

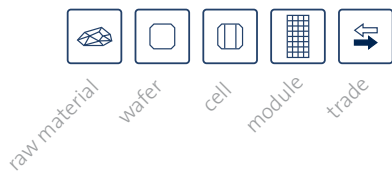
Group Management Report 2006

SolarWorld AG



Responsibility





Selected Corporate Indicators

Income statement figures (in m€)	2006*	2005	Var. in %
Sales	515.2	356.0	+45
EBITDA	223.3	108.3	+106
EBIT	180.7	88.6	+104
Consolidated net profit	130.6	52.0	+151

Balance sheet figures (in m€)	2006*	2005	Var. in %
Total assets	1,004.4	446.6	+125
Non-current assets	362.5	219.8	+65
Current assets	641.9	226.8	+183
Shareholder's equity	597.3	217.1	+175
Liabilities	407.1	229.5	+77

Selected indicators	2006*	2005	Variation
Equity ratio	59.5 %	48.6 %	+10.9 %-Points
Return on equity	21.9 %	23.9 %	-2.0 %-Points
ROCE – Return on capital employed**	21.0 %	25.1 %	-4.1 %-Points
Sales return	25.3 %	14.6 %	+10.7 %-Points
Cash ratio***	2.3	1.4	+0.9

Employee indicators	2006*	2005	Var. in %
No. of employees per 31.12.	1,348	759	+78
Sales per capita (in t€)	382	469	-19
EBIT per capita (in t€)	134	117	+15
Personnel cost ratio	10.5 %	10.2 %	+0.3 %-Points

* incl. consolidated solar Shell activities

** EBIT/(Total assets – deferred taxes – current liabilities) x 100

*** (Liquid funds + marketable securities)/current liabilities

SolarWorld Stock Indicators*

ISIN (International Securities Identification Number) DE0005108401//

WKN (Wertpapier-Kenn-Nummer) 510840

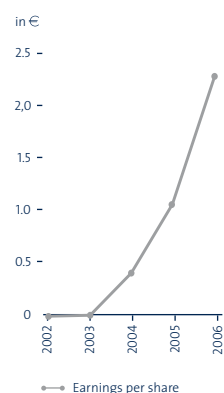
Prime Standard/TecDAX	2006**	2005**
Number of shares	55.86 m	12.7 m
Market capitalisation	2.7 b€	1.4 b€
Trade volume (12 months)	10.3 b€	4.2 b€
Position in TecDAX	1	4
Earnings per share	2.34 €	1.02 €
Dividend per share	0.20 €***	0.13 €
Opening price at beginning of year	28.00 €	8.31 €
Closing price at year-end	47.60 €	28.25 €
Development in per cent	+70%	+240%

* as of the reference date 31 Dec.

** adjusted to the issue of bonus shares in 2005 (1:1) and in 2006 (1:3)

*** Dividend proposal to AGM 2007

Earnings per share (EPS)

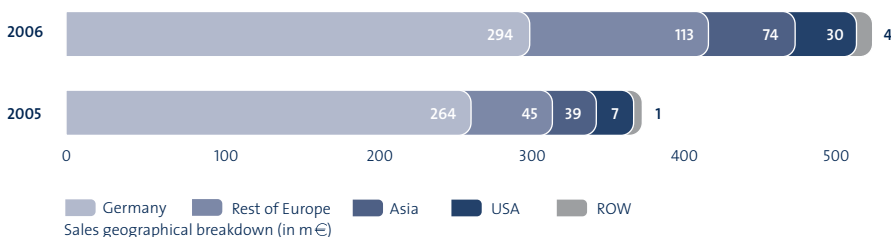


Quarterly Comparison of the Consolidated Income Statements

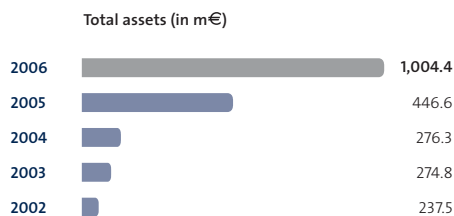
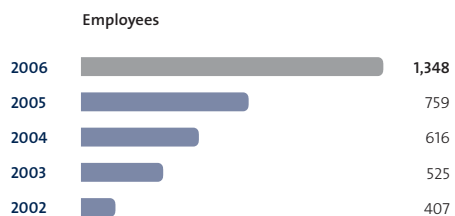
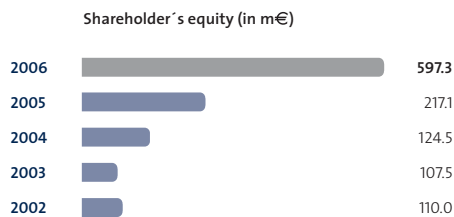
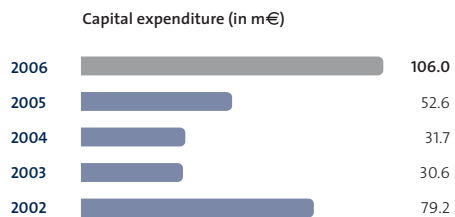
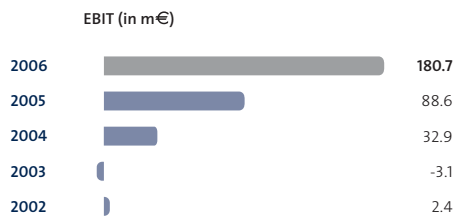
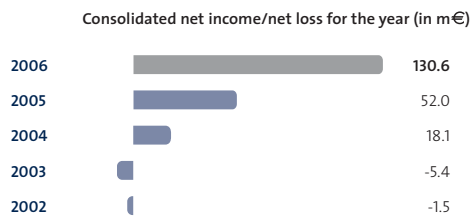
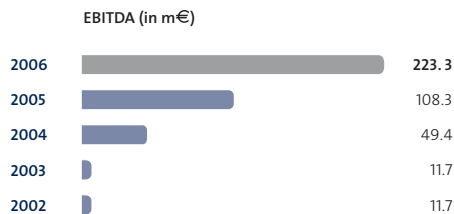
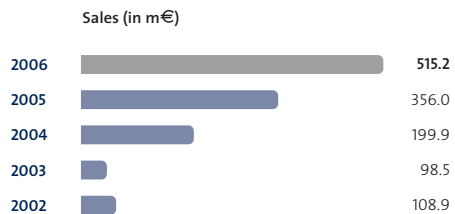
in t€	Q1 2006	Q2 2006	Q3 2006*	Q4 2006*
Sales revenues	83,224	101,342	141,981	188,699
Change in inventories of finished goods	9,305	-5,065	32,332	-4,026
Own work capitalised	0	4	0	586
Other operating income	3,926	4,951	68,596	20,580
Cost of material	-43,472	-34,455	-101,979	-124,102
Staff costs	-10,803	-11,836	-19,054	-16,093
Depreciation and amortization	-5,619	-5,909	-21,027	-10,057
Other operating expenses	-9,757	-11,005	-23,440	-17,104
Operating result	26,804	38,027	77,409	38,483
Net financial income	-270	108	-714	1,118
Earnings before taxes on income	26,534	38,135	76,695	39,601
Income taxes	-10,015	-14,568	-13,379	-12,437
Consolidated net profit/loss	16,519	23,567	63,316	27,164

* incl. consolidated solar Shell activities

Sales geographical breakdown




Indicators development in a 5-year period



Legend

 >>> Jump marks



Profile  >>> *Cross reference to pages in Management Report

www.solarworld.de  >>> Reference to further information on Internet

capital expenditure/depreciation x 100 l >>> Definition

What distinguishes us is of lasting value!

Profile 2006: SolarWorld AG is one of the three world leaders in solar power today. We produce the entire spectrum of modern solar power technology from a single source. This is our consistent strategy and it spells strength in an international comparison. In 2006 we continued to expand our production capacity from raw material to finished module. Today some 1,350 employees work for us at our nine locations worldwide. The year 2006 was characterized by the integration process of the new companies. We again had to and were indeed able to provide evidence of our power of implementation: Production at the new locations went up and our sales team completed its international network. We increased the sales volume generated outside Germany to about 43 per cent. The substance of our businesses is illustrated by our equity ratio of 60 per cent. We exceeded our double digit sales and profit forecasts. We have thus laid the foundation for further growth.

And we manage all that on the basis of a sustainable and climate-friendly business model.

PROFILE		RESPONSIBILITY	STRENGTH	SUBSTANCE
INDICATORS	PROFILE	LETTER BY THE CHAIRMAN REPORT BY THE SUPERVISORY BOARD	I. BUSINESS AND FRAMEWORK CONDITIONS	II. EARNINGS, FINANCIAL AND ASSET SITUATION

Our strategic success factors

Responsibility

Climate-friendly business model with sustainable production

Strength

Fully integrated photovoltaic production at all stages



Substance

Long-term value increase by high earnings power

Advantage

Efficiency and quality standards via integrated research and development

Performance

Powerful ability to implement market goals

INDICATORS	
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High Quality

Responsibility

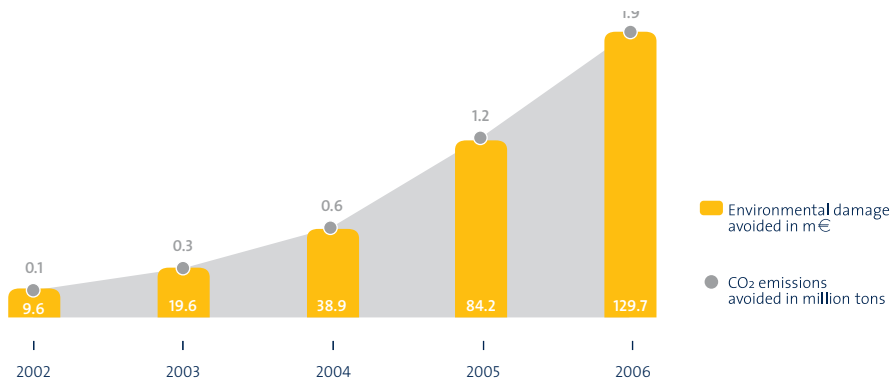


Photovoltaic Modules



Climate-friendly business model with sustainable value creation:
The use of solar power technology counteracts climate change and prevents CO₂ emissions from escaping into the atmosphere. Our SolarWorld modules sold from 2002 to 2006 help avoid environmental damage amounting to 282 million € over their entire life span.







Frank H. Asbeck
Dipl.-Ing.

Chief Executive Officer/
CEO

LETTER BY THE CHAIRMAN

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

I would like to begin this year's letter with a special appeal to you and indeed all of us: Our entire responsibility must be dedicated to preserving creation on our planet. We must all face up to this biggest challenge at the start of the 21st century caused by climate change. Lip service and expressions of shock are not sufficient. Our children and grand children are entitled to expect from each and every one of us that here and now we do not only change our thinking but also our actions.

While I have been building up SolarWorld AG I have personally had the feeling of being exposed to this challenge. We have always based our entrepreneurial actions on a simple formula:

**Technology for power generation from the sun
+ continuous cost reduction to attain competitiveness of solar power**

= infinitely available clean power.

This formula already promises a positive result for the simple reason that it has to be seen against the background of an immensely rising energy demand worldwide, the threat of the climate change, the finiteness of the fossil energy sources and the resulting distribution struggles for the energy reserves of the world. Today we are standing at the threshold of a new energy age with this formula, or rather with our vision. After the "IPCC Report on Climate Change 2007" and the Stern study dating from October 2006 the world public has entered into a new process of perception with increasing pressure for action in view of the climate change. The renewable energies are finding increasing acceptance worldwide as the alternative direction in energy policy.

The year 2006 was strategically all the more outstanding for us: We secured our top position in the world solar market by acquiring the Shell solar activities. We improved our position in new markets like the USA and Asia. Our SolarWorld has once again shown power and strength in implementing its targets. Our employees have again provided evidence of their readiness to perform and their team spirit. The openness right across all borders could be felt throughout. My respect and thanks to all employees at this point!

Our customers should again feel our commitment in 2006. Our relevant motto is that our growing structures must not impair the satisfaction of our customers. This is something we were also able to ensure last year. We have gained many new customers internationally. The trust of our customers is a valuable asset for our future.

The substance of our business is also reflected by the financial targets we reached in 2006. In terms of sales and earnings we were able to grow by more than 40 per cent as forecast; including non-operational special effects we even increased our result by 151 per cent. Our shareholders could also be happy about an excellent stock price development of 70 per cent plus; this meant that our stock again outperformed all indices.

Surely you will now ask yourself: What is our promise for the future? My answer is: What would SolarWorld be without its consistent and recognised dedication to the further development of solar power technology? After just two months we are again proving our growth tempo and our strength of implementation with the purchase of a modern production building in the USA. Our strong capital base which we substantially improved in 2006 gives us the necessary leeway for further investments. Following our vision we want to continue to grow and make solar power competitive at the power socket price.

Yet, my personal ambition goes even further: SolarWorld is to stand as a synonym for a solution against the progressive climate change – ecologically clean, economically profitable and socially compatible!

In conclusion let me follow on the comments that I made last year:
The future is exciting. I am looking forward to sharing it with you!

With sunny greetings,



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



Board of Management of SolarWorld AG

Dipl.-Ing. Frank H. Asbeck
Chairman and
Chief Executive Officer/CEO

Born in 1959
Founder of the company, and
Chief Executive Officer since 1998
Responsible for Group Development,
Corporate Information, Energy and
Environment Policy

Dipl.-Kfm. tech. Philipp Koecke
Chief Financial Officer/CFO

Born in 1971
Member of Board of Management
since 2003
Responsible for Finance and Capital
Market Communication



Dipl.-Ing. Boris Klebensberger
Chief Operating Officer/COO

Dipl.-WirtschaftsIng. Frank Henn
Chief Sales Officer/CSO

Born in 1969
Member of Board of Management
since 2001
Responsible for operating business
and for the international interest
holdings of the Group

Born in 1965
Member of Board of Management
since 2004
Responsible for national and
international sales



Dr. Claus Recktenwald

Chairman of the
Supervisory Board

REPORT BY THE SUPERVISORY BOARD

The purpose of this report by the Supervisory Board of SolarWorld AG is to provide information on its activities in fiscal year 2006. It is again taking on additional reporting responsibilities on a voluntary basis, in keeping with its policy of disclosing the complete minutes of all Supervisory Board meetings to the auditors in 2006.

The Supervisory Board was last elected at the Annual General Meeting of 27 May 2003. In the year under review, it once again fulfilled its duties in accordance with the relevant legislation and internal rules. It maintained a continuous dialogue with the Board of Management, advised it on the management of the company, and otherwise supervised company management. At the same time, the Supervisory Board also reviewed its own efficiency.

The Supervisory Board was directly involved in all decision making processes of major importance to the company. The Board of Management informed it regularly both in writing and verbally, in a timely and comprehensive manner, on all relevant matters of corporate planning and strategic development, on the earnings, assets and financial situation, and on current business policy and implementation of risk management.

In fiscal year 2006 the Supervisory Board had eight formal meetings, four of which were ordinary quarterly meetings; the meetings were held on 24 January, 7 February, 20 February, 16 March, 4 June, 22 August, 16 October and 22 December 2006. It also met the Board of Management in working sessions for discussion of project and Group related matters, for specific adoption of resolutions, and also for various consultations.

In 2006, a particularly important influence on the work of the Supervisory Board of SolarWorld AG was the acquisition and integration of silicon based solar activities of the Shell Group. The Supervisory Board approved acquisition of these activities at its meeting of 24 January 2006, with participation of all relevant advisers and members of the Board of Management. It also maintained close contact in the context of the merger control review conducted by the Federal Cartel Office. Other key issues in the work of the Supervisory Board were capital increase and capital procurement activities, joint and mutual financing within the Group, activities to ensure security of raw material supplies and own silicon production, technical innovations in the production chain right up to the level of photovoltaic systems, involvement in research and development projects, and consultation and dialogue with the auditors. Supervisory Board meetings also dealt with "good governance" as defined by the German Corporate Governance Code, and human resources issues including

discussions of compensation. Exchanges with the Board of Management were at all times constructive, focused and transparent. The same applies to the relationship of the individual Supervisory Board members with one another. All necessary resolutions were adopted, and opinions were successfully formed and policies adopted with the Board of Management.

The recommendations of the German Corporate Governance Code, in its current version of 12 June 2006, were fully met by the Supervisory Board. It reaffirmed its declaration of compliance of 4 June 2006 at the balance sheet meeting of 15 March 2007, both for the year ended 2006 and for the new fiscal year 2007, and disclosed it to all stockholders pursuant to Section 161 of the Joint Stock Companies Act (AktG):

“The Supervisory Board has complied with and continues to comply with the recommendations of the ‘Government Commission on the German Corporate Governance Code’ published by the Federal Justice Minister in the official part of the Electronic Federal Gazette, insofar as these are applicable to it. With respect to individualisation of compensation to the Board of Management, this is implemented starting from the Notes to the 2006 Financial Statements.”

The Board of Management of SolarWorld AG has made a corresponding declaration in line with the German Corporate Governance Code, and pursuant to Section 161 AktG. The Supervisory Board continues to hold the view that current disclosure of total compensation – also individually specified – is sufficient, providing adequate proof of reasonableness and meeting the requirements of the International Financial Reporting Standards (IFRS), which are exclusively applicable for the Group financial statements; it also notes that there is no company interest requiring further individual specification. The official bodies of the company satisfy all the relevant requirements of legislation, of the German Corporate Governance Code, and of stipulations by the Annual General Meeting. The Section “Corporate Governance Report” of this Group Management Report 2006 gives all the relevant details on compensation to the Board of Management and to the Supervisory Board, and on implementation of the German Corporate Governance Code (DCGK) in all other respects.

The disclosure and reporting duties of the Board of Management have been specified and implemented in consultation with the Supervisory Board in such a way that regular Board of Management meetings are held, and the Supervisory Board members are informed of these in advance, with communication of the agenda in writing, and subsequently receive the minutes of these meetings, as specified in Art. 3.4 DCGK. The entire Supervisory Board also satisfies the criteria of independence specified in Art. 5.4.2 DCGK. A formal declaration of independence has been given by the auditors, BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Bonn, as specified in Art. 7.2.1 DCGK. A report to this effect was submitted to the Supervisory Board both this year in preparation of the proposal for election as auditors for the annual financial statements, and for the Group financial statements to 31 December 2007, and also with a letter of 10 March 2006, effective up to 31 December 2006. BDO was mandated by the Supervisory Board with effect from 31 December 2006 as auditor for 2006, to audit the accounts, the annual financial statements and the management report, and also to audit the Group financial statements and Group Management Report prepared by SolarWorld AG in accordance with IFRS. The unqualified auditor’s certificate was granted, including the companies associated with SolarWorld AG. There were likewise no objections with respect to the accounts, annual financial statements and management report of SolarWorld AG.

The unqualified certificate of approval of the auditing company was given on 6 March 2007. Following discussion with the auditors on 15 March 2007, which was preceded by a mandate meeting on 11 February 2007 and a final discussion on 21 February 2007, in each case at the premises of BDO with the CFO, CEO and tax consultants of SolarWorld AG, the Supervisory Board took note with approval of the auditors' report and the audit result.

No objections arose from the inspection conducted by the Supervisory Board itself of the annual financial statements and management report of SolarWorld AG, or of the Group financial statements and Group management report. Details were discussed in a final meeting on 15 March 2007, again with participation of the other participants of the final meeting of 21 February 2007. No further examination was necessary, as there were no doubts as to the correctness of the results found by the auditors, and the auditors did not themselves point out any specific matters which might have led to a differing view on the part of the Supervisory Board.

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

As in the previous year, the Board of Management and all employees of SolarWorld AG have again done an excellent job. The Supervisory Board wishes to express its respect, thanks and acknowledgements to all employees and the managements of the subsidiaries of SolarWorld AG in Germany and abroad.

Bonn, 20 March 2007

For the Supervisory Board:



(Dr. Claus Recktenwald)
Chairman



Members of the Supervisory Board of SolarWorld AG

Dr. Georg Gansen Deputy Chairman

Born 1959
Attorney, Legal Adviser Deutsche
Post AG, Bonn

Other Supervisory Board mandates:

Deputy Chairman of Supervisory
Board of Solarparc AG, Bonn
Deputy Chairman of Supervisory
Board of Deutsche Solar AG,
Freiberg

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

Born 1966
Partner in CMS Hasche Sigle,
Law and Tax Consultant Firm,
Cologne

Other Supervisory Board mandates:

Member of Supervisory Board of
Solarparc AG, Bonn

Dr. Claus Recktenwald Chairman

Born 1959
Attorney/Partner in Law Firm
Schmitz Knoth Wüllrich
Marquardt, Bonn/Cologne/Berlin

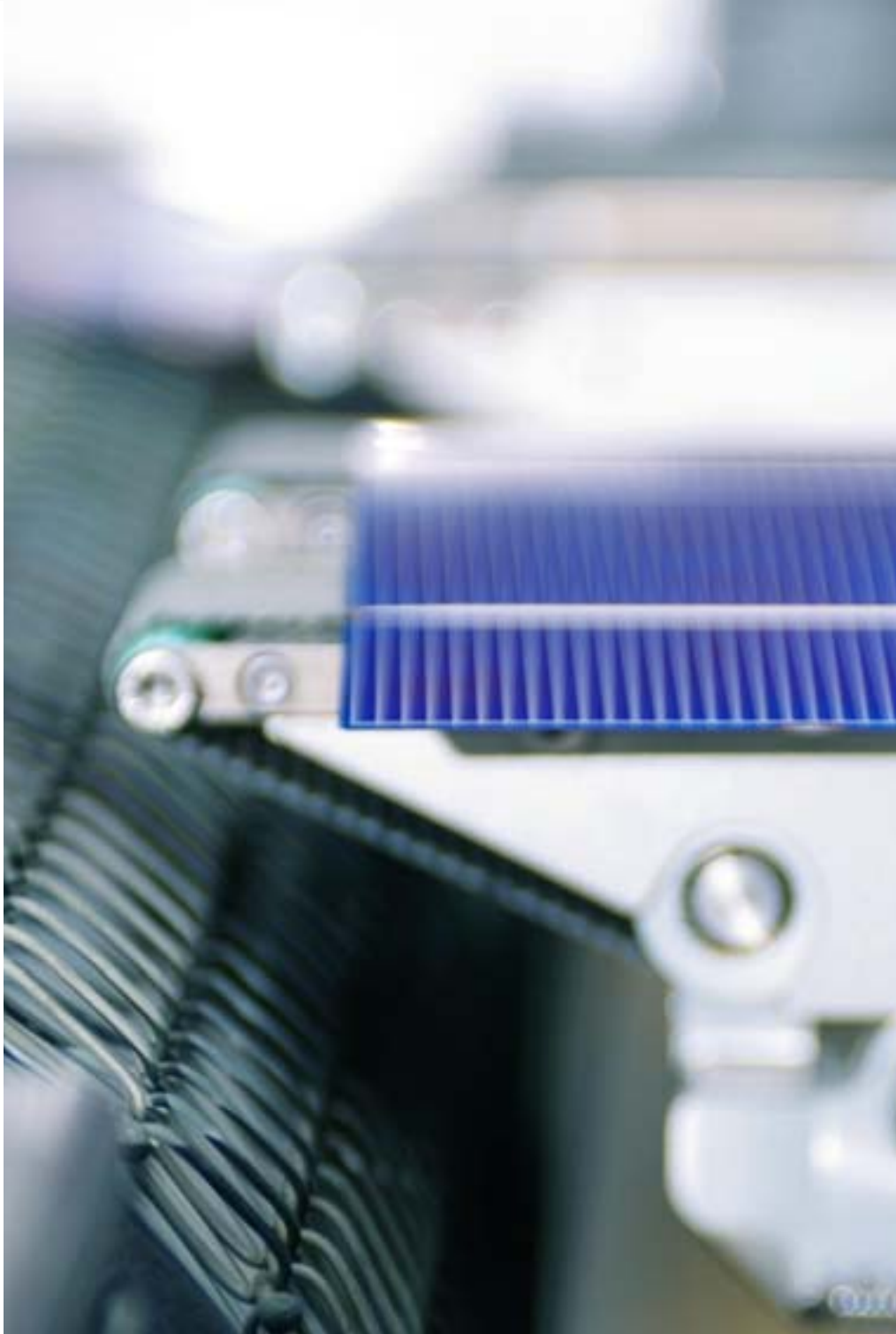
Other Supervisory Board mandates:

Supervisory Board Chairman of
Solarparc AG, Bonn
Deputy Chairman of Supervisory
Board of Deutsche Solar AG,
Freiberg
Member of Supervisory Board of
VEMAG Verlags- und Medien
Aktiengesellschaft, Cologne



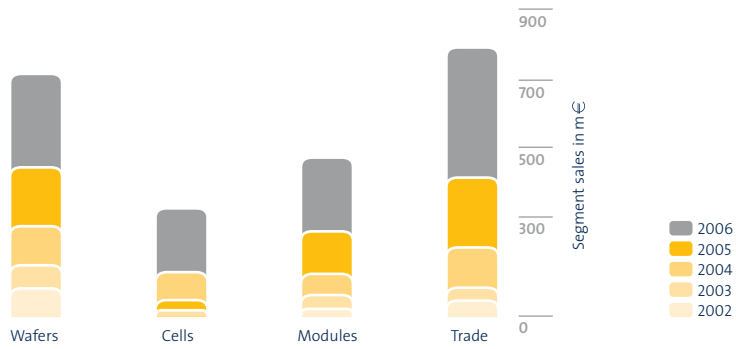
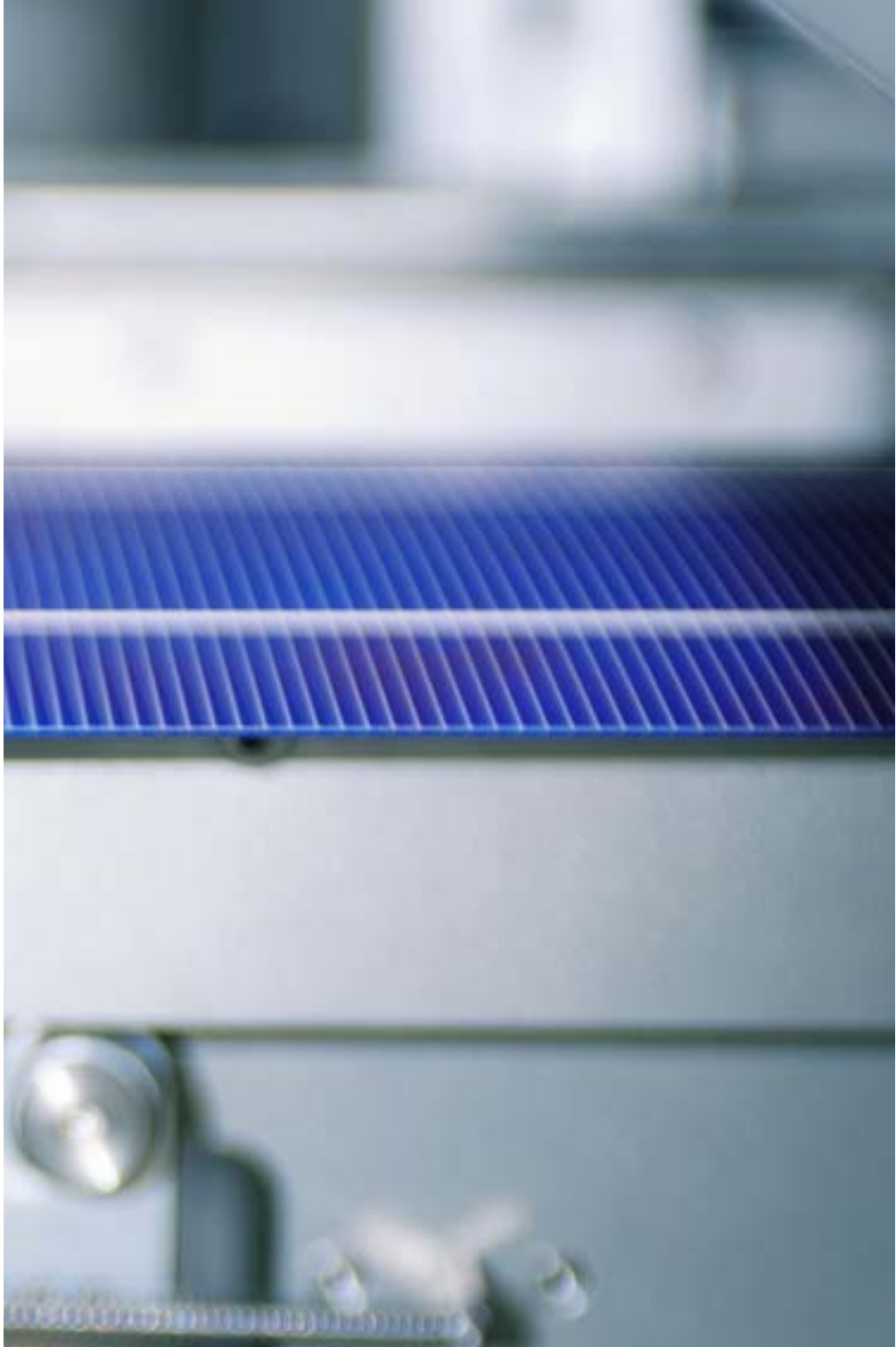
Strength





Full solar integration along the entire value chain: From this we generate a clear competitive advantage! “Everything from a single source” means that processes and products and thus quality and costs can be actively controlled and optimized in every stage of production.





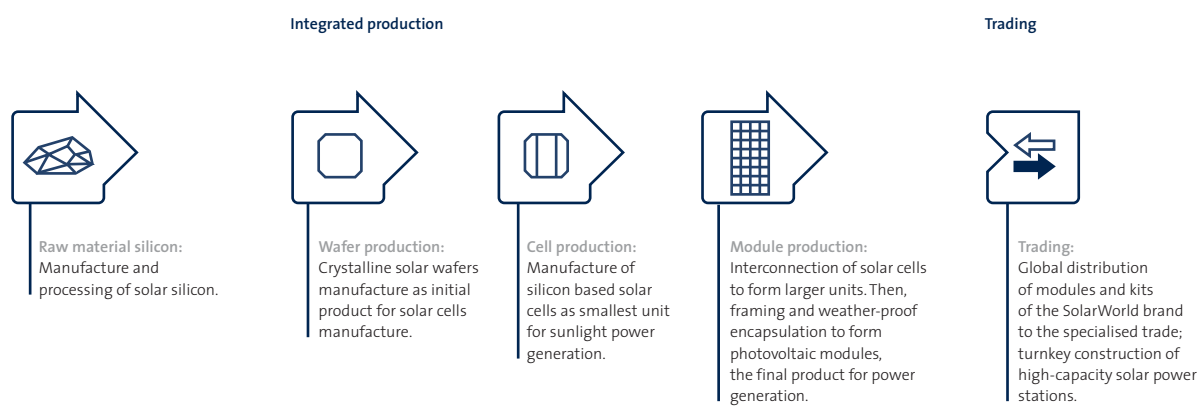
I.-VI. GROUP MANAGEMENT REPORT

I. BUSINESS AND FRAMEWORK CONDITIONS

1.1. Group structure and business activities

1.1.1 Business areas and organisational structure

Integrated business model. As a company with complete vertical integration, we have activities at all value stages of the solar power technology business. Our business is global. Our production serves for internal procurement, and in individual segments also for external sales.

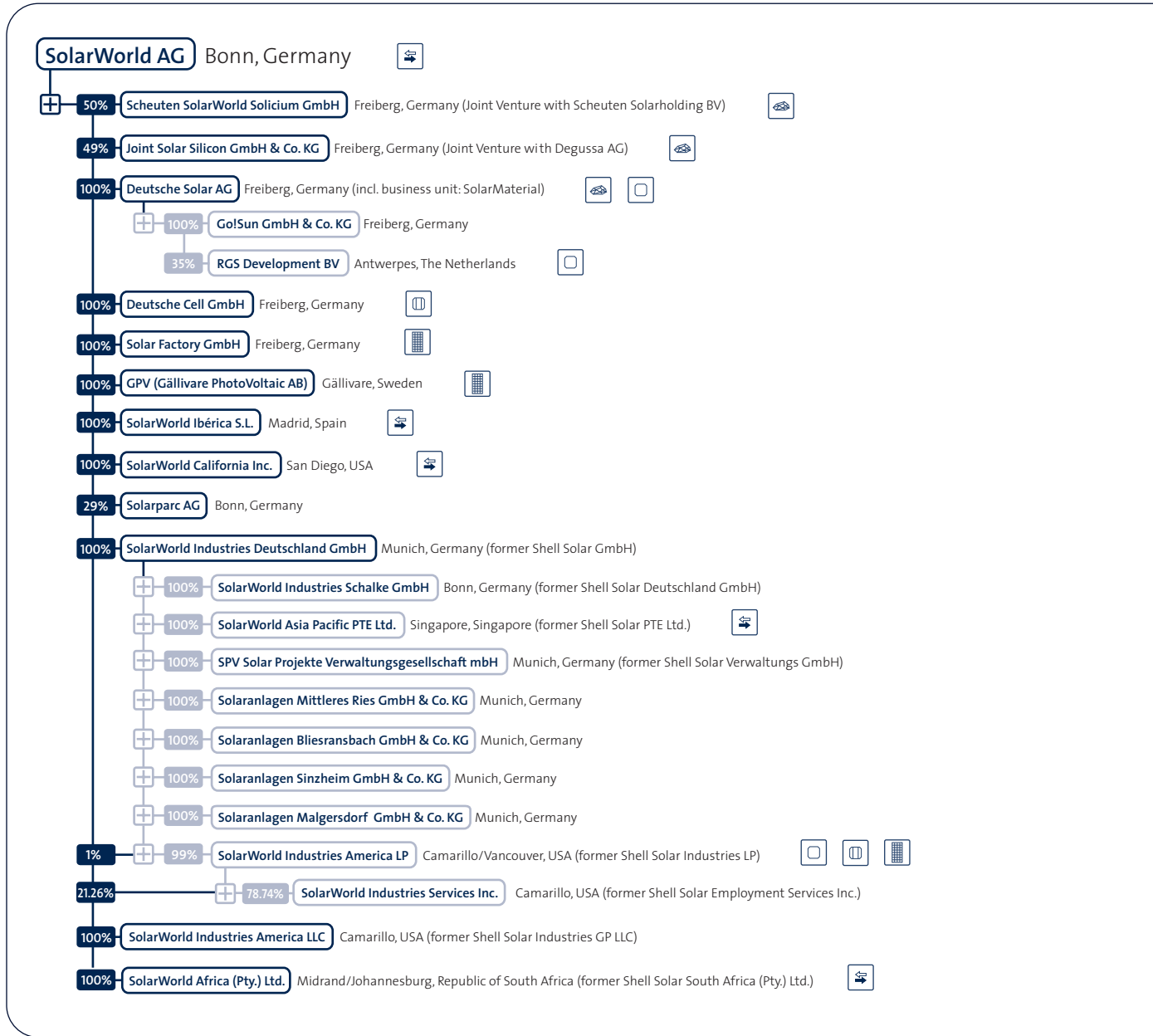


The raw materials division is not shown as an independent segment in the consolidated Group balance sheet, because of its size. The revenues and earnings of the SolarMaterial division are reflected in the financial statements of Deutsche Solar AG. The earnings of the joint venture Joint Solar Silicon GmbH & Co. KG and Scheuten SolarWorld Solicium GmbH are shown in the financial statement of SolarWorld AG with balance sheet recognition at equity.

