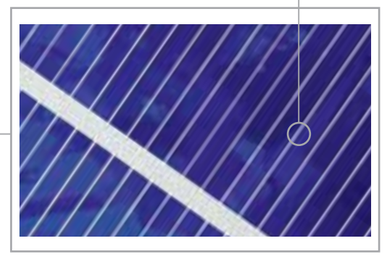
Annual Group Report 2007

and integrated sustainability report

SolarWorld AG

SOLARWORLD
THE SUNPOWERED COMPANY®



clean · safe · inexhaustible · fair

infinitely valuable

For sustainable values

Andreas Disnovski I Entrepreneur and shareholder

"As a Freiberg-based cab company owner, I saw the company grow extremely fast. That is why I purchased my first shares in 2000, one year after the IPO. When share prices collapsed worldwide in 2001, I purchased more shares. I believed in solar power and the company. The shareholders' loyalty has been rewarded time and again through the annual dividend."

"My taxi fleet also steers an environmentally friendly course – with bio-diesel."

For clean profits

Pascal Schuler I CEFA, Portfolio Manager I Swissca Portfolio Managment AG, Zurich

"I was an early investor in SolarWorld. Shortly after the IPO in 1999, I included the share in my portfolio. With its integrated approach covering all stages of the value chain, the company convinced me early on. In looking at the development it has taken, I can only confirm that the decision has turned out to be the right one."

"The company is one of my most successful investments."

For joint tasks

Dr. Carmen Bellmann I Process engineer, Deutsche Cell

"In the two years in which I have been with the company our workforce has more than doubled. Structures and hierarchies are open and flexible. We are a colorfully mixed team with many different characters enriching our output: highly motivated creative employees who consider solar cells their vocation rather than merely their job, and old hands with fantastic levels of experience. The atmosphere in our team is personal, friendly, and all team members respect each other – it doesn't matter whether you are an engineer or an operator."

"I have always been fascinated by technology. I am a passionate engineer."

For secure jobs

Jana Höhne I Operator wafer production

"I have worked in final inspection in wafer production since 2001. We now operate a largely automated process, which has made our work easier and more efficient and above all guarantees compliance with our quality standards. I attach a lot of importance to job security, teamwork and a pleasant work atmosphere. The GOMAB bonus system provides us with a direct share in SolarWorld's profits. This additionally boosts our motivation and rewards our commitment."

"We attach a lot of importance to cooperation and teamwork. We can contribute our ideas any time."

For worldwide success

Raju Yenamandra I Sales & Marketing Director, SolarWorld California & South America

"I consider it deeply satisfying to bring electricity to the remotest regions of the world – to places where electricity is not about dollars or cents but about fundamental human needs, about quality of life. To my mind this is one of the most important future markets for solar technologies. I have been active in the solar business for 30 years, and as far as I am concerned it is important to work for a company that shares my passion in solar thinking and solar actions."

"At SolarWorld the solar business does not serve merely as a green image boost. Here, the sun is the main course and not just the side dish."

For joint growth

Steffen Pfund I CEO caverion GmbH

“SolarWorld is a challenging customer – they are constantly expanding, growing, becoming larger. And we keep growing with them as their partner. caverion GmbH was involved right from scratch; we built the cell production facilities in Freiberg as the general contractor. We are now expanding SolarWorld’s second foothold in the USA. SolarWorld is not just one of our key accounts but also a particularly attractive partner: a young company with uncomplicated, reliable decision-makers.“

“SolarWorld is on our wavelength. That is important for good business.“

For satisfied customers

Martin Muffler I Electrician

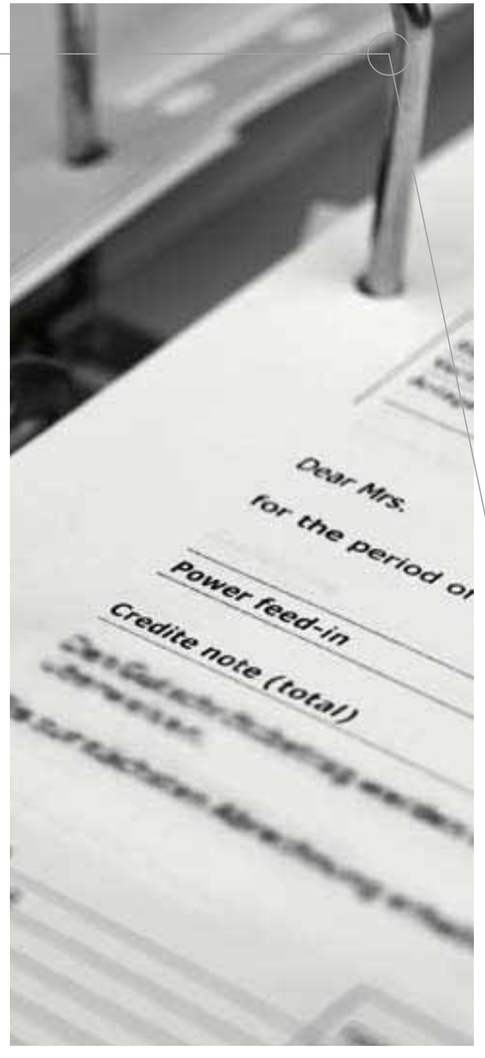
“With SolarWorld I can expect reliable quality. Solar cells have to produce a good yield, and that is the case here. We have now got 480 systems up and running and can thus prove their quality. 90 per cent of the systems already reach 100 per cent performance after nine months. This can be communicated very well.“

“Solar power is a future-oriented sector. Prospects for our business are definitely good.“

For the right decisions

Petra Bumler with Sarah and Tim I Customer owning a solar system

"Solar power is a noise-free, clean technology that does not entail any risks. It is simply there, producing clean energy. You can simply use the sun, make your own personal contribution to climate protection, and it is even an economically viable proposition at the end of the day. That is why we decided to generate our own power a few years ago. I actually think everybody should be doing so."



"I feel accountable to my children."

For exciting developments

Matthias Wilm | Student at Bochum University

"A race across Australia, 19 highly tuned race cars on the starting grid, thousands of kilometers through no man's land, with the sun being the only admissible fuel. The most surprising outcome of our work with solar technology was that the racer was able to reach a top speed of up to 120 km/h with a relatively low energy input. The solar generator also contributes 1.6 kW – the equivalent of the output of a small travel hairdryer."

"It was fun to be on the team, put theory into practice and be involved in the World Solar Challenge."

For new opportunities

Professor Dr. Friedbert Pautzke I Bochum University

"SolarWorld's initiative offered 45 young engineers the opportunity to face up to future challenges as a team while still at university: energy generation from renewable energy sources and efficient energy use, social, international and intercultural competences and the solution of logistics tasks."

"You can feel that SolarWorld's management is personally committed to and enjoys promoting young talent."

For a good cause

Andreas Hain I Choirmaster at St. Peter's Nicholas Church in Freiberg/Germany

"Here in Freiberg, SolarWorld is not just an important employer but is also committed to promoting the location and its culture. When we needed to find local sponsors for the restoration of our organ, I wrote a letter to Mr Asbeck, who called me just a few days later: 'We'll do it.' He was so uncomplicated, warm and serious about it."

"This is a genuine Silbermann organ built in 1735. We would not have been able to restore it without the crucial contribution made by SolarWorld."

For everybody

Keoakantso Moalosi I Villager in Botswana

Since an interpreter for Setsuana was not available, a direct interview with Keoakantso Moalosi was not possible. However, a common language was not required to see and understand the role of solar power for villages such as Lorolwana. Infinite solar energy is available to all people.

Electrification has now been provided for 25 households in the Lorolwana village. Keoakantso Moalosi's family is one of them.

What distinguishes us!

Sustainability and profitability do not rule each other out! Competitiveness and social responsibility go together at SolarWorld AG.

We integrate relevant environmental and social aspects into the successful implementation of our strategy, look at their cause-and-effect relationship with the success of the company and transfer them into operational quantities. Management systems ensure sustainability throughout the group. Successful implementation means making full use of the potentials and synergies between the economic, the ecological and the social objectives.

We include the strategic relevance of these three aspects in the areas of Finance, Customers, Processes, Employees and Society. The dialogue with the public and the different stakeholder groups serves the transfer of knowledge, the development of innovative solutions, the minimization of risks, the satisfaction of customers, the opening up of new markets and in the final analysis determines the success of our company.

Substance

Profitability is our guarantee for growth, economic success the basis for our freedom of action. Today we are among the solar market leaders worldwide.
[Finances]

Strength

The satisfaction of our customers is our success factor. We were able to promote the strong trust in the quality of the SolarWorld brand.
[Customers]

Advantage

Full integration is our competitive advantage. We continue to employ resources efficiently. Innovations substantiate our market position.
[Processes]

Performance

Our employees are high performers. Their qualifications, development and identification with the values of the company enjoy the highest priority.
[Employees]

Responsibility

As a global group of companies we assume responsibility in line with our vision. Transparency is a must. Commitment is an integral part of our business.
[Society]

Legend

>>> Jump marks

Forecast report 1

>>> Cross references to pages in the Annual Group Report

www.solarworld.de

>>> Reference to further information on Internet

1.2

>>> This symbol stands for the topic sustainability. The corresponding numbering refer to the disclosure of the GRI standard (Global Reporting Initiative: International standard for sustainability reporting). You can find further information in the "Sustainability report annex".

Research rate = R & D expenditure/Sales

>>> Definition

I

>>> The SolarWorld Group and the markets of today

II

>>> World energy demand, new markets and the SolarWorld Group of tomorrow

The content of this report was printed using luxo-satin paper, produced from sustainable managed forests.

Table of contents

Dipl.-Ing. Frank H. Asbeck

Chief Executive Officer/CEO

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

"Infinitely valuable" – that is the keynote of this Annual Group Report. These two words encapsulate the suitability for the future of our business model!

Today our world is faced by the challenge of having to satisfy the growing energy hunger of mankind. More than two billion people are without access to electricity. The World Energy Council recently predicted that the energy demand will rise by up to 40 per cent until the year 2030 and will double until 2050 versus today. The demand for electricity is even expected to quadruple. What will be particularly relevant in this context is the economic catching-up process of economies like for example China and India. This development will become even more explosive when you remember that the available reserves of fossil energy sources like oil, gas, coal and uranium will only last for a few more decades. What will be the consequences if the majority of the world power generation continues to be fed by fossil and carbon dioxide containing energy sources?

The answer is obvious: energy prices that continue to skyrocket, a world climate that will be thrown even further out of balance, political unrests that will increase in the fight for scarcer and more expensive energies, and people whose opportunities for a fair development will dwindle more and more in this competition for resources.

But let me add two sentences at this point: Every hour the sun radiates more energy down to this earth than the entire world population consumes in one year! And it is clean, safe, inexhaustible and fair.

This describes simply and comprehensively the vision of our entrepreneurial actions!

Today we can say with some justification that we are among the pioneers in the industry and that we have reached the top in the solar world by choosing the right speed of expansion and the correct investment tactics. We have always been able to present a proper and by competitive standards strong return on investment and have allowed ourselves to be measured against our targets at all times. So, too, in 2007: Group sales and earnings again grew substantially. Our sound liquidity situation gives us the financial clout for further growth. Our shareholders have been able to enjoy a stable, result-driven dividend policy for years.

"Being ready is good; being able to wait is even better; but being able to use the right moment is the best." Arthur Schnitzler (1862 - 1931)

I implicitly trust our employees who have to contend with these growing structures on a daily basis. They have again provided evidence of their commitment, their strength and their team spirit right across all national borders. For this I offer my personal thanks and respect to each and every one of them! It is only when we all pursue the same objectives that we can grow successfully. This is why our employees also receive a financial share in our corporate success.

Our economic success puts us into a position to have the value of our company also measured in terms of ecological and social values. As an international group of companies we must with credibility face the responsibility of a sustainable development. This is our promise for the future: economically profitable, ecologically clean and socially compatible! That we adopt a holistic approach goes without saying. With the present report we are providing proof of this, showing at the same time what it means in concrete terms for us as SolarWorld within the context of our business processes and corporate objectives.

On our path towards growth we will continue "to use the right moment" investing into the expansion of our production and employment and into our technological advantage.

