit due to tax provisions.

Depreciation (for wear and tear)
Presentation of the loss in the value of an asset in terms of its carrying amounts. The purchasing costs of an investment or a fixed asset are written off as an expense over several years.

DGAP/EquityStory
Deutsche Gesellschaft für Ad-hoc-Publizität mbH; takeover of DGAP by EquityStory AG with effect from 9 December 2005.

Directors' dealings
Notifiable stock transactions by members of the Management or Supervisory Board and their partners or relatives. Regulated by section 15a of the -> German Securities Trading Act (WpHG).

Dow Jones STOXX 600
Comprises the 600 largest listed companies in Europe, measured in terms of the capitalization of the -> free float. The index is the European sub-index of the Dow Jones STOXX Global 1800, which comprises the 600 largest listed companies each in Europe, America and Asia/Pacific.

Due diligence
Designates the due diligence with which the contractual object to be bought or sold has to be checked in the run-up to an acquisition. The steps to be implemented in particular in the framework of this process include systematic strength/weakness analyses, sound measurements of the contractual object and an analysis of the risks associated with the contract.

EBIT
Earnings before Interest and Taxes. These operating earnings before interest and taxes are usually used in evaluating the earnings situation of a company, in particular for international comparisons.

EBITDA
Earnings before Interest, Taxes, Depreciation and Amortization. This indicator facilitates international comparisons as it does not include national taxes.

EBT
Earnings Before Taxes.

Employee profit-sharing scheme (GOMAB)
The SolarWorld Group's employee profit-sharing scheme, establishing a profit sharing factor included in the pay structure. This factor is based on earnings by the individual companies and the group.

Equity
Capital invested by the owners (shareholders) and other reserves available to the company.

Equity ratio
Indicator depicting equity as a proportion of the total capital stock. Used to assess the financial strength of a company.

Fair disclosure
Appropriate and consistent disclosure of information.

Free float
Number of shares of an issuer as a proportion of the entire equity not owned by a permanent shareholder.

German Corporate Governance Code
The Code contains recommendations and internationally acknowledged standards of good and responsible corporate management and is anchored in the German Stock Corporation Act via the declaration of compliance pursuant to section 161 of the Act.

GEX
German Entrepreneurial Index. Index for owner-managed companies listed in the Prime Standard whose IPO does not date back more than ten years.

Group profit/loss for the year
Profit or loss for the year from the -> income statement of the entire group.

Income statement
Summary of the revenues and expenses of a company during an accounting period.

Intangible assets
Intangible assets comprise concessions, industrial property rights, licenses, goodwill, patents, etc.

International Financial Reporting Standards (IFRS)
Collection of standards and interpretations listing the rules pertaining to the external reporting of companies listed in the capital market.

Investment
Long-term investment of capital in assets to generate future capital gains.

Investor Protection Enhancement Act (Anlegerschutzverbesserungsgesetz, AnSVG)
German act adopted in order to enhance investor protection and offer

protection against inadmissible market practices, effective since 30 October 2004.

ISO 9001 certification
DIN EN ISO 9001:2000
Internationally recognized standard for quality assurance and quality improvement. International labelling/ standard for certified quality management.

Joint venture
Economic cooperation between companies aimed at taking better advantage of each party's know-how and resources.

Market capitalization (market cap)
Derived from the number of shares multiplied by the share price.

NAI
Natur-Aktien-Index (Nature Stock Index)

Nature-of-Expense Method
The nature of expense method lists all expenses and income for a given period, broken down into the nature of expenses, e.g. the total cost of materials, staff costs and cost of depreciation and amortization, and arrayed against the sales revenues and changes in inventories for the same period.

PPVX
Photon-Photovoltaik-Aktienindex (Photon Photovoltaic Stock Index).

Prepaid expenses/deferred income
Balance sheet items carrying expenses incurred or income received before the closing date (balance sheet date) but allocatable to periods after the balance sheet date.

Prime Standard
Listing segment of the Frankfurt stock exchange for companies meeting particularly stringent international transparency standards. Precondition for admission to DAX, TecDAX, MDAX or SDAX.

Provisions
Balance sheets item carrying amounts for future contingent liabilities which, however, can already be assessed at the present point in time (e.g. for pension costs, taxes).

Quality leadership
Market position of a company characterized by a quality edge over its competitors.

R&D
Research and Development

Risk management
Procedure for the identification, measurement and avoidance/reduction of risks or the implementation of corresponding measures.