1.2 Legal Group structure

Group holding company SolarWorld AG. SolarWorld Aktiengesellschaft, based in Bonn, is the parent company of the SolarWorld Group, and at the same time it is the company responsible for the operational trading business in modules and kits. The shares of SolarWorld AG are listed on the regulated market of the Frankfurt stock exchange (Prime Standard/TecDAX). The Group is managed by the Board of Management of SolarWorld AG. The structure of the Group in terms of company law has changed versus the previous year as a result of acquisitions.

A share deal was realised, taking effect on 1 July 2006, for acquisition of the solar division of the Shell Royal Dutch Group with companies in Germany, South Africa, Asia and the USA. The respective companies were acquired from Shell Erneuerbare Energien GmbH in Hamburg, Germany; Shell Oil Co., Houston/Texas, USA; and Shell Overseas Investments B.V., Den Haag/Netherlands, and integrated into the Group structure of SolarWorld AG.

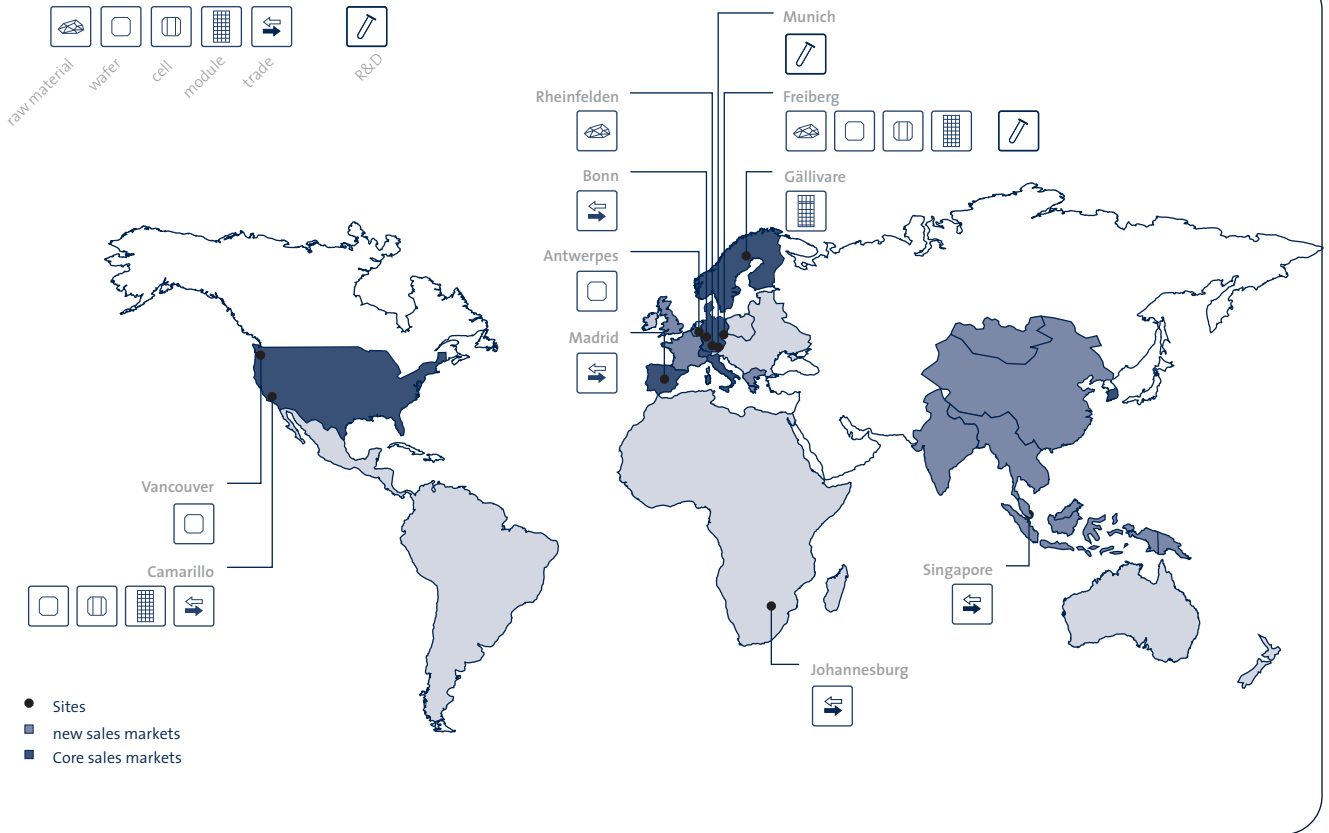


Further alliances. With effect from 7 December 2006, SolarWorld AG launched a joint venture with Scheuten Solar Holding BV (Netherlands), with equal share holding by both of these companies. Scheuten SolarWorld Solicium GmbH, based in Freiberg, Germany, was set up for implementation of this joint venture. With effect from 4 April 2006, SolarWorld AG took a 29 per cent interest holding in Solarparc AG by way of exchange of share certificates.

The other interest holdings remain unchanged as shown in the Group Report 2005.*

87, 93, 106 Notes/Consolidated Companies; Shares measured at equity

1.3 Worldwide sites



Germany. The headquarters of the company and the location of the Holding is Bonn. This is where SolarWorld AG was founded in 1998, and this is where international marketing is controlled. The integrated production site at Freiberg/Saxony is located in a traditional mining and silicon region. Freiberg is close to the Mining Academy, so it can draw on skilled manpower resources, which gives added value for our research and development centre here. This location also gives benefits within the Group as a result of the very good subsidy conditions in the Eastern Laender of Germany.

Europe. Our module production plant in Gällivare, Northern Sweden, manufactures for international marketing, and serves the growing Northern European market directly, due to its geographic position. The second-largest European solar market is Spain, which is served directly via our sales office in Madrid, ensuring that we are very close to customers there.

USA and Rest of World. The site in Vancouver, Washington state, is the crystallisation location for our US production. This site has a major location benefit for the crystallisation process, which requires a great deal of energy input, due to the enormous hydro-electric resources available there at relatively low prices. That is one of the reasons why the semiconductor industry with its crystal growing companies has settled in this region.

Our integrated production and distribution site in Camarillo, California, has accumulated more than 20 years of know-how in this industry. California is regarded as the “Think Tank” of the United States, with a wide range of highly skilled people, and with innovative experience in photovoltaic technology. The logistics here are arranged so that our products go from there both to the United States and to the Asia-Pacific region. Our distribution office in Singapore serves the customers in the Asia-Pacific market, while our marketing team in Johannesburg, South Africa, looks after the African solar market.

1.4 Key sales markets and competitive position

The acquisition of crystalline solar activities from Shell means that in fiscal year 2006 we have further improved our position as one of the world’s largest photovoltaic manufacturers. Our Group international quota based on revenues was 42.9 (previous year: 25.8) per cent.

The main sales markets in the trading business in 2006 were the operating core markets Germany, Spain and the USA. The international quota in trading business was increased in 2006 to some 35 (previous year: 10) per cent. We have an excellent competitive position in Germany, due to the longstanding, dependable relations with our customers in wholesale and specialist wholesale. We achieved further growth here in 2006, with a market share of about 12 (previous year: about 10) per cent. In Spain we succeeded in more than doubling our business compared with the previous year, and in 2006 we were among the largest non-Spanish suppliers. In the United States, we benefit from trading relations with our target group, distributors and system integrators*, which were already established by the companies we acquired there. In the United States market, we have also advanced to become one of the two largest manufacturing photovoltaic groups. We achieved a market share of more than 10 per cent in this area, starting from nothing. Apart from the grid-coupled applications, SolarWorld California is also active in the off-grid business in the United States and in Central and South America.

In the Scandinavian markets, our Swedish module subsidiary GPV is the market leader in grid-coupled applications. GPV succeeded in multiplying its sales by four versus 2005. We were able to improve our market position in other markets such as South-East Asia, whereby the main market here is in off-grid business. South Korea was one of the few grid-coupled solar markets in Asia, and was one of our sales markets again in 2006. In South Africa we were able to integrate the former Shell office to prepare the way for our future business there.

Our subsidiary Deutsche Solar AG is one of the world’s largest producers of mono- and polycrystalline silicon wafers worldwide. In parallel to its contribution to the Group’s own silicon production, Deutsche Solar AG also sells about 50 per cent of its production to external customers in Europe, Asia and the USA (export quota 2005: about 40 per cent). Throughout the Group we established a leading competitive position in the wafer business in the past few years, building a market share of about 14 per cent.

1.5 Legal and economic influencing factors

The demand for photovoltaic technology and thus the development of our Group business is influenced by the price development of fossil fuels. The competitive position of renewable energies improved again in 2006 due to increased oil, coal and gas prices. Short- to medium-term public subsidies are also a key factor in competitiveness and market penetration of solar energy. They provide support to the development of our business in the individual markets.

Country	Public subsidies having an impact	Status 2006	Market goals
Germany	"Renewable Energies Act". In force since 2000, amended 2004	<ul style="list-style-type: none"> > Fixed feed-in compensation with 20 year guarantee > 5 per cent or 6.5 per cent decline in compensation p.a., depending on plant type 	25 per cent of power demand to be met by renewables by 2020
Spain	"Real Decreto 436/2004". In force since 2004, amended July 2006 To be amended in 2007	<ul style="list-style-type: none"> > Fixed feed-in compensation with 25 year guarantee > Adjustment to inflation rate > Law is in a transitional phase, but the government has indicated that there will be improved subsidy 	400 MW installed photovoltaic output by 2010, but 400 MW cap currently in discussion
USA	Nationwide: "Federal Energy Policy Act". In force since 2005 California: "California Solar Initiative" and "Solar Bill 1". In force since 2007; 2006 regarded as transitional phase Other states also adopted new legislation in 2006: New Jersey, Arizona, Pennsylvania, Nevada, etc.	<ul style="list-style-type: none"> > 30 per cent tax concession for installation of photovoltaic systems up to the end of 2007 > Fixed feed-in compensation for systems larger than 100 kW > Investment cost subsidies for smaller systems > Programs vary from one state to another > Investment cost grants > Quota system 	3 GW solar power by 2017 All in all, about 4 GW installed photovoltaic output by 2021
Italy	"Conto Energia". In force since 2005	<ul style="list-style-type: none"> > Fixed feed-in compensation with 20 year guarantee > 5 per cent decline p.a. > Adjustment to inflation rate > Maximum: 80 MW p.a. 	1,000 MW installed photovoltaic output by 2015
France	"Décret n° 2000-1196". In force since 2000, amended in July 2006 Additional regional subsidy programs Tax concessions	<ul style="list-style-type: none"> > Fixed feed-in compensation with 20 year guarantee > Limit of 1,500 full-load hours per kW 	21 per cent of power demand to be covered by renewable energies by 2010
Greece	Law "3468" for renewable energies. In force since 2006	<ul style="list-style-type: none"> > Fixed feed-in compensation with 10 year guarantee > Guarantee may be extended for a further 10 years > Adjustment to inflation rate 	700 MW installed photovoltaic output by 2020 as minimum goal
South Korea	Feed-in compensation Act. In force since 2002 100,000 roof program. In force since 2004	<ul style="list-style-type: none"> > Fixed feed-in compensation with 15 year guarantee > Investment cost grants up to 70 per cent; alternatively, subsidies from USD 10,000 to 15,000 	1.3 GW photovoltaic output by 2012

1.6 Key products, services and business processes

Crystalline solar products. As a dedicated solar group, we supply exclusively products for solar power production (photovoltaic). Our mono- and polycrystalline solar wafers, of the brands Solsix multi® and Solsix mono®, are produced in all the usual market formats. In the solar materials sector, we offer recycling of used solar modules (also for third-party products) and re-processing of silicon material from the semi-conductor activities of external clients.

In fiscal year 2006 we further improved our polycrystalline modules by the use of solar cells from Deutsche Cell GmbH with a new surface treatment (texturing). The improved efficiency of these textured cells from internal Group manufacture meant that we were also able to achieve higher outputs from the modules.

In trading business, we offer modules for grid-coupled and off-grid photovoltaic power generating, and complete photovoltaic systems for decentralised and central power production. Our grid-coupled solar products feature the solar quality modules of the Sunmodules® brand, in the output class up to 230 Watts, and customised kits of the Sunkits® brand. We responded early to regulatory changes, and integrated new DC isolating switches and frame and assembly systems of the Sunfix® brand into the systems. Our Suncable® brand is used for the DC cables, with improved durability and temperature resistance.

In 2006 we made preparations for our “global module” and obtained the relevant certifications. The planned changeover in the new fiscal year 2007 means that modules for power applications will be available at all production sites, meeting the three central, worldwide applicable standards IEC 61215, UL 1703 and Safety Class II for grid-coupled solar power modules. For off-grid rural applications we have taken new modules into our product range, rated at 25, 40, 50 and 80 W, with outsourced production.

Our products and services also include turnkey construction of large solar power stations. In 2006 we also introduced the sun-tracking photovoltaic system Suntrac®, which gives a yield increase of up to 45 per cent.

We have also introduced a roof integration solution under the Energiedach® brand, where unframed solar laminates are installed in the roof and thus directly constitute the roof skin.

I. 2. Corporate governance report



Unqualified declaration of compliance by the Board of Management and the Supervisory Board. Corporate governance has always been a top priority in our company. Responsible corporate management, ensuring a sustainable increase in the value of our company, forms the basis of our corporate strategy. The Board of Management and the Supervisory Board have traditionally cooperated closely in a spirit of trust in our company. We maintain open and transparent communication with our shareholders.

In the fiscal year under review, the Board of Management submitted its declaration of compliance on 26 May, and the Supervisory Board on 4 June 2006. As stated in these declarations, the recommendations of the German Corporate Governance Code in its version of

12 June 2006 are fully complied with. Since the adoption of the Code in February 2002, we have published our declaration of compliance annually both in our annual report and on our website, where the declarations of compliance of previous years can also be electronically retrieved. With the completion of the 2006 fiscal year, we will report on our compensation system pursuant to section 4.2.5 of the Code in this chapter of our Group management report.

On 15 March 2007, both the Board of Management and the Supervisory Board at its meeting, convened for the adoption of the annual financial statements, adopted and issued the declaration of compliance* pursuant to section 161 of the German Stock Corporation Act for the completed 2006 fiscal year and the new 2007 fiscal year.

[www.solarworld.de/
investorrelations/
corporategovernance](http://www.solarworld.de/investorrelations/corporategovernance)

Management and supervision. SolarWorld AG is a German stock corporation with a dual management and control structure.

The members of the Board of Management of SolarWorld AG, appointed by the Supervisory Board, are responsible for managing the company in accordance with 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 is responsible for representing the company. As before, the Board of Management* of SolarWorld AG comprised four members at the end of the 2006 fiscal year. The division of responsibilities was retained unamended after the acquisition of Shell's silicon-based solar activities. In our Group's operative business units, the board members and managing directors of the individual subsidiaries are responsible for the operative implementation of the strategic alignment developed by the Board of Management of SolarWorld in agreement with the Supervisory Board.

Notes/
Board of Management and
Supervisory Board  118

The Supervisory Board advises and oversees the Board of Management of SolarWorld. 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 (AGM) of 27 May 2003. Their term of office will end at the AGM that decides about the ratification of the acts of the Supervisory Board for the 2007 fiscal year. The Supervisory Board reports about its activities in the completed fiscal year in the section 'Report by the Supervisory Board'.

In the framework of the Annual General Meeting held on 24 May 2007, our shareholders can exercise their rights and their votes. They have the opportunity to have their votes 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. As required under the new German Law on Corporate Integrity and the Modernisation of the Right to Rescission (UMAG), we amended our articles of association at the last Annual General Meeting to adjust the registration and legitimisation procedure for the Annual General Meeting*.

[www.solarworld.de/
AGM2007](http://www.solarworld.de/AGM2007)

High transparency. In providing information, we follow the principle of fair disclosure, treating all shareholders equally. We provide regular interim reports, both in German and English, outlining our business trend and market developments. Our Board of Management swiftly creates corresponding internal structures in order to ensure the smooth implementation of and compliance with laws and disclosure requirements under capital market legislation to promote investor protection. Shareholders and the interested public can access our latest reports, our financial calendar, legal disclosure requirements and other publications on our website.

Purchases and sales of shares by SolarWorld AG executives were disclosed in accordance with section 15a of the German Securities Trading Act in the 2006 fiscal year. Since Frank H. Asbeck performs management functions as chief executive in Solar Holding GmbH and in Eifelstrom GmbH, transactions with these companies are disclosed. On 7 February 2006, Eifelstrom GmbH as the notifying legal person disclosed an off-floor purchase of 125,000 SolarWorld shares at a share price of 205 € in accordance with section 4. On 14 December 2006, Eifelstrom GmbH as the notifying legal person disclosed an off-floor sale of 317,049 SolarWorld shares at a share price of 45 € in accordance with section 4. On 14 December 2006, Frank H. Asbeck as the notifying person disclosed an off-floor purchase of 317,049 SolarWorld shares at a share price of 45 €.

On 31 December 2006, total share ownership by the members of the Board of Management of SolarWorld AG accounted for 25.96 per cent of the shares issued, including 14.5 million shares held by the CEO, 910 shares held by the CFO and 2,000 shares held by the CSO. The COO and the members of the Supervisory Board did not hold any shares in SolarWorld AG.

Board of Management remuneration. The structure of the annual compensation for board members was defined by the Supervisory Board of SolarWorld AG and agreed with all board members. It comprises fixed and variable compensation components. It is based on the regulations of the German Corporate Governance Code and takes account of the specificities of the company as an integral part of the Group as well as the individual personnel and technical responsibilities and the relevant environment. The financial situation of the SolarWorld Group is also taken into account. At the same time, special benefits with an additional incentive effect are granted for successful project-related performance on a case-by-case basis. In 2006, such benefits were granted in connection with the acquisition and expansion of the silicon-based solar activities of the Shell Group and in the form of an additional payment of 25,000.00 € to each board member, with an extra 25,000.00 € paid to the COO because of his additional involvement in business abroad. In addition, the board members received the customary fringe benefits such as a company car in the upper mid-market segment as well as coverage of the cost of accident and D&O insurance policies. In addition, their expenses are reimbursed in accordance with section 670 of the German Civil Code.

In the event of an early termination of the employment relationship, the service agreements with the board members do not comprise any severance payment clauses, nor any separate pension obligations. The board members are also entitled to convert parts of their compensation into a company pension scheme.

The fixed annual compensation for the board members is payable in twelve monthly payments due at the end of each month. In addition, every board member receives a special variable share-based compensation, amounting to an individually negotiated euro amount per cent and share of the dividend distributed to the shareholders. The compensation is paid within four weeks after the Annual General Meeting that decided about the underlying dividend payment. The presentation of the remuneration of individual board members given below relates to the fixed payment due and paid in 2006 on the one hand. Figures for 2005 are not indicated here because the decision to disclose the compensation of each individual board member was only taken as per the 2006 fiscal year. On the other hand, the variable compensation related to the 2006 fiscal year is also shown here, even though it will only be due after the forthcoming Annual General Meeting and depends on the adoption of the

profit appropriation proposal made by the management, which foresees payment of a dividend of 20 cents per share.

The variable compensation entails a cap so that a board member may obtain a maximum of three times his fixed remuneration in a fiscal year. In individual cases, the fixed compensation for other board activities in a subsidiary is included here.

The level and structure of the compensation are continually reviewed by the Supervisory Board, discussed at an annual meeting on board matters and agreed and extended in agreement with each individual board member.

Board remuneration for 2006 fiscal year*

in €

	Non-performance-related		Performance-related	Total	
	Fixed remuneration	Other remuneration		Special project-related remuneration	
Frank H. Asbeck Chief Executive Officer/ CEO	280,843.32	15,000.00 <small>(Supervisory Board compensation Deutsche Solar AG incl. meeting fees of 2,500 €)</small>	540,000.00**	25,000.00	860,843.32
Philipp Koecke Chief Financial Officer/ CFO	129,802.72	2,218.08 <small>(Benefits for health insurance)</small>	160,000.00**	25,000.00	317,020.80
Boris Klebensberger Chief Operating Officer/ COO	131,090.00	47,818.00 <small>(Board activities Deutsche Solar AG)</small> 2,233.68 <small>(Benefits for health insurance)</small>	309,600.00**	50,000.00	540,741.68
Frank Henn Chief Sales Officer/ CSO	141,761.87	3,026.37 <small>(Benefits for health insurance)</small>	160,000.00**	25,000.00	329,788.24
Total	683,497.91	70,296.13	1,169,600.00**	125,000.00	2,048,394.04

** Adoption of the profit appropriation proposal by AGM 2007

Supervisory Board remuneration. The Annual General Meeting of SolarWorld AG of 25 May 2005 resolved a Supervisory Board remuneration comprised of a fixed compensation, a special performance-related compensation, fringe benefits and cost reimbursement. The remuneration system was decided with effect from 1 January 2005 and will apply until a new Annual General Meeting decides otherwise. The remuneration is based on the members' responsibility and scope of the activities as well as the economic situation and performance of the company. In addition, the company pays the premiums for appropriate D&O insurance policies.

Accordingly, the members of the Supervisory Board receive an annual compensation of 17,500.00 € each, the deputy chairman of the Supervisory Board receives one and a half times that amount, i.e. 26,250.00 €, the chairman of the Supervisory Board receives twice that amount, i.e. 35,000.00 € plus VAT, where applicable. The remuneration is paid in 2007 for the 2006 fiscal year with retroactive effect. In addition, every Supervisory Board member received a fee of 250.00 € for attendance of the Supervisory Board meetings and the AGM, i.e. another 2,250.00 € plus VAT, where applicable, which could, however, be deducted as input tax by the company. In addition, every Supervisory Board member receives a special performance-related compensation which was originally established as 150.00 € per dividend cent at a capital stock of 6,350,000 shares with the condition that the basic amount will rise in line with a potential rise in the number of shares. Given the increase in capital by a factor of eight which has since taken place, the basic amount has risen accordingly from 150.00 € to 1,200.00 €. If the forthcoming Annual General Meeting resolves payment of a dividend of 20 cents per share, this will give rise to a special variable compensation of 24,000.00 € per Supervisory Board member. The special performance-related compensation will also be paid plus VAT, where required. It will be due upon the end of the Supervisory Board meeting that decides about the underlying payment of the dividend.

The Supervisory Board remuneration paid in the 2006 fiscal year, including meeting fees, totaled 132,732.00 € plus the compensation by Deutsche Solar AG of a total of 30,000.00 € for Dr. Claus Recktenwald and Dr. Georg Gansen. The table below does not list the amounts paid in the respective year but the amounts relating to the respective year which only fell due after the end of the fiscal year for the preceding period according to the German Stock Corporation Act. SolarWorld AG's Supervisory Board was thus paid retrospectively. With regard to the special variable payment related to the 2006 fiscal year, it should additionally be mentioned that it depends on the adoption of the proposal for the appropriation of profits by means of payment of a dividend of 20 cents per share, to be decided by the forthcoming Annual General Meeting.

Supervisory Board remuneration*

in €

		Non-performance-related			Performance-related	Total
		Fixed annual remuneration	Meeting fee	Other remuneration	Special variable payment	
Dr. Claus Recktenwald Chairman	for 2006 paid in 2007	35,000.00	2,250.00	15,000.00 <small>(Supervisory Board compensation Deutsche Solar AG incl. meeting fees of 2,500.00 €)</small>	24,000.00 <small>(payable)</small>	76,250.00
	for 2005 paid in 2006	35,000.00	1,500.00	15,000.00 <small>(Supervisory Board compensation Deutsche Solar AG incl. meeting fees of 2,500.00 €)</small>	16,494.00	67,994.00
Dr. Georg Gansen Deputy chairman	for 2006 paid in 2007	26,250.00	2,250.00	15,000.00 <small>(Supervisory Board compensation Deutsche Solar AG incl. meeting fees of 2,500.00 €)</small>	24,000.00 <small>(payable)</small>	67,500.00
	for 2005 paid in 2006	26,250.00	1,500.00	15,000.00 <small>(Supervisory Board compensation Deutsche Solar AG incl. meeting fees of 2,500.00 €)</small>	16,494.00	59,244.00
Dr. Alexander von Bossel Member	for 2006 paid in 2007	17,500.00	2,250.00		24,000.00 <small>(payable)</small>	43,750.00
	for 2005 paid in 2006	17,500.00	1,500.00		16,494.00	35,494.00
Total	for 2006 paid in 2007	78,750.00	6,750.00	30,000.00	72,000.00	187,500.00
	for 2005 paid in 2006	78,750.00	4,500.00	30,000.00	49,482.00	162,732.00

I. 3. Corporate control, goals and strategy

3.1 Corporate control

Internal company control system. The sales volume and operating result (EBIT) of the individual companies are the key performance indicators within the Group. The earnings before tax on income (EBT) are included as another important indicator for assessment of financial performance. These performance indicators are determined monthly for each company in order to permit early identification of negative developments and timely response. Group-wide integrated controlling is used to check variance between budget and actual figures, to make an assessment and report to the Board of Management. Where necessary, the goals are adjusted to changes in market and company development.

The key performance indicators are directly linked with the performance related remuneration to employees*. This variable remuneration comprises 50 per cent from the indicators of the individual company and 50 per cent from the indicators of the Group.



Employee
profit-sharing

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All the business units in our Group are operated as profit centres. The profit centre approach ensures a high degree of transparency at every stage of the value chain, and makes it possible to operate internal benchmarking between the individual companies.

The Group strategy and the resulting Group goals are stipulated by the Board of Management. The goals for the individual business units are derived from these Group goals. Achievement of these goals is within the responsibility of the individual companies.

3.2 Goals

Non-financial goals. In the framework of our quality management, goals are set annually for the individual areas within the Group, contributing to improving our service and product quality. That helps us to generate stronger customer loyalty and to gain market share. To determine possible value enhancement potentials, we conduct an annual customer survey*. New production, research and sales goals are fixed on the basis of the survey findings, to optimise the costs and efficiency of internal processes and working procedures, and to improve the business success of our Group.



Customer Relations 2006

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Another goal for our Group is to improve the skills of our employees. It is particularly important for a know-how intensive business like photovoltaic technology to implement targeted programs to improve the specialised expertise of our workforce. We therefore conduct work-related advanced education activities within the individual companies, to increase the internal value of our employees and at the same time to enhance employee motivation and loyalty.

For the financial goals, we refer to the Forecast Report.

3.3 Strategy

Vision. Our vision, which is the guideline for our strategy and actions, is:

- > Increased use of solar power, to make a sustainable contribution to the maintenance of life on this planet. We want to make solar power competitive with end customers' electricity prices as soon as possible.
- > Development of photovoltaic power, to provide people throughout the world with electricity for fair development. Today there are still some 1.5 billion people in the world who have no electricity, lighting or telecommunications. This is a challenge to our responsibility.

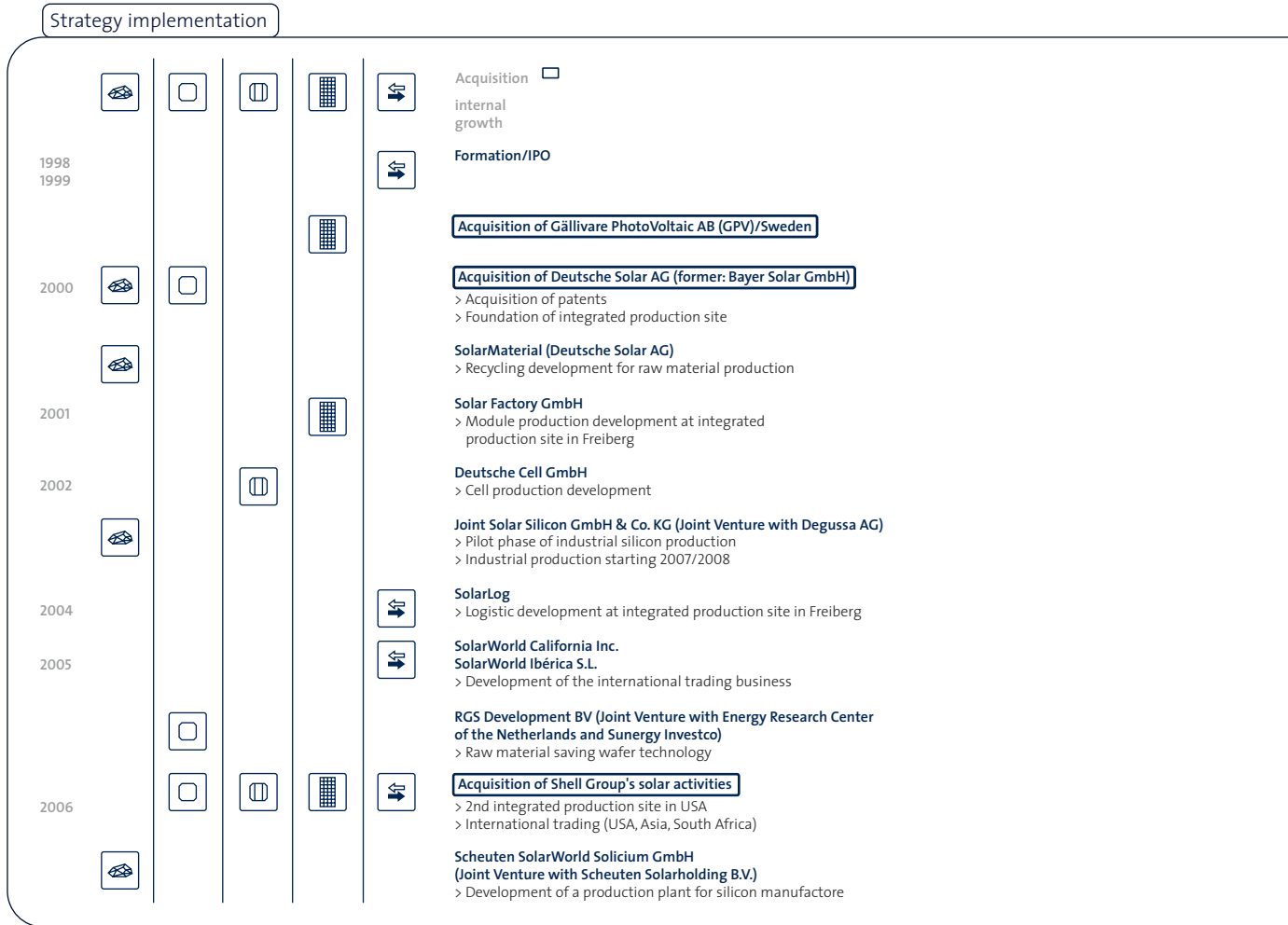
Full solar integration. Our strategy is to achieve vertical integration of all stages of the solar value chain – from raw materials through wafers, cells and modules, right up to complete solar power plants. We have been working systematically since 1999 to implement this strategy, focusing purely on solar power. We have made three acquisitions, and have pursued steady organic growth, to build our business in photovoltaic technology to a high quality level at every stage of the value chain. We have built up a clear competitive advantage by our forward-looking growth strategy, in the technology and capital intensive area of “wafers and raw materials”, in a market characterised by scarcity of raw materials. This value creation is the basis for sustainable growth and competitiveness in a global market which is growing dynamically.

Competitive advantage of full integration.