Now I am sure you will ask yourselves why our Solarracer "SolarWorld No1" is dashing through my preface. Well, it symbolizes the strengths of SolarWorld: speed, innovative strength and – most important for success – fun!

On this note let me end by saying: The future is exciting. I look forward to it with you.

With sunny greetings!

Dipl.-Ing. Frank H. Asbeck
Chief Executive Officer/CEO of **SolarWorld** AG

Board of Management of SolarWorld AG

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. 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.-Wirtschaftsing. Frank Henn
Chief Sales Officer/CSO

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

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

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

Dr. Claus Recktenwald

Chairman of the
Supervisory Board

Dear Stockholders and
friends of SolarWorld AG!

With this report the Supervisory Board of **SolarWorld** AG informs you about its activities in Fiscal Year 2007. It again complies with enhanced reporting duties which again imply that the Supervisory Board also divulged to the auditors of the company the complete minutes (including attachments) of all Supervisory Board meeting in the year 2007.

The Supervisory Board was last elected in the Annual General Meeting dated 27 May 2003. In the Annual General Meeting of 21 May 2008 it will present itself for re-election in its entirety. In the year under review it again performed the tasks assigned to it by law, by the Articles of Association and by the Rules of Procedure and it did so in a continuous dialogue with the Executive Board of the company which it advised and, pursuant to § 111 AktG (German Stock Corporation Act), also monitored the management of the company. At the same time the Supervisory Board scrutinized its own efficiency. On the whole no objections were raised on the basis of its activities and especially its monitoring of the corporate management. For this reason the Supervisory Board will propose in the Annual General Meeting that the Executive Board be granted discharge for Fiscal Year 2007.

The Supervisory Board was involved directly and in good time in all the decisions that were of fundamental importance to the company. The Executive Board informed the Supervisory Board both orally and in writing, promptly and comprehensively about all relevant questions of corporate planning and strategic development, about the earnings, asset and finance situation as well as about the current business policy and the risk management practiced. In the process all reporting duties pursuant to § 90 AktG were complied with as well as the requirements of the German Corporate Governance Code.

In Fiscal Year 2007 the Supervisory Board convened nine formal meetings four of which were ordinary quarterly meetings. The meetings took place on 11 and 26 January, on 21 February, 15 March, 12 April, 6 August, 30 September as well as 18 and 20 December 2007. In addition it met for two Group Supervisory Board Meetings and further project and group related working sessions in which separate resolutions and additional votes with the Executive Board were brought about. On a regular basis at least one member of the Executive Board participated in the Supervisory Board meetings which were held without Executive Board attendance only in exceptional cases. The Executive Board in its turn kept the Supervisory Board informed about all Executive Board meetings by way of the written agenda and the minutes of the respective meetings.

The work of the Supervisory Board of **SolarWorld** AG focused on the following priorities in Fiscal Year 2007: audit assignment and final discussion as well as balance sheet discussion with the auditors including all group companies (Deutsche Solar AG, Deutsche Cell GmbH, Solar Factory GmbH, **SolarWorld** Industries America/Camarillo, **SolarWorld** California, **SolarWorld** Iberica, GPV/Sweden, **SolarWorld** divisions South Africa, Asia Pacific, Industries Germany and Schalke); overall integration of the silicon-based solar activities in overseas acquired from the Shell Group; re-structuring of the GPV shareholding including strategic downsizing; expansion of the Freiberg/Saxony location; further investment projects in Europe; implementation of all German Corporate Governance Code requirements; internal group integration through profit and loss transfer agreements to avoid the "interest barrier" becoming effective on 1 January 2008 with the Corporate Tax Reform Act; review and further development of the Executive Board and Supervisory Board remuneration including "Self-Commitment Declaration" dated 6 August 2007 for the voluntary capping of the variable compensation to double the annual remuneration that individual Supervisory Board members are entitled to; group catalogue for business transactions requiring approval pursuant to § 111 IV 2 AktG; securing raw materials in the silicon field through the establishment of the Sunicon AG subsidiary as well as other technical innovations including the foundation of the subsidiary **SolarWorld** Innovations GmbH.

In all its activities the **SolarWorld** AG Supervisory Board was guided by the recommendations of the German Corporate Governance Code which it and the Executive Board again comprehensively complied with in the year 2007. In exactly the same way in which the Supervisory Board had decided to approve the previous version of 12 June 2006 for the last and for the new fiscal year last time around at its meeting on 15 March 2007 a repeat resolution was now passed with regard to the current version of the German Corporate Governance Code dating 14 June 2007 both for the previous and for the new fiscal year at the Supervisory Board meeting on 6 August 2007 which was made permanently accessible to all shareholders pursuant to § 161 AktG on the website of the company with the following wording:

"The recommendations of the 'Government Commission on the German Corporate Governance Code' as published in the official section of the Electronic Federal Gazette by the Federal Ministry of Justice have been and are being complied with by the Supervisory Board to the extent that they are directed at it."

The Executive Board of **SolarWorld** AG passed an equivalent Declaration of Compliance with the German Corporate Governance Code on 9 August 2007 publishing it, pursuant to § 161 AktG. The "Corporate Governance Report" contained in this 2007 Annual Report also discloses all relevant details concerning Executive Board remuneration, Supervisory Board remuneration, implementation of the German Corporate Governance Code and others to the extent that the information pursuant to Section 3.10 of the German Corporate Governance Code has not yet been included in the present Report of the Supervisory Board.

In so far as compliance with the recommendations of the German Corporate Governance Code by the Supervisory Board of **SolarWorld** AG are concerned the coordination of the strategic orientation of the company and the regular discussion of the current state of the implementation of the strategy were conducted with the Executive Board (Section 3.2 GCGC). In this process the supply of information to the Supervisory Board is seen as a joint task of the Executive Board and the Supervisory Board (Section 3.4 GCGC). Especially the Chairman of the Executive Board was regularly informed by the Supervisory Board of the company about the latter's own activities as well as integrated into these activities. As a result conflicts of interest pursuant to Section 5.5 GCGC did not emerge. Also, the Supervisory Board views itself as being independent pursuant to Section 5.4.2 GCGC. To the extent that there were approval requirements with regard to certain decisions pursuant to Section 5.5.4 GCGC these were complied with.

BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Bonn, which was appointed by the Supervisory Board on the instructions of the Annual General Meeting of 24 May 2007 to also audit the annual financial statements and the consolidated financial statements of **SolarWorld** AG for fiscal year 2007 previously, again gave a Declaration of Independence pursuant to Section 7.2.1 GCGC thus confirming that no business, financial, personal or other relations existed between the auditing company and its organs and audit managers on the one hand and the company and its organs on the other hand that might raise doubts concerning its independence.

The report to be submitted by the Supervisory Board on the results of its own examination should, pursuant to § 171 Sec. 2 AktG, also include a statement on which committees had been formed. However, as the Supervisory Board of **SolarWorld** is limited to only three members the formation of committees again turned out to be largely superfluous in fiscal 2007. To the extent that § 175 Sec. 2 AktG calls for an explanatory report on the disclosures pursuant to § 289 Sec. 4, § 315 Sec. 4 of the German Commercial Code (HGB), the Supervisory Board adopts the of the Executive Board subscribing to the comments made there. The management report and group management report affected by this were also audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Bonn, who also extended their audit to include the accounting as well. The annual financial statements for the fiscal year ending 31 December 2007 drawn up by the Executive Board according to HGB as well as the Management Report of **SolarWorld** AG received the unqualified auditor's certificate from the auditor. This was granted on 4 March 2008. At the same time the auditor also gave his unqualified auditor's certificate to the Group Management Report and the Group Financial Statements of **SolarWorld** AG, which pursuant to § 315 a HGB were again drawn up on the basis of the international accounting standards IFRS.

After its own examination of the consolidated financial statements, the annual group report, the management report and the group management report, the Supervisory Board concurred with the result of the audit performed by the auditors. It, too, saw no grounds for any objections. Previously, the Supervisory Board had discussed the audit priorities with the auditors in a meeting on 20 December 2007 and in another meeting on 14 February 2008 had conducted a concluding discussion. In each case the CEO and the CFO of **SolarWorld** AG were present. In the balance sheet meeting on 06 March 2008 further details in conjunction with the auditor's certificate dated 4 March 2008 were the subject of a final discussion. Here again no doubts were raised concerning the correctness of the results identified by the auditors which is why an examination in that direction was not called for. Still in the balance sheet meeting the Supervisory Board then approved the annual financial statements and the group financial statements. With this the financial statements were adopted. The Supervisory Board also accepted the appropriation of the balance sheet profits as proposed by the Executive Board.

In Fiscal Year 2007 the Executive Board, the management and the entire workforce of the **SolarWorld** Group again put in an outstanding performance and did so on a worldwide basis. For this the Supervisory Board offers its sincere thanks, respect and appreciation.

Bonn, 10 March 2008

On behalf of the Supervisory Board
Dr. Claus Recktenwald
Chairman

Selected Corporate Indicators

in million €

	2007	2006	Variation
Continued operations			
Revenues	689.6	509.1	35.4%
Revenues foreign share	48.8%	42.4%	+ 6.4%-points
EBITDA	240.9	219.5	9.7%
EBIT	198.9	177.6	12.0%
EBIT margin	28.8%	34.9%	-6.1%-points
Capital Employed (cut-off date)*	544.7	462.3	17.8%
ROCE **	36.5%	38.4%	-1.9%-points
Incl. discontinued operations			
Revenues	698.8	515.2	35.6%
EBIT	202.2	179.8	12.5%
Consolidated net income	113.3	130.6	-13.3%
Net income in % from revenues	16.2%	25.3%	-9.1%-points
Equity	691.5	597.3	15.8%
Equity ratio	40.6%	59.5%	-18.9%-points
Return on equity	16.4%	21.9%	-5.5%-points
Cash flow from current business activities	244.0	-94.1	n/a
Net liquidity ***	151.7	139.7	8.6%
Investment in intangible assets and in property, plant and equipment	115.2	106.0	8.7%
Employees			
Employees (cut-off date)	1,486	1,348	10.2%
Thereof trainees (cut-off date)	66	42	57.1%
Revenues per capita (in k€)	470	382	23.0%
EBIT per capita (in k€)	136	133	2.0%

* Intangible assets and property, plant and equipment less accrued investment grants plus net current assets less short-term net liquidity
** EBIT/Capital Employed
*** liquid funds and other financial assets less financial liabilities

Due to the sale of 65 per cent of the shares in our subsidiary GPV at the beginning of the year 2008 the earnings of GPV are now carried separately in the Profit & Loss Statement according to IFRS 5 under the item “discontinued operations”.
The result of the “continued operations“ therefore exclusively includes the income and expenditure items that are comparable with our future business activities.