Road show
Corporate presentation for local investors or analysts.

Synergy
An effect designed to express the fact that the total resulting from an optimum combination of individual elements is more than the sum of the individual elements.

TecDAX
Comprises the 30 largest technology equities listed in the -> Prime Standard.

Total assets
Total of all assets and liabilities in a -> balance sheet.

UMAG
German Act on Corporate Integrity and the Modernization of Rescission Regulations.
Effective since 1 November 2005

Value added statement
Indicates the values created by a company in the period under review.

Value adjustment
Adjustment item to cover the impairment of a fixed or current asset item carried under assets in the balance sheet, e.g. accounts receivable.

Value chain
Entire product chain covering all processing stages from silicon, the raw material, to cells/modules and on to final customer assembly.

WpAIV
German Securities Trading Notification and Insider Register Regulation. Regulation specifying notification, communication and disclosure obligations and the duty to set up insider registers. Effective since 18 December 2004.

WpHG
German Securities Trading Act.
Effective since 17 June 1995.

Technical glossary

Barrel
Barrel comprising around 159 liters.

Bridgman process
Process for the production of silicon crystals, a primary product for the manufacture of -> wafers and -> (solar) cells.

Cell
(Solar) cells are the centerpiece of solar plants. They generate solar power and are produced in a semiconductor process from -> wafers, the primary product.

CO_2 certificates
Tradable emission certificates entitling the respective companies to emit certain amounts of CO_2 emissions. The total number of certificates issued is fixed on the basis of the emission reduction targets for the respective period. Since the CO_2 certificates can be traded freely, the price is determined by market economy mechanisms of supply and demand. The goal is to obtain an optimum economically efficient distribution of greenhouse gas emissions and to reduce the planned volumes.

Crystallization
Liquids or molten material (e.g. silicon chunks molten at high temperatures) cooling down slowly and under specific conditions solidify in the form of crystals.

EEG
Erneuerbare Energien Gesetz (German Renewable Energies Act). It governs the purchase of and compensation for power exclusively generated from renewable energies (solar power, hydropower, wind power, geothermal energy, biomass energy) by utilities operating universal power supply grids (grid operators). The Act aims to increase the proportion of renewable energies to at least 12.5% by 2010 and at least 20% by 2020.
The EEG does not entail state subsidies for power as is it not funded from taxes but directly via power consumption. The EEG is based on the 'polluter pays principle': those who consume less power pay less (average additional monthly costs per household: around € 1.50)

Feed-in compensation
The compensation fixed by the -> EEG (Renewable Energies Act) for power from renewable energies fed into the public grid. The Act foresees an annual reduction in the compensation by 5%.

Fossil power generation
Power generation from natural gas, crude oil or coal.

Full integration
Establishment and expansion of all stages of the solar value chain, all the way from raw material extraction to finished solar systems, in the company.

Greenhouse gas emissions
Greenhouse gases can have natural or anthropogenic causes. Human-induced emissions of greenhouse gases

reinforce this effect, which may lead to climate change. The key human-induced greenhouse gases are carbon dioxide from the incineration of fossil fuels (around 60%) and methane from agriculture and intensive livestock farming (around 20%).

GW
Acronym for gigawatts. 1 GW = 1,000 MW = 1 billion watts.

HEM (Heat Exchange Method) process
Process for the manufacture of silicon crystals, a primary product for the production of -> wafers and -> (solar) cells.

JSSI process
New patented process for the manufacture of highly-pure -> solar-grade silicon as a primary material for the solar cell industry.

kWh
Acronym for kilowatt hours. One kWh corresponds to 1,000 watts over one hour.

Kyoto Protocol
Effective since 16 February 2005. A supplementary protocol to the UN Framework Convention for Climate Protection (UNFCCC), adopted in 1997. The states that have ratified the Kyoto Protocol aim at reducing their greenhouse gas emissions by an average of 5.2 per cent below 1990 levels by 2012. The various targets for individual countries primarily depend on their economic development. The EU is to achieve a reduction in emissions of 8 per cent.

Module
A (solar) module comprises a multitude of solar cells interconnected in groups with weatherproof sealing behind a glass pane.

Module and inverter technology
Solar cells and modules generate direct current. In order to be able to feed the solar power into the public power grid, it must be converted into alternating current. This conversion is effected by the inverter.

Mono-crystalline
The conditions prevailing during -> crystallization result in the solidification of the silicon in a single large and homogeneous cylindrical crystal.