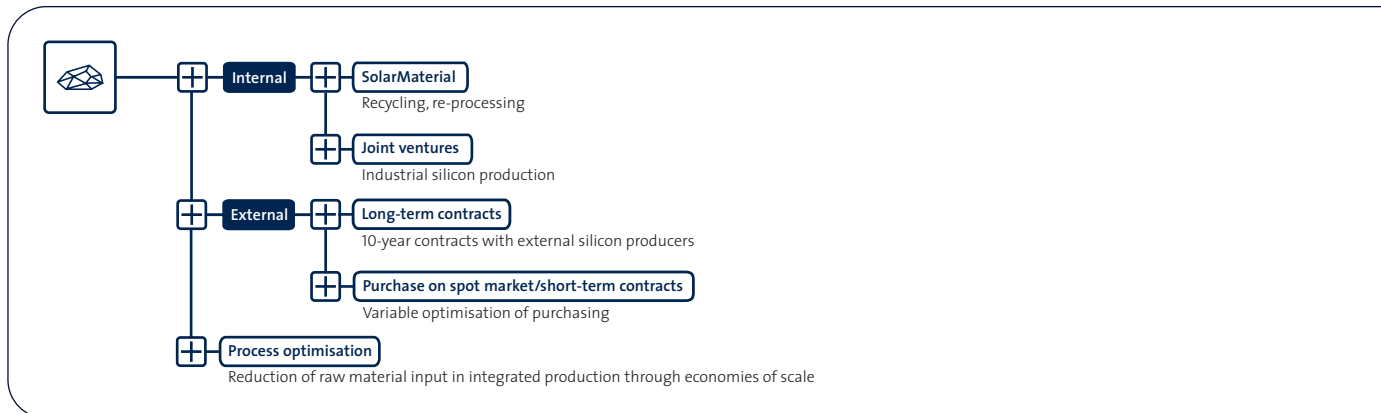
Quality optimum. Our integrated quality control and batch tracking enables us to monitor, trace and subsequently optimise our processes and products at every stage of the value process. We also input our research and development results into the relevant processes to enhance the performance of our products. That is the basis for good customer satisfaction, and improves the long-term value of our customer relations. Another competitive advantage this gives is that we can take account of customer needs in the framework of integrated product policy.

Profitability. We work at all stages of the value chain for continuous reduction of our production costs. We have succeeded in cutting manufacturing cost by optimisation of material input and of our processes, and by economies of scale. That improves our earning power, creates the basis for further investments, and will make solar power competitive in the medium term.

Security of supply. Access to know-how intensive key technologies such as wafer production strengthens our competitiveness, and makes us more independent of market shortages, price volatility and quality fluctuations. Thanks to timely implementation of capacity increases, our internal purchasing gives us a strategic market advantage. Our upstream production also enables us to make long-term contracts with suppliers.



4-pillar raw material strategy. A key strategic point in our business is that we made an early decision to focus on different sourcing options for raw materials, which are the major bottleneck factor. That gives us a secure long-term basis for growth.



Goals achieved in 2006. The most important strategic step in fiscal 2006 was the acquisition of Shell's solar crystalline activities with effect from 1 July. This acquisition enables us to generate the following growth and value enhancement potentials in the framework of our overall strategy:

- > Expansion of all value adding areas
- > Expansion of international sales presence
- > Expansion of international customer structures
- > Improvement of global market position
- > Development of new fields of business (rural electrification)
- > Addition of R&D know-how.

Strategic alliances 2006. We have included further partners in our value adding in order to create new synergies:

- > Solarparc interest holding for the development of new distribution channels in large solar power plant construction as well as power generation
- > Joint venture with Scheuten Solarholding BV for enhancement of raw material base.

Goals 2007/2008. We intend to continue global growth with a view to the future. In doing so, we remain true to our vision of making photovoltaic power competitive. Our short-term and medium-term goals in order to achieve that are:

- > Expanding capacity in all stages of the value chain
- > Tapping new and expanding existing markets
- > Focus on international product policy
- > Increasing efficiency in all areas of the company
- > Strategic expansion of new fields of business.

Corporate philosophy. All our activities are based on the principle of responsible treatment of people, resources and the environment. Our corporate understanding of sustainable activities means that we are actively undertaking responsible projects for a process of change in society, going beyond our 100 per cent solar business model. Although this ties up resources in the framework of the project work involved, it is our voluntary contribution to combat climate change, and to work for more employment and more social justice*. Another important factor in this context is the high degree of identification with our value and goals which it helps to achieve in our workforce, thus increasing our performance capability. Our customers and investors appreciate our sustainable corporate policy, which does not focus on maximising profits on a quarterly basis, but always keeps the long-term consequences in mind.



I. 4. Overview of business development

4.1 Macroeconomic background conditions

Global economy picking up. The mood among German companies and consumers was significantly better in 2006 than in the previous years. There was a marked upswing, expressed by increase in gross domestic product (GDP), up 2.6 per cent on the previous year according

to data from the Institute for the World Economy (IfW) at the University of Kiel. This was due to the continued good global economic conditions. Germany benefited from strong exports, and domestic demand also picked up substantially. Unemployment was down. GDP growth was similar in Europe as a whole, at 2.7 per cent.

In the United States, the strong economic growth of previous years continued throughout 2006. While the Federal Reserve decided to increase the prime rate still further in the first half of the year, it stopped this stepwise increase by year end. This was because the economy was cooling off in the second half of the year due to a drop in the US real estate market.

The upswing also continued at global level, though it lost some of its impetus in the industrialised countries in the course of the year. GDP was up 2.9 per cent in the G7 countries.

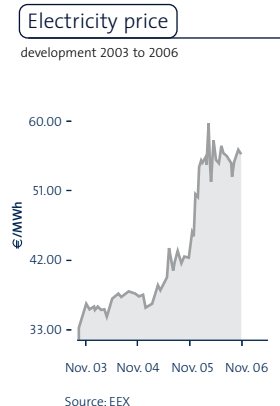
High energy prices. Oil prices surged to a record high in summer 2006 at more than 70 dollars per barrel. One barrel of the North Sea reference product Brent crude cost 65.27 dollars on annual average, according to figures from the German Oil Products Association (previous year: 54.53 dollars). That was a rise of 20 per cent, making oil more expensive than ever before.

The price of electricity at the European Energy Exchange (EEX) for delivery in 2007 was up by more than 20 per cent within 12 months, to some 56 € per Megawatt hour. Although power utilities had to reduce their grid charges upon intervention by the Federal Grid Regulatory Agency, many of them increased their prices to final consumers again from January 2007, referring to the rise in their purchasing prices.

Economic impact of climate change. The fact that emissions of greenhouse gases are not only having a massive impact on the global ecology balance, but also causing substantial economic damage to the global community, was demonstrated in 2006. Sir Nicholas Stern, former Chief Economist of the World Bank, presented his thoroughly researched scientific report (Stern Review on the Economics of Climate Change) on 30 October 2006, calculating the damage to humankind from further emissions of greenhouse gases at 5.5 trillion €. His findings generated a substantial increase in global public awareness. He warned that, if this process is not stopped, the world is threatened with massive economic recession due to the resulting environmental disasters, which could destroy the livelihood of a large proportion of the world's population. His calculations put the costs of climate change at between 5 and 10 per cent of global GDP. The cost of stabilising greenhouse gas concentration on the other hand would be about 1 per cent of global GDP, provided that decisive action is taken straight away.

The review makes it clear that action to prevent climate change and spending for climate protection today will boost the economy, generating positive economic stimuli by demand for new low-emission technologies.

International climate protection. The Climate Change Conference in Nairobi at the end of 2006 adopted the "Nairobi Framework". Six organisations of the United Nations created an initiative to help developing countries, particularly in Africa, to participate in the Clean Development Mechanism (CDM) of the Kyoto Protocol. The CDM enables industrialised countries to invest in greenhouse gas reduction projects in developing countries and thus to acquire tradable emission rights.



Climate change is having an increasing impact in many countries worldwide, and has progressively led governments to launch national climate protection plans. Even the Bush Administration, which was very reticent about climate protection until 2006, announced that it would increase spending on renewable energy sources, with the mid-term goal of reducing dependence on oil imports.

Economic benefits of renewable energies. A study published in 2006 by the Hamburg Institute of International Economics (HWWA) demonstrated the price-damping effect of renewable energies on the development of electricity prices. That is because marginal costs of power stations operating on renewable energies are extremely low compared with conventional generating, e.g. with coal- and gas-fired power stations. The bids by power station operators are sorted by costs at the energy exchange (Merit Order). Electricity from power stations with higher marginal costs, normally fossil fuel power stations, is replaced by electricity from power stations with lower marginal costs, which are power stations using renewable energies. So the greater the installed capacity of renewable power stations, the more they will substitute conventional power, which is more expensive in terms of marginal cost. This effect is felt by private households, and even more by heavy electricity users in industry, boosting their competitiveness.

Savings in the billions by using renewable energies. The share of renewable energies in electricity consumption in Germany in 2006 rose to 11.8 (previous year: 10.5). Wind energy increased its share by 10 per cent and photovoltaic by 60 per cent. That avoided the need for imports of oil, gas, coal and uranium worth 4.2 (previous year: 3.0) billion €, with corresponding benefit for the economy (Source: German Renewable Energies Association/BEE; Federal Environment Ministry/BMU). Use of renewable energies rather than conventional power saved emissions to the environment of some 100 million tons of CO₂. The environmental damage avoided in 2006 alone was worth more than 3.2 billion € (Source: BEE).

In addition, the continuous rise in employment by the renewable energies industry to some 214,000 jobs meant savings in unemployment benefits running into the billions (Source: BMU). This employment effect is also backed by recruitment of a particularly large proportion of trainees, about 5.5 per cent in the renewable energies sector (average in Germany: 4.8 per cent /Vocational Training Report 2006). That means the balance sheet for renewable energies up to the year 2020 is clearly positive, with an estimated 330,000 additional long-term jobs, and with important stimuli for export and growth.

“Energy Summit” for future energy supply in Germany. Top-level representatives of government and the power industry had two meetings in 2006 at the Federal Chancellery. For the first time, renewable energies were officially given a significant role in this issue. The industry, one of whose representatives was SolarWorld Management Board Chairman Frank H. Asbeck, announced extensive capital expenditure amounting to 40 billion € in the period up to 2012, that is significantly more than the commitments by conventional power generators. These capital expenditure commitments are related to electricity. It is a declared goal of the industry to feed an additional 19,000 MW into the electricity grid by 2012. These substantial capital expenditure commitments promise additional jobs.

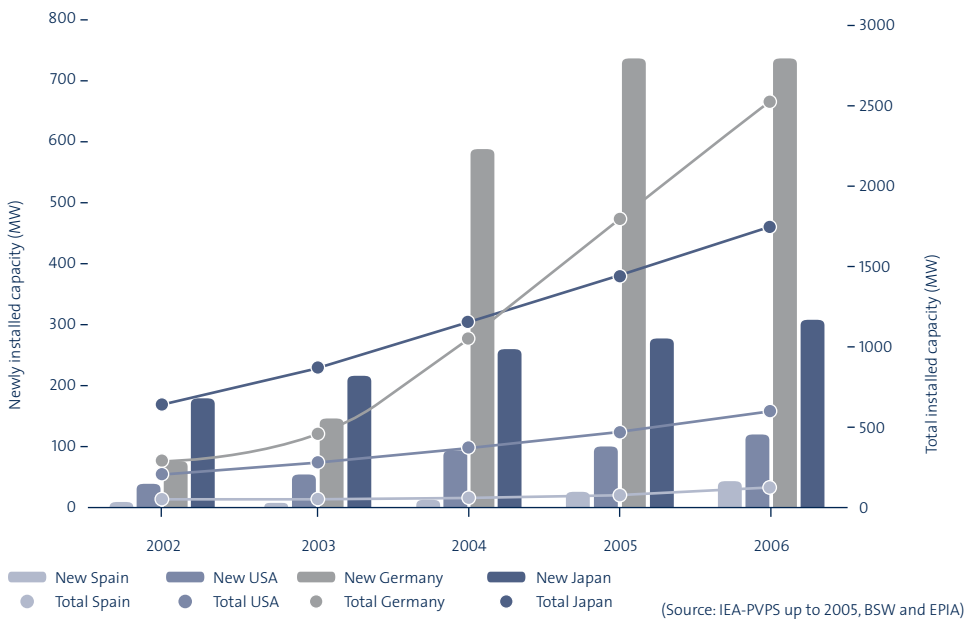
An important influence on the “Energy Summit” was the shutdown of Russian gas supplies to Ukraine at the beginning of 2006. For a short period, that also affected supply to Germany. That raised awareness of the substantial dependence of German gas supplies on Russia, which supplies more than 30 per cent of German gas demand.

4.2 Industry-specific background conditions

Favourable background conditions for worldwide solar growth. The global demand for photovoltaic systems increased worldwide by nearly 10 per cent, to a new installed power capacity of 1,350 MW, according to an estimate by the European Photovoltaic Industry Association EPIA. Global production of crystalline solar silicon cells was up about 10 per cent to 1,700 MW, according to an estimate by the Swiss Bank Sarasin & Cie AG. Growth was impeded by some bottlenecks in supply of the raw material, silicon. More and more countries worldwide consider solar energy a fundamental pillar for their future energy supplies and introduced promotion laws as market opening tools in 2006. As a result, investment conditions abroad were considerably enhanced, also benefiting the German solar power industry. According to the German Solar Industry Federation (BSW), the export ratio rose to around 35 (previous year: 25) per cent in 2006. This secures added value and employment in the German solar industry. The export business has thus become an additional growth engine for German solar energy manufacturers, on top of the stable domestic market in Germany*.



Development of our core solar markets plus Japan



Germany – the strongest solar market. According to the insights of the German Solar Industry Federation (BSW) the growth achieved in the German solar industry was ploughed back into the expansion of export activities leading to reinvestments at locations in Germany. According to a study presented by the Solarpraxis AG consulting company in 2006 some 70 per cent of the added value in the solar industry is generated by the German specialist craftsmen and local industry while the manufacturers – at least the market leaders – on the other hand have an above average representation in international markets. The robust stock exchange situation was used for additional IPOs and capital increases and provided the industry with fresh growth capital.

Prices in the retail market showed a downward trend in the second half. Excessive prices of some providers could no longer be pushed through in the market. According to the BSW, prices declined by some 5 per cent by the end of the year in comparison with the price level at the beginning of 2006. This decline corresponds to the regular reduction of the EEG feed-in compensation due at the beginning of 2007.

Spain – second largest European solar power market. In 2006 the newly installed capacity of 50 MW more than doubled the solar market in Spain. Module makers, module sellers and installation companies felt clear growth signals coming from the Spanish solar market. In spite of the legal ceiling on the maximum compensation up to a plant size of 100 kW the Spanish market was characterised by large-scale high MW plants. Many plant developers had circumvented the limitation by breaking down the plants into units of 100 kW each. The economic outlook of solar power plants is very good because of the high compensation and the high solar radiation rates. The Spanish solar power market, like other Spanish industries as well, is mainly dominated by local companies. These include highly capitalised, publicly traded companies with deep roots in the Spanish economy and society. In 2006 foreign solar power providers were in a minority.

In mid-2006 the Spanish bill “Real Decreto 07/2006” enacted by the Spanish Ministry of Economic Affairs caused some unrest in the energy sector. Until then electricity prices were allowed to increase by no more than 2 per cent per year which cost the state some 3.8 billion € in 2005 alone. The State had to pay the energy utilities the price difference exceeding the 2 per cent limit. The “Real Decreto 07/2006” provided for free formation of electricity prices according to the rules of a market economy. At the same time the law announced a revision of the Spanish feed-in tariff to the effect that the feed-in compensation which had so far been a percentage of the electricity price was now legally fixed at 44 Cent/kWh. In this way the state wanted to avoid a situation in which the compensation would become disproportionately large due to the rising electricity prices freely formed in the market.

In a first government bill at the end of 2006 on the amendment of the Spanish feed-in law there was reference to a continued attractive amount of compensation at the previous level. The law was not yet enacted in 2006. The market saw another important decision being taken when a law was enacted on technical building standards requiring the installation of photovoltaic and solar-thermal facilities in all public and commercial buildings constructed from 2007 onwards.

Funding push in the USA. The year 2006 gave the US solar market an enormous impetus through major programs for solar power development. Although the USA had been among the pioneers of solar technology and had already initiated funding programs as far back as in the seventies of the last century the US market had recently been idle for many years. Countrywide President Bush attracted attention at the beginning of the year when he announced that renewable energies like solar technology would be given a boost.

In August 2006 a legislative initiative (Empowering America Act of 2006) was started that is designed to prolong the current tax concessions of up to 30 per cent for the installation of solar systems until the year 2015. In this way investors are to be given long-term planning security which in turn will secure dynamic growth of the solar power market in the future. Over and above this there were some first solar research projects presented by the US Energy

Department to be financed via the Solar America Initiative. The objective of the initiative is to accelerate the competitiveness of solar energy in the USA.

A pioneering role in the US solar market was played in 2006 by the sun-rich state of California. At the beginning of the year the Californian Energy Commission passed a resolution in favour of a comprehensive funding program for the realisation of a solar power output of 3,000 MW within ten years. In the third quarter the parliament and government of California backed the California Solar Initiative with a legislative measure – the “One Million Solar Roofs Act” (Solar Bill 1). In coordination with the California Solar Initiative “Solar Bill 1” will provide a budget of 3.2 billion US dollars over the next ten years. The program is designed to reduce the latent supply shortage of the energy-intensive state as solar power is particularly suitable for power supply at peak load times. In addition, this federal state has enacted a law for the reduction of greenhouse gases. The target is to cut the emissions by 20 per cent up to the year 2020 bringing them to the level of 1990. To this end the expansion of renewable energies – among other measures – is supposed to play an important role.

Apart from California other federal states like New Jersey, Colorado, Florida, Arizona, Pennsylvania and Nevada also announced solar expansion campaigns. Thus, New Jersey announced new targets for the roll-out of renewable energies until 2011 according to which a solar power output of 1.5 Gigawatt is to be realised. Within the context of the Renewable Portfolio Standards (RPS) solar power will be promoted by the use of Renewable Energy Certificates (REC). Energy utilities have to buy solar certificates so as to meet the solar quotas laid down in the RPS. The prices of the certificates will be determined by market trading. The use of such certificates is also a tried and tested tool in many other federal states albeit at a relatively limited volume to date.

New markets in Europe. For some markets in Southern Europe 2006 was an important year. In Italy the demand increased considerably in 2006 after the country had created the legal basis for the promotion of solar power in mid-2005 with the “Conto Energia”. The solar market volume can be assumed to have amounted to some 7 MW in 2006. The solar power demand also experienced a substantial improvement by some 40 per cent in France as a result of a funding law enacted by the middle of the year. In 2006 the French market volume was estimated by EPIA to have amounted to about 10 MW. Greece was also getting ready to take off in 2006 after having agreed on a feed-in compensation scheme. However, some questions of approval had not been finally settled by the end of the year. This is why the market volume of newly installed capacity remained below 1 MW in 2006 even though the country has come more strongly into the focus of the export-oriented solar providers.

In all these markets competition was still in its infancy in 2006. Stable market structures had not yet developed.

Asia and Africa. Especially South Korea experienced a rapid growth of the solar market owing to the law of feed-in compensation. According to EPIA estimates the newly installed solar power volume in 2006 can be considered to have been tripled to 20 MW in comparison with the prior year. In addition to Japan South Korea is the only market for on-grid applications worth mentioning in Asia. International competitors therefore already took up positions in South Korea. Because of its geographic size and its insular structure a large part of Asia is

a market for off-grid applications – i.e. solar power plants that are operated independently of the national power grid. This applies to China, for example, which pursues a number of solar projects, above all in cooperation with local companies. By tradition the position of Asian companies in Far Eastern markets is a strong one. All added value processes of the solar industry are located in Asia. In addition, Japan, the world's second largest solar market, is also located in Asia. According to the classic Japanese example this market is dominated almost exclusively by local providers.

The solar market volume in Africa was again relatively low in 2006. In addition to some government projects for rural electrification there were activities on the part of the governmental international community and of some NGOs.

4.3 Effects of background conditions on 2006 business development

Worldwide, but especially in the core markets of our business, solar technology benefited from favorable economic as well as regulatory background conditions. The growing awareness of progressive climate change and the scarcity of fossil resources gave the solar markets powerful growth impulses. As we positioned ourselves as a solar power provider in the most important markets in a timely manner we were able to make positive use of this development for our international business in 2006. Thus we boosted our international revenues share in 2006 group-wide by 17.1 per cent to 42.9 per cent.

4.4 Major events influencing the business development

Integration of the Shell solar activities. With the take-over of the crystalline solar activities of the Shell Group effective 1 July 2006 the SolarWorld Group has advanced to be one of the world's three largest solar power groups. Especially in the high growth solar markets worldwide the acquisition helped us to expand our leading competitive position. Following the rapid integration of the new employees we were able in the second half of the year to continue to act successfully in the marketplace as the integrated solar group worldwide.

The expected synergy potentials from the acquisition could be tapped by:

- > increasing productivity at the sites taken over,
- > successfully merging our international trading structures,
- > concentrating cell production at our integrated production sites in Camarillo/USA and Freiberg/Germany and, linked to this, passing on the solar cell production taken over in Gelsenkirchen to the Dutch Scheuten Group in the fourth quarter as well as
- > focusing the Munich location exclusively on Research & Development activities.

Organic growth. At our existing locations we further promoted the expansion of our capacities in 2006 in order to strengthen our market position. This included at the Freiberg location the commissioning of our highly advanced second module manufacturing facility (Solar Factory II) as a result of which the module capacity in Freiberg has grown by 60 MW to 90 MW. In cell manufacturing, we have substantially increased the productivity of this manufacturing stage by means of successfully commissioning our new automated state-of-the-art solar cell production line in the second half of the year. Our cell capacity in Freiberg thus rose to 160 MW by the end of the year. The investments into the expansion of the integrated wafer production (DS 1000) was completed in the first step with the capacity being

increased by 40 MW to 220 MW. We continued to invest in our ultra-modern machinery park which has been developed partly by ourselves, leading the technological development towards increasingly thin wafers and increasing our output by 23 per cent. Above and beyond this the logistics capacities were expanded to cope with higher flows of goods.

Strategic development of silicon supply. The construction of the industrial scale silicon production facility of Joint Solar Silicon GmbH & Co. KG was begun. The start of production scheduled for 2008 will serve a considerable portion of the other manufacturing capacities. With the Dutch Scheuten Solarholding B.V. our Group has entered into the Scheuten SolarWorld Solicium GmbH Joint Venture to generate metallurgical silicon. By investing in the technological and spatial expansion of the SolarMaterial business unit we have further expanded our possibilities of reprocessing contaminated silicon.

External wafer business. By concluding high earnings, long-term wafer contracts we were able to strengthen our external wafer business and substantiate our leading market position in this high value segment.

Influx of funds to finance group-wide expansion. By way of the successful placement of a capital increase liquid funds worth 233.7 million € were received by the company in the first half of the year. In this context we acquired a stake of 29 per cent in Solarparc AG. Concluding an investment round (private placement) with investors from the USA and Europe we attracted additional outside capital amounting to 306.5 million US dollar towards the end of the year.

4.5 Business development in 2006



Strategic raw material activities

Structural expansion of recycling and reprocessing. The entire raw material recycling is becoming another major pillar of the Group's raw material supply. The SolarMaterial business unit has made a contribution of more than 20 per cent to this. The raw material consists of silicon cuttings from wafer production as well as externally bought silicon. By making investments into the technological and spatial expansion of the business unit we have succeeded in qualitative terms in closing the loop of the internal recycling and in including raw silicon grades into our raw material reprocessing activities that were previously not usable – like by-products from the semi-conductor industry whose reprocessing had so far not been an economically viable proposition. In internal recycling terms this means that the cuttings left over from the column and wafer production can be almost completely reprocessed and recycled into the production process. The internal reprocessing activities have led to a noticeable reduction of the raw material costs and thus positively influenced the Group result.

In our SolarMaterial business unit one of the internationally most trend-setting recycling projects was successfully implemented in 2006. The solar modules of Germany's largest open air system at Pellworm with 300 kW at the time were completely recycled and then successfully reused for power generation in two new façade solar projects on factory buildings in Freiberg. Partners in the project were E.ON Hanse AG, Sunways AG and Solarwatt AG. The efficiency of the recycled modules could be improved by 10 per cent. The wafers gained from the two-stage recycling process go directly into the solar cell and thus into the solar

module production. The energy required for the recycled modules remains clearly below that for the newly produced modules. On the whole the modules from the recycling process are on a par with the new modules.

As pioneers of solar recycling our Group experts presented a concept in 2006 on behalf of the European Photovoltaic Industry Association (EPIA) and the German Solar Industry Federation (BSW) for a voluntary retrieval system for spent solar products so as to be able to guarantee a national coverage collection of recycling materials. This system is to be managed by the "PV Cycle" foundation.

Breaking ground for industrial silicon production. Our joint venture company Joint Solar Silicon GmbH & Co. KG (JSSI) broke ground in 2006 for our innovative solar silicon production facility. Because of its low investment and low energy requirements this production technology which produces solar silicon from silane shows substantial efficiency advantages over the method of decomposing trichlorsilane still widely used today. JSSI has so far produced 10 tons of solar in a marketable quality grade which we used for our wafer production. In order to ensure the supply security of silane the Group concluded a long-term delivery contract with Degussa AG.

In the fourth quarter SolarWorld AG established the Joint Venture Scheuten SolarWorld Solicium GmbH at the Freiberg location with the Dutch company Scheuten Solarholding B.V. which is designed to open up an additional raw material source in the medium term. The Joint Venture deals with the development and the construction of a production facility for high purity silicon from metallurgical silicon. Metallurgical silicon which can be gained from almost unlimited deposits has a degree of purity of about 98 per cent that needs to be further refined for the purposes of the solar industry. In order to be able to implement these new raw material activities we bought a plot of land of 20,000 square meters including administrative and laboratory buildings in the immediate vicinity of the existing SolarMaterial silicon recycling factory and the Solar Factory II.



Integrated production

Efficient wafer and cell technology. In our wafer production at the Freiberg location we succeeded in reducing the thickness of the wafers from 270 to 210 μm in only two years. The resulting material savings helped us reduce our silicon needs. In the course of the year we were able to increase the production share of the thinner 210 μm wafers by 20 percentage points to 90 per cent. These are processed by Deutsche Cell GmbH into solar cells with highest degrees of efficiency. In 2006, our wafer and cell capacity was further expanded*.

Automated standard modules. While the poly-crystalline solar cells are assembled into modules in Freiberg the further processing of the mono-crystalline cells takes place in our Swedish subsidiary GPV. As a result of the new commissioning of Solar Factory II and added investments in the expansion of Solar Factory I in 2006 we significantly increased our Freiberg processing capacities. Based on poly-crystalline 6-inch cells both factories produce standard modules up to 230 Watt.



The degree of automation of Solar Factory II was again substantially increased. By way of technical retrofitting we could also increase the efficiency of Solar Factory I. In addition to the mono-crystalline modules from 5-inch cells GPV also produces special modules for special applications. At the end of the year the group-wide module capacities amounted to about 140 MW.

US production optimised. At our US sites we work on the basis of mono-crystalline technology. Here we were immediately able to increase production, cut costs by changing the shift system and optimising other procedures as well as adjust product formats in the second half of the year. As a result we could increase the capacity utilisation as planned to more than 50 per cent along the entire value chain.



Trading

Sales strategy. In our international business we focus on the strategic core markets with dynamic growth potentials and positive background conditions. The aim is to be among the leading solar providers in these markets and to secure double digit market shares. In strategic terms this means that – also and particularly at times of scarce supply and high demand – we have to bank on quality, reliability and fairness vis-à-vis the customer. The creation of stable customer relations is a sustainable goal here, especially at times of increasing competition. Our customers are the specialist and wholesale trade as distributors of our products. Over and above this we will be entering into new sales markets and will to this end strategically expand the sales of off-grid applications (rural electrification).

Customer relations 2006. The value of reliable and durable customer relations determines the success of our sales business. With the aim of hearing about strengths we can build on but also potentials for improvement in the product and service from the customer's point of view we conduct an annual product and service survey with our wholesale and specialist trade customers. The results we come up with reflect the implementation of our sales strategy. They also go as targets into the quality management for the coming fiscal year. In 2006 this survey was additionally conducted in the new core markets of Spain and USA. Our brand image and the product quality of our Sunmodules® achieved a very high score with our customers in Germany and thus in our traditional market. In Spain, like in Germany, SolarWorld also scored high on image and quality ratings, especially as a solar supplier.

In the USA some 83 per cent of our customers who have now found their way to SolarWorld did business with Shell before. The additional regular customers are the result of the two-year sales activities of our former sales office in San Diego, USA. These activities were transferred to the new location in Camarillo. The performance of our sales team in Camarillo reached good to very good assessments and created a strong basis for the growing business. Our customers in the USA are conspicuous in their majority by well founded solar experience. Because of our young business in this market our brand image still shows plenty of room for improvement. This is our starting point in terms of sales strategy.

In all solar markets in which Shell was active in the context of its solar business we were able to maintain a large portion of the existing customer portfolio. In this way many former Shell customers in Germany became SolarWorld specialist partners. These are plumbers who receive special training from SolarWorld and who will then be served by the wholesale trade. We expanded our presence at the most important industry exhibitions worldwide in the year

2006. In addition to the specialist electrical show Light & Building in Frankfurt, Main and the world's largest solar fair Intersolar in Freiburg we attended the Green Energy Expo in South Korea, the Solarexpo in Vicenza, Italy, the Solar Power in San Jose, USA, as well as the 21st European Photovoltaic Solar Energy Conference in Dresden. We were able to broaden and intensify our customer relations and also acquire orders in the international context.

Pricing and product policy. In order to increase our solar kit business we stepped up the marketing for our complete systems of the Sunkits® brand. In 2006 we were able to further expand the higher yield solar kits business. With Solarparc AG as the project developer for open air systems we contracted business deals amounting to a total of 5 MW, two thirds of which using our Suntrac® sun tracking technology.

Our pricing policy provides for the cost advantages from technical progress to be passed on to our customers. With a non-binding price recommendation in the summer of 2006 SolarWorld AG had a positive influence on the price transparency in the market. Thus we were the first major provider to announce a factual reduction in prices.

New foreign markets. The largest individual deal in the Spanish market was an agreement on the supply of solar power modules with a total capacity of 8 MW until the middle of 2007 to the Spanish Instituto Tecnológico y de Energías Renovables (ITER) on the island of Tenerife. With this agreement we have continued our successful business relations with the technological institute. ITER is building one of Spain's largest solar power stations on the Canary Island with the SolarWorld modules.

In the USA we multiplied our sales to a volume of 11 MWp. Here we were able to close a deal for 2 MWp with a well-known energy customer. The cooperation with the community of Cucamonga Valley for the installation of a 274 kW solar system also counts among the highlight projects in the second half of the year.

Among the reference projects of our GPV subsidiary is the equipment of the Swedish sports stadium Ullevi in Gothenburg with solar power modules. This is very much a project with prestige character because the European Track & Field Championships took place here in the summer of 2006.

The rest of Europe is handled by our international sales team in Bonn in the context of our export business. In the Italian solar power market we acquired a promising position via agreements with national wholesalers in the run-up to the expected leap in demand. The most comprehensive agreement was made with the Italian solar power wholesaler Tecnospot from Bolzano for the supply of complete solar power systems and solar modules. The value of the order is in the double digit million euro range. Tecnospot possesses comprehensive know-how of its home market and has been active there since 1999.

The Asia-Pacific off-grid market has been systematically expanded by our sales office in Singapore. Within the framework of the Shell transaction an agreement was made for the supply of appropriate solar power equipment to former Shell projects in rural areas. The volume of the agreement lasting until 2008 amounts to more than 3 MWp. The acquired off-grid projects include a publicly funded electrification program in China. In the South Korean on-grid market we significantly increased our module business in 2006.

4.6 Procurement

In procurement questions we profit from our integrated production which guarantees the supply to the downstream production stages. Our subsidiary Deutsche Solar AG took over the central group-wide raw material management* – from international purchasing to distribution to the individual locations – in the context of the integration of the Shell activities. As a result of the increasing activities of the SolarMaterial Division the procurement situation for raw materials has been additionally relaxed. In 2006 silicon supply at the old sites had been secure. Long-term contracts with worldwide silicon producers constituted one of the major procurement pillars in 2006. To cover the 50 per cent capacity utilisation of the newly added sites in 2006 additional long-term contracts were concluded.



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I. 5. The SolarWorld stock

Strong year at the stock exchange. For investors in the capital market 2006 was a successful year. Against the background of good economic data, moderate inflation expectations in the industrialised countries as well as stable exchange rates the most important indices showed double digit growth worldwide. Even the increased oil price could not depress the mood at the stock markets.

The US lead index Dow Jones Industrial that represents the 100 largest industrial companies in the USA broke through the 12,000 points barrier in the fourth quarter of 2006 thus reaching an all-time high. This was a development that could not be foreseen in mid-2006 because of fears that the US Federal Reserve Bank might further increase the key lending rate. The upward movement could be continued after the central bank had declared the round of interest rate hikes to have come to an end in the second quarter of the year.

In Germany the positive stock market climate of the previous years – also characterised by a large number of IPOs – initially continued at the beginning of 2006. But the mood in the German stock market also declined in the spring and did not recover significantly until Q4. The development of the major European stock indices followed a similar pattern to the Dow Jones lead index. As a matter of principle German stocks did better than the other European securities. While the European selection index EuroSTOXX rose in the course of the year by 5.6 per cent to 4,120 points and the Dow Jones STOXX 600 which combines the 600 largest European companies went up by 6.8 per cent to 365 points the DAX and MDAX increased by some 10 per cent each to 6,600 and 9,405 points respectively. The German SME index GEX which shows the value development of owner-managed companies climbed by 8.9 per cent to 1,872 points.