Quarterly comparison of the consolidated income statements

in k€

	1st quarter 2007	2nd quarter 2007	3rd quarter 2007	4th quarter 2007
Revenues from continued operations	131,073	177,062	161,914	219,539
Changes in inventories of finished goods	24,987	-40,768	14,394	-16,283
Own work capitalized	503	0	23	16
Other operating income	11,582	11,783	16,967	16,921
Cost of materials	-88,866	-54,827	-91,198	-98,763
Personnel expenses	-17,610	-18,528	-18,042	-20,824
Amortization and depreciation	-9,628	-9,117	-10,111	-13,198
Other operating expenses	-17,309	-16,565	-19,726	-26,529
Operating result from continued operations	**34,732**	**49,040**	**54,221**	**60,879**
Net financial income	-35	-6,058	-9,909	-6,960
Earnings before taxes on income	**34,697**	**42,982**	**44,312**	**53,919**
Taxes on income	-13,569	-16,607	-14,573	-20,278
Income after taxes from discontinued operations	271	469	863	770
Consolidated net income	**21,399**	**26,844**	**30,602**	**34,411**

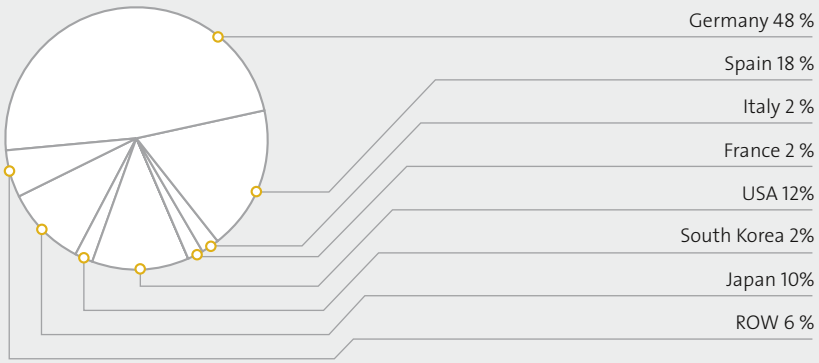
Indicators of the SolarWorld share

ISIN (International Securities Identification Number) DE0005108401
WKN (Wertpapier-Kenn-Nummer) 510840
Stock exchange abbreviation SWV

	at 31/12/2007	at 31/12/2006	Variation
Number of shares	111.72 million	55.86 million	+ 100%
Market capitalization	4.6 billion €	2.7 billion €	+ 70%
Trading volume (12 months)	11.4 billion €	10.3 billion €	+ 11%
Position in TecDAX by trading volume (free float, 12 months)	1	1	-
Position in TecDAX by free float market capitalization	2	1	-
Earnings per share*	1.01 €	1.19 €	- 15%**
Cash flow from ongoing business activities per share*	2.18 €	-0.86 €	-
Lowest price (12 months)	23.90 €***	14.00 €***	+ 71%
Highest price (12 months)	47.95 €***	35.27 €***	+ 36%
Opening price year beginning	24.00 €***	14.00 €***	+ 71%
Closing price year end	41.75 €	23.80 €***	+ 75%
Development in business year	+ 74%	+ 70%	+ 4%-points

* Calculated on basis of the weighed average of shares in circulation (in 1,000)
** Development of earnings per share 2006, based on special effects in 2nd half-year of 2006
*** Adjusted for issue of bonus shares 2007 (ratio 1:1)

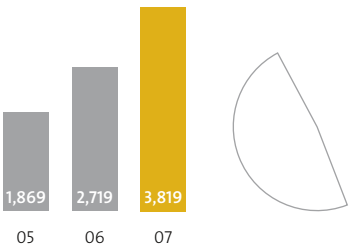
Breakdown of the international solar market 2007



Share of international solar market

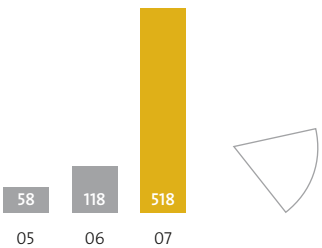
Legal framework conditions – as at year-end 2007

Germany



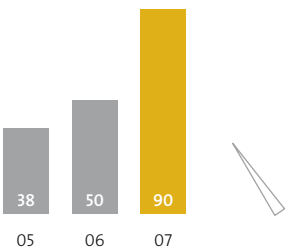
Renewable Energies Act | Since 2000; Amendment 2004
· Fixed feed-in compensation
· 20 years of compensation guarantee
· 5% reduction p.a. for plants integrated in buildings
· 6.5% reduction p.a. for open-air plants
· No installation limit

Spain



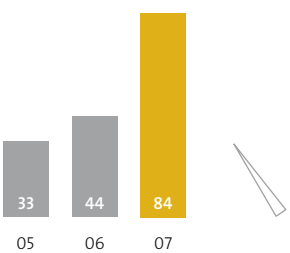
"Real Decreto 436/2004" | Since 2004; Amendment 2006; Amendment of the "Real Decreto 661/2007" 2007
· Fixed feed-in compensation
· 25 years of compensation guarantee
· No reduction
· Installation limit: 371 MWp (12-month grace period after reaching the limit)

Italy



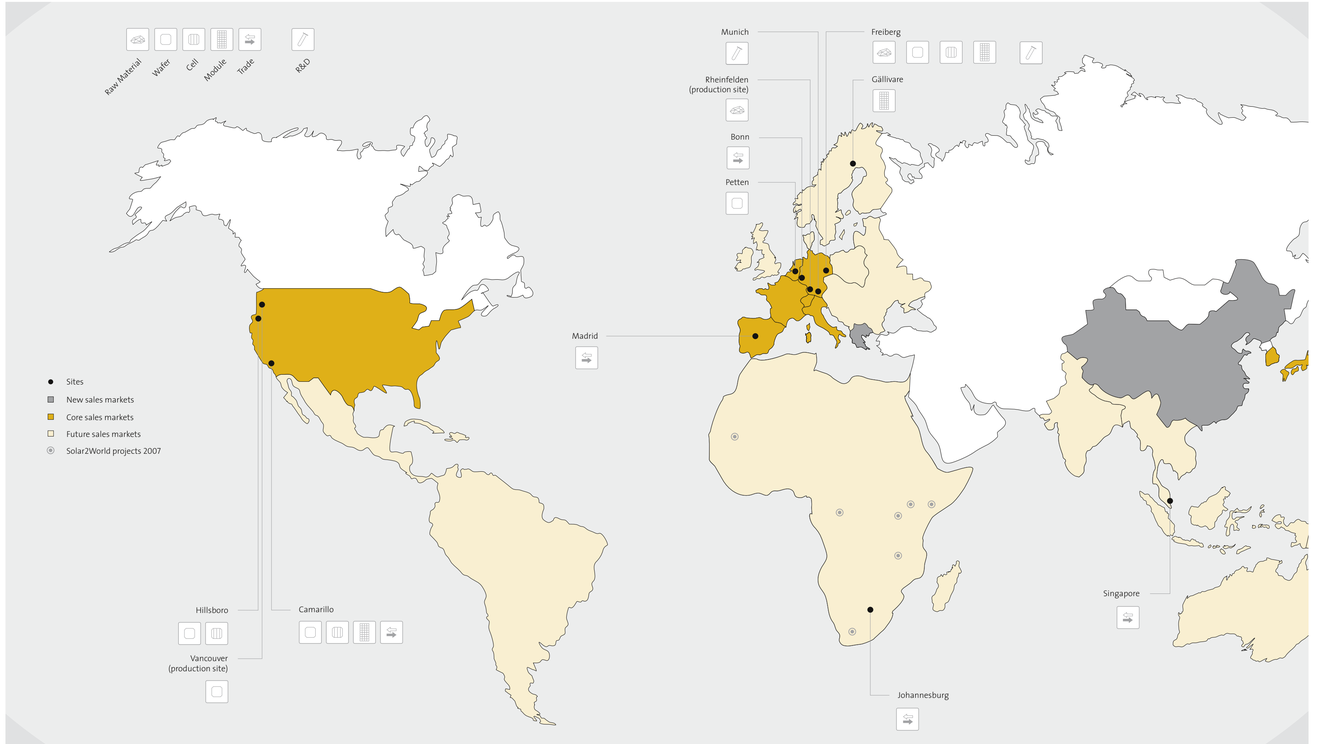
"Conto Energia I" | Since 2005; Amendment 2006 | "Conto Energia II" 2007
· Fixed feed-in compensation
· 20 years of compensation guarantee
· 2% reduction p.a. from 2009 onward
· Installation limit: 1,200 MWp (14-month grace period after reaching the limit)

France

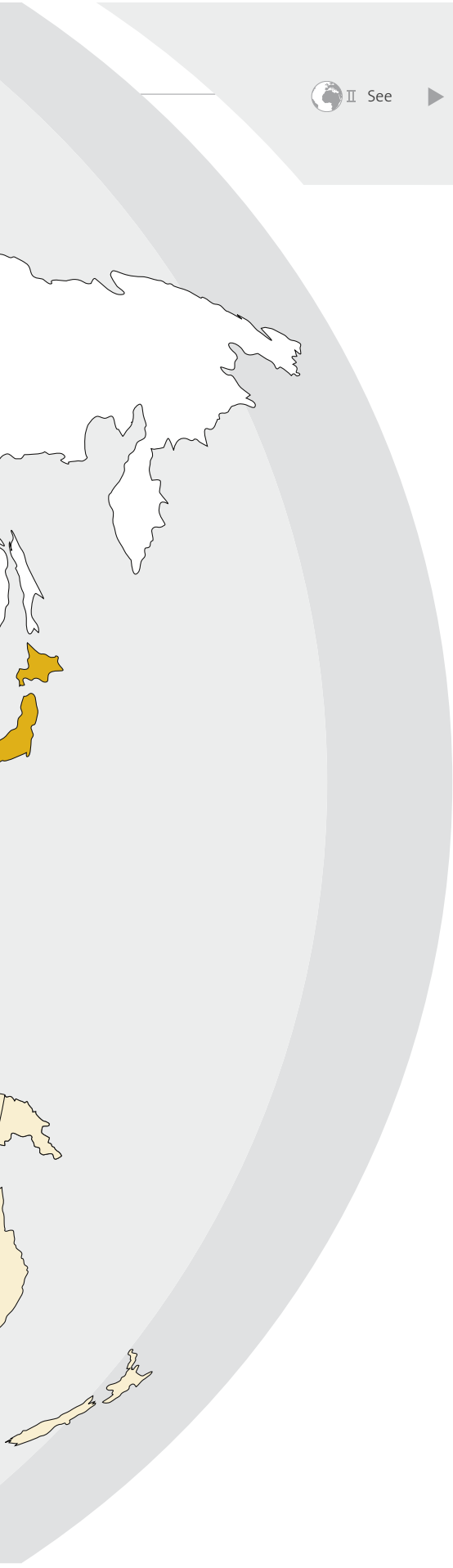


"Décret n° 2000-1196" | Since 2000; Amendment 2006
· Fixed feed-in compensation
· 20 years of compensation guarantee
· Tax relief of up to 50% of systems costs

The SolarWorld Group and the markets of today

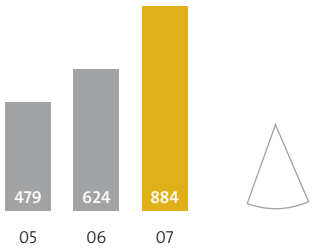


See ▶ ▶ ▶ World energy demand, new markets and the SolarWorld Group of tomorrow



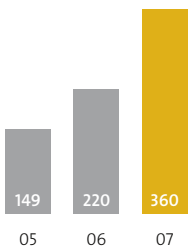
Legal framework conditions – as at year-end 2007

USA



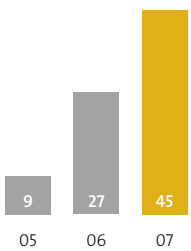
Federal Energy Policy Act | Since 2005
· Tax relief amounting to 30 % of systems costs
· Valid until 31 December 2008

California



"California Solar Initiative" and "Solar Bill 1"| Since 2007 (Transitional solution in the year 2006)
· Rebate system
· Total budget through 2017: ~ 3 billion USD
· Target: 3 GW by 2017

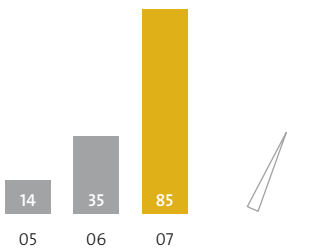
New Jersey



"Solar Renewable Energy Certificate" (SRECs) | Since 2004
· Certificate system for solar energy: Until 2021 utilities must draw 2.12 % of their electricity from solar energy ~1,500 MW.