MW
Acronym for megawatts. 1 MW = 1,000 watts.

n-doped silicon discs
Silicon discs with particularly good conductivity due to selective treatment of negative charge carriers (electrons).

Peak load current
Short-term high demand for power in the power grid. Demand can usually be anticipated as the demand curve over the day is known. Demand reaches its peak from 11:00 a.m. to 3:00 p.m. In order to cover this demand, so-called peak load power stations that provide short-term high power outputs are used. Peak load current is frequently traded at power exchanges, where in individual cases it may cost up to several euros per kilowatt hour.

Photovoltaic
Direct conversion of light into electrical power in a solid -> cell.

Polycrystalline
The conditions prevailing during -> crystallization cause the silicon to solidify in a silicon block consisting of several small crystals which overall does not show a completely homogeneous arrangement of atoms.

Recycling
A process to recycle materials that would otherwise be considered waste in order to produce new products from these materials.

Regenerative
Renewable, recyclable, non-depleting

RGS process (Ribbon Growth on Substrate)
Manufacturing process for silicon discs which does not require a block cutting step – the cast silicon immediately crystallizes into discs by growing a thin silicon ribbon on a substrate directly from the molten mass. The specific advantage of the RGS process over comparable processes is the high throughput speed and the high material yield.

Silane
Gaseous chemical compound comprised of one part of silicon and four parts of hydrogen (SiH4)

(Raw) silicon
The chemical element silicon is the second most frequent element of the earth crust, available in virtually infinite quantities. Raw silicon, the primary material for the silicon trade, is generated from silicon oxide from quartz sand.

Solar Material
Division of Deutsche Solar AG, responsible for the recycling and processing of silicon.

Solar-grade silicon
Silicon with an extremely high purity grade. Higher purity is only used in the electronics industry (e.g. for the production of computer chips); the use of electronic-grade silicon would hardly entail any additional advantages for solar cell production and would be unprofitable.

String
Designation of several solar cells switched in series within a module.

TCVP (Temperature Controlled Volume Process) furnaces
The high-quality -> crystallization of silicon depends on the specific conditions during the cooling stage. So-called TCVP furnaces allow for particularly well-defined temperature control throughout the process.

Thin-layer technology
Alternative production methods for photovoltaic solar elements not based on the established crystalline silicon technology. There are different approaches. All thin-layer technologies account for a world market share of considerably less than 10%.

Tracker
A new technology with which the solar modules can track the sunlight by means of light-controlled systems, resulting in an increase in the solar yield.

UL test instance
Underwriters Laboratories Inc. is an organization established in the US to test and certify products, materials and the safety of such products and materials. Products exported to the US frequently require classifications in accordance with UL rules and standards. Compliance with UL standards is a compulsory prerequisite for access to the US market (in analogy to DIN EN and IEC standards in Europe). Installation or use of products without UL certification may be considered an act of gross negligence in some regions of the US, invalidating insurance claims.

Wafer
Wafers are thin layers (approx. 0.25-0.35 mm thick) of silicon used to manufacture -> (solar) cells.

WTI oil grade
West Texas Intermediate crude oil grade. This is a crude oil variant produced in the USA and traded at NYMEX (New York Mercantile Exchange).

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Consolidated balance sheet

Assets

	31.12.2005 t€	31.12.2004 t€	31.12.2003 t€	31.12.2002 t€	31.12.2001 t€
A. Non-current assets	**219,776**	**184,955**	**174,232**	**154,044**	**112,942**
I. Intangible assets	34,474	34,845	35,263	36,378	25,782
II. Property, plant and equipment	178,445	145,786	130,466	113,788	83,923
III. Financial assets	4,576	607	128	514	919
IV. Deferred taxes	2,281	3,717	8,375	3,364	2,318
B. Current assets	**226,803**	**91,334**	**100,610**	**83,491**	**98,856**
I. Inventories	84,923	46,746	57,289	48,910	36,625
II. Trade accounts receivable	20,790	12,957	18,615	14,409	10,720
III. Tax receivables	492	505	1,986	2,746	1,960
IV. Other receivables and assets	1,877	3,600	2,079	3,461	4,413
V. Marketable securities	22,247	0	11	8	1,120
VI. Liquid funds	95,897	27,036	20,130	13,713	43,472
VII. Prepaid expenses	577	490	500	244	546
	446,579	**276,289**	**274,842**	**237,535**	**211,798**