The technology titles developed even more strongly than the stocks just mentioned. The TecDAX gained 13.8 per cent in the course of the year ending the year on 722 points. The standard indices were also outperformed by the Nature Stock Index NAI that rose by 11.9 per cent to 4,705 points thus reflecting the positive performance of international sustainability-oriented companies.

The development of stocks focused on renewable energies was mixed in 2006. According to an analysis by Ecoreporter's information service only one in three solar stocks could report any growth in the course of the year although particularly at the beginning of the year there was a high demand for solar stocks. The reasons that can be quoted for this are short-term



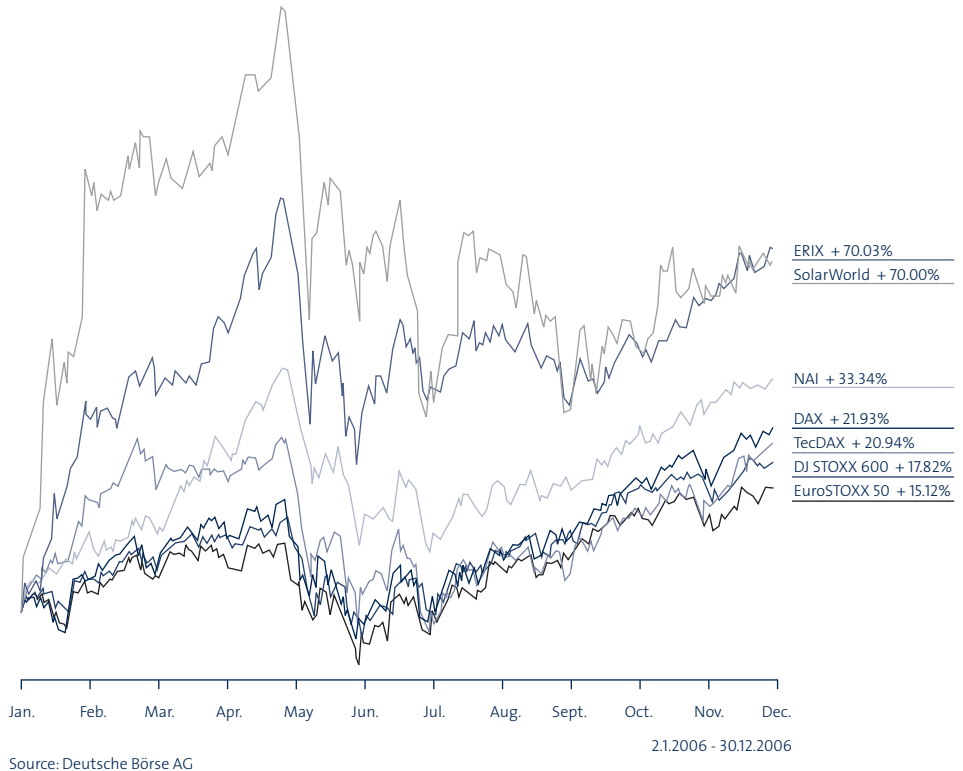
Historic performance

	1 year*	Since the IPO**
SolarWorld Stock	+ 70 %	+ 2,431.91 %
DAX 30	+ 21.93 %	+ 17.20 %
DJ STOXX 600	+17.82 %	+ 13.09 %

* (01.01. – 31.12.2006)
** (08.11.1999)

profit-taking due to volatile stock prices by the middle of the year as well as on the other hand profit warnings by individual solar companies in the second half of the year.

The SolarWorld stock compared with key stock indices



Index quotation of our stock

Germany

TecDAX > Technology
GEX > Owner-managed

Europe

ERIX
> Renewable energies
Dow Jones STOXX 600
> Industry

Global

NAI
> Environment
PPVX
> Solar
DAXglobal Alternative Energy Index
> Renewable energies
MSCI-World
> Industry
SOLEX
> Solar
RENIXX
> Renewable energies
KLD Global Climate 100 SM Index
> Climate change

sustainability

70 per cent value increase of SolarWorld stock. The stock of SolarWorld AG was among the best solar stocks in 2006 and it was the second best TecDAX stock of the year. As against the adjusted opening price of 28.00 € at the beginning of January 2006, it closed at 47.60 € at the end of the year (an increase of 70 per cent). At the beginning of the year the stock rose sharply. This development was supported by the approval of a number of funding programs in the USA as well as by announcements concerning the acquisition of the solar Shell companies. The stock reached an all-time high of 70 €. In the course of a general weakness in the market the share declined somewhat from the middle of May. After a volatile sideways movement in the third quarter the SolarWorld stock bounced back again in the fourth quarter until today.

Stock in other indices. In 2006 SolarWorld AG remained the strongest stock in the TecDAX. Both in terms of market capitalisation and trading volume on a 12-month basis in the free float the stock remained the Number One. In the course of the year the stock was included in important international indices and could thus improve its awareness among international investors. In March, for example, it joined the highly regarded Dow Jones STOXX 600

(industry index/Utilities) that represents the 600 largest publicly traded companies (measured by capitalisation of the Free Float) thus serving as a benchmark for many European investors.

Effective 31 May followed inclusion in the MSCI Germany Index and thus in the worldwide stock index MSCI World. Here SolarWorld AG represents one of 52 German companies and the only one from the renewable energies industry. This means that SolarWorld AG is automatically listed in all MSCI indices (MSCI Europe/MSCI Pan-European/MSCI EAFE Europe, Asia, Far East/MSCI Kokusai).

Since the establishment of the DAXglobal Alternative Energy Index by Deutsche Börse AG in August SolarWorld AG has been the only German solar company represented in it. The index shows the stock price development of the 15 largest companies worldwide in the areas of natural gas, wind energy, solar energy, ethanol and geothermal energy. These five sectors are weighted at 20 per cent each and they each contain three companies.

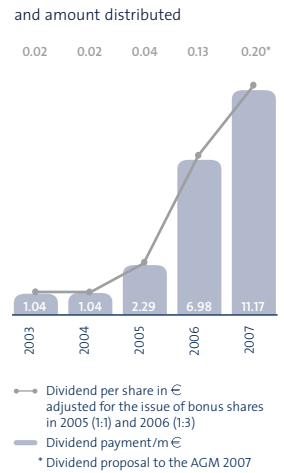
Dividend continuity. At the forthcoming Annual General Meeting on 24 May 2007, the Board of Management and the Supervisory Board will propose payment of a dividend of 20 cents per share. This is an increase of 60 per cent year-on-year. The dividend policy of our company entails a continual participation of our shareholders in the success of our business.

Capital stock increased by bonus shares. As of 31 December 2006 the capital stock of the company amounted to 55.86 million € divided into 55.86 million no-par-value bearer shares with an imputed par value of 1 €. In the course of the capital increase excluding subscription rights in February the capital stock had initially increased to 13.840 million € as a result of 1.265 million individual share certificates being issued. As a result of the issue of bonus shares in a ratio of 1:3 as approved by the AGM the capital rose in June to 55.86 million €. Along with the transfer of the bonus shares to the depots of the investors the stock price at the time was quartered in line with the ratio of issue.

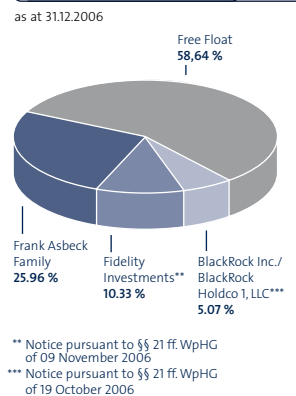
Disclosures pursuant to § 315 Section 4 HGB (German Commercial Code). The disclosures pursuant to § 315 Section 4, No. 1 and No. 3 HGB (composition of subscribed capital and shares in the capital) can be gathered from the preceding paragraphs. The regulations on the appointment and dismissal of management board members and on the amendment of the articles of association (No. 6) can be gathered from the stock corporation act. With regard to the competences of the Board of Management (No. 7) reference is made to the stock corporation act and to the comments on equity capital made in the notes. Concerning § 315 Section 4, Nos. 2, 4, 5, 8 and 9 HGB no disclosures are required.

Increased capital market interest. The interest of international investors increased significantly due to the growth of our Group. Investors' conferences and road shows with the emphasis on Europe and the USA were intensified. Investors' Open Days (Field Trips) to the Freiberg production site gave institutional investors an idea of the technology and the capacity expansion at the location. The increased capital market interest is also reflected in the massive media response that followed our business and analysts' press conference in March: More than 300 publications in print and online media showed a fundamentally positive mood. With our listing in the Prime Standard we are meeting the highest international transparency standards with our quarterly reporting in German and English.

Dividend



Shareholder structure*



Shareholder structure changed
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I. 6. Sustainability

Climate protection strategy as an investment decision. We participated in the Carbon Disclosure Project (CDP), in keeping with our principle of transparency. This is the largest investor initiative in the area, with involvement of 225 leading international banks, insurance companies and pension funds; it manages investment capital of 31 trillion US dollars. In the framework of the survey conducted in 2006, CDP contacted the 2,100 largest listed companies in the world. Its purpose was to analyse the importance attached to climate change in the business strategies of the companies surveyed. The results have an influence on the investment decisions of the institutional investors. Our commitment to participation put us in the forefront of German companies that disclosed their climate protection efforts on a voluntary basis. SolarWorld AG is also represented in a number of sustainability indices listing successful pioneers in the alternative energy sector* on the basis of consistent standards.

Stock in other indices



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Climate protection adds value. As a producer of low-emission, renewable energy, we systematically record our greenhouse gas emissions throughout the Group. Our positive CO₂ budget shows that the carbon dioxide emissions avoided by means of SolarWorld products in 2006 exceed the emissions generated throughout the Group by a factor of more than 45. We continuously implement activities for further improvement of our energy and material efficiency, for more cost-effective and environment friendly production. Our research and development projects, such as the project for development of a system to optimise consumption of auxiliary substances in photovoltaic cell production, simultaneously pursue economic and environmental goals. Technological optimisation has given rise to material savings and the prevention of climate gas emissions. The Group's CO₂ emissions have therefore remained constant at around 41 (previous year: 41) thousand tonnes of CO₂ equivalents despite the increase in production in 2006. These group-wide figures for the completed fiscal year did not yet include the newly added solar activities of the Shell Group.

Due to the solar power modules supplied by us at the end of the value chain, the environment is spared a total of around 1.9 (previous year: 1.2) million tons of CO₂. The environmental damage prevented in this way is worth around 130 (previous year: 84) million €.

Pioneer in worldwide ranking. In the CNBC European Business Ranking our Group was selected to be among the 50 worldwide pioneers who through CO₂-reducing technologies and sustainable environmental commitment have succeeded in benefiting economically. The ranking evaluates companies who have included entrepreneurial action against climate change as an opportunity into their business model and who have in this way positioned themselves at an early point in time in the growing market of low carbon technologies.

Social commitment. Our economic activities are backed by our support for specific projects conducive to climate protection. Thus, in the exhibition project with the Museum König, Bonn that illustrates the increasing destruction of irreplaceable areas of rain forest we stimulate public awareness of the close links between forest clearance and the threat of climate change*. For the sustainable promotion of junior scientific staff in the area of solar energy we have created the "Einstein-Award"*. In addition, we are involved as the main sponsor in the scientific development of a solar-powered racing car*. In developing countries we again sponsored specific projects with modules in 2006. We entered into the planning of a long-term initiative with international aid organisations for the use of solar power technology in development projects.

www.solarworld.de/regenwald

www.solarworld.de/einstein-award

www.solarworld.de/solarracer

Overall management statement on Chapter I.

Business trend in 2006. The key characteristics of the 2006 fiscal year were the acquisition of Shell's solar activities and sustained organic growth. The integration process was successfully implemented as planned and matched our expectations. In 2006 we achieved a strategic position in the important solar core market US, which has an enormous growth potential, and achieved a market share of more than 10 per cent from scratch. We expanded our position as one of the largest fully integrated suppliers of solar power technology worldwide. Our silicon supplies were pushed ahead by means of internal projects and strategic alliances in 2006. This created a basis for further growth and boosted our long term competitive situation. In 2006 we again outperformed the worldwide solar market at revenue growth of 45 per cent. This trend again confirms our strategy and manifests the successful implementation of our strategy.

Forecast met. We matched our 2005 forecast of 40 per cent growth in sales revenues and earnings for the 2006 fiscal year and achieved both goals: Group-wide sales rose by 45 per cent year-on-year while group-wide earnings, adjusted for special effects, grew by 40 per cent year-on-year. Including the special effects, Group earnings went up by 151 per cent year-on-year*.

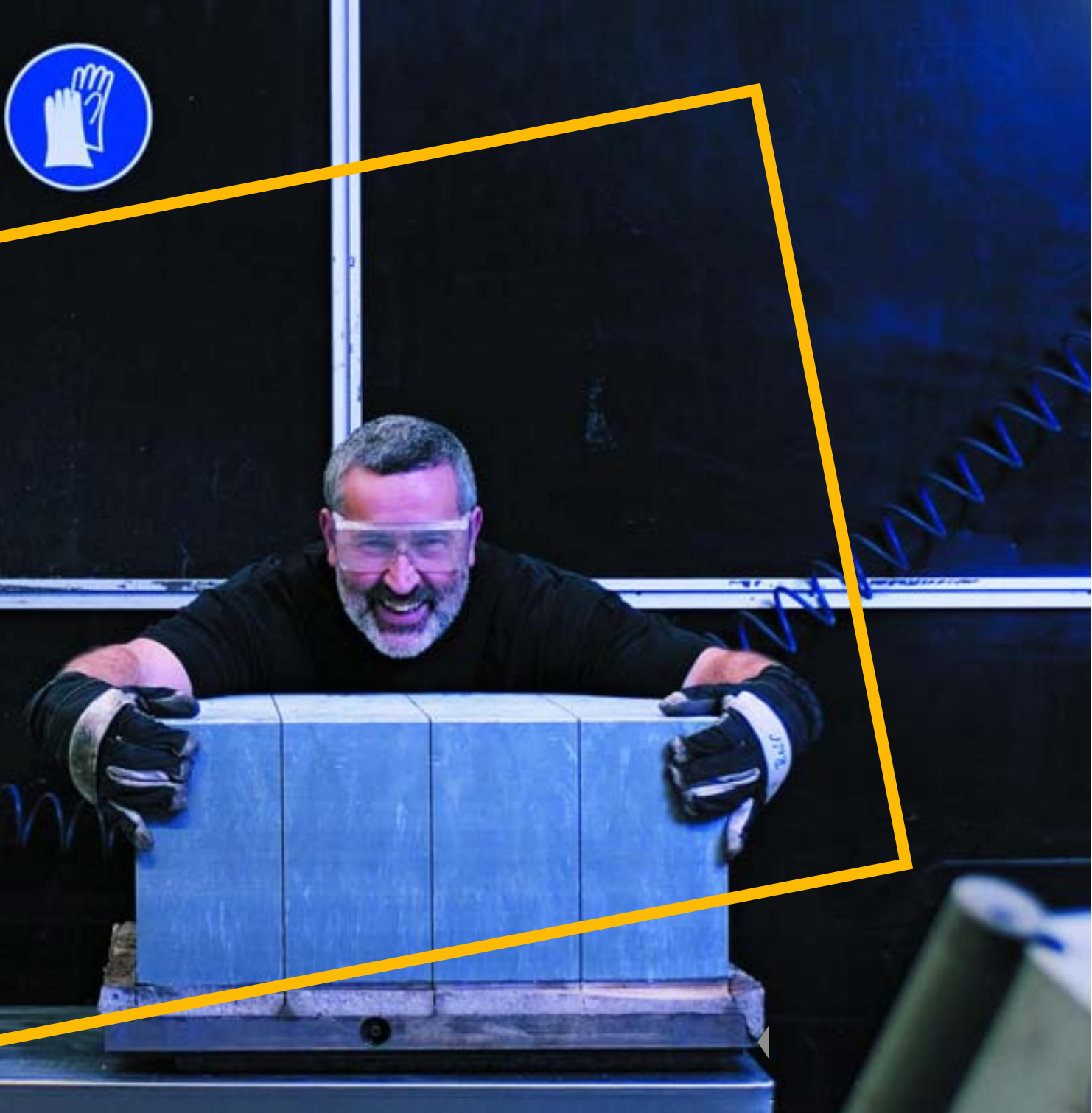


Earnings and sales
development

46



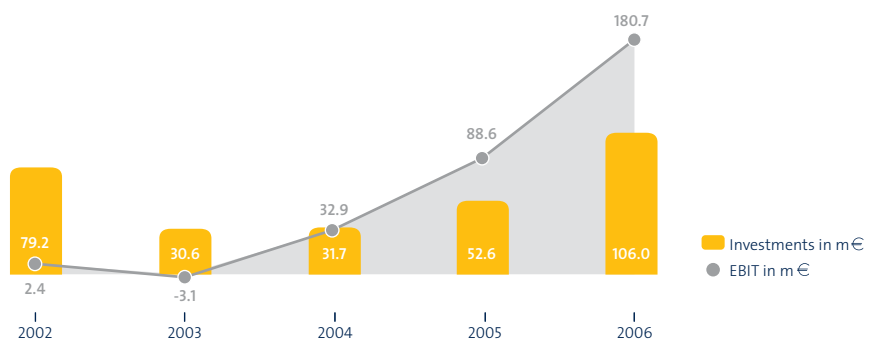
Substance





Long-term appreciation through high earnings power: Our business development has for years been characterized by a sound earnings structure. Based on the healthy financial situation and capital structure in the SolarWorld Group we were able to push ahead our growth by way of sustainable investments.







II. EARNINGS, FINANCIAL AND ASSET SITUATION



II. 1. Notes on acquisition of Shell's crystalline solar activities

With effect from 1 July 2006, SolarWorld AG acquired 100 per cent of the crystalline solar business of the Shell Group. The purchase price was 24.2 million €. A major part of the acquisition cost is reflected in the existing working capital of the companies acquired. In particular, cash funds worth 17 million € were taken over with the new companies, so that SolarWorld AG will report net cash outflow of 7.2 million € for the acquisition.

The purchase price was reduced by 2.4 million € compared with the provisional value indicated at the end of the third quarter, following positive follow-up negotiations.

This adjustment in the purchase price, together with effects from drawing up the first balance sheet in the fourth quarter for initial consolidation, led to an adjustment of the earnings from the initial consolidation to 57 (third quarter 2006: 54) million €. This amount represents the value of the net assets of the companies acquired in excess of the acquisition cost.

In connection with this acquisition, additional expenditure subsidies to be paid by Shell over and above this amount were fixed by contract – this was mainly to cover the anticipated under-usage of capacity in the initial period, and the necessary restructuring measures in the newly acquired companies. This Agreement meant that 18.4 million € could be reported with a positive impact on earnings in 2006.



II. 2. Earnings situation

2.1 Earnings and sales development

Our Group expanded and internationalised its business along the whole of the value chain. That applies in particular to trading business. The increasing importance of international markets for Group business was reflected by an increase in the proportion of international business in favour of non-German markets, now 43 (previous year: 26) per cent. Group sales were up 45 per cent to 515.2 (previous year: 356.0) million €. Earnings before interest, tax, depreciation and amortisation (EBITDA) were up 106 per cent to 223.3 (previous year: 108.3) million €, and earnings before interest and tax (EBIT) were up 104 per cent to 180.7 (previous year: 88.6) million €. Group earnings in 2006 exceeded the previous year's results (52.0 million €) by 151 per cent, at 130.6 million €.

The Group results include three significant special effects, which in the opinion of the management are not attributable to operating business – these are the non-recurring amount from the initial consolidation of the Shell business, that is 57 million €; one-off expenditure of 13 million € from the special write-off related to the at-equity valued share in Solarparc AG, and the expenditure grants paid by the Shell Group for the companies acquired, amounting to 18.4 million €. Group EBIT adjusted for these effects was 118 million €. The adjusted annual earnings were 73 million € which is 40 per cent up year-on-year.

Based on an as-if income statement, eliminating the earnings of the newly acquired companies and the special effects, Group sales of the SolarWorld "old" Group would have been about 456 million €, and the corresponding EBIT would have been about 139 million €. That is equivalent to an EBIT margin higher than 30 per cent.

2.2 Order development

The wafer contracts agreed with international customers in the third quarter 2006 amounted to a total of about 2.3 billion €, securing 50 per cent long-term capacity utilisation of our wafer production capacities. This order book ensures predictable sales and cash flows up to 2018. The profitability of these orders is ensured by long-term silicon contracts agreed by the Group with leading silicon suppliers.

In trading business, we closed extensive deals for fiscal year 2007, especially in the second half of 2006. Orders received covered about 70 per cent of planned sales volume for 2007 by year end.

In the United States we succeeded in selling all products manufactured in the USA in 2006, thanks to rapid conclusion of new business. Negotiations for 2007 were already well under way by year end.

In the course of transfer of Shell activities, we also took on long-term contracts in the Asia-Pacific region for off-grid photovoltaic systems in the single-digit MW range.

2.3 Development of major P&L items

Due to the acquisition other operating income increased significantly to 98.1 (previous year: 14.9) million €. This item includes the income from initial consolidation amounting to 57.0 million €, and the expenditure grants of the Shell Group to compensate for the costs for staff, restructuring measures and silicon procurement, amounting to 18.4 million €. Other operating income includes* the income from release of the accrued investment grants.

The personnel cost ratio rose slightly to 10.5 (previous year: 10.2) per cent with an increase in personnel costs to 57.8 million €. The slight increase is attributable to the fact that the new sites had not yet reached full utilisation.

The increase in depreciation is due to a whole series of factors. Firstly, a change in stock exchange valuations necessitated a special write-down amounting to 13.0 million € on the share of Solarparc AG acquired during the period under review. At the time of the value adjustment on 30 September, a stock exchange price of 7.22 € was used as the basis. The price at the time of acquisition was 14.85 €. Secondly, there were higher depreciation amounts due to the Shell transaction and the increase in tangible assets as a result of other capital expenditures.

In the framework of the Shell transaction and the continual organic business growth, other operating expenses rose to 61.3 million €.*

The financial result improved significantly year-on-year to 0.24 (previous year: minus 4.85) million € due to the increase in the net financial position.

2.4 Multi-period overview of the earnings situation

in t€

	1-12.2002	1-12.2003	1-12.2004	1-12.2005	1-12.2006
Sales revenues	108,896	98,477	199,933	355,971	515,246
Change in inventories of finished goods	3,239	26,198	-14,658	12,387	32,546
Own work capitalised	143	0	0	3,359	590
Other operating income	5,748	10,332	10,616	14,856	98,053
Operating performance	118,026	135,007	195,891	386,573	646,435
Cost of materials	-72,795	-87,992	-93,005	-210,902	-304,008
Staff costs	-13,478	-18,638	-30,833	-37,780	-57,786
Depreciation and amortisation	-9,274	-14,828	-16,456	-19,687	-42,612
Other operating expenses	-20,071	-16,651	-22,706	-29,590	-61,306
Sub-total	-115,618	-138,109	-163,000	-297,959	-465,712
Operating result	2,408	-3,102	32,891	88,614	180,723
Financial result	-4,046	-6,174	-4,356	-4,850	242
Income taxes	153	3,863	-10,421	-31,782	-50,399
Group profit/loss for the year	-1,485	-5,413	18,114	51,982	130,566
Ratios					
Return on sales <small>(Group profit or loss for the year/sales revenues)</small>	-1.4%	-5.5%	9.1%	14.6%	25.3%
Cost of materials ratio <small>(Cost of materials/Sales revenues plus changes in inventories of finished goods, and own work capitalised)</small>	64.8%	70.6%	50.2%	56.7%	55.4%
Staff cost ratio <small>(Staff costs/Sales revenues plus changes in inventories of finished goods, and own work capitalised)</small>	12.0%	14.9%	16.6%	10.2%	10.5%



II. 3. Financial situation

3.1 Principles and aims of financial management

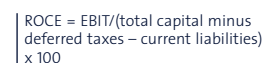
The objective of our financial management in 2006 was to continue improving the financial strength of the Group in the course of acquisition of the Shell photovoltaic activities, and in preparation for further growth throughout the Group. We succeeded in doing so by obtaining fresh capital, while at the same time keeping optimisation of our overall capital structure very much in mind. The capital increase at the beginning of the year was in line with our long-term principle of sound equity capital structure. The long-term goal is to maintain an equity ratio of around 50 per cent. At the balance sheet reference date, the ratio was 59.5 (previous year: 48.6) per cent. In accordance with the resolution of the AGM on conversion of a part of the capital reserve of SolarWorld AG, we have increased subscribed capital to 55.86 million €.

By acquisition of long-term loan capital tranches in the USA and Europe, we have worked towards our goal of achieving a balanced relationship between loan capital and equity capital financing. We have followed international standards in this structuring of the liabilities side. By obtaining these loan funds from institutional investors who take the long-term view, we have also complied with our goal of increasing independence from banks and putting our capital resources on a broader base.

With respect to liquidity, the SolarWorld Group concentrates on first degree liquidity*. The goal is to keep this ratio above 1.0 at all times, ensuring that there is always enough scope for entrepreneurial decisions.



Other ratios used in financial management are ROCE (Return on Capital Employed), which reflects the return on the capital used in the company. The ROCE of SolarWorld AG was once again well above the corresponding costs of capital, at 21.0 per cent.



3.2 Financing analysis

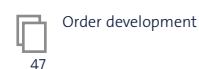
In the course of placement of new shares (capital increase) SolarWorld AG received capital influx amounting to 233.7 million € in the first quarter. In December, the company also placed loan capital tranches worth 175 million dollars with US institutional investors and note loans worth more than 100 million € with investors in Europe. By the balance sheet reference date, the company had received an influx of liquidity worth 25.9 million € from this placement. The remaining part followed at the beginning of the new fiscal year*. The terms of these loan capital amounts are between seven and twelve years.



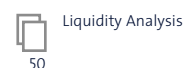
Financing terms were improved again compared with previous loan capital activities. Thus the margin for the seven-year investment horizon was below 100 basis points, so SolarWorld Group is in the range of established "investment grade" companies. This reflects the confidence of institutional investors in the future of the SolarWorld Group.

In connection with the silicon activities of the joint venture Joint Solar Silicon, SolarWorld AG signed an agreement with a bank on project financing. The total volume of the long-term credit contracts is 40 million €. Of this amount, 20 million € had been taken up by the reference date.

Another financing source for the Group is government investment grants and bonuses for establishment of production in Freiberg. This year again, the SolarWorld Group was able to finance a significant proportion of its capital expenditure in this way. The grants and bonuses are accrued on the liability side, and released over the period of usage of the relevant investments. At the balance sheet reference date, the amount of investment grants thus accrued was 57.1 (previous year: 56.5) million €. The increase in other liabilities is mainly due to advance payments received from long-term wafer contracts*. This provided financing for a large proportion of the advance payments made by the SolarWorld Group for long-term silicon purchase contracts.



The soundness of the financial situation is demonstrated by the continued positive situation in liquidity* and the fact that long-term assets (362.5 million €) are more than covered by equity capital (597.3 million €).



3.3 Importance of ex-balance sheet financing instruments for the financial situation

No ex-balance sheet financing instruments were used in Group financing.

3.4 Investment analysis

The Group made investments in the whole of the value chain, in tangible assets, financial assets and intangible assets, amounting to 142.3 (previous year: 57.3) million €. The Group invested a total of 102.9 million € in expansion of production at the Freiberg sites and in Sweden.

That amount includes 62.8 million € for expansion of the wafer segment in Freiberg. It contains 8.5 million € used for expansion of the SolarMaterial division. The Group invested 35.0 million € in boosting cell production capacity in Freiberg, particularly in the new production line. We invested 5.1 million € on expansion of the existing module factories in Freiberg and Sweden, and on construction of the second Solar Factory in Freiberg.

Almost all of the investments are for expansion. Due to the very young age structure of the fixed assets, no significant maintenance investments were necessary, and none are necessary now. The investment ratio¹ was higher than 300 per cent.

Acquisition of the Shell activities had an impact of 7.2 million € on net cash outflow. The fixed assets acquired in the process were valued at approximately € 42 million in the initial consolidation. Investments for further expansion of US production were still low, as planned, at about 1.1 million €.

Apart from that, some 29 million € were invested in interest holdings in companies. 25.3 million € of that amount were for acquisition of 29 per cent of the shares of Solarparc AG and contributions amounting to a total of 3.8 million € in the two joint ventures of SolarWorld AG.

3.5 Liquidity analysis

The Group had continuous influx of liquid funds throughout the year. Free liquidity² amounted to 303.2 (previous year: 118.1) million € at reference date 31 December.

The cash flow from ongoing business activities amounted to minus 94.1 (previous year: 65.1) million €. The negative cash flow comes exclusively from the rise in working capital, mainly due to two specific circumstances. Firstly, here it is included an addition of marketable securities amounting to 76.3 million €. These are conservative, income-oriented securities, which are convertible to liquid funds at any time and are not subject to major fluctuations in value. Therefore we include them under free liquidity. However, as they do not meet the IFRS criteria for inclusion in the financing funds, these investments have to be shown in the cash flow statement as outflow of cash. Secondly, the increase in inventories³ is largely attributable to advance payments (85.6 million €) made on long-term delivery contracts in the wafer segment.


The cash flow from investing activities totalled minus 109.5 (previous year: minus 33.7) million €. The cash flow from investing activities includes an amount of 6.1 million € from the recognition of investment grants. The cash flow from financing activities rose to 303.1 (previous year: 37.7) million € due to the high inflow from the capital increase and increase in net financial loans.

Financing funds at year end were thus 194.3 (previous year: 95.9) million €.

First-degree liquidity, or “cash ratio”¹, was 2.3 at the balance sheet reference date. Second-degree liquidity, known as “quick ratio”², was up to 3.0; and third-degree liquidity, known as “current ratio”³ was 4.8. All three ratios illustrate the strong position of our Group, well above the average in international comparison.

Investment ratio =
capital expenditure/depreciation
x 100

Free liquidity =
Marketable securities
+ Liquid funds

Asset structure analysis 
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Investment analysis 
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¹ cash ratio =
(marketable securities + liquid funds)
/current liabilities

² quick ratio =
(liquid funds
+ short-term available funds)
/current liabilities

³ current ratio =
current assets/current liabilities

Liquid funds more than cover total financial liabilities. Net liquidity at the balance sheet reference date was 140.1 million €.

3.6 Multi-period overview of financial situation

in t€

	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.12.2006
Group profit/loss for the year	-1,485	-5,413	18,114	51,982	130,566
Liabilities (non-current and current)	127,546	167,299	151,801	229,523	407,089
Shareholders' equity	109,989	107,543	124,488	217,056	597,321
Total assets	237,535	274,842	276,289	446,579	1,004,410
Ratios					
Return on equity <small>(Group profit or loss for the year/Shareholders' equity)</small>	-1.4%	-5.0%	14.6%	23.9%	21.9%
ROCE	1.4%	-1.6%	15.7%	25.1%	21.0%
Cash ratio	0.2	0.3	0.5	1.4	2.3
Quick ratio	0.6	0.6	0.7	1.7	3.0
Current ratio	1.3	1.4	1.5	2.7	4.8

II. 4. Asset situation

4.1 Asset structure analysis

The assets grew in 2006 along the whole of the value chain to 344.5 (previous year: 217.5) million € in the course of the acquisition and consolidation of the new companies and expansion of capacities. The financial investments rose to 19.4 (previous year: 4.6) million € by investments in interest holdings measured at-equity. The asset cover degree was 165 per cent.

Asset cover degree =
shareholders' equity/
non-current assets

Growth in inventories is mainly due to two factors. Firstly, this reflects advance payments for long-term securing of raw materials. Secondly, the increase is due to the substantial rise in the Group's production capacity, most of which was not available until the second half of the year.

The increase in trade receivables by some 51 million € to 72.0 million € is mainly due to the increase in business volume, and the increasing internationalisation of trading business. The high volume of business in the fourth quarter, well above the equivalent quarter of the previous year, resulted in a correspondingly higher volume of receivables at reference date 31 December. In addition, the growth in foreign markets has also meant that different modes of payment are now having more effect, such as longer payment periods compared with Germany.

4.2 Ex-balance sheet assets

Our Group had no off-balance sheet assets at the balance sheet reference date.

4.3 Importance of ex-balance sheet financing instruments for the asset situation

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

4.4 Other intangible assets

We generate our process advantages in current and future business largely as a result of our integrated research and development along the whole of the value chain. We refer to our Research and Development Report, and to our Forecast Report, indicating our future products and services.

Building sound customer relationships is a part of our sales strategy. As competition increases, there was further confirmation of the strategy of SolarWorld AG in building stable customer relations. We refer to Business development in 2006/Trading.

We are strengthening the quality of our contacts with the capital markets by means of a clear and strategically logical equity story, a very high degree of transparency, rapid communication, and intensification of investor relations. We refer to the section on the SolarWorld stock, and to our Corporate Governance Report.

4.5 Multi-period overview of asset situation

in t€

	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.12.2006
Assets					
Non-current assets	154,044	174,232	184,955	219,776	362,514
Current assets	83,491	100,610	91,334	226,803	641,896
Total assets	237,535	274,842	276,289	446,579	1,004,410
Capital					
Shareholders' equity	109,989	107,543	124,488	217,056	597,321
Non-current liabilities	65,279	94,033	91,984	144,284	273,722
Current liabilities	62,267	73,266	59,817	85,239	133,367
Total capital	237,535	274,842	276,289	446,579	1,004,410
Ratios					
Equity ratio (shareholders' equity/total assets)	46.3%	39.1%	45.1%	48.6%	59.5%
Capitalisation ratio (non-current assets/total assets)	64.9%	63.4%	66.9%	49.2%	36.1%
Equity-to-fixed assets ratio I (Shareholders' equity/non-current assets)	0.7	0.6	0.7	1.0	1.6
Equity-to-fixed assets ratio II ((Shareholders' equity + non-current liabilities) / non-current assets)	1.1	1.2	1.2	1.6	2.4

II. 5. Human Resources

Represented worldwide. At year end, the Group workforce was 1,348 employees worldwide. 24.6 per cent of these were women (previous year: 16.6 per cent). Our workforce was up 77.6 per cent compared with the reference date of the previous year. Most of the new employees came from the companies acquired in the USA, Asia and Africa. We increased our workforce by 16.2 per cent at our established sites in Freiberg, Bonn and Sweden.