New Jersey Clean Energy Rebate Program | Since 2001; Amendment 2007
· Subsidy system
· Budget for subsidy system until 2008: 273 million USD

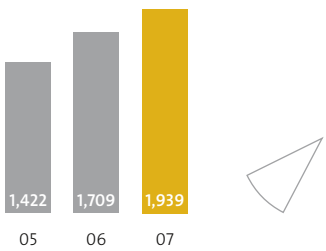
South Korea



Feed-In Compensation Act | Since 2002; Amendment 2006
· Fixed feed-in compensation
· 15 years of compensation guarantee
· Installation limit: 100 MWp

100.000-Roofs-Program | Since 2004
· Investment grants up to 70%. Runs until the year 2012

Japan

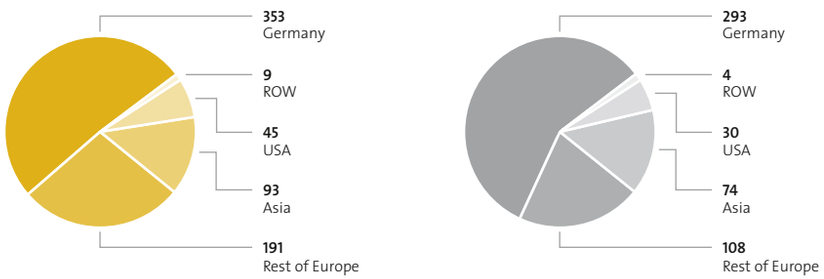


· No national incentive programs any more
· Local governments support solar power by giving investment grants
· Solar power is compensated at Japanese electricity tariff

Source: IEA-PVPS until 2006; EPIA-forecast 2007; SolarWorld Research

Sales* geographical breakdown by regions

in million €



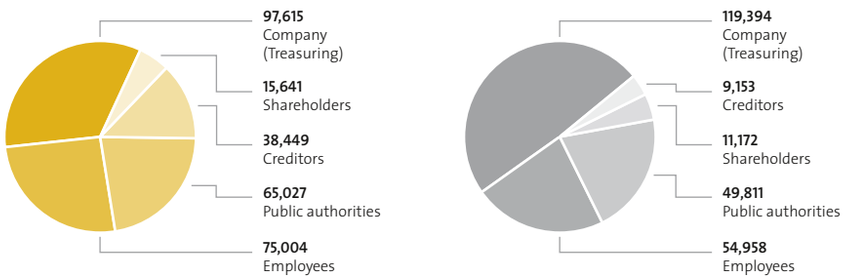
* Sales from continued operations

	Value added creation 2007		Value added creation 2006	
	in k€	in %	in k€	in %
Value added origin				
Sales revenues	689,588	92.2	509,139	78.5
Other revenues	57,985	7.8	139,642	21.5
Result of operations	**747,573**	**100.0**	**648,781**	**100.0**
Cost of material	333,654	44.6	302,988	46.7
Depreciation and amortization	42,054	5.6	41,954	6.5
Other expenses	80,129	10.7	59,351	9.1
Value added	**291,736**	**39.0**	**244,488**	**37.7**
Distribution of value added				
Employees	75,004	25.7	54,958	22.5
Company (Treasuring)	97,615	33.5	119,394	48.8
Shareholders*	15,641	5.4	11,172	4.6
Creditors	38,449	13.2	9,153	3.7
Public authorities	65,027	22.3	49,811	20.4
Value added	**291,736**	**100.0**	**244,488**	**100.0**

* 2007 based on the dividend proposal for the AGM 2008 of 14 cents per share

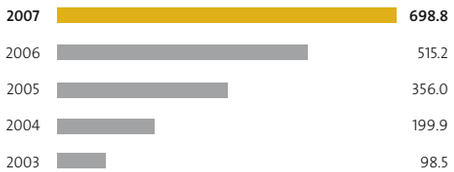
Distribution of value added

in k€

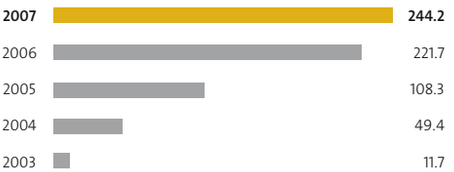


Corporate indicators* development in a 5 year period

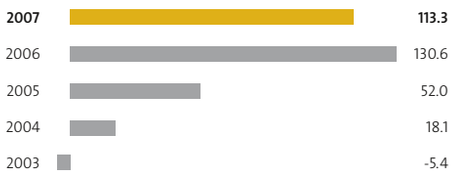
Revenues (in m€)



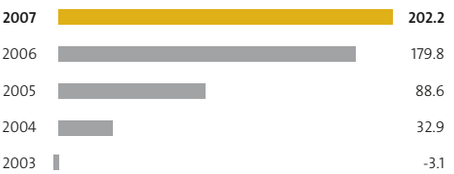
EBITDA (in m€)



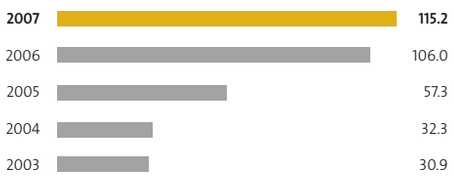
Consolidated net income/net loss (in m€)



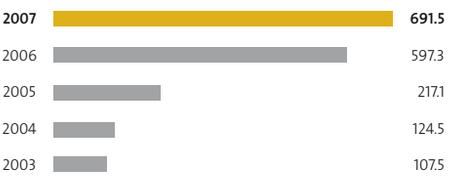
EBIT (in m€)



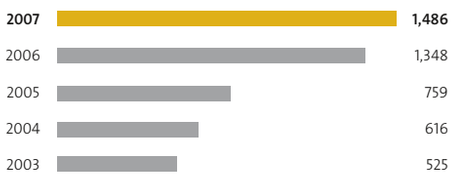
Capital expenditure (in m€)



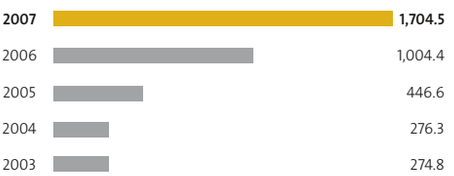
Equity (in m€)



Employees



Total assets (in m€)



* incl. discontinued operations

Raw material silicon | Diamond structure silicon

The input substance for the manufacture of solar cells is silicon. It is liquefied at a temperature of more than 1,410°C (2,552°F) and solidifies into a silicon block when cooling down. In nature silicon is contained in sand in the form of silicon dioxide accounting for 25 weight per cent of the earth's crust.

I. BUSINESS AND FRAMEWORK CONDITIONS

Group structure and business activity

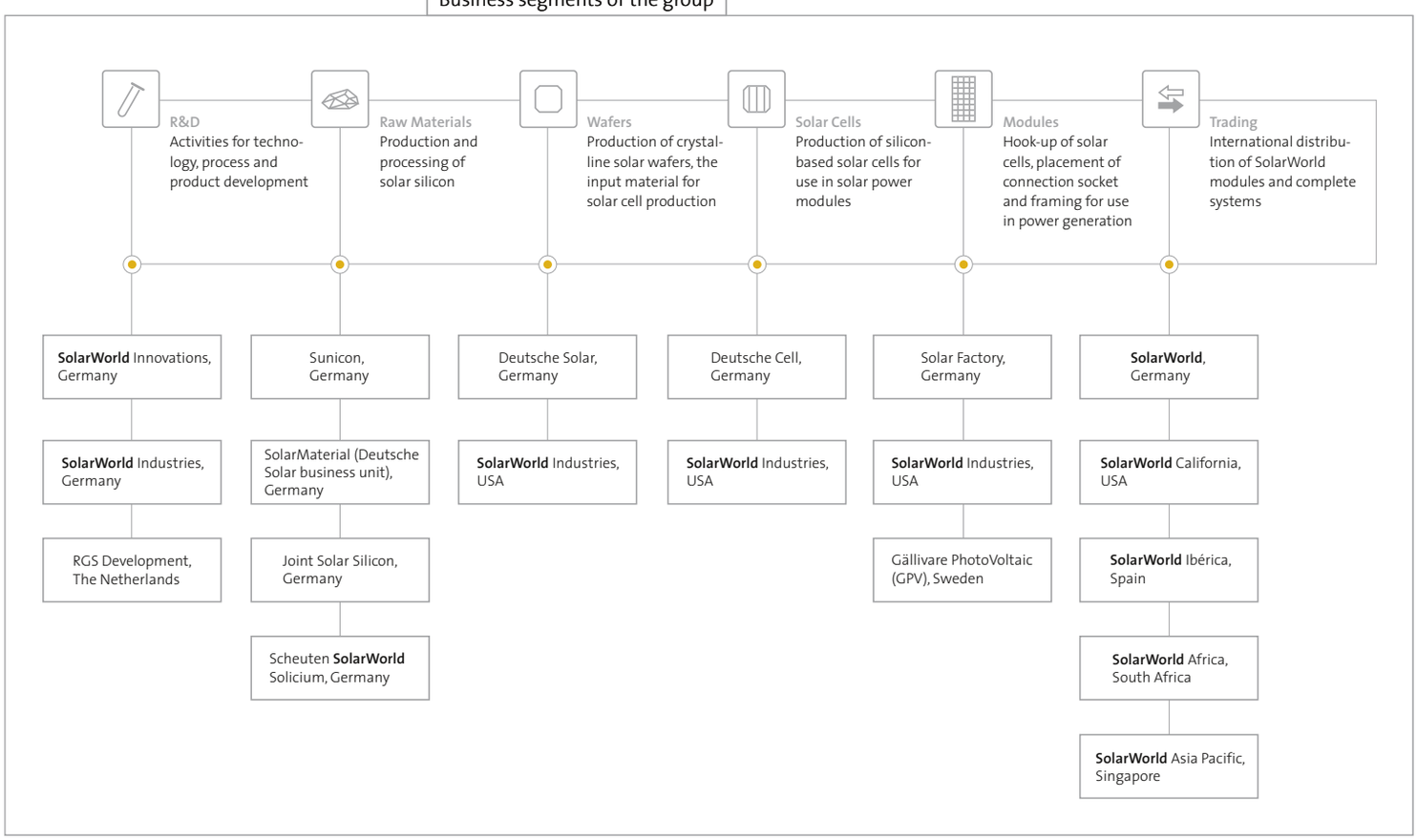
2.3 2.1

Business areas and organization structure®

The technology for electricity generation from the power of the sun (photovoltaic) is the business area that we have specialized on since our foundation and IPO in the year 1999. **SolarWorld**® has since been a thoroughbred solar power technology group. Today we are one of the leading solar companies worldwide that is engaged in research and development, production and recycling along the entire solar value chain – from silicon via crystallization, wafer, cell and module production all the way to complete systems. By specializing on the market-leading silicon wafer based technologies we bundle our competence and know-how in order to open up existing technology potentials and expand our leading market position.

Our upstream production steps primarily feed into the internal processing of materials into modules. In the Trading segment we distribute these finished solar products to the wholesale and specialist trade. As a traditional wafer expert we additionally sell a large proportion of our wafer production externally.

Business segments of the group



The business segments of Wafers, Cells, Modules and Trading constitute the framework of the segmental reporting of the group according to the International Financial Reporting Standards (IFRS).

Scope of consolidated financial statements and legal structure 115

SolarWorld Aktiengesellschaft, Bonn, performs central management, control and monitoring functions as the holding company in the areas of Strategic Group Development, M&A, Finance, Controlling, Corporate Communications as well as in the international Trading business of modules and solar kits. The central group management tasks are performed by the Executive Board of **SolarWorld** AG. The subsidiaries in the various business segments execute the operational business tasks in line with the strategic orientation developed by the Executive Board and agreed with the Supervisory Board. In the **SolarWorld** Group all companies are managed as independently operating, internationally competing centers. A uniformly aligned IT infrastructure across all group segments standardizes processes and procedures. In the course of the strong corporate growth resulting from the integration of the new companies in the previous year we centralized certain activities at the production location of Freiberg in the current fiscal year, above all the functions of Procurement, Raw Materials as well as Research and Development. As a result of bundling our competencies in these core areas we can improve our market position, for example in Procurement and strengthen our competitiveness by pooling our know-how in the development of our technologies.

2.4

Changes in the legal structure of the group. The **SolarWorld** Group consists of 28 companies on the cut-off date of 31 December 2007. The group of consolidated companies has remained unchanged in comparison with the situation on the last day of the previous quarter, i.e. 30 September 2007.

In comparison with 31 December of the previous year the corporate legal structure of the group has changed as a result of the creation of some new wholly owned subsidiaries. Sunicon AG and **SolarWorld** Innovations GmbH – both located in Freiberg/Germany – strengthen the strategic group-wide silicon supply and technology development. **SolarWorld** Properties Inc. located in Hillsboro/Oregon strengthens the operating business in the USA.

Scope of consolidated financial statements and legal structure 115

Management and control unchanged. As a joint stock corporation under German law **SolarWorld** AG has a dual management and control structure.