Liabilities

	31.12.2005 t€	31.12.2004 t€	31.12.2003 t€	31.12.2002 t€	31.12.2001 t€
A. Shareholders' equity	**217,056**	**124,488**	**107,543**	**109,989**	**103,428**
I. Subscribed capital	12,700	5,775	5,775	5,775	4,950
II. Capital reserve	136,792	100,592	100,592	100,592	86,526
III. Translation reserve	-286	-33	97	68	116
IV. Accumulated profit	67,850	18,154	1,079	3,554	11,836
B. Minority Interests	**0**	**0**	**0**	**0**	**13,539**
C. Non-current liabilities	**143,384**	**91,984**	**94,033**	**65,279**	**50,376**
I. Non-current borrowings	54,998	41,737	51,263	36,764	31,385
II. Accrued investment grants	56,477	38,550*	33,552	20,635	12,416
III. Other non-current liabilities	20,416	527	0	0	0
IV. Provisions for pensions	0	0	39	68	35
V. Other non-current provisions	3,537	3,547**	150	0	0
VI. Deferred taxes	7,956	7,623	9,029	7,812	6,540
D. Current liabilities	**86,139**	**59,817**	**73,266**	**62,267**	**44,455**
I. Short-term borrowings	14,613	25,326	52,214	41,745	21,518
II. Trade accounts payable	25,312	14,289	5,858	13,432	18,385
III. Tax payables	24,136	8,148	452	34	840
IV. Current provisions	11,057	8,287	2,425	2,833	1,815
V. Deferred income	205	202	556	99	271
VI. Other current liabilities	10,816	3,565	11,761	4,124	1,626
	446,579	**276,289**	**274,842**	**237,535**	**211,798**

*see note 44
**see note 45

FINANCIAL CALENDAR 2006

24 March 2006	Annual Business Press Conference on financial statements 2005, Bonn Analysts' Conference Accounts 2005, Bonn Annual Report 2005 on SolarWorld-homepage
7 April 2006	Annual Report 2005 as printed version
15 May 2006	Consolidated Interim Report SolarWorld AG First Quarter 2006 on SolarWorld-homepage Analysts' conference call, 3 p.m.
22 May 2006	Consolidated Interim Report SolarWorld AG First Quarter 2006 (01.01-31.03.06) as printed version
24 May 2006	Annual General Meeting, Bonn Location: Internationales Kongresszentrum Bundeshaus ('Wasserwerk'), Bonn
14 August 2006	Consolidated Interim Report SolarWorld AG Second Quarter 2006 on SolarWorld-homepage Analysts' conference call, 3 p.m.
21 August 2006	Consolidated Interim Report SolarWorld AG Second Quarter 2006 (01.01.-30.06.06) as printed version
14 November 2006	Consolidated Interim Report SolarWorld AG Third Quarter 2006 on SolarWorld-homepage Analysts' conference call, 3 p.m.
21 November 2006	Consolidated Interim Report SolarWorld AG Third Quarter 2006 (01.01.-30.09.06) as printed version

The full version of this Annual report is also available in German. Both documents can be downloaded as a pdf file from the internet at www.solarworld.de. These documents, along with the annual financial statements, may be ordered from

SolarWorld AG, Investor Relations Department,
Kurt-Schumacher-Straße 12-14,
D-53113 Bonn,

tel. +49-228-55920-470; fax: +49-228-55920-9470
or via e-mail: placement@solarworld.de

The 2005 individual financial statements of SolarWorld AG can be ordered from the company by shareholders of SolarWorld AG..


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Das Börsen-Journal
GRATULIERT
1. PLATZ IN DER AKTIEN-BUNDESLIGA 2005
KURSGEWINN: 243 PROZENT
SOLARWORLD
THE SUNPOWERED COMPANY®
DR. CHRISTIAN FALSCHLE
CHEFREDAKTEUR

☐ Yes, I would like to use SolarWorld AG's report service and regularly receive

☐ the annual report
☐ the interim reports (quarterly)

☐ In addition, I am interested in product information

To stay constantly informed about the newest developments in our company, you could also subscribe to our newsletter. Just tell us your e-mail address and we will add you to our mailing list.

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Address: .....

Zipcode/city: .....

Country: .....

Freepost
inside
Germany

SolarWorld AG
Investor Relations department
Kurt-Schumacher-Straße 12-14

53113 Bonn/Germany

SolarWorld AG
Kurt-Schumacher-Straße 12-14, D-53113 Bonn
phone: +49-228-55920-0, fax: -99
placement@solarworld.de
www.solarworld.de

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