Group workforce as at 31 December 2006

	Employees at 31.12.2006	Employees at 31.12.2005	+/- Absolute
Germany	849*	685	+ 164
USA	415	2	+ 413
Rest of World	84	72	+ 12
Total	1.348	759	+ 589

*incl. 42 trainees

There were no changes in the composition of the Board of Management or Supervisory Board in 2006.

Successful integration of new staff. Integration of the new staff was characterised by a high degree of commitment and communicative exchange on both sides. The traditionally very open corporate culture in the Group created the optimal conditions for that.

Three management executives were appointed as Integration Managers for integration of the new staff into the SolarWorld structure, and to look after the interfaces within the Group: Mr. Philipp Koecke (Dipl.-Kfm. tech.), as CFO, who set up the commercial structures; Dr. Gerhard Kleiss, in his function as Head of Marketing and Business Development, who was responsible for product and process assessment and adaptation; and Mr. Boris Klebensberger (Dipl.-Ing.), as COO, who has been responsible for the US sites since 1 July 2006 and is harmonising the technological standards. The first successes in restructuring quickly became evident for the staff – production in the USA increased significantly, thus contributing to staff motivation.

In general terms, our new employees also show a high degree of identification with the values of the “dedicated” photovoltaic company. Our first staff magazine was published in German and English as early as mid-July, and the quarterly reports were sent internally to all employees with a personal message from the Board of Management; this was a useful confidence-building measure, creating transparency with respect to our business and our corporate culture.

As an inter-cultural company, we committed clearly to the principles of non-discrimination, and in an open letter to our staff we referred to the cultural diversity which is to be respected, specifically in our dealings with customers and colleagues from all parts of the world.

High level of staff identification. Skilled, committed and motivated staff are the key asset for our business success. These are qualities which we promote in our staff, by means of an open corporate culture, and by investing in our human resources. We conducted a staff survey at

the Freiberg and Bonn sites, to assess staff satisfaction. 92 per cent of staff said they would recommend SolarWorld as an employer. Respondents gave a good assessment of factors such as image and future opportunities of the company, its products and the general climate in the company. They were satisfied or very satisfied with job security, with the challenging assignments they are given and with the diversity of activities, and with the self-responsibility and scope for taking the initiative. Staff identification and hence loyalty is very high in our Group.

Staff fluctuation and absenteeism were correspondingly low in 2006. Due to the structural changes in the framework of the integration process at mid-year, we indicate our fluctuation rate in fiscal year 2006 for the German locations only – it was 3.5 per cent (German average: 10 per cent); absenteeism in Germany was 3.2 per cent, compared with the German national average of 3.3 per cent).

$$\text{absenteeism} = \frac{\text{absence due to sickness / nominal working hours}}{\times 100}$$

Corporate control



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Employee profit-sharing. We have an employee profit-sharing scheme (GOMAB) at our Bonn and Freiberg sites, which has for many years enabled staff to participate in the company's business success*. In addition to their salaries, employees receive a performance-related bonus, which is between 10 and 30 per cent of their annual salary, depending on the business success of the Group and the respective affiliate. GOMAB is a part of the Company Collective Bargaining Agreement of the Freiberg companies, and replaces other parts of the Agreement. This means that, since the inception of this scheme, the staff in Freiberg earned more than the rates agreed in Collective Bargaining for East Germany, and received payment at the same level as in Western Germany. Individual target and bonus agreements are applicable for our staff at other sites.

Health and safety. Regular health and safety checks were conducted throughout the Group. All companies have their own Safety Adviser as part of the Health & Safety management system. In addition, the manufacturing companies have special safety engineers. Health & Safety training sessions are conducted regularly throughout the Group. The direct costs of staff health and safety in 2006 were 1,343 (previous year: 72) thousand €.

Initial and further training. We increased the number of trainees by 45 per cent in 2006 compared with 2005. The trainee ratio was up to 5 per cent. The transfer rate from training to regular employment was 84 per cent in 2006.

$$\text{trainee ratio} = \frac{\text{total trainees / total employees}^*}{\times 100}$$

*in Germany, as no training is conducted in other countries

Trainees in the SolarWorld Group

	Bonn	Freiberg	Gesamt
Number of trainees at 31.12.2006	12	30	42
Number of trainees at 31.12.2005	8	21	29
+/- compared with previous year	+ 4	+ 9	+ 13
Vocational training completed in 2006	3	3	6*
New trainees in 2006	7	12	19

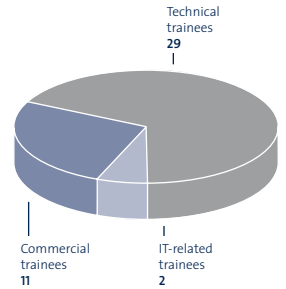
* 5 of these transferred to regular employment

We have a policy of targeted human resources development, which enhances the potential of our staff. The direct costs of initial and further training throughout the Group in 2006 were 402 (previous year: 165) thousand €, rising at a higher rate than the increase in staff numbers – an indicator of the qualitative level of investment in our employees. Apart from language training in English, which was becoming more and more important for inter-cultural communication, there were promotional training programs (e.g. training for foreman status “Meister”), IT training, safety training for employees, management training, and other specific and general areas of further training. In the USA, job rotation is offered to operative workers, engineers and senior executives.

Human Resources strategy. In order to maintain our high-performance positioning in the market in the long term, it is strategically important to recruit and retain skilled specialists and managers, and to maintain long-term human resources development. Our human resources strategy links on to the positive image of the renewable energy sector, and of our company. A survey that we conducted in 2006 among students, and thus among the technical specialists and managers of the future, impressively underscored this positive potential. Our management principles are based on our corporate philosophy*.

Our efforts to recruit skilled staff are based both on pro-active university marketing and on personal contacts. Where necessary, we also make use of external human resources advisers. We maintain relationships in a spirit of partnership with scientific institutions*, enabling us to recruit well qualified staff from the university and institutional area. These also include our sponsoring activities to promote young engineers in Germany, helping us to recruit young graduates for SolarWorld. At the Bochum University of Applied Sciences, we support the development of a solar-powered racing car, as a key future project. We also present the Einstein Award each year – an honor for outstanding performance in the further development of solar energy*.

Trainees within the Group



Corporate philosophy
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R&D Report
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Social commitment
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Advantage

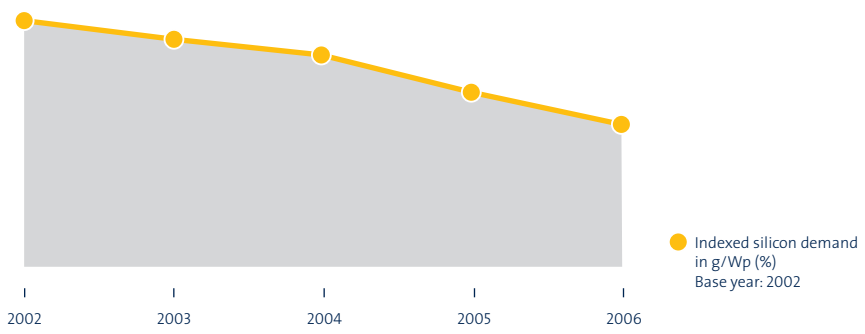




Efficiency and quality through integrated Research & Development:

Material savings and raw material efficiency regarding silicon cut manufacturing costs. On the procurement side we reduce raw material needs. Our innovative power is invested in these technologies. In the last five years we were able to significantly reduce the silicon demand per Watt peak.





III. RESEARCH AND DEVELOPMENT (R&D)

Expansion of organisation. Our research and development activities throughout the Group were strengthened in 2006, both by further investments at the established research centre in Freiberg and by integration of our second research site in Munich, by recruitment of further staff and by means of additional know-how in solar cell and solar module development. We worked on a project basis with more than 21 institutes and universities in 2006, and with a range of customers and suppliers.

The R&D work was controlled centrally by our affiliate Deutsche Solar AG in Freiberg.

Increase in R&D headcount. The number of our R&D staff has been increased by 63 per cent. In addition, an average of 114 employees were actively involved in operating tests and process tests. Where necessary, support was obtained from related external institutes and universities.

	2006	2005	2004	2003
Staff directly involved in R&D	39	24	23	11
Total staff in Group	1,348	759	616	525
Percentage R&D	2.3 %	3.2 %	3.7%	2.1%

Increase in R&D expenditure. R&D expenditures were increased by some 50 per cent in 2006, to a total of 12.4 (previous year: 8.33) million e. The grant ratio was 31.5 (previous year: 34.8) per cent.

in million €	2006	2005	2004	2003
Absolute amount of R&D expenditures	12.4	8.33	8.5	4.5

Major investments included experimental plant for development of new crystallisation and wafer technologies, and the equipment of research facilities with modern systems and measurement methods.

Increase in research ratio and intensity.

	2006	2005	2004
Research ratio	2.4 %	2.3 %	4.3%
Research intensity	2.9 %	3.1 %	5.8%

Research projects and research goals. Our activities in basic and applied research covered the whole of the value chain. Our research and development goals are aligned with our strategy*:

- > To increase efficiency and yield, and thus optimise costs.
- > To save material, increase raw material efficiency, and develop new technologies for silicon production.
- > To develop new technologies, and to optimise quality.

research ratio =
R&D expenditures/sales revenues
x 100

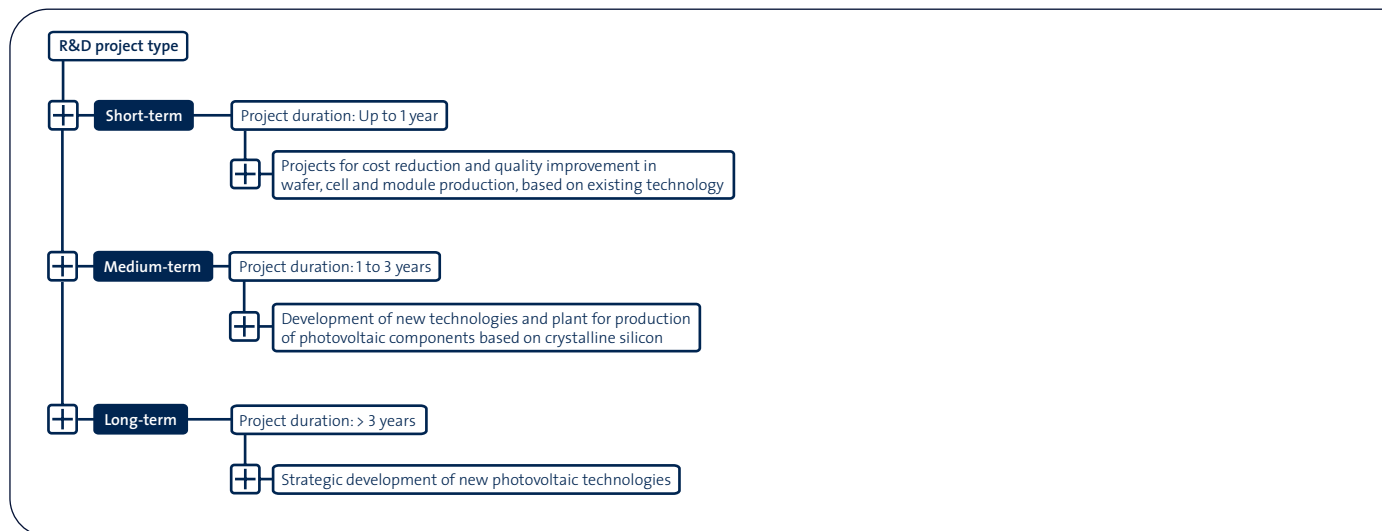
research intensity =
R&D expenditures/
total expenditures
x 100

Goals 2007/2008



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Altogether we had more than 24 (previous year: 19) research projects in progress. We distinguish between three project types, in terms of their duration:



We made decisive progress in our R&D projects in 2006.

- > **SolarMaterial.** In 2006 we conducted joint projects on raw material processing together with partners from industry, scientific institutes and higher education establishments, for recycling of wafers and for optimisation of etching processes in surface cleaning. A number of processes were developed and established for processing a wide range of silicon grades. The goal is to make use of the benefits of n-doped solar cells from micro-electronics for photovoltaic applications. This material is less sensitive to impurities. This would also open up new raw material reserves for the Group. So far there has been only occasional use of n-doped silicon parts in photovoltaic applications.
- > **Joint Solar Silicon.** We are working in this joint venture on development of a low-cost process for production of solar-grade silicon, and for introduction to production of the high-grade, low-cost solar-grade silicon (Sunsil®).
- > **Positive energy budget in recycling.** The pilot plant for recycling of damaged modules and old modules no longer in use underwent large-scale tests, which demonstrated that the pilot plant is already capable of making a positive contribution to reduction of energy consumption, and to savings in energy and materials.
- > **Increase in wafer yield.** Optimisation work proceeded on the crystallisation processes, i.e. in casting and in Bridgman and HEM (Heat Exchange Method) processes, to obtain greater yields and improved quality. Successes achieved in 2006 were reduction of process cycle times by further development of the production formulations used, for better productivity and quality. Development work continued on increasing ingot weight, and in 2006 a 600 kg silicon ingot was produced for the first time, thus also improving the space-time yield. Development of a re-usable melting crucible was another main focus in 2006. The first prototypes, in format 550 x 550 mm, were submitted to testing under near-production conditions. Implementation in production is planned for 2007.

Following completion of the projects for development of thin wafers 240 µm and 210 µm and to their introduction to production in 2005, work was intensified for development of even thinner wafers. In 2006 wafers with a thickness of 180 µm were produced in a number of process tests, with good yields. Transfer to production is to start in 2007. Continuous further development of wafer products is an important priority, not least with a view to the future. It serves the purpose of reducing specific silicon consumption. This aim was also addressed in a research project initiated in 2006 to optimise the wafer production process in terms of sawing losses from wire sawing of silicon wafers.

- > **RGS process.** The Group is working on the RGS process (Ribbon Growth on Substrate) together with two Dutch partners – this works with a simple casting process to manufacture silicon discs at high speed. This method eliminates the sawing process, thus also reducing material loss to a minimum. A “pre-production” plant has been designed and is currently being built. RGS material achieved an efficiency of more than 14 per cent for the first time in 2006, in work at the University of Constance. The key patents for this promising technology were contributed by Deutsche Solar AG exclusively to RGS Development BV.
- > **Cost reduction in solar cells.** The focus of research and development in cell production was the introduction of 210 µm wafers. This already made a contribution to cost reduction in the second half of 2006. The first cells with a thickness of 160 µm are currently undergoing tests. Another focus was further development of production technology. This increased cell efficiency, thus helping to achieve a reduction of costs per watt peak.
- > **Improvement in module technology.** The new module production in Solar Factory II comprises projects for further development* of module material composition and design, and for greater productivity in the production processes. In particular, improved soldering technique has been developed in string production.
- > **Crystal Clear at photovoltaic conference.** Our Group is participating in the biggest EU solar research project “Crystal Clear”, together with leading European photovoltaic research facilities and other industrial partners. Up to the present, the main contributions are production of 400 kg ingots and provision of life-cycle data on eco-efficiency.

Expansion of research cooperation. The Technology Centre for Semiconductor Materials (THM) in Freiberg, which we helped to set up in 2005, made progress in 2006 on the joint projects in cooperation with the Fraunhofer Institute and the semi-conductor companies Siltronic AG and FCM. New laboratory and pilot plant facilities were added in 2006. The goal of the joint research facilities is to improve production technologies, using possible synergies between the technologies in the photovoltaic and micro-electronic industries.

Expansion of industrial property rights. The Group holds industrial property rights and has filed applications for such rights along the photovoltaic value chain. As a result of acquisition of rights and pending rights, and pursuit of own research activities, the Group is in possession of 75 (previous year: 15) families of industrial property rights with more than 180 (previous year: 25) patents and applications. In 2006 five new applications were filed for industrial property rights, and property rights were acquired from the former Shell Solar Group.

Transfer of new products to production. In 2006 the newly developed silicon raw material Sunsil® was processed with an initial quantity of about 10 tons, in the framework of the JSSI. Production was almost exclusively of wafers with formats multi-crystalline 156 x 156 mm² x 210 µm. The newly developed acid textured solar cell was transferred to solar cell production – the surface of this solar cell is microscopically roughened by etching, so that more light is coupled into the solar cell and the solar cell has a darker appearance.



IV. SUPPLEMENTARY REPORT

IV. 1. Disclosure of transactions of particular relevance

Acquisition of new production site. In Hillsboro, Oregon state, USA, we acquired the silicon wafer production of the Japanese Komatsu Group at a price of 30 million € as at 1 March 2007. The investments by the Komatsu Group totalled around 600 million €. Due to the weakness in demand in the chip industry, the Komatsu Group did not launch production in the plant.

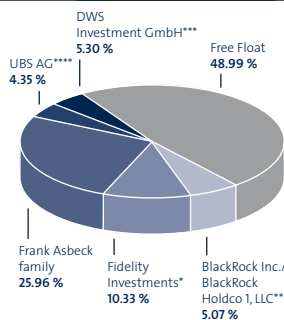
Further wafer contracts. Our subsidiary Deutsche Solar AG signed another long-term contract for delivery of solar silicon wafers in January 2007. The customer is the Canadian company Canadian Solar Inc. (CSI), an international manufacturer of photovoltaic modules, which has its production facilities in China. The order is worth 180 million €. The contract comes into force in 2007 and has a term of twelve years.

Large orders in the trading business. In January 2007, an agreement on the delivery of a 1.9 MW solar power station was concluded with Solarparc AG. In South Korea, we have signed contracts for delivery of modules worth more than 3 million €.

Placements closed. The placements of loan capital tranches with institutional investors brought us in January/February 2007 an influx of 342 million €, as expected.

Shareholder structure changed. The shareholder structure of SolarWorld AG had changed as of reference date 6 March 2007.

Shareholder structure



* Disclosure pursuant to Sections 21 et seq. WpHG of 9 November 2006

** Disclosure pursuant to Sections 21 et seq. WpHG of 19 October 2006

*** Disclosure pursuant to Sections 21 et seq. WpHG of 6 March 2007

**** Disclosure pursuant to Sections 21 et seq. WpHG of 16 February 2007

IV. 2. Impact of transactions of particular relevance

Further expansion of production in the USA. At the new site in Hillsboro we will launch the expansion of an integrated wafer and cell production for mono-crystalline silicon products. While we primarily produce multi-crystalline solar silicon products in Freiberg, Hillsboro will benefit from the transfer of the know-how in mono-crystalline technology from the Shell companies acquired. Our goal is to achieve a capacity of 500 MW by 2010 and establish the largest solar production in the USA on that basis. We will invest around 300 million € to further expand the new site. The federal state of Oregon supports these investments with funds available under its anti-global warming program. We will relocate our crystallisation activities from Vancouver to Hillsboro and start production as early as in the summer of 2007. Boris Klebensberger, our Chief Operating Officer (COO), locally coordinates the expansion of our activities in the USA.

Due to the editorial deadline, we refer to our interim report for the first quarter of 2007 which will be published on 15 May 2007 for further details of the effect of this acquisition on the further development of our business.

Long-term wafer orders. The new order with CSI underscores the strategic importance of external long-term contracts for the wafer business, the long-term goal being to sell 50 per cent of the wafers produced by Deutsche Solar AG to external customers. Altogether, the Group has a long-term order book in wafer business of 2.5 billion €.

The new large-volume orders have increased the business of the Group and its proportion of foreign business.

Free liquidity to safeguard expansion. The capital influx from placement of loan capital has increased free liquidity from 303.2 million € on reference date 31 December 2006 to some 500 million €, in order to finance the continuing growth process.



IV. 3. Declaration pursuant to § 315 Section 1 Sentence 6 HGB (German Commercial Code)

The legal representatives of the parent company declare that the Group management report describes the business development including the business results and the situation of the Group in such a way that it gives a true and fair view of the actual conditions and that the major opportunities and risks as defined in § 315 Section 1 Sentence 5 HGB are depicted.

Overall statement on the economic situation

The economic situation of the Group is assessed as very positive by SolarWorld's management, on the basis of the earnings, financial and assets situation as shown in the Group financial statements 2006, as described above, and also taking account of current business in 2007 at the time of the preparation of the Group Management Report. Integration of the new US sites has progressed successfully and according to plan and it is on its way to reaching the break-even point in the course of 2007. With the acquisition of the new production site in the USA and the associated planned capacity expansion, we will further expand our leading market position in the fast-growing US solar market.

V. RISK REPORT

V. 1. Management system for risks and opportunities

Integrated risk and opportunities management. Our group-wide risk and opportunities management system is an integral part of all major company processes and areas. This ensures that risks and opportunities are systematically identified, evaluated and managed throughout the Group.

The Board of Management decides on corporate strategy and the risk management policy associated with it. Risk assessment is determined by the risk standards thus specified. The operating units report the risks identified locally to the Board of Management, in their monthly reports. In individual cases of acute risk, reporting is immediate. Our new sites have a risk early warning system which is compatible with this procedure.

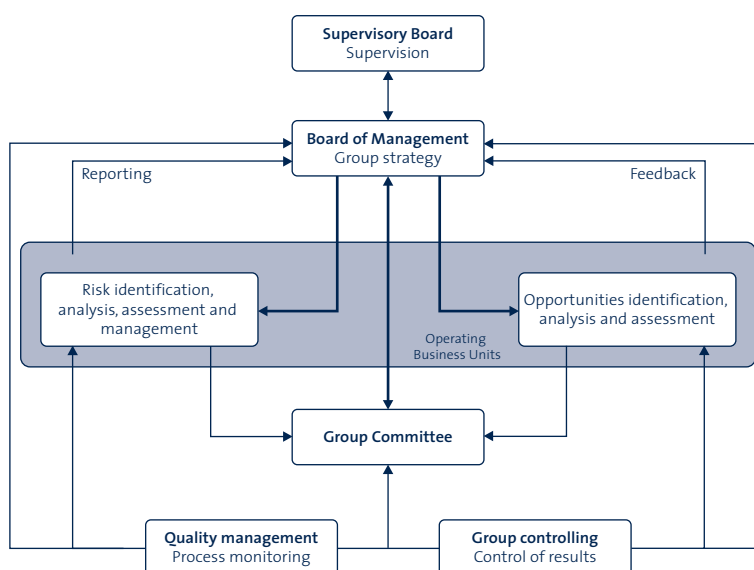
Another tool for identification of risks and opportunities is the Group Committee meetings, attended by members of the Board of Management and senior executives of the operating business units. They assess risks and opportunities in the business areas, on the basis of risk management policy and corporate strategy. The Board of Management makes decisions on the basis of the acceptable overall risk, weighing up risks and potential benefits to decide on the appropriate response to risks and opportunities; it minimises risks by appropriate back-up strategies, or by transferring such risks to third parties, or by avoiding such risks completely. Where such decisions are of major importance, the Supervisory Board is also involved in the decision making process. This enables us to take counter-measures at an early stage in the event of developments which could endanger the further existence of the company. Our open corporate culture has played a key role in the work of this committee, to ensure proper assessment of the new risk and opportunities structure arising from our acquisition in 2006.

The risk identification and early warning system is backed by a group-wide quality management system, with standardised processes according to DIN EN ISO 9001:2000. This is designed to make potential risks more transparent and permit early identification of risks. Management Reviews are conducted to enable the Board of Management to monitor, manage and reduce the risks thus identified.

The system is closely connected with Group controlling, to create the basis for assessment of the impact of the risks and opportunities identified on the income, financial and asset situation.

The Group has taken out insurance to keep the remaining risks within limits or eliminate them completely; insurance cover is continually reviewed to ensure that it keeps pace with ongoing growth.

The risk early warning system is assessed annually by the auditor. The auditor reports the result of his examinations to the Group Board of Management and the Supervisory Board.



Risk management system with respect to financing instruments. Responsibility for minimising risk in the use of various financing instruments lies with the SolarWorld Board of Management and with the manager directors of the respective subsidiaries. The business units report to the Board of Management on any risks occurring and any hedging business transacted. The direct allocation of financing instruments to specific projects increases transparency, and permits direct risk control.

We take measures to manage financing risks such as price, currency and interest rate risks, which occur in the course of our increasingly international business, by means of framework agreements, contract terms and hedging business.

V. 2. Individual risks

! **Risks resulting from general economic conditions.** The increase in Value Added Tax (VAT) in Germany in 2007 could cause reduction in demand from potential photovoltaic end customers. As our customers are exclusively wholesalers and specialist dealers, this has no direct impact on our business in the short term.

>>> In response to the possible impact on demand from final customers, we reduced prices to our customers in the first quarter 2007, indicating that they should pass on this price reduction to final customers.

! **Risks from regulatory conditions.** A review of the economic efficiency of the individual feed-in rates under the terms of the Renewable Energies Act (EEG) is scheduled in Germany for the second half of 2007. We assess the risk of complete abolition of the Renewable Energies Act as extremely low, since the Coalition Agreement of the present government stipulates that the basic structure of the Renewable Energies Act is to be maintained. A more probable risk is possible reduction in the compensation rates for photovoltaic power feed-in, to an extent which cannot be assessed at the present time. Due to the employment and export impact of the industry on Germany as a business location, we believe there is little risk of massive changes by the government. These risks are less relevant in international business, because governments are increasingly turning towards photovoltaic power in order to achieve supply security and to meet climate protection goals.

>>> Thanks to our continuous progress in achieving economies of scale, we will make photovoltaic power competitive in the medium term, and gradually minimise the risk of dependence on public subsidy programs. We are spreading the risk of our business in international markets, thus reducing the risk from changes in background conditions in particular regions.

! **Tougher competition.** The first signs of tougher competition were apparent in 2006. The strong growth in the photovoltaic market is attracting new competitors, especially in the Asian region and in the USA. The industry is increasingly taking up financing capital, as can be seen from the increased number of stock exchange listings. And companies from the semi-conductor industry are trying to enter the rapidly growing photovoltaic market. As competitive pressure increases, there is a risk of losing market share. That would have a greater impact on the module sector, because the market entry barriers are greater for new competitors in the wafer and cell segments, due to the high degree of capital intensity and the amount of technological know-how needed.

>>> In the trading business, our sales strategy is directed at building long-term customer relations. This minimises the risk of customer loss*. Our integrated production gives us the competitive advantage of being able to respond more flexibly to quality and price effects. Integrated cost control enables us to achieve better management of any impact on the financial, assets and income situation.



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! **Corporate strategy risks.** Strategic alliances are important for the competitive development of our market position, but they involve risks because of the uncertainties associated with them.

>>> We minimise these risks by conducting advance feasibility studies on such alliances with required due diligence; they are routinely monitored by experienced law firms and auditing companies. If any risks are identified in that process, we may insist on contractual stipulations, or in certain cases break off negotiations. In view of these precautions, we believe there is little probability of negative impact on the medium- to long-term economic situation of the Group.

! **Risks resulting from integration.** The fact that our new sites in the USA are not working to full capacity involves a risk that the expected break-even point in operating activities of SolarWorld Industries America could occur later than planned.

>>> This risk seems to be well contained, with 50 per cent capacity utilisation at the new sites already achieved in the second half of 2006, and new investments planned for 2007 in technology build-up to reach a similar level to the Freiberg site. We can also draw on the experience we gained in the acquisition of the former Bayer Solar company in 2000/2001. The improvement in the silicon sourcing situation will gradually lead to further improvement in capacity utilisation.

! **Procurement risks.** The risks associated with the scarcity of silicon capacities in the industry temporarily became more serious for the Group in 2006, in view of new production capacities resulting from the acquisition.

>>> We took measures to counteract this risk in the second half of 2006. By building up our centrally controlled silicon management system, we were able to make additional silicon agreements before the end of 2006. We also expanded our “strategic pillars” for internal sourcing of silicon in the course of the fiscal year, helping to reduce risk. Thanks to our vertical integration, our downstream production stages are not affected by the sourcing risks in the market.

! **Risk from alternative technologies.** The temporary worldwide shortages in silicon supply have led to an increased trend in the industry to invest in alternative technologies, e.g. thin-film technology. Compared with the previous year, there was an increase in the risk that these technologies could succeed in gaining a greater share of the market in future.

>>> The risk of strong gains in market share and of substitution of these alternative technologies may be assessed as small, in view of their small market share, accounting for only about 6 per cent of the photovoltaic market, and in view of their lack of experience in mass production. Despite the first impressions of raw material benefits, these will be of little importance in the medium-term – the feedstock for production of thin-film solar cells, such as tellurium and indium, are available only in finite quantities in the earth’s crust, and the quantities are not sufficient for complete coverage of the expected worldwide solar market growth. In contrast, crystalline silicon is the second most frequent component in the earth’s crust, and is therefore not a scarce raw material. The bottleneck in current processing capacities will be resolved in the medium term. In addition, some of the raw materials used in thin-film technology, such as cadmium and tellurium, are toxic to humans, and are hazardous in production. The use of cadmium in production, for example, is restricted by EU chemicals regulations.

! **Human resources risks.** Increasing competition and strong market growth have increased the risk of lack of skilled human resources in the industry, compared with previous years.


>>> We are responding to the risk of loss of skilled human resources by a wide range of training and further education measures, and performance-related compensation systems. An important factor in reducing this risk is the satisfaction of our staff with the corporate culture. We are meeting the risk of not having appropriate staff to deputise, particularly in key positions, by the system of deputising and powers set out in our quality management system. In 2006 we stepped up our efforts to recruit graduates, including use of external human resources advisers, and increased our efforts in research cooperation with external institutes, to reduce the risk of not being able to recruit enough specialist staff. We can draw on the services of a law firm specialising in labour and contract law, to ensure appropriate management of human resources matters within the Group.

! **Information technology risks.** Any defects in the operation of Information Technology systems could cause interruption of work and loss of productivity. The risks of disruptions to functioning of IT systems are increased by the internationalisation of our business in 2006 and the necessary global expansion and networking.


>>> We are responding to these risks by the use of software and hardware systems which meet the high requirements in all respects, ensuring a failsafe, high-availability environment. This policy includes specification of BSI certified systems, which ensure a high degree of security and reliability. An important element in system security is the application of strict security guidelines and comprehensive data back-up procedures. Particular attention is thereby given to the stability of the systems supporting the business process. In addition, the risk of possible failures in electronically based information processing is reduced by separation of the IT systems for production and administration. This practically eliminates the risk of failure throughout the Group.

! **Financial risks.** The results of our business activities could be influenced by currency, interest rate and price change risks.

>>> Thanks to the capital measures completed in 2006 and the positive cash flow from operating activities, the Group's capital base was further expanded and diversified*. Due to our high availability of liquid funds, no liquidity risks are identifiable at the current point in time.

 Influx of funds to finance group-wide expansion
35

Risks related to changes in interest rates are pro-actively managed by means of continuously monitoring the capital markets. In individual cases, the risks from the variable interest burden are hedged by means of special interest hedges, e.g. swap contracts*.

 Notes/Hedging Policy
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Risks related to losses of receivables are minimised by means of advance cash regulations, the constant monitoring and analysis of receivables and the selective conclusion of credit insurance policies.

The currency risks from our business transactions are countered by means of coordination of the respective purchasing and sales volumes. Long-term contracts are largely managed on

the basis of matching currencies by means of the conclusion of exchange rate-based price adjustment clauses. When entering into financial instruments in a foreign currency, specific currency hedge instruments are used in individual cases.

! **Legal risks.** The rapid growth of our Group involves risks resulting from a wide range of tax, competition, patent, anti-trust and environmental regulations and legislation.

>>> We respond to these risks by drawing on a comprehensive range of legal advice, both from our own experts and from recognised external specialists. At the present time we are not aware of any risks resulting from litigation or patent infringements, or any other legal risks.

! **Guarantee, liability and other risks.** Our Group gives a precisely defined guarantee on the solar modules we sell, with a period of 25 years. For the first time, we have formed a provision in the balance sheet as at 31 December 2006 to ensure risk provisioning*.

>>> To provide security against the usual operating risks, the Group has taken out extensive insurance cover on the basis of a standard market concept. Insurance cover is regularly reviewed on the basis of site visits and management meetings, and adjusted in line with the dynamic development of the Group.

Notes/Non-current and
current provisions



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Overall assessment of the Group's risk exposure

Assessment of overall risk situation. We believe that the risks described in the Risk Report do not involve any danger of negative variance from the data indicated in the Forecast Report. The Board of Management is not currently aware of any further risks which could lead to long-term substantial negative impact on the earnings, financial and asset situation. At the present time there are no risks apparent that could endanger the continued existence of the SolarWorld Group.

VI. FORECAST REPORT

VI. 1. Economic background conditions in the next two fiscal years

1.1 Future macroeconomic situation

Upswing intact. After the strong second half of 2006 which came as a surprise to many experts the economic institutes are expecting the good economic situation to continue in 2007. It is true that in line with an economic forecast from January of this year for the first quarter of 2007 the German Institute for Economic Research (Deutsches Institut für Wirtschaftsforschung/DIW) is expecting GDP growth to slow down slightly to 0.4 per cent primarily due to the consumption reducing effect of the value added tax hike. For the full year the research colleagues from the Institute for the World Economy (Institut für Weltwirtschaft/IfW) in Kiel are forecasting a growth in total economic output of 2.1 per cent and for 2008 of 1.8 per cent.