The members of the Executive Board of **SolarWorld** AG are appointed by the Supervisory Board and manage the company under their own responsibility according to the German stock corporation law (§ 77 AktG, § 78 AktG) as well as the articles of association (§§ 5,6) and the rules of procedure of the company. The Executive Board is charged with the representation of the company. The Executive Board of **SolarWorld** AG and the business distribution plan have remained unchanged in fiscal year 2007. The Executive Board consists of four members. In the operating business units of our group the Board members and Managing Directors of the individual subsidiaries are responsible for the operational implementation of the strategic orientation developed by the **SolarWorld** Executive Board and approved by the Supervisory Board.

Executive Board and Supervisory Board 151

The Supervisory Board advises and monitors the **SolarWorld** Executive Board. It appoints the Executive Board members. The legal basis of the Supervisory Board of **SolarWorld** AG is formed by the stock corporation act, the articles of association and the rules of procedure. The members of the **SolarWorld** AG Supervisory Board were re-elected in the Annual General Meeting on 27 May 2003 until the Annual General Meeting (AGM) which will vote on the discharge of the Supervisory

Corporate Governance 25

Board for fiscal year 2007. Thus, the AGM in 2008 will pass a resolution on the election of the Supervisory Board.* The Supervisory Board reports on its activities in the fiscal year just ended in the "Report by the Supervisory Board".

In 2007 there were no personnel changes on the Executive Board and the Supervisory Board of **SolarWorld** AG.

2.5

Worldwide locations of the group*

The **SolarWorld** Group has twelve locations worldwide, including two production plants, as well as a holding company and some Joint Ventures. The high presence of the international electronics and semiconductor industry at our production site Hillsboro/USA additionally creates a very good logistics infrastructure and provides a great potential of skilled labor. Since the share of hydropower in the energy mix in the US Federal State of Oregon is comparatively high at around 15 per cent our crystallization in wafer production will additionally benefit from low energy prices.

Module production and the Trading business at our Camarillo/California site will benefit from the strategic proximity to one of the US core markets for alternative energies. The sun-rich and at the same time energy-intensive US Federal State of California is playing a pioneering role for the final customer thanks to favorable solar funding conditions. At our third American location in Vancouver/Washington another crystallization facility is located as part of a wafer manufacturing plant.

Our highest capacity and at the same time most integrated manufacturing facility is located at our Freiberg/Saxony site in Germany. Here again, the semiconductor and silicon industry is in the immediate vicinity. As a result of the proximity to the Technical University and Mining Academy of Freiberg we benefit from a good supply of skilled labor and from cooperation synergies in scientific research.*

Cooperation with research establishments 78

The headquarters of our holding company and our international sales center are traditionally located in Bonn/Germany. In order to be able to make immediate use of the thrust of the solar core markets for the benefit of our business we also operate sales offices in Spain, Singapore and South Africa.

2.7

Competitive position and main sales markets*

In the international solar market the **SolarWorld** Group plays a leading role as a fully integrated solar technology group. In Germany we position ourselves as the first and the most strongly integrated solar manufacturer. At all stages of the value chain we can offer significant volumes. We increased the share of our group-wide foreign revenues (wafer, cell, module, kits/systems) in 2007 to 49 (previous year: 42) per cent.

Trading

In 2007 the core markets in our Trading business were Germany followed by Spain, the USA and Asia. In the year 2007 we increased the share of our foreign sales in the trading segment to 46 (previous year: 35) per cent.

High-quality customer relations 47

In view of our early positioning in Germany we have a strong reputation in this particular solar market with sound brand awareness.* In the US market **SolarWorld** constitutes the largest solar power technology provider producing in the country. In the solar market of Spain we were able to

successfully include new customer structures from the integration of the new companies, which took place the previous year, in our existing business. We were also able to increase our market share in 2007. In the young European solar markets of Italy, France and Belgium we acquired a promising position in 2007 that will be conducive to further growth. In the Asia-Pacific region South Korea is a strategic core market for on-grid solar power technology and here, too, we rose to being one of the biggest providers in 2007 as a result of the creation of the largest open-air solar park. In the worldwide large-area off-grid markets (rural solar power solutions) we could successfully implement projects especially in China, Africa and Latin America.

Wafers

Some 50 (previous year: 50) per cent of our wafer production is sold to external customers in Europe, Asia and the USA. In the market for silicon wafers our group plays an international leading role as the world's second largest wafer manufacturer (EuPD, 2007). Because of the capital and know-how intensive access conditions – with relatively longer investment periods than in the cell and module segment – experts consider this market segment to be a seller's market in the medium term. We will therefore use the long tradition of our wafer business as a strategic basis on which to expand our value-oriented growth.

In spite of the increasing competition from the Asian region industry experts are expecting the seven currently largest providers of solar power technology to again account for just about 80 per cent of the worldwide solar market volume in the year 2008 (EuPD, 2007).

Raw materials recycling

Our business unit SolarMaterial today occupies a leading position in recycling. Reasons for this are the early establishment of the business in the year 2001 and the worldwide increase in the volume of secondary raw materials. Even though new recycling capacities are built up worldwide SolarMaterial is currently the market leader due to the broad range of its activities in this segment and the partial automation of its processes. The number of recycling companies in the SME field is currently rising particularly rapidly in China. Yet, in comparison SolarMaterial is more broadly based in technical terms.*

Legal and economic factors of influence

The German law on renewable energies (EEG) has supported the development of an efficient solar power industry in Germany since it came into force in the year 2000 and has led to a situation where the share of renewable energies in total power generation amounted to 14 (previous year: 12) per cent in 2007.* Germany today holds a leading position in the world market for renewable energies. For the energy industry the German law on renewable energies constitutes an important investment incentive at the same time promoting the technological development by way of an annual decline of the funding. Thus, the manufacturing costs of solar technologies could be cut by 50 per cent since 1996. Power from solar energy will in the near future reach a state of competitiveness with the gross electricity prices for private households (grid parity).*

To reach the national climate protection targets of the Kyoto Protocol numerous states have created programs for the promotion of renewable energies which to some extent also follow the example of the German EEG favoring comparable market developments.

Economic performance opportunities 107
The energy and power market 36
Competitiveness in the near future 106

2.2, 2.8

Important products, services and business processes

Crystalline solar power products. As an integrated group we offer a broad range of mono- and poly-crystalline solar power products. Internationally differing expectations concerning aesthetics and functionality generate a higher demand for either mono-crystalline (e.g. Italy, France, USA) or poly-crystalline products (e.g. Germany, Spain).

In line with the market requirements we manufacture mono- or poly-crystalline **wafers** under the Solsix® brand. These are conspicuous by their high degrees of efficiency in the downstream cell production as well as by a high level of mechanical stability. Consistent controls lastingly secure the high quality of our products. Our wafers are not only further processed internally but are also part of our external product offering for international customers.

Order development 59

The solar **cells** we produce go almost completely into our own downstream processing.

In the Trading segment the SolarWorld AG offer includes **modules, solar kits and large-scale plants**. In order to further extend our quality leadership we launched the module range Sunmodule® Plus (mono- and poly-crystalline) in the whole of Europe in the year 2007. The module properties were further improved. In addition to the positive plus assortment in which every module reaches a performance above the indicated nominal output our Sunmodules® Plus meet increased demands of resilience for example in the event of higher snow loads. The very good plug connectors as well as the high quality protected connector socket offer a maximum of safety. Certification according to the central and globally applicable standards IEC 61215, UL 1703 and Safety Class II confirms the special quality features of our products and makes it possible to employ our modules almost worldwide as “Global Modules” with the appropriate plug connectors. In addition to offering a 25-year-long service certificate for the performance warranty these modules are also capable of recycling. For off-grid power supply we carry modules which are ideal for use in rural areas because of their robustness.

1.2

With our Sunkits® solar power kits we offer complete, customer-specific solutions for solar power generation. In addition to the module type selected these include not only the matching inverters and the required DC cable of the Suncable® brand but also the individually tailored mounting and assembly system Sunfix®. In addition to the on-roof systems that are suitable for both flat and inclined roofs we offer the Energyroof® as a roof-integrated premium product. In this case the unframed solar laminates replace the usual roof skin thus opening up new architectural possibilities and making for an optimum combination of design and performance especially in the event of refurbishments and new constructions.

www.solarworld.de/products

Our **raw materials recycling** in the SolarMaterial division is also offered by us as an external service. As a result of commissioning new technologies in the year 2007 we were able to enhance our service: From the comprehensive examination of incoming materials including the analysis of trace elements, the processing of a variety of raw materials, the provision of raw materials for smelting all the way to the further processing into wafers our services meet with great customer interest. Our SolarMaterial division advises customers on the optimum way to collect by-products and ensures the expert further processing with appropriate documentation for the customer. Because of the currently persisting scarcity of the raw materials in the world market the worldwide interest in such toll manufacturing services provided by our group is exceptionally high.

Recycling 45

Economic performance opportunities 107

Corporate Governance •

Corporate Governance in SolarWorld

Corporate governance has always been a top priority in our company. It is our declared goal to achieve a sustainable increase in the value of **SolarWorld** by means of sound and responsible corporate governance and create a high level of confidence among our investors, customers, employees, suppliers and the public at large. In order to identify the needs of the various stakeholder groups and incorporate such needs in our decision-making processes we use information channels such as employee and customer surveys, road shows, investor days and open dialogue with works councils.• Should any clashes of interests emerge in relation to sustainable and ethical corporate governance, they are discussed by the Ethics Council and taken into account in the framework of our integrated control approach.• The Executive Board and the Supervisory Board have traditionally cooperated closely in a spirit of trust. We engage in open and transparent communication with our shareholders.

4.1 – 4.4

4.6

Management and control; Sustainability
34, 82

Unqualified declaration of compliance. In the fiscal year under review, the Executive Board and the Supervisory Board again submitted a complete declaration of compliance and thus fully complied with the recommendations of the German Corporate Governance Code in its current version of 14 June 2007. The corresponding resolutions for the completed fiscal year and for the new fiscal year 2008 were adopted by the members of the Executive Board at their meeting on 9 August 2007 and by the members of the Supervisory Board at their meeting on 6 August 2007.• Pursuant to section 161 of the German Stock Corporation Act, this declaration is made available to our shareholders on our website.• All declarations of compliance submitted since 2002 have also been included on this website.

Report of the Supervisory Board
10

www.solarworld.de/corporategovernance

Management and control retained unchanged. As a German stock corporation, **SolarWorld** AG has a dual management and control structure. The members of the Executive Board are appointed by the Supervisory Board and are responsible for managing the company. As before, the Executive Board comprises four members, while the Supervisory Board comprises three members. The composition of the Executive Board and the Supervisory Board did not change in 2007.•• The work of the Executive Board is governed by its terms of reference, which also define the responsibilities of individual Board members and the matters to be decided by the entire Executive Board of **SolarWorld** as well as the majorities required for the adoption of resolutions by the Executive Board.• The Supervisory Board provides a report on its activities in the 2007 fiscal year in the section “Report by the Supervisory Board” in the present management report.

4.1, 4.2

Management and control unchanged
21

Executive Board and Supervisory Board
151

Pursuant to sections 95 sub-section 1, 96 sub-section 1 and 101 sub-section 1 of the German Stock Corporation Act, the Supervisory Board of **SolarWorld** is comprised of Supervisory Board members of the shareholders. The Annual General Meeting is not obliged to elect nominated candidates. The term of office of the current Supervisory Board members expires upon the termination of the Annual General Meeting convened in the 2008 fiscal year. The current Supervisory Board members will stand for re-election at the ordinary Annual General Meeting on 21 May 2008.

On 31 December 2007, the members of the Executive Board of **SolarWorld** AG held 25.96 per cent of the shares issued. The members of the Supervisory Board did not hold any shares in **SolarWorld** AG.

Rights and services for our shareholders. In providing information, we follow the principle of equal treatment of all shareholders. We provide interim reports on a quarterly basis, both in Ger-

man and English, outlining the situation of our group. In addition, we inform our shareholders, shareholder associations, analysts, the media and the interested public about publication dates, annual press briefings and analysts' meetings and the date of the AGM in a financial calendar made available on our website, in the management report and the interim reports. All presentations we prepare for conferences and road shows can be viewed on and downloaded from our homepage.• Subscriptions to our newsletter can directly be ordered on our homepage or by phone from our Investor Relations Department. Upon request, our newsletter is also mailed or forwarded electronically to our readers.

www.solarworld.de/presentation

Our shareholders can exercise their rights and their votes at our AGM. Shareholders unable to attend our AGM in person are entitled to having 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. All information related to the AGM may be downloaded from our website.