After years of vigorous expansion a weakening of the growth rate is expected in the USA. The IfW puts the growth prospects for the GDP at 2.5 per cent in 2007 and at 2.8 per cent in 2008.

For all industrialised countries the IfW predicts a GDP growth of 2.4 per cent for 2007 and of 2.5 per cent for 2008. The economies in the Asian threshold countries will again grow significantly during the forecast period.

Expensive energy. Even though the oil price weakened at the end of 2006/beginning of 2007 to 50 US dollars per barrel because of the mild weather and the expected weakness of the US economy raw materials experts are expecting prices to rise again in the course of the year. Particularly towards the end of the year dynamic growth rates of prices were to be expected. The background to this is to be seen in production cuts by OPEC and in a strong oil demand in spite of the flagging US economy.

Along with petroleum all other conventional energies will also remain expensive even though the record highs of the previous year will possibly not be reached in 2007. For all other industrial raw materials there may also be a short-term relaxation of the price situation.

Climate protection as a priority. The concern about the condition and development of our climate situation will also lead to political and economic consequences in the year 2007. The readiness to invest in new climate protection projects will continue to increase. In January of 2007 US President Bush attached increased importance to the topic of climate protection in his State of the Union address. The EU Commission also issued new and more ambitious climate protection targets in early 2007 which among other things are to be achieved by an increased expansion of renewable energies. By the same token the international Association of South-East Asian Nations (ASEAN) announced at its summit meeting in January 2007 that it would redouble its efforts in the field of climate protection.

Worldwide expansion of renewable energy resources will be promoted by the rise in energy prices and by the emerging trend in international policy towards increased climate protection. We are well placed to make strategic use of this development for our business growth, thanks to our international positioning, and thanks to our capacity increase, which we have launched in good time by additional investment.

1.2 Future situation in the industry

Crystalline technologies stronger. The market share of solar technologies based on crystalline silicon currently amounts to 93.5 per cent in the solar industry. In the last two years the diversity of new developments in the area of thin layer technologies on the basis of different procedures and materials has increased. This development also attracts increasing investor attention. The market dominating position of the crystalline technologies will, however, not change in any fundamental way. The new volumes that will come on stream from the expansion of the international silicon capacities will be available in the market as of 2008. According to the calculations of the Swiss bank Sarasin & Cie AG the total volume will as a result increase by almost 50 per cent. Permanent industry-wide cost cutting efforts will further strengthen the competitiveness of the crystalline technologies.

Forecast solar growth 2007. The global solar market in 2007 will still be influenced by the scarcity of silicon. All the same, the majority of analysts consider a growth in worldwide solar cell production by 30 per cent to be possible. According to the estimate of the European industry association EPIA and other market experts the newly installed capacity in 2007 worldwide can be expected to grow by 25 per cent amounting to between 1,690 and 1,800 MW. The German solar power industry will generate further growth on this basis. The German Solar Industry Federation (BSW) expects the export ratio of German solar companies to rise to around 40 per cent in 2007 and 70 per cent in 2020.

In Germany an amendment of the law on renewable energies (EEG) is on the political agenda for 2007. As right across the political spectrum the further development of renewable energies is fundamentally recognised as an important key to an effective climate protection policy it can be expected that the amended law will be a sensible solution.

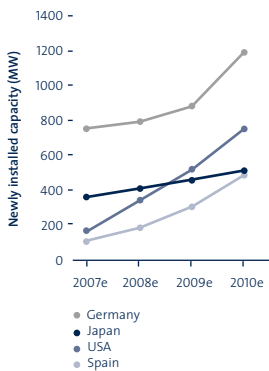
In all probability Spain will be among the high growth solar markets in the European Union in 2007. Analysts are expecting the installed capacity to double to 110 MW. In the course of the year a decision by the Council of Ministers is expected on the future mode and prices of feeding solar power into the national grid. It is expected that the funding situation will continue to be profitable. The market will additionally be broadened by the legal requirement to install solar systems into new buildings.

The solar market in Italy is also heading for a boom. Market participants are expecting the demand to multiply. EPIA forecasts some 50 MW for the Southern European country whose market structures have substantially increased in professionalism. Expected developments include the removal of bureaucratic obstacles and the lifting of the current ceiling of 80 MW for the newly installed capacity per year.

In France EPIA expects a growth of 50 per cent to 15 MW. The experts are more optimistic with regard to Greece where a multiplication of the installed capacity to 20 MW is considered

Development forecast

our core markets plus Japan



Source: EPIA, Bank Sarasin/2006

to be possible. The prerequisite is that some open questions in the technical and legal realm are clarified first.

The USA is also moving towards a renewed solar upswing. In California the new funding conditions will come into force in 2007 that are designed to stimulate the installation of 3,000 MW in the next ten years. 2006 was still a transitional phase. The market structures still have to establish themselves. Other US federal states also want to step up their activities. For the national solar industry development in the USA it will be important to see whether the "Empowering America Act" will come into force in 2007. This will prolong the tax concessions on the acquisition of solar power systems that apply nationally until 2007 to continue in force until 2015. Such a decision would give the solar market in the entire USA long-term planning safety. As a result of the changed majority in Congress for the benefit of the Democrats there is now fundamentally a better political lobby for the renewable energies. Analysts and associations are expecting a US-wide growth of the newly installed capacity of between 160 and 220 MW, some 25 per cent more than in 2006.

In Asia the solar power market can be expected to grow significantly against the backdrop of the positive economic development and the increasing importance of climate protection. Japan is a virtually closed market and therefore in terms of the underlying trend not very attractive for foreign competitors. More potential is offered by China and South Korea who are both striving for a significant expansion of their national solar power output. For Asia excluding Japan but including India EPIA is expecting for the next two years that the newly installed capacity per year of on-grid and off-grid solar systems will grow from 110 MW in 2006 to 250 MW in 2008.

In South Korea the EPIA forecast for 2007 is a doubling of the installed capacity to 40 MW. In addition, an increasing demand for off-grid solar systems can be expected for the entire region.

For the SolarWorld Group the future industry environment is a positive one: The appropriate framework conditions will be created in the most important markets, silicon technology will remain the market leader and the temporary shortage of silicon in the industry will decline by about 2008 as a result of the worldwide build-up of additional capacities. By way of our integrated structure we will competently organise the availability of raw materials for our Group in the next two years.

As one of the leaders in the solar industry, we can make optimal use of the worldwide stimuli in the photovoltaic market for our further growth. Our size, our integrated production and our international sales network enable us to respond rapidly and flexibly to market developments.

VI. 2. Future orientation of the Group

2.1 Planned changes in business policy in the next two fiscal years

At the present time we do not plan any substantial changes in our successful business policy. We will remain focused on profitable photovoltaic technology, operating in the global photovoltaic market. In the course of our ongoing development process, we will continue to be flexible and to take opportunities that arise, including short-term opportunities, wherever that makes good business sense.

2.2 Future sales markets

Our growth will take place in a context of further internationalisation of our business. Alongside Germany, the United States and Spain, Italy is also likely to become one of our main sales markets in the near future. Other EU states such as France, Belgium and Greece will become more important in our trading business as future sales markets. That will be conditional upon the existence of dependable and durable framework conditions.

We expect a considerable increase in the importance of the market for off-grid photovoltaic systems. That applies to the Asia-Pacific region in the short- to medium-term, and to Africa in the long-term. Our new business field "Rural Electrification" is aimed at these markets. We will continue to conduct our external wafer business on a global basis.

2.3 Future use of new processes

The use of new processes is a part of the continuous process optimisation in our integrated production*.

In the next two years, we are expecting optimisation of wafer production from the establishment of Ribbon Growth on Substrate technology (RGS). Industrial application of this process could reduce silicon consumption by up to 40 per cent. In conjunction with the systematic reduction of other production costs, this could give significant cost savings in wafer production.

We are also expecting silicon consumption in ingot production to be reduced by a quarter by 2008. In parallel to that, the efficiency of our products will continue to increase as a result of integrated production.

Our continuous efficiency measures will enable us to reduce specific material costs, which will improve our revenue development as photovoltaic power becomes more competitive, and will also have a positive impact on margin and earnings.

2.4 Future products and services

We will start the production of our "global module" in the United States in the first quarter 2007, and subsequently also at our European sites. This module will comply with all the applicable standards worldwide, and will therefore be suitable for sale in all markets.

International standardisation in our product policy will also enable us to optimise our logistics, to cut costs by group-wide synergies, and to increase flexibility in our production. We expect these product policy measures to increase our revenues and earnings.

Our trading business will operate with a wider range of our modules from 2007 onwards, in 5inch and 6inch format. Starting at 160 watts per module, we offer every output rating up to 230 watts, in 5watt steps. Our plus-selection system gives customers the assurance that the modules will provide the nominal output as a minimum. The usual procedure in the market up to now was to give a tolerance of plus or minus three per cent of rated output. These measures will further improve our customer relations.

In the wafer segment, we will have a product thickness of 210 µm in nearly the whole range in 2007. Our subsequent planning is for gradual introduction of thinner wafers, with

R&D report



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a thickness of 180 µm, starting in 2007. Both of these measures will give cost savings throughout the Group, due to the reduction in material input.

2.5 Future business development



Strategic raw material activities

Internal silicon supply growing. The silicon supply for 2007 was already secured by year-end 2006. As of 2008 we can additionally rely on contractually secured supply increases. In addition to our long-term contract partners, we will as announced expand our own silicon activities as another source.

SolarMaterial will meet our silicon demand in 2007 at a constant order of magnitude. The new capacities of up to 1,200 tons annually will be available to us so as to be able to also offer recycling services to external customers at an increased level.

In our Joint Venture JSSI the activities of the pilot reactor are being extended. All five tubes of the reactor will be used in 2007. Starting in 2008 industrial production with four of these reactors will begin for JSSI with a production volume of more than 850 tons. From that point onwards JSSI will make a contribution of roughly 20 per cent to our total silicon supply.

Our second Joint Venture Scheuten SolarWorld Solicium will build a pilot plant in Freiberg in 2007. For the implementation of an economical technology for the production of solar silicon from metallurgical silicon we will be able to use the synergies that exist in Freiberg. The objective is to build a production of initially 1,000 tons of silicon in 2008. In the medium term the Joint Venture will make an important silicon contribution to our Group.



Integrated production

Our Dutch associate company RGS will build a pilot plant in the first half of the year for the material-saving production of silicon wafers according to the RGS process we developed.

In our Freiberg wafer production the reduction of specific silicon consumption will continue. The further development of the wafer thickness in the direction of 180 µm will be tackled by new technical adjustments in the cell and module production facilities. In Freiberg the wafer capacities will be gradually increased to 500 MW by the middle of 2010.

Our subsidiary Deutsche Cell GmbH will further optimise its already highly modern cell production in Freiberg. We want to continue the success of the mono-crystalline cell production.

In the course of the progressing integration of our new production sites the processing flows of our integrated production will be more strongly internationalised. Depending on the precise demands parts of the US production can be sent to Europe for further processing or vice versa.

Camarillo will take the first step to achieve a uniform group-wide module production with the manufacture of the "global module". The European sites will follow at short notice. In US production we will initiate new investments in 2007 in order to play the same pioneering

role here that we are already playing in Freiberg. Continuing our technological development we want to pool the know-how that we acquired in Camarillo, Freiberg and Munich in order to create a new and advanced plant concept for the expansion of the solar production in the USA in 2008.

External wafer sales. The aim of the future wafer business is to sell some 50 per cent of our wafer production to external customers.



Trading

For the optimum organisation and coordination of our worldwide sales we will equip all our locations with a uniform software system. In Camarillo we will be opening our new US sales office which in addition to the sales of our products in the United States will also handle our business in the off-grid markets in Latin America. In the USA and in the Asia-Pacific region we are expecting growth rates of 25 per cent each. In our new markets, especially in the USA, we will systematically build up the SolarWorld brand and strengthen brand awareness among our customers.

In the off-grid business above all in Asia due to its rural structures we are expecting strong growth with sales in the double digit million range.

In 2007 Germany will again be our main sales market even though the international share in the trading business will increase to more than 50 per cent. In our home market we are expecting double digit growth of the business between 15 and 20 per cent.

In Spain we plan to grow by clearly over 50 per cent. We are expecting our sales in Italy to multiply to reach a double digit market share. In France and Belgium we will provide some impetus to the business. In Greece we will position ourselves so as to be prepared for the start of the market expected over the medium term.



VI. 3. Expected earnings situation

3.1 Expected development of earnings

Based on the adjusted figures for 2006 (EBIT of 118.0 million € and annual profit of 73 million €) we are expecting operating profit growth of 20 per cent on an adjusted EBIT of about 140 million € and an adjusted annual profit of about 88 million €. We are also expecting expenditure grants from the Shell Group for the companies acquired in 2006, giving additional earnings. Taking these grants into consideration, we are expecting the newly acquired companies to break even for the year as a whole. The break-even point will probably be reached in mid 2007.

3.2 Probable sales development

We are expecting Group sales growth of 20 per cent for fiscal year 2007 compared with the previous year, to about 620 million €. Capacity utilisation at the US sites will rise from 50 per cent to more than 75 per cent in the course of the year.

3.3 Expected development of dividends

SolarWorld AG follows a constant dividend policy, which means that current and potential shareholders can expect continuous dividend earnings in the next two years, as in the past. For fiscal year 2006, the Board of Management will put forward a motion at the Annual General Meeting in May 2007, proposing distribution of a dividend for the seventh year in succession.

VI. 4. Expected Financial Situation

4.1 Planned financing measures

Following the major increase in funds in 2006*, no major financing activities are planned in 2007. We will use the outside capital tranches of 175 million US dollar acquired from institutional investors as a financing module. In addition, the cash flow from operating activities will contribute to our financing measures. The third pillar for our financing scheme will be public funding.

4.2 Planned capital expenditure

The planned expansion of capacities along the entire value chain, in Germany and abroad, can be met in 2007 from existing liquidity*. In the United States and Germany, production will be increased by expansion investments. According to initial estimates, we estimate total investments required for the expansion of our new site in Hillsboro, USA, to amount to around 300 million €.

4.3 Expected development of liquidity

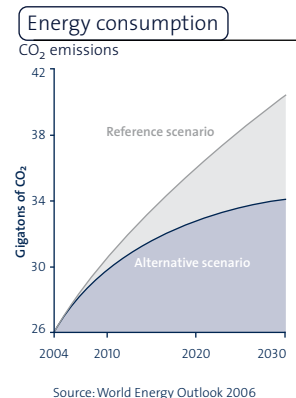
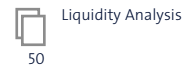
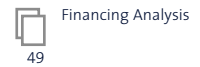
Based on growth in business, we are expecting a positive cash flow from our operating results. However, liquidity will be reduced, in accordance with plans, by the intended capital expenditures.

VI. 5. Opportunities

5.1 Opportunities from the development of the framework conditions

Increase of worldwide energy demand. In the World Energy Outlook 2006 of the International Energy Agency (IEA) the worldwide energy consumption is predicted to rise by 53 per cent until 2030. In this reference scenario which projects today's trends into the future without any further political initiatives more than 70 per cent of the rise are accounted for by the developing countries, mainly China and India. Assuming this scenario CO₂ production would go up to 40 Gigatons by 2030 which would be 55 per cent above today's level.

The World Energy Outlook 2006 comes to the conclusion that a decisive policy on the part of the consumer countries is crucial to energy efficiency and alternatives to fossil energy sources (Alternative Policy Scenario). In this context the IEA recommends that the share of renewable energies be increased to 12 per cent worldwide by 2030. This would make it possible to cut worldwide energy consumption by 10 per cent and CO₂ emissions by 16 per cent until 2030. At the same time the energy supply would become substantially less expensive.



This policy is considered by the IEA to be very cost efficient as the initial extra burdens would quickly be cancelled out by savings in fuel costs resulting from restructuring measures.

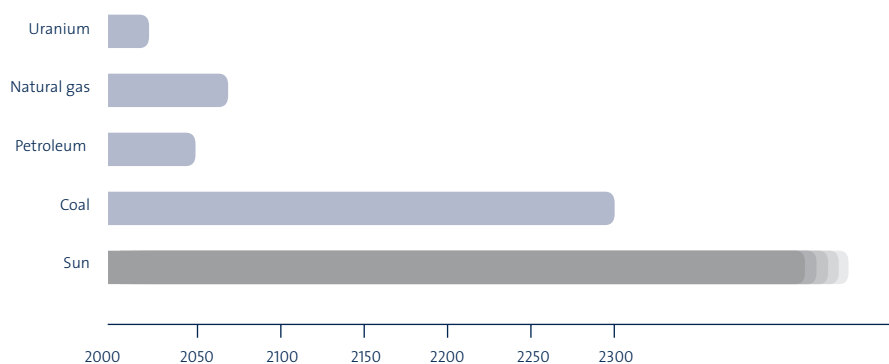
This is a major opportunity for the renewable energies: a permanent increase in worldwide demand and at the same time increased substitution of fossil energy sources. For our business model of producing solar power technology as a source of energy generation this is an elementary precondition for further growth.

Rural electrification as a global development goal. A central requirement of the world community is to allow poorer economies from the developing and threshold countries to participate in the growth of the world economy. The use of solar power technology has a considerable advantage over other energy sources against the backdrop of the measures necessary in the context of development policy: Solar power systems can be installed off-grid in remote rural regions and require very little maintenance. They thus make it possible for solar power plants to operate technical equipment of vital importance like for example lighting, refrigeration and telecommunication systems. In this way people in these poorer regions can benefit from educational and health measures. This development is backed by the expansion of programs for rural electrification. In the medium term this segment could show an above average development.

We will increasingly satisfy this particular demand as well as the interest of the South East Asian world in solar technology to back up its growth in the rural regions. Our business unit "Rural business" will in the future enjoy greater importance in the context of our business model.

Fossil fuel supply is finite. It is well-known that fossil energy sources are finite. The increasing concern about scarcity and security of supply – especially against the background of the increasing global demand for energy – strengthens the economic and political interest in alternatives and thus also in renewable energies.

Reach of finite fossil energy reserves



Source: Bundesanstalt für Geowissenschaften und Rohstoffe (BGR)

A survey by the Center for European Economic Research (Zentrum für Europäische Wirtschaftsforschung/ZEW) dating from August 2006 showed that of the 200 experts from selected banks and institutes interviewed more than two thirds work on the assumption that in the medium to long-term oil prices will rise continuously.

Climate change as a global challenge. One of the central challenges of our time is to counteract the consequences of climate change. The containment of CO₂ emissions is at the very top of the agenda of the Kyoto Protocol for the protection of the environment which so far 168 countries including the EU and Russia have ratified. Together these countries account for more than 61.6 per cent of the worldwide greenhouse gas emissions. The USA has so far declined to sign the document.

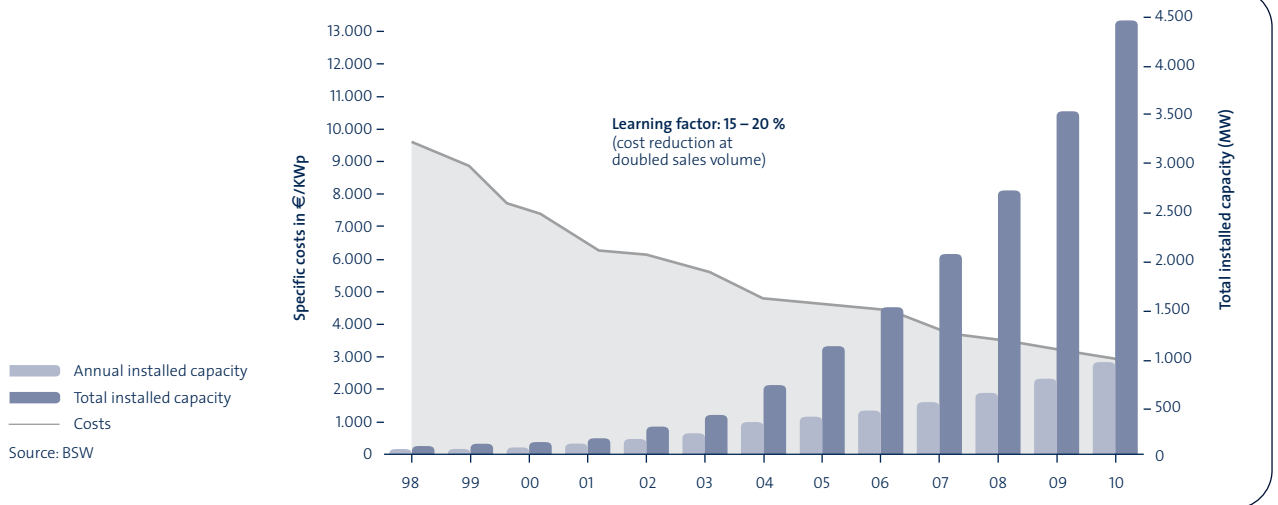
In 2006 public awareness of the necessity to act was again significantly strengthened worldwide. Thus, the economist Sir Nicholas Stern pointed out not only the ecologic but also the considerable economic damage to the world community. In addition, the former US presidential candidate Al Gore with his feature film "An inconvenient truth" attracted a great deal of mass media attention to the topic. Numerous climate catastrophes in the last few years make the need for action patently obvious.

Political measures to reach the climate protection targets are increasing rapidly and continuously at the national level. Germany, for example, has agreed with the European Commission to reduce CO₂ emissions from the energy and industrial sector to 453 million tons between 2008 and 2012. That is 12 million tons more than originally planned. Renewable energies will play a significant role in reaching these targets since, if the current expansion is continued, an additional 10 million tons of CO₂ can be avoided per annum. Solar power technology as a low emission alternative form of power generation and as a measure to reach the climate protection targets set will gain in worldwide importance against this background. This constitutes an enormous growth potential for our business model.

Recognised economic benefits. The increased use of renewable energies has major advantages for the national economy that were demonstrated powerfully in Germany in 2006 and that will have to be continued into the future. Future employment effects, savings in energy imports as well as avoided environmental damage lend additional weight to the industry when it comes to the political implementation of our positions. The Federal Environmental Ministry assumes that renewable resources will account for around 45 (currently: 11.8) per cent of German power supplies by 2030; by 2050 this proportion is expected to rise to 77 per cent.

Solar power soon to be competitive. The electricity price as the direct reference point for the economic proposition of solar power will continue to go up as a result of the fossil resources getting scarcer and scarcer. German energy supplies will in the future be increasingly geared to oil and coal. Gas prices are directly linked to oil prices. For opportunity reasons the coal prices will also increase. At the same time solar power will decline in price by between 5 and 7 per cent annually due to the transition to mass production. The bottleneck in the supply of silicon will be relaxed as of the year 2008. In the opinion of experts solar power technology will therefore reach full competitiveness by the middle of the next decade. The solar industry will then be independent of political funding.

Cost development in the photovoltaic industry

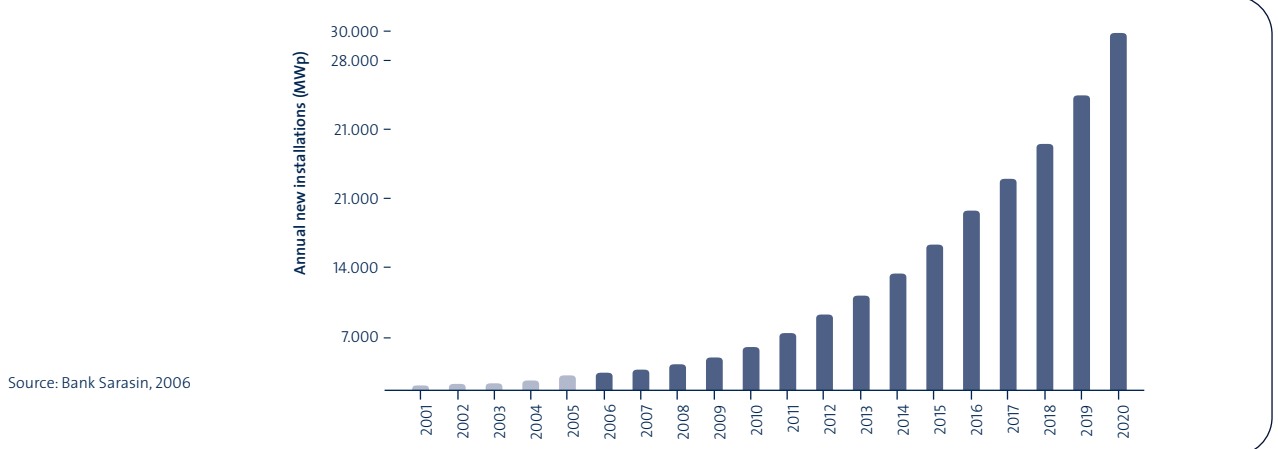


The annual cost decline over the entire production process also takes place in our Group. With increasing production volumes, declining manufacturing costs and rising earnings we will be actively promoting this future development as one of the leading solar groups worldwide so as to make our product – solar electricity – a competitive proposition.

Long-term outlook with strong growth. The totality of positive growth prospects has caused the solar analysts of the Swiss bank Sarasin & Cie AG to again raise its future forecasts in its most recent study dating from December 2006. Accordingly, the experts are expecting an average worldwide growth rate of 26 per cent p.a. for the period from 2006 to 2010. From 2010 to 2020 the estimated forecast is a growth rate of 21 per cent per year.

Germany's pioneering role in this development of renewable energies gives the German solar industry the possibility against the background of these conditions to develop into another export heavyweight in the long term next to the automotive industry.

Growth forecast for the worldwide solar market



As one of the internationally leading solar power companies we will have a major share in this growth in the years to come.

5.2 Corporate strategy opportunities

Opportunities resulting from new technologies and markets are continuously monitored. We have positioned our business soundly in the solar market*. On this basis we can therefore quickly use growth opportunities by expanding our capacities and our existing know-how. As a publicly listed joint stock corporation we possess a high level of capital clout and can therefore implement strategic financing measures at fairly short notice.



5.3 Efficiency improvement opportunities

Opportunities will also result from the progressively relaxed procurement situation regarding the raw material silicon which will reduce our overall procurement costs. Our integrated research has an impact on our bottom line by way of process and product optimisations. This is an efficiency benefit that we also see as an opportunity for the future.

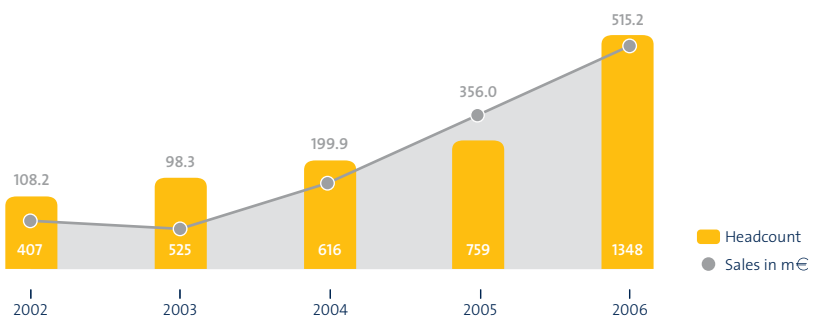
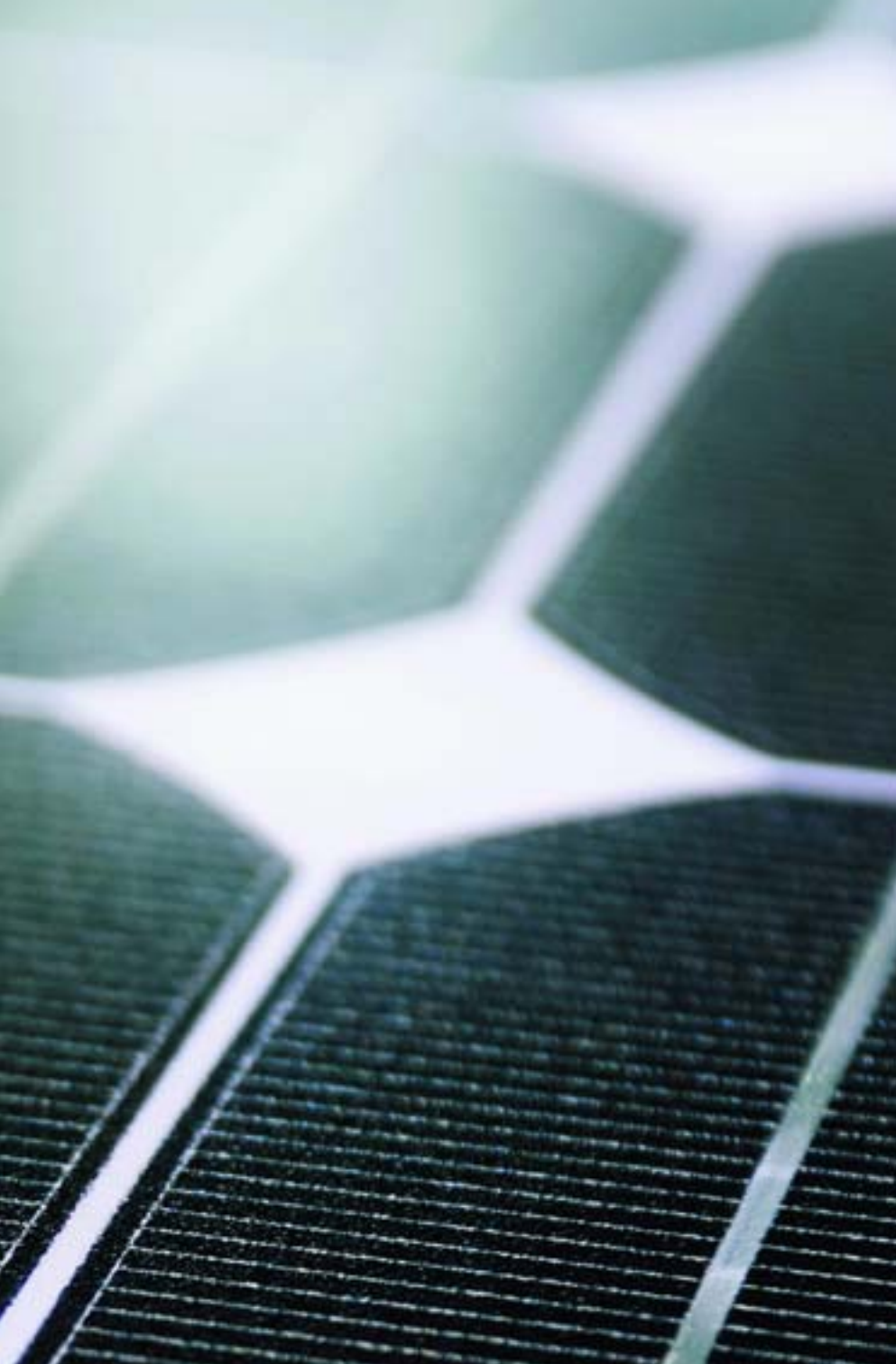
Overall management statement on Chapter VI concerning the expected development of the Group

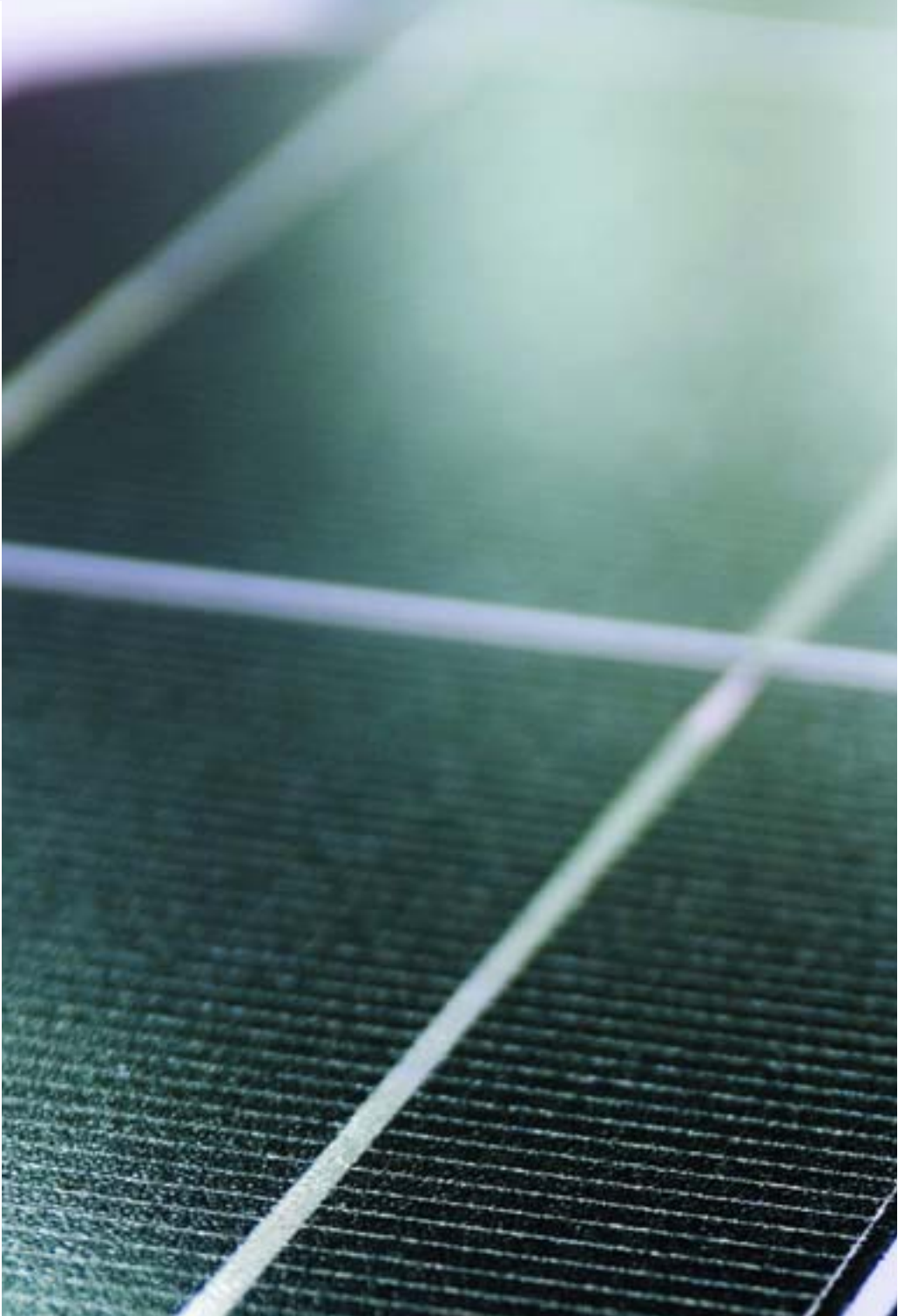
On the basis of the assumptions concerning the future development of the market and the assumed comprehensive opportunities from an increase in climate protection efforts at an international level, we expect a positive business trend for our Group for the next two fiscal years. We expect an expansion of wafer capacity in Freiberg and at our US production sites to 500 MW each by 2010 and thus to one Gigawatt (1,000 Megawatt) at Group level. We will expand our headcount worldwide in this process. In the wafer segment, following our strategy, we plan to sell our products externally as well as to use them internally in our cell and module production. We will thus expand capacity along the entire value chain.