Small shareholders wishing to effectively exercise their shareholder rights, in particular, will find it easier to assert their interests through the electronic shareholder forum as a communication platform. This forum is based on section 127a of the Stock Corporation Act in combination with the Shareholder Forum Regulation (AktFoV).•

4.4

Compliance and capital market law. In order to ensure the smooth implementation of and compliance with the laws and disclosure requirements under capital market legislation designed to promote investor protection, the Executive Board provides corresponding internal structures within the group. An external legal clearing body examines group-wide transactions for their relevance in terms of ad hoc disclosure requirements. Concerning the legal ban on insider dealings pursuant to section 14 of the German Securities Trading Act (WpHG), corresponding persons are informed about an insider policy on the handling of insider information. Disclosures under section 15a of the German Securities Trading Act (WpHG) concerning the acquisition and sale of **SolarWorld** shares by members of the Executive Board or Supervisory Board and persons closely related to them were published on the website. A document drawn up annually pursuant to the German Securities Prospectus Act (WpPG) is published on our website, outlining all publications made in 2007 (in German).•

www.solarworld.de/investorrelations/jaehrl-dokument

SolarWorld AG fully complies with the amendments to the Corporate Governance Code driven by the adjustment to the Transparency Directive Implementation Act (TUG, effective since 20 January. 2007) and the Act on Electronic Commercial Registers, Public Registers of Cooperatives and Corporate Registers (EHUG, effective since 1 January 2007). The EU-wide harmonization of transparency requirements is intended to promote investor confidence and protection by providing investors with more far-reaching information. Accordingly, the 2007 Annual General Meeting resolved e.g. to amend the Articles of Association of **SolarWorld** pursuant to section 30b subsection 3 No. 1 of the German Securities Trading Act (WpHG) in order to guarantee the electronic transmission of information to our shareholders. Additional voting capital notification thresholds – to be disclosed if a shareholder's share in voting rights reached, exceeded or fell below a certain level in the 2007 fiscal year due e.g. to the acquisition or sale of shares – were immediately published by the Executive Board of **SolarWorld**.

Executive Board remuneration

With this compensation report, the Supervisory Board and Executive Board of **SolarWorld** AG also comply with the recommendations of the German Corporate Governance Code in its current

version of 14 June 2007. A "Corporate Governance Report" is required in accordance with section 3.10 of the German Corporate Governance Code and is provided separately under a corresponding heading in the present annual report but also covered in the report by the Supervisory Board. Section 4.2.5 of the German Corporate Governance Code requires disclosure of the remuneration system for Board members including the remuneration of individual members. Section 5.4.7, also covered by the Corporate Governance Report, requires disclosure of the compensation of individual Supervisory Board members, subdivided according to the individual components, including payments made by the enterprise and advantages extended for services provided individually, in particular advisory or agency services.

Executive Board remuneration/remuneration of the group Board. The structure of the annual compensation for Board members was defined by the Supervisory Board of **SolarWorld** AG and agreed with all Board members. The compensation consists of fixed and variable components. It is based on section 87 of the German Stock Corporation Act, according to which the overall compensation of each individual Board member must be appropriate in relation to the individual's tasks and the situation of the company. It also complies with 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 personal and technical responsibilities and the relevant environment. A further factor taken into account is the financial situation of the **SolarWorld** Group, which is reflected in the distribution potential forming the basis for the variable component of the Board remuneration.

All Board members receive fringe benefits including coverage of accident and D&O insurance policies as well as a company car in the upper mid-market segment. In addition, their work-related expenses are reimbursed in accordance with section 670 of the German Civil Code. In addition, the CFO, COO and CSO receive health insurance allowances. Finally, the CEO also receives compensation as chairman of the Supervisory Board of Deutsche Solar AG, and the COO receives compensation for a Board mandate at Deutsche Solar AG.

The service agreements with the Board members do not comprise any severance payment clauses for the event of an early termination of the employment relationship. The severance payment cap mentioned in the amended version of the German Corporate Governance Code of 14 June 2007 was not applicable since all service agreements had already been concluded at an earlier point in time.

There are no separate pension obligations; the Board members are 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, consisting of an individually negotiated € 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 provided below relates to the fixed payment due and paid in 2007 on the one hand. On the other hand, the variable compensation related to the 2007 fiscal year is also shown here, even though it will only be due after the forthcoming Annual General Meeting and will depend on the adoption of the profit appropriation proposal made by management which foresees payment of a dividend of 14 cents per share.

The variable compensation entails a cap so that a Board member must not obtain more than a multiple of his fixed compensation, agreed with the Supervisory Board. This cap is a multiple of three for the CFO and CSO (variable component may not exceed 200 per cent of the fixed compensation), and a multiple of four times the fixed compensation for the CEO and COO (variable component may not exceed 300 per cent of the fixed compensation). For the COO, this includes the fixed compensation received for a further Board mandate at Deutsche Solar AG.

The level and structure of the compensation are continually reviewed by the Supervisory Board. They are also discussed at an annual meeting dealing with Board matters and agreed as well as extended in agreement with each individual Board member.

in €	Non-Performance-Related		Performance-Related		Total
	Fixed remuneration	Other remuneration	Variable	Special project-related remuneration	
Frank H. Asbeck CEO	280,843.32	15,000.00 (Supervisory Board remuneration Deutsche Solar AG incl. meeting fees of € 2,500.00)	810,000.00*		1,105,843.32
Previous year	280,843.32	15,000.00 (Supervisory Board remuneration Deutsche Solar AG incl. meeting fees of € 2,500.00)	540,000.00	25,000.00	860,843.32
Philipp Koecke CFO	136,154.40	2,203.68 (Health insurance allowance)	224,000.00*		362,358.08
Previous year	129,802.72	2,218.08 (Health insurance allowance)	160,000.00	25,000.00	317,020.80
Boris Klebensberger COO	131,090.00	46,202.83 (Board mandate Deutsche Solar AG) 2,233.68 (Health insurance allowance) 4,566.72 (Inventor fee)	464,400.00*		648,493.23
Previous year	131,090.00	47,818.00 (Board mandate Deutsche Solar AG) 2,233.68 (Health insurance allowance)	309,600.00	50,000.00	540,741.68
Frank Henn CSO	160,382.98	3,120.72 (Health insurance allowance)	224,000.00*		387,503.70
Previous year	141,761.87	3,026.37 (Health insurance allowance)	160,000.00	25,000.00	329,788.24
Total	**708,470.70**	**73,327.63**	**1,722,400.00***		**2,504,198.33**
Previous year	683,497.91	70,296.13	1,169,600.00	125,000.00	2,048,394.04

* Resolution on suggested appropriation of profits at the 2008 AGM

Supervisory Board compensation. The Annual General Meeting of **SolarWorld** AG of 25 May 2005 adopted by resolution a Supervisory Board remuneration, a special performance-related compensation, fringe benefits and cost reimbursement. This remuneration system was decided with effect from 1 January 2005 and will apply until a new AGM decides otherwise.

Pursuant to section 113 sub-section 1 of the German Securities Trading Act, the compensation of the Supervisory Board must be appropriate in relation to the tasks of the Supervisory Board members and the situation of the company. The Annual General Meeting of **SolarWorld** AG also decided that the premiums for appropriate insurance coverage for the statutory D&O insurance policy be paid by the company.

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 the 2008 fiscal year for 2007, with retroactive effect. In addition, every Supervisory Board member received a fee of 250.00 € for every meeting attended and for the AGM, i.e. eleven times that amount or 2,750.00 € for 2007, plus VAT, where applicable, which was, however, deductible as input tax by the company. In addition, every Supervisory Board member receives a special performance-related compensation, originally established as 150.00 € per dividend cent at a capital stock of 6,350,000 shares with the proviso that the basic amount will rise in line with a potential rise in the number of shares. Given the increase in the number of shares from 6,350,000 to 111,720,000.00 € since the last AGM in 2007, a multiplier of 17.5937 is applicable to the 2007 fiscal year so that the basic amount has risen to 2,639.055 €. If the forthcoming Annual General Meeting approves payment of a dividend of 14 cents per share, this will give rise to a special variable compensation of 36,946.77 € per Supervisory Board member. At its meeting on 6 August 2007, however, the Supervisory Board of **SolarWorld** AG adopted the following "self-binding declaration" involving a partial waiver with regard to the regulations for the variable compensation agreed with the Board members: *"As long as the resolution adopted at the Annual General Meeting of 25 May 2005 is applicable to the Supervisory Board compensation, the Supervisory Board members accept a cap on the variable Supervisory Board compensation components payable to them of twice the annual fixed compensation they are entitled to. Even if they were entitled to a special compensation of more than twice the annual fixed compensation due to a particularly strong annual performance and/or further rises in the relevant number of shares, they will not claim more than three times the annual fixed compensation per fiscal year. The Supervisory Board thus accepts the cap regulation provided under section 4.2.3, second-to-last paragraph, of the German Corporate Governance Code."*

The special performance-related compensation is also paid plus VAT, where applicable. It falls due upon the end of the Annual General Meeting that decides about the underlying payment of the dividend. The table presented below, listing the variable compensation for 2007, will thus only be due and paid once the Annual General Meeting will have adopted the dividend proposed by the Executive Board and the Supervisory Board.

Concerning the disclosures recommended in the last paragraph of section 5.4.7 of the German Corporate Governance Code, it is pointed out that the chairman of the Supervisory Board of **SolarWorld** AG is partner of the law firm Schmitz Knoth, lawyers, Bonn, which primarily performs and coordinates out-of-court and court consultation and representation of the **SolarWorld** Group via other partners and attorneys and was reimbursed some costs by third parties but also its own

court and third-party cost outlays for services provided in 2007; in total it received 387,212.22 € (**SolarWorld** AG: 258,401.92 €; Deutsche Cell GmbH: 15,913.70 €; Solar Factory GmbH: 2,976.20 €; Deutsche Solar AG: 69,839.50 €; **SolarWorld** Industries Schalke GmbH: 1,248.90 €; **SolarWorld** Industries Deutschland GmbH: 38,832.00 €; the amounts indicated are net amounts).

By way of conclusion, it is pointed out that the Supervisory Board members Dr. Claus Recktenwald and Dr. Georg Gansen are also deputy chairmen of the Supervisory Board of Deutsche Solar AG. The CEO of **SolarWorld** AG, Dipl.-Ing. Frank H. Asbeck, is the chairman of that Supervisory Board. The Annual General Meeting of Deutsche Solar AG only approved a fixed uniform compensation of 12,500.00 € per Supervisory Board member plus the meeting fees shown in the table below, not to be paid out until 2008, as in **SolarWorld** AG.

in €		**Non-Performance-Related**			**Performance-Related**	**Total**
		Fixed annual remuneration	Meeting fee	Other remuneration	Special variable remuneration	
Dr. Claus Recktenwald Chairman	For 2007 paid in 2008	35,000.00	2,750.00	15,000.00 (Supervisory Board remuneration Deutsche Solar AG incl. meeting fees of € 2,500.00)	36,946.77*	89,696.77
	For 2006 paid in 2007	35,000.00	2,250.00	15,000.00 (Supervisory Board remuneration Deutsche Solar AG incl. meeting fees of € 2,500.00)	24,000.00	76,250.00
Dr. Georg Gansen Deputy Chairman	For 2007 paid in 2008	26,250.00	2,750.00	15,000.00 (Supervisory Board remuneration Deutsche Solar AG incl. meeting fees of € 2,500.00	36,946.77*	80,946.77
	For 2006 paid in 2007	26,250.00	2,250.00	15,000.00 (Supervisory Board remuneration Deutsche Solar AG incl. meeting fees of € 2,500.00)	24,000.00	67,500.00
Dr. Alexander von Bossel Member	For 2007 paid in 2008	17,500.00	2,750.00		35,000.00* (cap)	55,250.00
	For 2006 paid in 2007	17,500.00	2,250.00		24,000.00	43,750.00
Total	For 2007 paid in 2008	**78,750.00**	**8,250.00**	**30,000.00**	**108,893.54***	**225,893.54**
	For 2006 paid in 2007	78,750.00	6,750.00	30,000.00	72,000.00	187,500.00

* Resolution on profit distribution at AGM 2008

Corporate management, goals and strategy•

1.1
4.8

Vision and strategy•

What are our outstanding features?