We expect to significantly expand our market position and become the leading manufacturer of solar power technology in the fast-growing North American solar market. We will also grow strongly in the European solar markets. Our distribution site in Singapore will be expanded so that we will gain additional clout in the Asian/Pacific market.



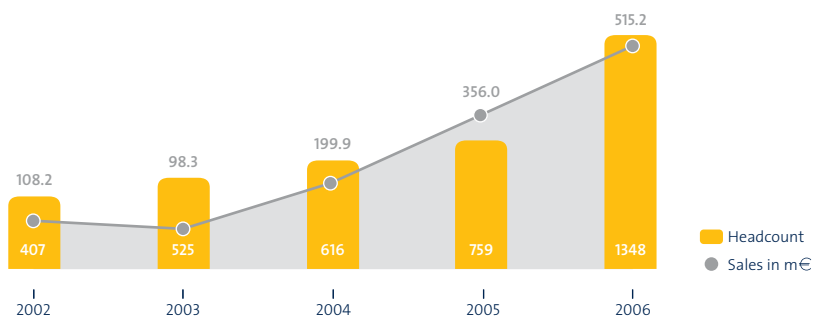
Performance





Implementation of set targets with great power: Performance has always been defined as “Work/Time“. As the industry pioneer SolarWorld AG already set standards in the market at a very early point in time. Our headcount increased as rapidly as our corporate development. We were able to expand employment worldwide.





VII. CONSOLIDATED FINANCIAL STATEMENTS

For Fiscal Year from 1 January 2006 to 31 December 2006

Income Statement

	Notes	2006 t€	Previous year t€
1. Sales revenues	18,20	515,246	355,971
2. Change in inventory of finished goods		32,546	12,387
3. Own work capitalized	21	590	3,359
4. Other operating income	22	98,053	14,856
5. Cost of material	23	-304,008	-210,902
6. Staff costs	24	-57,786	-37,780
7. Depreciation and amortization of which shares measured at equity (€ -13,035 thousand)	25	-42,612	-19,687
8. Other operating expenses	26	-61,306	-29,590
9. Operating result		180,723	88,614
10. Result of shares valued at equity	27	-1,308	-754
11. Interest revenues		11,203	1,881
12. Interest expenses		-9,653	-5,977
13. Earnings before taxes on income		180,965	83,764
14. Income taxes	28	-50,399	-31,782
15. Consolidated net profit		130,566	51,982
16. Earnings per share	30		
a) Consolidated profit (in t€)		130,566	51,982
b) Weighted average of shares in circulation (in 1,000)		54,868	49,893
c) Earnings per share (in €)		2,38	1,04

Balance sheet

Assets

	Notes	31.12.2006 t€	31.12.2005 t€
A. Noncurrent assets		362,514	219,776
I. Intangible assets	7, 32, 33	34,498	34,474
II. Property, plant and equipment	8, 32, 34	290,646	178,445
III. Investments accounted for using the equity method	9, 35	19,377	4,576
IV. Deferred taxes on the assets side	28, 36	17,993	2,281
B. Current assets		641,896	226,803
I. Inventories	10, 37	241,989	84,923
II. Trade accounts receivable	11, 39	72,030	20,790
III. Income tax claims	38	646	492
IV. Other receivables and assets	12, 40	21,870	1,877
V. Marketable securities	13, 41	98,573	22,247
VI. Liquid funds	42	204,655	95,897
VII. Prepaid expenses	43	2,133	577
		1,004,410	446,579

Liabilities

	Notes	31.12.2006 t€	31.12.2005 t€
A. Shareholder's equity	44	597,321	217,056
I. Subscribed capital		55,860	12,700
II. Capital reserve		352,349	136,792
III. Other reserve		-2,321	-286
IV. Accumulated profit		191,433	67,850
B. Noncurrent liabilities		273,722	144,284
I. Noncurrent financial liabilities	45	112,577	54,998
II. Accrued investment grants	14, 46	57,106	56,477
III. Noncurrent provisions	15, 16, 47	18,119	504
IV. Other noncurrent liabilities	17, 48	75,429	24,349
V. Deferred taxes on the liabilities side	28, 49	10,491	7,956
C. Current liabilities		133,367	85,239
I. Current financial liabilities	45	50,960	15,591
II. Trade accounts payable		31,909	25,312
III. Income tax liabilities	50	20,266	24,136
IV. Current provisions	16, 47	1,188	2,187
V. Deferred income	43	1,278	205
VI. Other current liabilities	17, 48	27,766	17,808
		1,004,410	446,579

Statement of changes in equity

in t€

	Subscribed capital	Capital reserve	Other reserve		Accumulated profit	Total
			Translation reserve	IAS 39 reserve		
Balance as at 31.12.2004	5,775	100,592	-33	0	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	0	67,850	217,056
Capital increase	43,160	215,557				258,717
Differences from currency translation			-1,643			-1,643
Group profit for the year					130,566	130,566
Dividends paid					-6,983	-6,983
Other equity capital changes				-392		-392
Balance as at 31.12.2006	55,860	352,349	-1,929	-392	191,433	597,321

Cash flow statement

	2006 t€	previous year t€
Net profit before taxes	180,965	83,764
+ Depreciation and amortization	42,612	19,687
- Earnings from initial consolidation	-56,963	0
-/+ Net interest income	-1,550	4,096
+ Loss from at-equity measurement	1,308	754
+/- Loss/gain from disposal of non-current assets	187	63
- Reversal of special items from investment grants	-6,506	-5,582
= Cash flow from operating result	160,053	102,782
-/+ Increase/decrease in inventories	-133,929	-38,177
-/+ Increase/decrease in securities (classified as trading)	-76,326	-22,247
-/+ Increase/decrease in other net assets	4,394	32,656
= Cash flow from operating activities	-45,807	75,014
+ Interest received	9,404	1,670
- Income tax paid	-57,653	-11,601
= Cash flow from current business activities	-94,056	65,083
- Cash outflow for investments in non-current assets	-105,947	-57,344
+ Cash inflow from investment grants	6,050	23,510
+ Cash inflow from sale of non-current assets	27	88
- Cash outflow for acquisition of consolidated companies	-9,633	0
= Cash flow from investing activities	-109,503	-33,746
+ Proceeds from non-current borrowings	105,771	33,106
- Redemption of non-current borrowings	-22,611	-30,896
- Interest paid	-6,460	-5,374
+ Proceeds from additions to equity	233,348	43,125
- Disbursements due to dividends paid	-6,983	-2,286
= Cash flow from financing activities	303,065	37,675
+/- Net change in cash and cash equivalents	99,506	69,012
+/- Exchange rate effects on cash and cash equivalents	-1,150	-17
+ Cash and cash equivalents at beginning of period	95,897	26,902
= Cash and cash equivalents at end of period	194,253	95,897

Notes

General Information

1. Principles and accounting and measurement methods

SolarWorld AG has prepared its consolidated financial statements for the year 2006 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 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, reference is made to the accounting and measurement principles outlined below.

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

There was no major impact from the standards and amendments first applied in fiscal year 2006, IFRIC 4 et seq. amendments to IAS 19, IAS 21, IAS 39.

In 2005 and 2006, IASB adopted various standards, additions to standards and interpretations, applicable from 2007 onwards. Some of these regulations, such as the addition IAS 1, "Presentation of Financial Instruments – Capital Disclosures" and the standards IFRS 7 "Financial Instruments – Disclosures" concern only disclosure duties. Others, such as IFRIC 7, "Applying the Restatement Approach under IAS 29 Reporting in Hyperinflationary Economies", IFRIC 8, "Scope of IFRS 2", IFRIC 9 R "Reassessment of Embedded Derivatives" and IFRIC 10 "Interim Financial Reporting and Impairment" are not applicable in the company at the present time, and will probably not be applicable in 2007 either. All in all, the company therefore expects no major effects of the new regulations on the assets, financial and earnings situation.

2. Consolidated companies

The consolidated financial statements include SolarWorld AG and all companies in Germany and abroad where SolarWorld AG directly or indirectly holds the majority of voting rights of the company, or can have a controlling influence on the activities of the company in another way. The companies are included in consolidation starting from the point in time when SolarWorld AG can exercise a controlling influence. Joint Ventures are shown using the equity method. The following companies are included in the consolidated financial statements of SolarWorld AG:

Company	Share	hold by
1. SolarWorld AG, Bonn (SolarWorld)		
Full consolidation		
2. Deutsche Solar AG, Freiberg (Deutsche Solar)	100.0%	SolarWorld
3. Deutsche Cell GmbH, Freiberg	100.0%	SolarWorld
4. Gällivare PhotoVoltaic AB, Gällivare/Sweden	100.0%	SolarWorld
5. Solar Factory GmbH, Freiberg	100.0%	SolarWorld
6. SolarWorld California Inc., San Diego/USA	100.0%	SolarWorld
7. SolarWorld Iberica S.L., Madrid/Spain	100.0%	SolarWorld
8. SolarWorld Africa Pty. Ltd., Johannesburg/South Africa	100.0%	SolarWorld
9. Go!Sun GmbH & Co. KG, Bonn	100.0%	Deutsche Solar
10. SolarWorld Industries Deutschland GmbH, Munich (SWID)	100.0%	SolarWorld
11. SolarWorld Industries America LLC, Camarillo/USA	100.0%	SolarWorld
12. SolarWorld Industries America LP, Camarillo/USA (SWIA)	100.0%	SWID 99.0% SolarWorld 1.0 %
13. SolarWorld Industries America Services Inc., Camarillo/USA	100.0%	SWIA 78.74% SolarWorld 21.26%
14. SolarWorld Asia Pacific PTE Ltd., Singapore/Singapore	100.0%	SWID
15. SolarWorld Industries Schalke GmbH, Gelsenkirchen	100.0%	SWID
16. SPV Solar Projekte Verw. mbH, Munich (SPV)	100.0%	SWID
17. Solaranlagen Mittleres Ries GmbH & Co. KG, Munich	100.0%	SWID (SPV G.P. 0.0 %)
18. Solaranlagen Bliesransbach GmbH & Co. KG, Munich	100.0%	SWID (SPV G.P. 0.0 %)
19. Solaranlagen Sinzheim GmbH & Co. KG, Munich	100.0%	SWID (SPV G.P. 0.0 %)
20. Solaranlagen Malgersdorf GmbH & Co. KG, Munich	100.0%	SWID (SPV G.P. 0.0 %)
Consolidation at equity		
21. Joint Solar Silicon GmbH, Freiberg	49.0%	SolarWorld
22. Joint Solar Silicon GmbH & Co. KG, Freiberg	49.0%	SolarWorld
23. RGS Development B.V., Petten/Netherlands	35.0%	Deutsche Solar
24. Solarparc AG, Bonn	29.0%	SolarWorld
25. Scheuten SolarWorld Solicium GmbH, Freiberg	50.0%	SolarWorld

Acquisition of crystalline solar activities of the Shell Group

On 1 July 2006 the Group acquired all shares of the Shell Group which belonged to the crystalline solar activities there.

The companies included in consolidation have thus been increased compared with the last fiscal year, due to acquisition of the following key companies:

- SolarWorld Industries America LLC, Camarillo, USA
- SolarWorld Industries America LP, Camarillo, USA
- SolarWorld Industries America Services Inc., Camarillo, USA
- SolarWorld Industries Deutschland GmbH, Munich
- SolarWorld Industries Schalke GmbH, Gelsenkirchen
- SolarWorld Asia Pacific PTE Ltd., Singapore, Singapore
- SolarWorld Africa (Pty.) Ltd., Johannesburg, South Africa

The applicable current market values of the identifiable assets and liabilities of the companies acquired are as follows at the time of acquisition:

	Acquisition Value	Book Value
	t€	t€
Intangible assets	602	291
Tangible assets	41,243	28,579
Deferred taxes on asset side	10,651	11,308
Inventories	23,101	23,767
Trade receivables	11,478	11,374
Other receivables and assets	964	964
Liquid funds	17,049	17,049
	105,088	93,332
Reserves for pension obligations	7,884	7,501
Reserves for guarantee obligations	4,473	4,473
Other reserves	2,334	2,315
Deferred taxes on liabilities side	1,130	0
Trade liabilities	6,007	6,007
Other liabilities	2,080	3,207
	23,908	23,503
Applicable current market value of net assets	81,180	

Acquisition costs amounted to a total of € 24,217 thousand. € 394 thousand of this amount was transaction costs. The purchase price was fully paid in cash. In connection with the acquisition of the Shell companies, an Agreement was signed between SolarWorld Industries Deutschland GmbH and the Shell Group, on payment of expense grants. The grants are made for expenses from anticipated capacity under-utilization, necessary restructuring measures, and for the procurement of silicon. Expense grants with an impact on revenues amounting to € 18,401 thousand were recorded in the fiscal year under review.

The Shell Group has contributed a loss of € 1,222 thousand to the net Group financial position since the time of acquisition, including the expense grants received. As the business activities of the newly acquired companies were characterized to a large extent by restructuring within the Shell Group in preparation for the sale, the results from the newly acquired companies from the first half year have only very limited significance. In addition, determination of these figures would involve an unreasonable amount of expense. For reasons of practicability and cost-effectiveness, it was therefore decided not to determine the data for the disclosure pursuant to IAS 3.70.

The initial consolidation gave a surplus from the total of the applicable fair values of the identifiable assets, liabilities and contingent liabilities over and above the acquisition costs of the merger companies amounting to € 56,963 thousand, which is shown after reassessment in the income statement under the item "Other operating income". In the view of management, this surplus results from favorable purchase. Some of the expected restructuring expenses were already taken into account in the acquisition price, but could not be reflected in the initial balance sheet because the requisite conditions were not fulfilled.

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 the shareholding are offset against the equity capital attributable to it – measured at the current market value at the date of the acquisition.

Any positive consolidation differences are allocated to the asset items if their carrying amounts differ from their fair values at the time of acquisition. Any remaining excess of acquisition costs over net assets acquired is recognized as goodwill.

Any negative differences are recorded with an impact on the net financial position.

Receivables and liabilities, expenses and income resulting from inter-company transactions are eliminated.

4. Currency translation

Financial statements of the companies included in consolidation that were shown in foreign currencies were converted to euros (€) in accordance with IAS 21, on the principle of functional currency. The functional currency of foreign companies is determined by the primary economic environment in which they mainly earn and deploy their funds. Within SolarWorld AG the functional currency is normally the same as the local currency, with the exception of SolarWorld Asia Pacific PTE Ltd., the functional currency of which is the US dollar. For translation of the financial statements of the companies to the reporting currency of the Group, the assets and liabilities are translated at the reference date exchange rates, and expenses and income are as a rule translated at the annual average rates.

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

The following exchange rates were applicable for currency translation:

1€ =		Reference date exchange rate		Average exchange rate	
		2006	2005	2006	2005
USA	USD	1.32	1.18	1.26/1.29*	1.18
Sweden	SEK	9.04	9.02	9.25	9.28
South Afrika	ZAR	9.21	-	9.32*	-

* 2nd half-year

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 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 value of intangible assets, in particular goodwill, the establishment of uniform group-wide useful lives for property, plant and equipment, the recoverability 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 assessment of what the future development of the global and industry-specific environment will be. The most complex assumptions are those required for the goodwill impairment tests and for determination of the provisions. The specific details of these assumptions are outlined in the relevant items.

Accounting and Measurement Principles

6. Changes in disclosure principles

To give greater clarity and to adjust to internationally accepted practice, some changes in disclosure were made in fiscal year 2006. The accrued liabilities, which were shown in the previous year's balance sheet under long-term and short-term provisions, are now shown in the Other noncurrent / current liabilities. Impending losses from derivatives are shown under financial liabilities, in accordance with IFRS rules. The resulting adjustments in the values for the previous year are shown below.

in €

	B.III. noncurrent provisions	B.IV. Other non- current liabilities	C.I. Short-term bor- rowings liabilities	C.IV. current provisions	C.VI. Other current liabilities
Previous year's value	3,537	20,416	14,613	11,057	10,816
Profit sharing for staff	-3,537	3,537			
Guarantee provision	504			-504	
Liabilities from early retirement schemes		396		-396	
Impending losses from derivatives			978	-7,970	6,992
Adjusted previous year's value	504	24,349	15,591	2,187	17,808

The cash flow statement also differs from the previous year, showing cash inflow from investment grants in cash flow for investment activities, and showing interest paid and interest received separately.

7. 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 in an iterative process and thus cannot be reliably separated. Permanent impairments are shown as extraordinary depreciation.

Goodwill, including goodwill from capital consolidation, is subjected to an annual impairment test in accordance with the rules of IFRS 3 and IAS 36 and 38. As in the previous years, the impairment test as at 31 December 2006 once again showed the recoverability of the reported goodwill.

For the purposes of the impairment test, the carrying amounts of the goodwill units were allocated to the cash generating units (CGUs) concerned, that is Deutsche Solar AG (wafer production) and Gällivare PhotoVoltaic AB (module production, Sweden). Prior to and, in view of the absence of need for impairments, also subsequent to implementation of the impairment test, the carrying value of the goodwill allocated to the CGU Deutsche Solar AG is € 29,587 thousand (previous year € 29,587 thousand) and the carrying value allocated to the CGU Gällivare PhotoVoltaic AB is € 2,136 thousand (previous year € 2,136 thousand).

The recoverable amounts were determined as fair value less costs to sell. The determination was based on the DCF method. The recoverable amount was determined on the basis of the cash flow forecasts based on the most recent plans approved by management. 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, i.e. showing the highest level of sensitivity to any changes in these assumptions.

For 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 materials again in the medium term; this assumption is based on the long-term contracts signed with silicon producers.
- > Increase in sales volume up to 330 MW by 2009; this assumption is based on the current build-up of capacities at the Freiberg site.
- > Annual decline in sales market prices in the single-digit percentage range; this assumption is based on relevant third parties' market studies.

The goodwill portion attributed 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 for 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 was made on the basis of the last detailed planning period. The growth rate applied was lower than the market growth assumptions of external studies for SolarWorld AG.

Calculation of the recoverable amount was based on future cash flows of the CGU Deutsche Solar AG with the risk-adjusted discount rate after tax of about 7.9% (previous year 6.2%). This interest rate is also supported by external analysts of SolarWorld AG.

8. 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 10 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 is the economic owner, i.e. carries 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 26, intangible assets and property, plant and equipment are impaired as at the balance sheet date if there is an indication for impairment 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 can be allocated 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, there were no impairment indications for other material asset items and CGUs.

9. Shares measured at equity

The shares shown at equity are measured initially at acquisition cost, and in subsequent periods updated with the pro-rata net earnings, dividends paid and other equity capital changes, and any other undisclosed reserves or burdens discovered on acquisition. Any goodwill carried in the balance sheet is shown in the interest holdings, and no scheduled amortization is effected. If there are indicators showing impairment, an impairment test is carried out. Any necessary impairment is effected initially on the goodwill shown in the balance sheet.

10. 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 by 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. Financing costs are not included.

Measurement as at the balance sheet date is based on the lower of cost or net realizable value less the costs incurred until the sale. As a rule the net realizable value of the final product is applied. Due to the specifics of production in the company and in the sector, work in progress and finished goods are combined with merchandise.

The advance payments carried under inventories are partly denominated in US dollars. Since they do not represent monetary items within the meaning of IAS 21.16, they were measured at the historic exchange rate applicable at the time of inclusion. As the advance payments do not bear interest, in accordance with the agreement, but are implicitly based on a financing transaction, they were compounded at the matching or implicit interest rate.

11. Trade accounts receivable

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

Receivables from job order production are measured by the percentage-of-completion method pursuant to IAS 11. We refer to our indications under No. 18 "recognition of income and expenses".

12. Other receivables and assets

As a rule, 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.

Receivables from financing leasing agreements are recognized on initial recording at the net investment amount from the leasing contract, and subsequently updated with application of a constant interest rate and taking account of the leasing installments received.

13. Securities

Securities are carried either as financing assets, recognized at fair value, or as investments held until their final date of maturity, or as financial assets available for disposal. On first inclusion, they are valued at fair value. Securities which are classified as being held for trading purposes (trading assets) are included in the category "financial assets valued at fair value". They are classified as trading assets if intended for sale in the near future. Gains and losses from securities held as trading assets are included in reporting of net financial situation.

At the balance sheet reference date there are no securities classified as investments held until final maturity or as financial assets available for disposal.

14. 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.

15. Pension schemes

The group's company pension scheme is largely 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.

In addition, SolarWorld AG has taken on pension obligations with acquisition of the solar activities of the Shell Group. Assessment of the pension reserves is effected in accordance with the actuarial projected-unit-credit method as prescribed in IAS 19 for benefits-oriented pension schemes. Actuarial gains and losses are recorded as expenses or income, if the balance of the accumulated unrecorded actuarial gains and losses exceeds 10% of the commitment at the time in question.

The interest proportion in the pension expenses is shown in the net financial position.

16. Other provisions

Other provisions are formed where there is an obligation vis-à-vis third parties which will in future probably lead to an asset outflow, and where this outflow can be reliably estimated. The provisions are measured with the best possible estimate of the extent of the obligation. 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.

If a provision must not be formed because one of the criteria is not met, but on the other hand the probability of an outflow of resources is not remote, the corresponding obligations are reported as contingent liabilities.

Unlike the previous year, a distinction is now made between provisions and accruals. We refer to our notes under No. 6 "Changes in disclosure principles".

17. 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. They do not represent monetary items, so they are measured at historic cost, and not 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 agreement, they were compounded at the matching interest rate.

Unlike the previous year, accrued liabilities are now shown under other liabilities. We refer to our notes under No. 6 "Changes in disclosure principles".

18. Recognition of income and expenses

Revenues from sale of goods or products are recognized on transfer of the significant risks and opportunities, provided that the other conditions are met, as is normally the case (no continued involvement, reliable determination of income amount possible, and sufficient probability of inflow).

Sales income from project business is recognized in accordance with the percentage-of-completion method pursuant to IAS 11. Proportionate income realization is recognized on the basis of the degree of completion, where determination of percentage of completion, total cost and total income from the completed orders can be reliably effected within the meaning of IAS 11. The percentage of completion of the individual projects is determined on the cost-to-cost method in accordance with IAS 11.30a. The share of total project earnings is determined under the conditions indicated, in accordance with the percentage of completion. Order costs comprise the costs directly attributable to the order, and a proportion of overhead costs. Loan capital costs are not capitalized.

Expense grants are allocated to the appropriate period, in accordance with the incidence of expenses, with corresponding effect on results.

Operating expenses are recognized with 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 rule dividends are recognized at the date on which the resolution on payment is adopted. Interest earnings and expenses are accrued.

19. 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

20. Sales revenues

Sales revenues and a breakdown of sales revenues by 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:

	2006 t€	Previous year t€
Module sales (group and third-party production)	347,128	196,071
Proceeds from projects	25,906	36,544
Cell	17,498	8,183
Wafer	124,714	115,173
	515,246	355,971

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

The proceeds from projects at the balance sheet date include not only projects where final invoicing has been effected, but also ongoing projects, where the proceeds are accrued by the percentage-of-completion method to IAS 11. The amount of these proceeds at the reference date is € 6,564 thousand (previous year € 0 thousand).

21. 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.

22. Other operating income

	2006 t€	Previous year t€
Income from initial consolidation	56,963	0
Income from other expense grants	18,401	0
Reversal of accrued investment grants	6,506	5,662
Expenditure grants for research and development	3,942	3,067
Foreign exchange gains	3,734	850
Reversal of provisions	260	721
Miscellaneous other operating income	8,247	4,556
	98,053	14,856

With respect to the income from initial consolidation and the income from other expenditure grants, we refer to our notes under No. 2 "Consolidated companies".

Foreign exchange gains primarily comprise gains from changes in exchange rates 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.

23. Cost of materials

	2006 t€	Previous year t€
Cost of raw materials, consumables and supplies and purchased merchandise	286,729	199,652
Cost of purchased services	17,279	11,250
	304,008	210,902

24. Staff costs

	2006 t€	Previous year t€
Wages and salaries	47,756	32,843
Social security contributions, pension costs	10,030	4,937
	57,786	37,780

25. Depreciation and amortization

A breakdown of depreciation and amortization is provided in the statement of changes in non-current assets. They include not only amortization of intangible assets and plant and property, but also extraordinary impairment amounting to € 13,035 thousand on the at-equity value of the goodwill included in the interest holding in Solarparc AG (see No. 35).

26. Other operating expenses

	2006 t€	Previous year t€
Maintenance expenses	11,066	8,183
Use of third-party personnel	7,777	2,814
Foreign exchange losses	6,324	1,096
Selling expenses	4,489	3,726
Legal, consultancy and auditing costs	3,688	969
Expenditure from addition to guarantee provision	3,017	0
Rental and lease expenses	2,955	991
Advertising and travel expenses	2,862	1,921
Insurance premiums	2,351	1,197
Research expenses	1,535	1,342
IT services	701	312
Write-downs of receivables and losses on receivables	387	423
Miscellaneous other operating expenses	14,154	6,616
	61,306	29,590

27. Result from shares measured at equity

	2006	Previous year
	t€	t€
Income from shares measured at equity	0	0
Expenses from shares measured at equity	-1,308	-754
	-1,308	-754

The result from shares measured at equity contains only the updated amount of pro-rata equity capital and the additions and write-downs effected on acquisition, at the fair values applicable at the time. A write-down of € 13,035 thousand on the at-equity value of the goodwill contained in Solarparc AG was included in depreciation (see No. 25).

28. Taxes on income

Tax expenses break down as follows:

	2006	Previous year
	t€	t€
Actual tax expense (+) / income (-) Germany	52,680	29,671
Actual tax expense (+) / income (-) abroad	1,297	348
Actual tax expense (+) / income (-) total	53,977	30,019
Deferred tax expense (+) / income (-) Germany	2,355	1,597
Deferred tax expense (+) / income (-) abroad	-5,933	166
Deferred tax expense (+) / income (-) total	-3,578	1,763
Tax expense (+) / income (-) total	50,399	31,782

Income taxes include taxed 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 carry-forwards. The calculation is based on the expected tax rates in the individual countries at the date of recognition. These rates are in all cases based on the legal regulations applicable or adopted at the balance sheet date.

Deferred taxes on tax loss carry-forwards 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 utilized in the medium term. No deferred taxes are capitalized for loss carry-forwards arising with SolarWorld Industries America LP before acquisition by SolarWorld AG, as it is currently probable that these will not be usable by SolarWorld AG. Apart from that, the deferred taxes on existing loss carry-forwards may be regarded 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 carry-forwards resulted in the following recognized deferred tax assets and liabilities, shown below in non-netted and netted terms:

in t€

	Deferred tax assets		Deferred tax liabilities	
	2006	Previous year	2006	Previous year
Intangible assets and property, plant and equipment	497	8	14,376	8,925
Current assets	11,946	1,908	1,518	5
Accrued investment grants	1,326	1,392	0	0
Other non-current liabilities	3,318	0	1,548	532
Current liabilities	937	384	0	77
Tax loss carry-forwards	7,058	172	0	0
	24,944	3,864	17,442	9,539
Netting	-6,951	-1,583	-6,951	-1,583
Recognized deferred taxes	17,993	2,281	10,491	7,956

Deferred tax assets and liabilities are netted where they related to taxes levied by the same taxation authority and to the same taxable entity. At the two cutoff dates there were no deferred tax claims or liabilities that would have to be carried in equity with no effect on results.

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

	2006 t€	Previous year t€
Earnings before taxes on income	180,965	83,764
Expected income tax rate (incl. trade tax)	40.0%	40.0%
Expected income tax expense (+) / income (-)	72,386	33,506
Deviating domestic and foreign tax burden	-2,338	-865
Tax reductions due to tax-free income	-23,645	-1,316
Taxes from other non-deductible expenses	4,961	480
Actual taxes unrelated to accounting period	-686	5
Other deviations of tax expenses	-279	-28
Recognized income tax expense (+) / (-)	50,399	31,782
Effective income tax rate	27.9%	37.9%

29. Major expenses and income unrelated to accounting period

In the 2006 fiscal year, as in the previous year, there were no major material expenses or income unrelated to the accounting period.

30. Earnings per share

Earnings per share are calculated by dividing the net consolidated profit for the year by the weighted average 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 factor.

For assessment of the earnings per share in the previous year, the number of shares outstanding was adjusted to the disclosed earnings of the previous year, because one bonus share was issued to each shareholder at the AGM in May 2005 and a further three bonus shares were issued to each shareholder at the AGM in May 2006.

31. Segment reporting

a) Business segments

The business segments are the primary format for segment reporting of the Group. The SolarWorld Group operated four vertically integrated business segments on a worldwide basis in the 2006 fiscal year:

- production of silicon wafers (wafer production and sales),
- production of solar cells (cell production),
- production of solar modules (module production),
- trade in solar modules (trading).

Inter-segment sales and proceeds are in all cases based on the arm's length principle.

Administrative services and the performance of holding functions are partly based calculated on the basis of cost allocation keys.

Segment assets and segment liabilities are first indicated including inter-company receivables and liabilities, and subsequently reconciliation to consolidated group figures is provided.

Others as presented in previous year inter-company profit eliminations are included in the reconciliation too. The previous year's figures were restated accordingly.

Information on business segments for the 2006 fiscal year

in million €

	Wafer	Cell	Module	Trade	Eliminations	Consolidated
Sales						
External sales	125	18	6	366		
Inter-segment sales	157	160	211	0	-528	
Total sales	282	178	217	366	-528	515
Earnings						
Segment earnings	73	27	12	32	-6	138
Unallocated income						57
Unallocated expenses						-14
Earnings before interest and tax (EBIT)						181
Interest paid						-11
Interest received						11
Income taxes						-50
Net profit for the period						131
Other information						
Assets						
Segment assets	386	120	66	150	-87	635
Unallocated assets						369
Consolidated assets						1,004
Liabilities						
Segment liabilities	142	28	22	75	-76	191
Unallocated liabilities						216
Consolidated liabilities						407
Intangible assets and property, plant and equipment						
Capital expenditure	63	35	6	1		
Depreciation and amortization	16	7	4	1		

Information on business segments for the 2005 fiscal year

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 earnings	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	-42	345
Unallocated assets						102
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		

b) Geographical segments

The geographical segments are the secondary segmental reporting format. 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.