Vision. Our group-wide vision is characterized by a sustainable business model. We are committed to climate and resource protection and to sustainable energy supplies worldwide. By increasing the use of solar energy – a clean, infinitely available resource – we aim to help achieve fair development for all people worldwide by means of decentralized energy supplies. It is therefore our declared objective to render solar power competitive and in doing so to promote the use of climate-friendly solar energy.•

Competitiveness in the near future
106

Strategy. Our strategy, derived from this vision and systematically pursued for seven years now, is built on technological leadership by innovation and on economies of scale as well as integration along the value chain.

We are a global solar technology group. With our holistic performance spectrum we meet the specific market demand ranging from wafers all the way to complete solar power systems. This enables us to determine the growth policy and competitive strength of the individual international markets. That is the strength of our business.

While building on our leading market position, we attach great importance to sustainable growth in the sense of earnings strength combined with environmental and social acceptability.

The industry is young, growing dynamically and characterized by global competitive pressure. We will further reduce the costs of solar power by means of innovation and technological development. That is how we as a photovoltaic manufacturer are providing sustainable solutions to address the problem of global climate change. Our strategy is to manufacture and market products which are superior to those of competitors in terms of quality, sustainability and performance.

Financial and non-financial values on which we can build!•

5

[Finances] **Profitability as a growth driver.** Our goal as the leading photovoltaic company is to strengthen our market position in the international solar market. That depends on getting the financial conditions right, in the form of earning power and profitability. In order to grow profitably with the capital of our shareholders at all stages of the value chain, we are pursuing a financing strategy directed at security and independence. We are also spreading the risk by using a number of different raw material sources, and maintaining our procurement and marketing paths via our long-term business relations. Our financial success gives us the necessary freedom of action for investment and further growth.

[Customers] **Customer orientation as a success factor.** The satisfaction of our customers is an important factor to secure the long-term success of **SolarWorld** and thus also safeguard the jobs of our employees. We are enhancing the long-term value of our customer relations by ensuring high quality, by optimizing value for money and by building trust in the brand. We continue to feel committed to providing our customers worldwide with a first-class service and a broad product range.

[Internal processes] **Full integration as a competitive advantage.** Quality, costs and efficiency are controlled by us at every production step by way of batch tracking, as well as our integrated quality and environmental management system and the important technologies we developed ourselves like for example our TCVP crystallization furnaces. We support our sustainable growth by building capacity in good time, at every stage of the value chain. Our internal production provides most of the input materials for each subsequent stage of production. We meet the demand for products in all areas of value added.

[Employees] **Employees as top performers.** We are aware of how important it is to recruit and retain qualified employees to help us achieve our growth targets. This is why we give our staff a share in our business success, invest massively in the improvement of their skills and create working conditions that promote the motivation of our employees as well as their identification with the company.

[Company] **Responsibility as a global group.** Transparency in the company helps to build trust between company and stakeholders. We put open communication in the foreground. We face up to our social responsibility and show commitment, in keeping with our vision.

Goals that we have achieved!

In 2007 we consistently pursued our goal of growing worldwide and achieving grid parity, i.e. making solar power competitive with other sources of power in the medium term. For details please refer to the section on “Business development 2007”.

Finances

> We have strengthened our independence in financing through the use of long-term financing instruments like for example the floating of note loans.
> The corporate performance indicators have been consistently optimized over the year.

Customers

> We have been able to boost our group-wide sales volume significantly (+ 36 per cent) over the previous year.
> We successfully implemented our strategy of internationalization in 2007 expanding the business with international customers at the same time. We increased the group-wide sales related share of international business by 7 percentage points to 49 per cent in comparison with the previous year. Newly acquired markets were Italy, France and South Korea.
1.2 > By gradual introduction of our global module*, we have set up an international product standard which complies with the three globally applicable standards.
> We continued development of our business with decentralized solar solutions (off-grid) in 2007, with publicly funded electrification projects in China as well as Latin America, Africa and in the Asia-Pacific Region.

Internal processes

> In 2007 the production capacities from raw materials to modules were further enhanced.
> We were able to achieve efficiency gains along the entire solar value chain and on average further increase the degree of efficiency of our cells and the output performance of our modules.
> Across the entire value chain the overall costs per watt peak could be reduced in the course of the year. Our US locations were able to significantly support this trend through process optimizations.

Employees

> Group-wide the employment rate rose by 10 per cent over the previous year. We increased our investment in training and skills improvement by 41 per cent.

Social responsibility

> Our integrated sustainability reporting is based on the GRI reporting framework including certification according to GRI (Global Reporting Initiative).
> We increased our social commitment in 2007, setting up “Solar2World” as an umbrella brand for social projects in developing countries.

Where do we want to go in 2008+?

We are putting all our efforts into:

Finances

> Continued high profitability and the sustainable generation of an operating cash flow to finance our plans for expansion and growth,
> A continues optimization of our financial investment management,
> Securing the participation of our shareholders in the success of the company by distributing a dividend,

Customers

> Expanding our product and systems competence as well as our service approach under the **SolarWorld** brand,*
> Enhancing international sales relations also in new business fields like for example the electrification of rural areas,
> Maintenance and increase of our market shares worldwide,

Internal processes

> Technology development, to achieve higher efficiency and reduced costs, thus further expanding our market leadership and achieving grid parity in a few years,
> Expansion of our production capacities to serve growing global demand in the long-term,

Research and development
74

Employees

> Recruiting and retaining skilled technical and management staff, by means of an agreeable working atmosphere and environment, wide-ranging opportunities for further education, attractive conditions, and flexible working models,

Social responsibility

> Sustainable increase of the value of the company along the dimensions of economy, ecology and social matters through integrated sustainability management.

Management and control

Internal corporate management and control system. In order to achieve long-term value creation we include both financial and non-financial control variables into our corporate management system. Our "Strategic Council" is responsible for control, monitoring and further development of our strategic goals. It meets regularly during the year and comprises the group Executive Board and the Managing Directors of the various subsidiaries. In 2007 the "Ethics Council" • was also created to integrate the ethical and sustainable dimension of our economic activities into group-wide strategic orientation.• Group strategy and the resulting group goals are fixed by the Executive Board, and the goals of the respective business units are derived from them. Achievement of the goals is within the responsibility of the respective companies. Anchoring non-financial targets in additional control systems will ensure that developments can be tracked all the way to the level of the employees. A budget/actual comparison of the financial control parameters is effected by our subsidiary controlling, which is integrated throughout the company, reporting to the Executive Board. This ensures that developments are identified early, appropriate actions are taken, and goals can be adjusted to take account of changes in developments in the market and in the group.

4.6

Sustainability 82

Primary control parameters 2007. The major financial parameters are sales volume and operating result (EBIT) of the group and its individual subsidiary companies. There were no changes in the quantitative criteria in 2007.

Targets achieved in 2007. We exceeded the declared goal for 2007 to increase sales volume and EBIT by at least 20 per cent compared to the previous year.•

Overall statement by the Executive Board on business development and target achievement 55

Target values 2008. In our planning we are working on the assumption that the international solar market will continue to develop with similarly high double digit growth rates as in the recent past. Our group is strategically strongly positioned to convert growth opportunities into profitable business. The plan figures for our primary control variables EBIT and sales are therefore such that they reflect this expectation.•

Expected earnings situation 103

Other financial and non-financial control variables and measures in 2007. Another control indicator that is regularly measured is ROCE, i.e. the return on the capital employed in the company. In this context a high priority is given not only to looking at the influences of fixed tangible asset investments into the capacity expansion along the value chain but also to the control of the Working Capital and here especially the levels of inventory.

The continuous and differentiated analysis of the volume-related development of the production and sales volumes expressed in Wp, dm^2 and/or numbers of units along the value chain is another important parameter by which to steer the management of the company.

Over and above this other non-financial factors constitute prerequisites for the economic success of our company which we show as operational early indicators.

To achieve a high level of customer satisfaction we specify non-financial targets as control variables in our quality management that are geared to our strategic main targets. Secondary targets like for example shortened throughput times resulting from improvements in the generation of quotations and in order handling or accessibility in the back office as an indicator of service quality are measured by us on the basis of continuous feedback from the field force and the back office and by the results of our annual customer surveys.• Possible developments in the wrong direction, improvement potentials and strengths we can build upon are analyzed and supported by measures and are injected as new targets into the quality management of the coming year.

Independent assessment by third parties like for example our participation in the study "Germany's Best Employers 2008" of the Great Place to Work® Institute Germany serve us as additional indicators on the basis of which internal corporate quality targets are then formulated.•

In 2007 we developed integrated sustainability management to link the financial and non-financial indicators for the future. The interrelated goals defined there cover finances, customers, internal processes and social responsibility.• We developed measures for individual parts of the company, specifying review of their effectiveness by means of generally applicable group-wide parameters. This establishes links between long-term group-wide strategy and operating management.•

High-quality customer relations
47

Employees – future development
102

5

Sustainability
82

Business Development 2007

General market environment

The **global economy** grew dynamically again in 2007. Global growth was 5.1 per cent which is the same high rate as in the previous year. The **Asian region** in particular made a major contribution to the expansion of the world economy. China's GDP grew at a rate of 11.4 per cent, an even stronger increase than in the previous years, thus dispelling fears of a possible decline in economic growth in Eastern Asia. Economic development also remained strong in South Korea, one of our most important photovoltaic markets in Asia, with a growth rate of 4.5 per cent.

The hypothec crisis in the **USA** led to great uncertainties in the finance markets in the second half-year, with re-assessment of credit risks. The decline in construction activity resulting from the property crisis was a major factor in the slow-down of US economic growth in 2007 to 2.2 (previous year: 2.9) per cent. The economic upswing in the **European Union** was almost as strong as in the previous year, at 2.9 per cent. There were major stimuli from exports and the rise in private consumption and positive effects from the continued drop in unemployment.

Growth in GDP

(Percentage change versus previous year)

Country	2005	2006	2007e
World	4.7	5.4	5.1
EU-27	1.8	3.0	2.9
• Germany	0.8	2.9	2.6
• Spain	3.6	3.9	3.7
• Italy	0.1	1.9	1.7
USA	3.1	2.9	2.2
Asia	8.5	9.0	9.4
• China	9.9	10.7	11.4
• South Korea	3.9	5.0	4.5

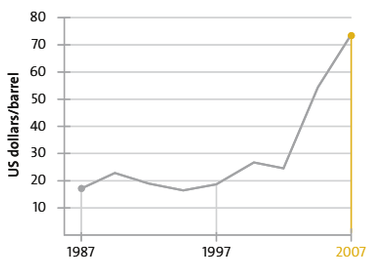
Source: Kiel Institute for the World Economy, 2007

In **Germany**, economic growth in 2007 remained according to provisional figures largely positive at 2.6 per cent, even if less dynamic than in the previous year. Private consumption was up despite the increase in VAT, and exports increased. The inflation rate was up to 2.1 (previous year: 1.7) per cent, mainly due to high energy costs.

The strong appreciation of the Euro meant a substantial drop in the value of the US dollar. One Euro was worth USD 1.32 at the beginning of the year, appreciating to USD 1.47 at year end. Yet, as our US-made products are largely sold in the US dollar region we achieve a natural hedge against currency rate fluctuations.

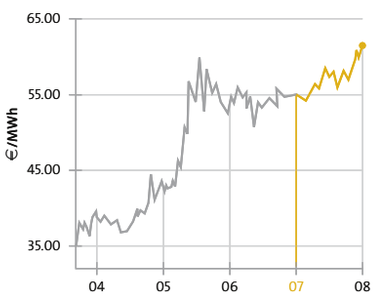
1.1

Historic development of the oil price, Brent crude oil



Source: Energy Information Administration, 2007

Electricity price development, 5-year comparison



Source: EEX, 2008

The energy and power market

The prices of conventional energy have risen dramatically in recent years, in particular the leading raw material crude oil – a trend which also continued in 2007, with the Brent crude oil marker rising to a new historic high of more than 99 dollars per barrel (1 barrel = 159 liters). That makes petroleum more expensive than ever before, at an annual average price of some 70 US dollars per barrel.