Geographical segments fiscal year 2006

in million €

	<u>Sales</u>	<u>Assets</u>	<u>Capital expenditure</u>
Germany	294	888	103
Rest of Europe	113	17	1
Asia	74	21	0
USA	30	77	1
Rest of world	4	1	0
Total	515	1,004	105

Geographical segments fiscal year 2005

in million €

	<u>Sales</u>	<u>Assets</u>	<u>Capital expenditure</u>
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

Notes to the Balance Sheet**32. Development of intangible assets and property, plant and equipment**

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

Development of intangible assets and property, plant and equipment

in t€

	Acquisition and manufacturing costs				Depreciation and amortization				Book value					
	Addition to consoli- dation 01.01.2006	Reclassi- fication Addition	Disposal	Currency difference 31.12.2006	Balance 01.01.2006	Addition	Disposal	Currency difference 31.12.2006	Balance 31.12.2006	Balance previous year				
I. Intangible assets														
1. Concessions, industrial property rights and similar rights and values as well as licenses	7,284	602	610	691	192	-19	8,976	4,634	1,724	157	0	6,201	2,775	2,650
2. Goodwill	37,018	0	0	0	0	0	37,018	5,194	101	0	0	5,295	31,723	31,824
	44,302	602	610	691	192	-19	45,994	9,828	1,825	157	0	11,496	34,498	34,474
II. Property, plant and equipment														
1. Land and buildings	47,255	7,591	4,855	23,208	1,769	-189	80,951	6,594	3,118	175	0	9,537	71,414	40,661
2. Machinery and fixtures	173,933	31,966	49,629	31,071	5,093	-875	280,631	59,067	22,911	2,430	65	79,613	201,018	114,866
3. Other plant, office and operating equipment	6,659	879	362	2,803	1,354	-8	9,341	3,162	1,723	958	0	3,927	5,414	3,497
4. Construction in progress and advance payments made	19,439	807	-55,456	48,196	171	-15	12,800	18	0	18	0	0	12,800	19,421
	247,286	41,243	-610	105,278	8,387	-1,087	383,723	68,841	27,752	3,581	65	93,077	290,646	178,445
	291,588	41,845	0	105,969	8,579	-1,106	429,717	78,669	29,577	3,738	65	104,573	325,144	212,919
	Acquisition and manufacturing costs				Depreciation and amortization				Book value					
	Addition to consoli- dation 01.01.2005	Reclassi- fication Addition	Disposal	Currency difference 31.12.2005	Balance 01.01.2005	Addition	Disposal	Currency difference 31.12.2005	Balance 31.12.2005	Balance previous year				
I. Intangible assets														
1. Concessions, industrial property rights and similar rights and values as well as licenses	6,729	0	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	0	37,018	5,194	0	0	0	5,194	31,824	31,824
	43,747	0	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 and buildings	34,214	0	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	0	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	0	-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 payments made	21,761	0	-26,789	24,812	345	0	19,439	18	0	0	0	18	19,421	21,743
	197,616	0	-277	52,241	2,082	-212	247,286	51,830	18,675	1,603	-61	68,841	178,445	145,786
	241,363	0	0	52,621	2,184	-212	291,588	60,732	19,687	1,689	-61	78,669	212,919	180,631

33. Intangible assets

Goodwill carried under intangible assets results from the following company acquisitions:

	31.12.2006	Previous year
	t€	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 und 2001	2,136	2,136
Other goodwill	0	101
	31,723	31,824

34. Property, plant and equipment

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

35. Shares measured at equity

	31.12.2006	Previous year
	t€	t€
Solarparc AG, Bonn	12,254	0
Joint Solar Silicon GmbH & Co. KG, Freiberg	4,617	1,763
RGS Development B.V., Petten/ Netherlands	2,456	2,813
Scheuten SolarWorld Solicium GmbH, Freiberg	50	0
	19,377	4,576

The participation in the stock exchange listed company Solarparc AG, Bonn, is held by SolarWorld AG. This is a 29% share in the assets, earnings and voting rights. The purpose of the company, alongside power generation from renewable sources, is the management, project concept development and marketing of solar farms and wind turbines. Unscheduled impairment of € 13,035 thousand was necessary on the basis of a sunken stock valuation in the third quarter, with a corresponding burden on the at-equity value of the goodwill contained in Solarparc AG. The profit share of the year under review due to SolarWorld AG was € 125 thousand. The going-concern value of the shares in Solarparc AG, derived from the stock exchange price, was € 12,334 thousand at balance sheet date.

The participation in Joint Solar Silicon GmbH & Co. KG is held by SolarWorld AG. It is a 49% share in the assets and earnings. 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. The loss share attributed to SolarWorld AG was € 871 thousand (previous year € 510 thousand).

The share in RGS Development B.V. is held by Deutsche Solar AG. It is a 35% share in assets and earnings. 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 30%. The loss share attributable to Deutsche Solar AG for the fiscal year was € 357 thousand (previous year € 244 thousand).

Scheuten SolarWorld Solicium GmbH, Freiberg, was started on 7 December 2006 as a joint venture between Scheuten Solar Holding B.V. and SolarWorld AG. This is a 50% share in assets and earnings. The purpose of the company is the production of silicon. The company had not yet started operations at the balance sheet date.

The shares in Joint Solar Silicon GmbH & Co. KG, RGS Development B.V. and Scheuten SolarWorld Solicium GmbH are jointly controlled entities within the meaning of IAS 31, because major decisions on business and finance policy can only be made jointly.

At the balance sheet date, there were no receivables from associated companies. There were liabilities amounting to € 4,302 thousand from obligations to make contributions.

The following table gives summarized finance information on the shares valued at equity:

	2006	Previous year
	t€	t€
Pro-rata assets	22,936	5,288
Pro-rata liabilities	8,473	933
Pro-rata sales revenues	2,797	247
Pro-rata annual profit/loss	-1,103	-754

36. Deferred tax assets

Deferred taxes are calculated in accordance with IAS 12 (Income Taxes). No value adjustments were required on deferred tax assets. The development of this item is shown in the note on tax expenses.

37. Inventories

	31.12.2006	Previous year
	t€	t€
Raw materials, consumable and supplies	35,377	17,080
Work in progress	60,829	29,103
Finished goods and merchandise	38,196	19,704
Advance payments made	107,587	19,036
	241,989	84,923

The above breakdown shows only the photovoltaic modules and wafers of Deutsche Solar AG as finished goods of the group.

Advance payments made comprised an amount of € 101,934 thousand (previous year: € 18,503 thousand), which will not be offset against raw material supplies until more than 12 months after the balance sheet date.

38. Income tax receivables

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

39. Trade receivables

From long-term project business, there are receivables from ongoing projects amounting to € 11,595 thousand at balance sheet date (previous year € 0 thousand); these are recognized by the percentage-of-completion method.

40. Other receivables and assets

	31.12.2006	Previous year
	t€	t€
Input tax refund claims	6,149	1,091
Leasing claims Scheuten	5,092	0
Accrued expense grants Shell	3,523	0
Purchase price adjustment Shell acquisition	2,465	0
Other	4,641	786
	21,870	1,877

The subsidiaries SolarWorld Industries Deutschland GmbH and SolarWorld Industries Schalke GmbH leased the Gelsenkirchen business operations to Scheuten Solarcell GmbH with effect from 1 October 2006. This operations leasing contract is designed with call and put options for the lessee and lessor in such a way that the result at the end of the leasing period, on 31 December 2007 will almost certainly be sale and thus legal transfer of title.

For the most part, all risks and opportunities are transferred to the lessee from the beginning of the contract, so the lease contract is to be classified from that time onwards as finance lease according to IAS 17. The transfer of economic ownership was thus effected on 1 October 2006. The assets thus transferred were retired at the beginning of the leasing contract, and in return the leasing receivable was posted.

41. Current securities

Financial assets measured at fair value are carried under securities.

	31.12.2006	Previous year
	t€	t€
Fixed-interest bonds	50,149	0
Money market funds	27,589	14,014
Real estate funds	8,441	5,996
Pension funds	4,092	2,001
Other	8,302	236
	98,573	22,247

They were acquired with a view to earnings optimization in liquidity management. These assets are therefore intended for sale in the short term. The gains and losses from fair value changes are therefore recognized in net profit or loss in the period results. In the fiscal year 2006, this resulted in income of € 956 thousand (previous € 235 thousand), carried under other operating income.

42. 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.

43. Prepaid expenses

The accrued asset item comprises expenses paid in advance. The accrued liabilities item comprises income received in advance.

44. Equity

Subscribed capital and capital reserve

The capital stock at balance sheet date is € 55.86 million (previous year € 12.7 million) and comprises exclusively common shares, totaling 55,860,000 no-par value bearer shares.

The Board of Management was authorized by the Annual General Meeting of 28 May 2002 to increase the capital stock, on approval by the Supervisory Board, by a total of € 675,000.00 by 31 December 2006.

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

Making full use of the authorization of 28 May 2002 and partial use of the authorization of 25 May 2005, the Board of Management decided on 7 February 2006, with the approval of the Supervisory Board, to increase capital stock from € 12.7 million by € 1.265 million to € 13.965 million. The increase in capital stock was entered in the commercial register on 9 March 2006 and 4 April 2006.

From the approval by the Annual General Meeting of 25 May 2005, there remains authorized capital of € 1,510,000.00 following the capital increase.

The Annual General Meeting of 24 May 2006 resolved to increase the capital stock from € 13.965 million by € 41.895 million to € 55.860 million out of retained earnings. The increase in the capital stock was entered in the commercial register on 2 June 2006.

Due to the measures listed above, the capital reserve was increased in the 2006 fiscal year through the recognition of premium of € 257.452 million (cost of capital increase deducted) in the framework of an increase in subscribed capital, while it decreased by € 41.895 million due to the capital increase from retained earnings.

The Annual General Meeting of 24 May 2006 authorized the Board of Management to increase the capital stock, with the consent of the Supervisory Board, by 31 December 2010, by a total of € 5,472,500.00.

The Annual General Meeting of 25 May 2005 approved the conditional increase of capital stock by a maximum of € 3,175,000.00. Based on the capital increase from retained earnings resolved on 25 May 2005, the capital stock had been conditionally increased by a maximum of € 6,350,000.00. This resolution was repealed by the resolution of the Annual General Meeting of 24 May 2006.

The Annual General Meeting of 24 May 2006 resolved a conditional increase in the capital stock by an amount of up to € 6,982,500.00 in order to give powers to issue convertible and/or option bonds. The increase in capital effected from retained earnings means that the conditional capital at the balance sheet date is € 27,930,000.00.

Other reserve

Translation reserve

The translation reserve comprises the differences based on conversion of the financial statements of the foreign subsidiaries.

IAS 39 reserve

This reserve comprises gains and losses from hedging relationships which were rated as highly effective in the framework of cash flow hedges.

45. Non-current and current financial liabilities

Financial liabilities have the following remaining terms:

	31.12.2006	Previous Year
	t€	t€
Remaining term of up to 1 year	50,960	15,591
Remaining term of 1 to 5 years	70,662	40,938
Remaining term of more than 5 years	41,915	14,060
	163,537	70,589

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

- Floating-interest syndicated loan with a remaining value of € 10,400 thousand, with quarterly redemption of € 1,300 thousand
- Floating-interest syndicated loan with a remaining value of € 15,000 thousand with quarterly redemption of € 750 thousand from 31 March 2008
- Floating-interest syndicated loan with a remaining value of € 11,432 thousand with quarterly redemption of € 714 thousand
- Floating-interest syndicated loan with a remaining value of € 16,000 thousand with quarterly redemption of € 667 thousand from 31 March 2007
- Floating-interest syndicated loan with a remaining value of € 2,980 thousand with quarterly redemption of € 185 thousand
- Floating-interest syndicated loan with a remaining value of € 8,820 thousand with quarterly redemption of € 368 thousand from 31 March 2007
- Floating-interest project-related redeemable loan with a remaining value of € 20,000 thousand with redemption starting from 30 September 2009
- Senior notes issued by SolarWorld AG in the USA for USD 12,000 thousand with a fixed USD interest rate of 6.02%, maturing on 21 December 2016
- Senior notes issued by SolarWorld AG in the USA for USD 22,000 thousand with a fixed USD interest rate of 5.89% payable on 21 December 2013
- Bond issued by SolarWorld AG for € 9,250 thousand with a fixed interest rate of 7.00%, maturing on 2 May 2011; this bond was issued in 2004; the current market value of the bond at the reference date is € 10,371 thousand.

Apart from the above mentioned senior notes, further senior notes were issued under a contract dated 21 December 2006, with a total volume of USD 141,000 thousand. Payment was effected on 4 January 2007.

In addition, a note loan amounting to € 100,000 thousand was taken under a contract of 21 December 2006. Payment was effected on 4 January 2007.

With exception of the bonds there are not significant differences between the carrying value and the current market value. For the different loans this is a result of variable interest rate adjusted to market conditions; for the senior notes it is a result of the fact that they were issued on 21 December 2006 and up to the reporting date no material changes arose in the market interest rate (incl. credit spread).

The group companies are liable for the liabilities to banks under the usual assignment of property, plant and equipment as well as inventories as collateral, and the creation of land charges totaling € 55.1 million.

46. Accrued investment grants

This item comprises accrued investment grants and subsidies, including grants already to be reversed in the subsequent year, as they are exclusively held in connection with property, plant and equipment assets.

47. Non-current and current provisions

	Balance at 1.1.2006 t€	Addition to consolidation t€	Utilization t€	Reversal t€	Addition t€	Balance at 31.12.2006 t€
Guarantee	504	4,473	146	100	3,892	8,623
Pensions	0	7,884	363	0	228	7,749
Reinstatement obligations	0	1,730	45	0	62	1,747
Repayment of grants	1,896	0	1,838	58	39	39
Other provisions	291	604	576	102	932	1,149
	2,691	14,691	2,968	260	5,153	19,307

Acquisition of the solar activities of the Shell Group has led to new insights for the management of SolarWorld AG with respect to the risk of performance guarantees on photovoltaic modules being taken up. On assessment of the new knowledge and renewed assessment of the risk, a provision of 0.25% was made on all historical sales revenues of SolarWorld AG, and compounded at an interest rate of 4.25%. This change in assessment led to an addition to guarantee provisions of € 2,059 thousand. It is not possible to make a reliable calculation of the impact of these assessment changes on future periods.

The provision for reinstatement obligations relates to tenant improvements, which have to be removed again by SolarWorld after expiry of the lease period.

Pension provisions

The provisions for pensions comprise the commitments for company pension schemes to group employees, based on direct promises. The pension entitlements earned are dependent on final salary.

The pension commitments were made exclusively in the framework of the company merger in the course of the fiscal year. Assessment of this addition was effected in accordance with IFRS 3 with the fair value of the obligation as at 1 July 2006.

The following assessment parameters were used for calculation of the DBO (defined benefit obligation):

	31.12.2006
Calculation interest rate	4.25%
Salary trend	2.5%
Pension trend	1.5%

Mortality and invalidity were calculated on the basis of the Heubeck guideline tables RT 2005 G.

Transfer of DBO to balance sheet is as follows:

	2006
	t€
Evaluated commitment	8,200
Planned assets	0
Unredeemed actuarial gains/losses	-451
	7,749

The following table shows the development of the DBO:

	2006
	t€
Beginning of fiscal year	0
Addition from company merger	7,884
Interest expense	181
Period expense	46
Pension payments	-362
Newly created actuarial gains/losses	451
	8,200

The unredeemed actuarial losses were as follows:

	2006
	t€
Beginning of year	0
Redemption	0
Creation	451
	451

48. Other non-current and current liabilities

	31.12.2006	Previous year
	t€	t€
Advance payments received	61,999	16,153
Staff performance-related remuneration	13,414	9,657
Other staff obligations	7,523	2,178
Contributions called in	4,302	0
VAT	3,143	4,096
Outstanding invoices	1,898	968
Other	10,916	9,105
	103,195	42,157

49. Deferred tax liabilities

Deferred tax liabilities fully result from the deviations of accounting and measurement principles 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.

50. Income tax 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.

OTHER NOTES**51. Other financial commitments**

	31.12.2006	Previous year
	t€	t€
Order commitments in respect of raw material and license agreements	996,719	394,460
Order commitments in respect of investments in property, plant and equipment	14,313	59,494
Obligations from multi-year lease agreements	8,019	6,535
Obligations from service agreements	310	0
	1,019,361	460,489

52. Contingencies and events after the balance sheet date

Extensive 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 issued three note loans for € 75,000 thousand, € 50,000 thousand and € 10,000 thousand respectively. SolarWorld AG also acquired a factory for silicon wafer production in the USA, via a subsidiary. Details of this are likewise given in the management report.

53. Hedging policy

As an international player, the SolarWorld Group is inevitably 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.

SolarWorld AG has an interest rate swap, concluded as a hedge for existing credit lines, with a subscription amount of € 2,500 thousand (previous year € 2,500 thousand). At the balance sheet date, the swap had a fair value of € -345.9 thousand (previous year € -294.0 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 subsidiary Deutsche Solar AG has a combined cross-currency interest-rate swap based on Swiss francs and euros, with a subscription amount of € 22,100 thousand. The fair value was € 217 thousand (previous year € 18 thousand). The contract will expire on 29 December 2008.

The conditions for recognition in the balance sheet of hedging relationships in accordance with the principles of IAS 39 were not fulfilled for these two swaps. The negative fair value was recognized under current financial liabilities. In the previous year, it was still recognized under current reserves. We refer to our notes under No. 6 "Changes in disclosure principles". The positive fair value is recognized under Other receivables and assets.

To hedge against existing currency risks from senior notes denominated in US dollars, SolarWorld AG has five cross-currency swaps for nominal amounts totaling USD 175,000 thousand. These swaps have terms running until 21 December 2013, 2016 and 2018. The negative fair values come to a total of € 429 thousand.

These swaps are characterized by definite hedging relationships, thus meeting the requirements of IAS 39 for use of hedge accounting in the form of cash flow hedges. Prospective and retrospective effectiveness is demonstrated by regularly conducted effectiveness tests. The results of the retrospective effectiveness test were within a bandwidth of 80% to 125%, indicating a highly-effective hedging relationship. At the balance sheet date, an unrealized loss from the hedging relationship of € 392 thousand was therefore included in equity. The fair values of the swap contracts were determined by means of recognised evaluation models and methods. This determination is based on the exchange rates and the respective interest structure curves at balance sheet date.

There are exchange rate risks from business activities, both on the sales side and on the purchasing side, mainly in US dollars. Exchange rate development is monitored on a continuous basis, and the risks are partly hedged, wherever that makes economic sense, except where covered by counter-transactions in the same currency. There were no open items at balance sheet date.

With the exception of employee loans which, however, are not of substantial volume, 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 behavior, 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. According to current plans, financial requirements are expected to be met.

54. Notes on the cash flow statement

Unlike the previous year, inflow from investment grants received is not allocated to cash flow from investment activity. Interest received and interest paid are again shown separately. The previous year's figures were correspondingly adjusted in the cash flow statement.

Cash flow from operating activities

Cash flow from operating activities was established by the indirect method. Earnings before tax, the basis of the calculation, are initially adjusted for non-cash income and expenses. This gives the cash flow from operating activities. Cash flow from operating activities also takes account of changes in inventories, securities which are regarded as being held for trading purposes, and other net assets.

The change in other net assets and inventories also comprises the advance payments received for sales, and advance payments made for acquisition of inventories. These are mainly based on long-term sales contracts for silicon wafers, and purchase contracts for raw silicon agreed with corresponding timeframes. The resulting inflows and outflows in the 2006 fiscal year were as follows:

	2006 t€	Previous year t€
Increase in advance payments received	44,751	16,033
Increase in advance payments made	-85,621	-18,771
Increase (+) / decrease (-) in cash flow	-40,870	-2,738

Interest paid is presented in the determination of the cash flow from financing activities; interest received is presented in the determination of cash flow from operating activities.

Cash flow from investing activities

Cash flow from investing activities includes payments to invest in fixed assets, and the investment grants received in that connection. It also includes the balance from payments for acquisition of the crystalline solar activities of the Shell Group and the funds obtained with the companies acquired. We refer to our explanations under No. 2 "Consolidated companies".

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

The cash and cash equivalents are composed of the balance from liquid funds recognized in the balance sheet of € 204,655 thousand (previous year € 95,897 thousand) and the liabilities payable on demand of € 10,402 thousand (previous year € 0 thousand).

55. Contingent liabilities

There were no contingent liabilities at the reference date. The potential risk classified in the previous year as a contingent liability with respect to claims on the performance guarantees for photovoltaic modules was recognized in the year under review as a provision in the Group financial statements.

56. Related party disclosures

In the 2006 fiscal year, the following material transactions were effected with related parties:

Sales of photovoltaic modules to the engineering consultancy Frank Heinz Asbeck, totaling € 14.5 million. The module sales were in each case effected for purposes of installation and operation of large-scale photovoltaic plants for electricity feed-in to the public power grid.

There are also rental agreements with members of Asbeck's family on administrative and commercial properties in Bonn, with annual rentals totaling € 0.5 million (previous year € 0.2 million). A securities loan by Mr. Frank Heinz Asbeck to SolarWorld AG in the course of the capital increase during the year under review resulted in interest payment of € 0.66 million to Mr. Asbeck.

Various services were provided for associated companies, and payments of € 0.1 million were made for these.

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 € 0.43 million in 2006 (previous year € 0.3 million).

The remuneration of the members of the Board is listed in a separate note and presented in the remuneration report within the management report.

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

57. Employees

The average headcount was 1,062 (previous year 687), breaking down as follows for the operating units / segments:

Number	2006	Previous year
Wafer production	626	477
Cell production	137	35
Module production	191	116
Trade and group headquarters	108	59
	1,062	687

As at 31 December 2006 the headcount was 1,348 (previous year 759).

58. Board of Management and Supervisory Board

In the 2006 fiscal year, the members of the Board of Management received total compensation of € 2,048 thousand (previous year € 2,061 thousand) for the performance of their tasks in the parent company and the subsidiaries. This compensation includes variable compensation components of € 1,295 thousand (previous year € 950 thousand).

In the 2006 fiscal year, the members of the Supervisory Board received total compensation, including cost reimbursements, of € 188 thousand (previous year € 163 thousand) for the performance of their tasks in the parent company and the subsidiaries, in each case plus statutory VAT. This amount includes variable compensation components of € 72 thousand (previous year € 49 thousand).

Individualized data on the remuneration paid to the Management Board members are presented in the company's management report.

The Board of Management comprised the following members:

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 indirectly held 25.96% (previous year 27.6%) 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 Supervisory Board members Boris Klebensberger and Phillip Koecke are members of the Supervisory Board of Gällivare PhotoVoltaic AB, Gällivare, Sweden.

The Supervisory Board chairman Dr. Claus Recktenwald is a member of the Supervisory Board of Solarparc AG, Bonn, of Deutsche Solar AG, Freiberg, and of VEMAG Verlags- und Medien Aktiengesellschaft, Cologne.

The Supervisory Board member Dr. Georg Gansen is also a member of the Supervisory Board of Solarparc AG, Bonn, and of Deutsche Solar AG, Freiberg.

The Supervisory Board member Dr. Alexander von Bossel is also a member of the Supervisory Board of Solarparc AG, Bonn.

59. Auditor fees

The fee recognized as an expense in the 2006 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 € 454 thousand (previous year € 313 thousand)
- b) Other certification and measurement services € 21 thousand (previous year € 36 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 € 153 thousand (previous year € 38 thousand)

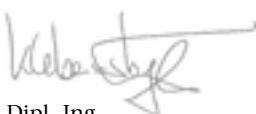
60. Corporate Governance

On 26 May 2006/4 June 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 2006 and 2007 fiscal years, stating that the recommendations made by the 'Government Commission German Corporate Governance Code' issued by the Federal Justice Ministry are complied with, and indicating which recommendations are not yet applied. The declaration has been published on the company's website.

61. Declaration pursuant to § 297 Section 2 Sentence 4 HGB (German Commercial Code)

The legal representatives of the parent company declare that the consolidated annual financial statements have been drawn up to the best of their knowledge providing a true and fair view of the situation of the Group as defined in § 297 Section 2 Sentence 2 HGB (German Commercial Code).

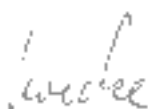
Bonn, 6 March 2007



Dipl.-Ing.
Boris Klebensberger
(COO)



Dipl.-Ing.
Frank Henn
(CSO)



Dipl.-Kfm.
Philipp Koecke
(CFO)



Dipl.-Ing.
Frank H. Asbeck
(CEO)

Auditor's Report

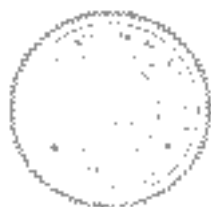
We have audited the consolidated financial statements prepared by the SolarWorld AG, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2006. 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 section 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 Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer / IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the 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 section 1 HGB and give a true and fair review 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 whole provides a suitable view of the Group's disposition and suitably presents the opportunities and risks of future development.

Bonn, 6 March 2007



BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Schäfer
Wirtschaftsprüfer

ppa. Lubitz
Wirtschaftsprüfer



Glossary

Alliance

Strategic business cooperation with partners aimed at leveraging -> synergies

Balance sheet

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

Benchmark

Yardstick used to compare performance features of several objects or processes in order to improve them.

Break-even

Point at which revenues are equal to costs, i.e. at which neither a profit nor a loss is generated

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.

Carbon Disclosure Project (CDP)

Global cooperation of more than 225 institutional investors with investment capital of 31 trillion US dollars; the aim of the project is to disclose companies' greenhouse gas emissions as well as their strategies concerning climate change and its implications. In the framework of the project, the world's 2,100 largest quoted companies were interviewed.

Cash flow

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

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.

CEO

Chief Executive Officer

CFO

Chief Financial Officer

Clean Development Mechanism (CDM)

One of the three mechanisms of the -> Kyoto Protocol. The CDM entitles industrialized countries to purchase carbon credits (emissions rights) from developing countries. Emission reductions are thus achieved where they are most cost-effective. The industrialized countries can use these carbon credits in order to meet their Kyoto targets.

CNBC European Business Ranking

Ranking by the CNBC broadcasting station, listing 50 companies generating profits on the basis of emission-reducing technologies.

COO

Chief Operating Officer

Corporate culture/corporate philosophy

Describes the impact of cultural aspects on companies. The corporate culture influences all areas such as corporate communications, relationships with colleagues, customers and suppliers. Corporate philosophy is often defined by management and provided as a guideline, while corporate culture tends to develop on its own.

Crystal Clear

The largest EU photovoltaic research project with a budget of 28 million €. The project investigates the production of modules with regard to cost reductions and quality enhancement.

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.

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.

DAXglobal Alternative Energy Index

Stock index of the world's largest 15 companies operating in the alternative energies sector. In order to qualify, the companies have to generate the largest proportion of their sales revenues in natural gas, solar power, wind power, ethanol or geothermal power.

Deferred taxes

Deferred taxes result from differences in tax burdens where taxable profit differs from earnings in the commercial-law financial statements 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.

Dividend

Proportion of the profits of a stock corporation distributed to the shareholders on an annual basis. The resolution relating to the distribution of this dividend is adopted at the Annual General Meeting.

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.

EBIT

Earnings before Interest and Taxes. EBIT is usually used to assess a company's earnings situation, in particular in drawing up international comparisons.

EBIT margin

This indicator shows the percentage of the operating profit before interest, taxes and financial result of a company per revenue entity. It facilitates international comparisons.

EBITDA

Earnings before Interest, Taxes, Depreciation and Amortization. EBITDA facilitates international comparisons since it does not account for national taxes.

EBT

Earnings Before Taxes.

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)

Einstein Award

Award presented by SolarWorld AG to personalities with particular merits in advancing the use of solar energy.

Einstein Junior Award

Award presented by SolarWorld AG to junior scientists for scientific work in the photovoltaic sector.

Employee profit-sharing model (GOMAB)

Profit-oriented employee profit-sharing model by the SolarWorld Group, establishing a distribution factor for the employees' pay structure. This factor is based on earnings by the individual company and the group.

EPIA

European Photovoltaic Industry Association; the world's largest association for companies operating in the photovoltaic industry.

Equity

Equity contributed by the owners (shareholders) as well as other reserves available to the company.

Equity ratio

Indicator representing equity as a proportion of total capital. The ratio is used to assess a company's financial strength.

Equity Story

Summary presentation of the development of a stock corporation with regard to its future opportunities and risks.

Fair disclosure

Appropriate and consistent disclosure of information.

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.

Free float

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

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.

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.

German Solar Industry Federation (Bundesverband Solarwirtschaft, BSW)

Berlin-based association representing the interests of the solar industry vis-à-vis politicians, the media and other associations.

GEX

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

GOMAB

-> Employee profit-sharing model

Greenhouse gas emissions

Greenhouse gas emissions may have a natural or anthropogenic origin. This effect is reinforced by human-induced greenhouse gas emissions which may cause climate change. The main human-induced greenhouse gases are carbon dioxide (CO₂) from the burning of fossil fuels (approx. 60%) and methane from agricultural activities and large-scale livestock husbandry (approx. 20%).

Group profit/loss for the year

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

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.

Income statement

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

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.

Investment grade

Designation for a rating by institutional investors providing information about a creditor's or company's credit worthiness. The higher the rating, the lower the probability of a payment default. A distinction is made between investment grade companies and speculative grade companies.

ISO 9001 certification

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

Job rotation

Systematic rotation of jobs or tasks within an organization with a view to enlarging people's work experience.

Joint venture

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

JSSI process

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

KLD Global Climate 100 SM Index

Index for stock corporations engaged in activities demonstrating the potential for mitigating immediate and long-term causes of climate change. The index comprises 100 international companies offering short-term solutions against global warming.

kWh

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

Kyoto Protocol

Effective since 16 February 2005. A protocol adopted in 1997 under the United Nations Framework Convention on Climate Change (UNFCCC). The Kyoto Protocol signatories that have ratified the Protocol aim to reduce their greenhouse gas emissions by 5.2% on average below 1990 levels by 2012. The specific targets for each individual country primarily depend on its economic development. The target for the EU is to achieve an 8 per cent reduction in its emissions.

Lifecycle data

Energy and ecological audit of a product over its entire lifecycle.

Marginal cost

The extra cost incurred for an extra unit of output

Market capitalisation

Measurement referring to the number of shares times the stock price.

Merit order

Merit order describes the operation of a system of power stations on the basis of the variable operating costs of the plants: in the event of a sudden rise in power requirements, the power station with the lowest marginal or operating costs at the given point in time is dispatched first for operation. The merit order is used to identify the current power price in the energy exchanges.

Metallurgical silicon

Conducting semimetal produced in electrical furnaces by means of the reduction of quartz and coal. It can be used to produce solar wafers following a purification process.

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.

MSCI Germany Index

Capital-oriented index of the US financial services provider Morgan Stanley for German companies.

Multi-crystalline

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.

MW

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

NAI

Natur-Aktien-Index (nature stock index), comprising 25 international companies operating ecologically and selected as successful pioneers on the basis of particularly consistent criteria.

Nairobi Framework

UN initiative aimed at encouraging developing countries to participate in the CDM (-> Clean Development Mechanism).

n-doped silicon discs

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

Non-discrimination principles

Principles relating to discrimination on grounds of racial or ethnic origin, gender, religion or belief, disability, age or sexual orientation and governing sanctions applicable in the event of non-compliance.

North Sea Brent Crude

Europe's key crude oil grade produced in the North Sea and traded at the London Commodity Exchange.

Off-grid (rural electrification)

Off-grid; in connection with solar power this means that a solar system is not directly connected with the power grid but that the power generated is directly consumed or stored locally (so-called stand-alone system).

On-grid

On-grid; in connection with solar power this means that a photovoltaic system is connected with the regional power grid. The operator of the system can feed electricity into the grid when electricity production is high (strong solar radiation) and take electricity out of the grid if necessary (in the dark).

p.a.

Acronym for pro anno (Latin), i.e. per year or annually

Photovoltaic

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

Plus grade

Quality feature of 'Plus sun modules'; the output of the modules is measured individually. Only modules meeting at least the rated output are delivered. When installing the modules, time-consuming output measurements and module sorting operations are therefore not required.

Portfolio

Technical term for a collection of investments, products, services, or brands that are offered for sale by a company. i.e. product portfolio or stock portfolio.

PPVX

Photon-Photovoltaik-Aktienindex (Photon photovoltaic stock index): worldwide index by the Photon trade magazine).

Prime Standard

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

Profit center

Organizational area of a company for which separate profits are calculated independently from the rest of the company.

Quality management (QM)

Serves to secure and increase the quality of products and the entire work process. QM aims to achieve an increase in quality by means of optimising workflows and transactions.

R&D

Research and Development

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.

Risk management

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

ROCE

Return on Capital Employed; economic indicator describing the efficiency and profitability of a company in relation to the capital employed. ROCE is the ratio between after-tax profit and total capital less current liabilities and liquid funds.

Shares measured at equity

Term related to the balance sheet (IAS 28): shares in companies which an enterprise can exert a substantial influence over but does not control

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 power system

also: photovoltaic system. Comprised of several components, the solar cells combined into modules directly convert light energy into electrical energy in the form of direct current. "Directly" implies: without passing through an intermediate energy carrier such as water or vapour.

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.

Solarracer

Race car specifically produced by SolarWorld AG in cooperation with the Bochum university of applied sciences and exclusively powered by solar energy.

String

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

Sunsil®

SolarWorld brand name for highly-pure solar-grade silicon produced in accordance with the -> JSSI process.

Sustainability

Concept used by the Brundtland Commission. A development is sustainable if it meets the needs of one generation without compromising the development potential of the next generation.

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.

Textured cell

An acid-textured cell is characterised by an anisotropically etched surface, i.e. the surface has been microscopically roughened through the etching process. As a result, the solar cell absorbs more light.

Thin-film 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%.

Think tank

Informal, independent research group developing political and economic concepts and strategies and promoting them in the public debate.

Total assets

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

Tracker

A technology enabling solar modules to track the sunlight by means of a light-controlled system, causing an increase in the solar power output.

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).

UMAG

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

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.

Wafer

Wafers are thin layers (approx. 0.18-0.35 mm thick) of silicon used to manufacture -> (solar) cells.

Working capital

Current operating capital; the balance sheet total adjusted for non-operating assets.

WpHG

German Securities Trading Act. Effective since 17 June 1995.

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28 March 2007	Annual Business Press Conference on financial statements 2006; Bonn Analysts' Conference Accounts 2006; Bonn Annual Report 2006 on SolarWorld-homepage Annual Report as printed version: 16 April 2007
15 May 2007	Consolidated Interim Report SolarWorld AG Q1 2007 Analysts' conference call; 3 p.m. Printed version: 22 May 2007
24 May 2007	Annual General Meeting, Bonn
14 August 2007	Consolidated Interim Report SolarWorld AG Q2 2007 Analysts' conference call; 3 p.m. Printed version: 21 August 2007
14 November 2007	Consolidated Interim Report SolarWorld AG Q3 2007 Analysts' conference call; 3 p.m. Printed version: 21 November 2007

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

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

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