This development is caused by global economic growth, associated with higher demand for energy, especially in emerging countries such as China and India.

The increase in prices of the fossil fuels oil, gas and coal is reflected in the development of electricity prices. The prices at the European Energy Exchange (EEX) for base-load electricity for delivery in 2008 have risen by about 10 per cent since January 2007 (54 €/MWh) to 61.50 €/MWh on the last trading day of 2007. The excessive increase in consumer prices for electricity in Germany is attributed by experts to the oligopoly which characterizes the German power market.

The rapid rise in conventional energy prices and increasing dependency on energy producing countries which are potentially liable to conflict has further increased international political awareness of the need to find alternatives. In its latest World Energy Outlook 2007, the International Energy Agency (IEA) called for accelerated development of renewable energies as a measure to counteract this trend.

An enormous amount of movement was injected into the public debate on the dangers of climate change by the UN Climate Report published by the IPCC (Intergovernmental Panel on Climate Change). The conclusion reached by the scientists was that climate change is already a fact, and that it is being driven by the greenhouse gas emissions caused by humans. These emissions have increased by more than 70 per cent worldwide since 1970, and a large proportion of them can be attributed to the power sector. The IPCC Report warns of the threatening consequences of global warming and points out appropriate countermeasures which could limit climate change. The key elements mentioned by the IPCC for mitigation of climate change include improvement in energy efficiency and increased use of renewable energy sources. At the UN Climate Conference in Bali in December 2007, 187 nations undertook an obligation to negotiate a follow-up agreement by the end of 2009 to tackle climate change, directly replacing the Kyoto Protocol on its expiry at the end of 2012.

Worldwide investments in renewable energy sources rose rapidly in recent years, driven by rising energy prices, shortage of conventional fuels and by the external costs of climate change (a study by the German Federal Ministry for the Environment Nature Conservation and Nuclear Safety (BMU) puts the total economic costs related to environmental pollution at about 70 €/tCO_2). A total of 85 (previous year: 70.9) billion US dollars were spent on expansion of power capacities in 2007. The proportion of renewable energies (without hydropower) in global energy supplies in 2007 was about 6 (previous year: 5) per cent.

According to an UNEP study, the global solar market reached a critical size in 2007, so that it will continue attracting further investments even if the oil price were to drop below 40 US dollars per barrel – a purely theoretical case which would be against all expectations of the analysts.

The number of states that have set up programs for the promotion of renewable energies continued to rise in 2007. The heads of state and government of the **European Union** agreed at their Summit Meeting in March 2007 on the joint goal of increasing the share of renewable energies to 20 per cent of total energy consumption in Europe by 2020 (previous goal: 12 per cent by 2010). At the same time, greenhouse gas emissions are to be reduced by at least 20 per cent by 2020, versus baseline 1990, while simultaneously increasing energy efficiency by 20 per cent.

The **United States** government is likewise showing increasing interest in promoting renewable energies. Last year the "Clean Energy Act of 2007" was passed by the House of Representatives and the US Senate. Its purpose is to reduce dependence on foreign petroleum by investing in renewable energies, new energy technologies and energy efficiency. The Act was still in the legislative process at the end of the year, but it does show the increased political will by the US legislative to create stable framework conditions for them.

In the absence of Federal legislation, many US states introduced "Renewable Portfolio Standards" (RPS), regulating the minimum share of renewable energies in power generation in the respective state. By the end of 2007, 25 states had an RPS program. It is particularly relevant to the US business of our group that 15 of these states stipulate a solar power minimum target.

China announced in its new five-year plan investments of more than 110 billion US dollars for environmental protection. Combined with individual investments in other projects for the environment and renewable energies, total investments add up to about 175 billion US dollars. That is approximately the same amount that China invested in total from 1995 to 2005. In order to achieve its target of generating 10 per cent of total energy from renewable sources by the year 2010 the government enacted a law on feed-in compensation which does, however, exclude photovoltaic technology.

Germany increased the share of renewable energies to 14.3 per cent in 2007 (previous year: 12 per cent), passing the target of 12.5 per cent by 2010 well before the specified date. The Federal Ministry of the Environment, Nature Conservation and Nuclear Safety (BMU) adjusted its forecasts and is now expecting renewable energies to attain a share of 25 to 30 per cent of gross power consumption by 2020.

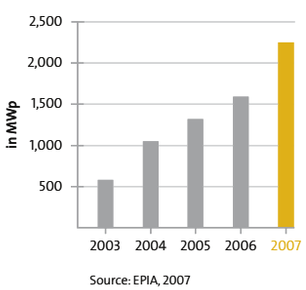
In 2007 the BMU published its report on experience with the Renewable Energies Act (EEG), examining the cost-effectiveness and efficiency of subsidies for renewable energies in Germany. The Ministry drew up a positive balance sheet, describing the Renewable Energies Act as an efficient and successful instrument for the promotion of renewable energies. Thanks to this funding, German manufacturers succeeded in taking the number one position in export of renewable technologies. The world market share rose in 2007 to nearly 20 (previous year: 15) per cent, and the sales volume rose to 32 (previous year: 23) billion €.

The generation of renewable energies accounted for savings in CO_2 emissions in Germany of about 115 million tons in 2007 (previous year: 101 million tons). That corresponded to a saving in external costs of about 8.6 (previous year: 4.7) billion €. The German labor market also benefited from the strong growth in renewable energies. In 2007 an estimated 250,000 (previous year: 235,600) people were employed in this industry. This is 6.1 per cent up on the previous year. Renewable energy sources also saved energy import costs of 5.9 billion € in 2007 (previous year: 4.2 billion €), and electricity costs were reduced by about 5.0 billion € by the replacement of fossil-fuel power generation with clean power (merit-order effect).

The economic dynamics had a positive impact worldwide on our business development, increasing the willingness of our customers to invest. The global increase in energy prices and the growth in political subsidy programs for renewable energies provide stable and dependable framework conditions to support the growth of our photovoltaic business in 2007.

1.1

New photovoltaic installations worldwide



Source: EPIA, 2007

Development of the photovoltaic market

In 2007 new photovoltaic installations **worldwide** were up 40 per cent to about 2.2 (previous year: 1.6) GW, according to provisional estimates by the EPIA (European Photovoltaic Industry Association). Thus in 2007 total installed photovoltaic power worldwide was about 9.0 (previous year: 6.7) GW. Germany remained the most important market with a share of 48 (previous year: 53) per cent of newly installed power. The USA with a rate of 12 (previous year: 9) per cent and Spain with 18 (previous year: 4) per cent showed over-proportionate growth, making significant gains in importance at the same time. The photovoltaic market was increasingly transformed from individual regional markets into one global market in 2007, due to the strong international demand and the shortage of supply.

Availability of the raw material silicon was once again a bottleneck in the photovoltaic industry in 2007. Despite total investments in capacity expansion by global manufacturers, and growth of, according to Sarasin, some 15 per cent to 27 (previous year: 23.5) thousand tons, the spot prices for silicon in 2007 were up to as much as 400 US dollars per kilogram. That proved us right in our strategy of internal raw materials activities combined with long-term contracts.

Strategic raw materials activities 44

The development of the international wafer market was likewise characterized by the shortage in processing capacities for the raw material; in 2007 this remained a suppliers' market with strong, stable margins. The demand for crystalline solar wafers was driven by massive expansion in solar cell manufacturing capacities. According to estimates by the Landesbank Baden-Württemberg (LBBW), nominal worldwide solar cell production capacity was about 6.4 GW at year end 2007 (previous year: 3.7 GW). Despite worldwide investments of, according to EPIA, some 660 million € in the expansion of wafer manufacturing plants, it was not possible to satisfy this enormous demand. We benefited from this demand development, as the second-largest wafer producer.

The main focus of wafer demand was from the Asian countries, which have now reached a market share of estimated about 65 (previous year: 63) per cent of global solar cell production. China displaced the US from 3rd place, thanks to a very high growth rate, increasing market share to about 25 (previous year: 15) per cent. The increasing importance of the Asian countries is reflected in the regional distribution of our long-term wafer contracts.

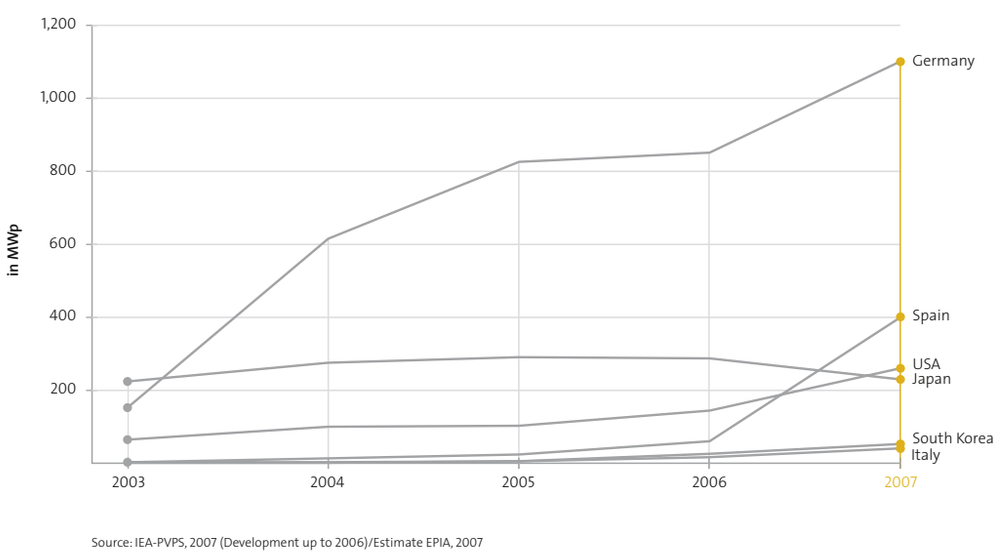
Order development
59

Despite the international shortage of raw material, the established silicon-based technology continued to dominate the global photovoltaic market with a share of 89 (previous year: 90) per cent. Alternative technologies did not achieve any significant improvement in their market position. In addition to the lack of technical maturity alternative processes continue to be less efficient than crystalline technologies. Thus, according to a study by EPIA and greenpeace solar cells on the basis of poly-crystalline silicon reach a degree of efficiency of between 14 and 15 per cent on an industry average with mono-crystalline solar cells averaging between 16 and 17 per cent while other technologies do not achieve more than 6 to 10 per cent. That is why we concentrate our business on the development of crystalline technologies.

Future orientation of the group
99

According to provisional estimates by the German Solar Industry Federation (BSW), new solar power installations in **Germany** totaled about 1,100 (previous year: 850) MW in 2007. The demand for solar power modules was up 30 per cent on the previous year (10 per cent). The strong growth was essentially attributable to demand effects coming from the final consumers. These were caused by a heightened environmental awareness on the one hand and an increasing sensitivity vis-à-vis rising energy prices on the other hand. Our well established distribution structures created the prerequisites to serve the increased demand and to boost consumer sales at the same time.

Development of new solar power installations by region



Source: IEA-PVPS, 2007 (Development up to 2006)/Estimate EPIA, 2007

Energy and power market 36

The report on experience with the Renewable Energies Act (EEG) published by BMU in 2007 proposes a reduction in grid feed-in tariffs from 2009 onwards, with the annual decline in feed-in payments for solar power from rooftop systems to be increased from the current 5 per cent to 7 per cent and for free-standing systems from the current 6.5 per cent to 7 per cent. Additionally solar power compensation is to be reduced by one €-cent as a one-off measure in 2009. As of the year 2011 it is further proposed to increase the reduction of the compensation from 7 to 8 per cent. The draft amendment of the renewable energy rates was adopted by the Federal Cabinet at the end of 2007. The amendment will be debated in parliament in the first half-year of 2008 and may be subject to changes.

Sales and earnings development 58

The sales volume of the German photovoltaic market increased in 2007 to 5.5 (previous year: 3.7) billion €. Total jobs in the industry were up by more than 4,000 to 41,323 (previous year: 36,913) according to BSW figures. The export share of the German solar industry increased to 38 (previous year: 34) per cent and foreign sales were up 33 per cent to 2 (previous year: 1.5) billion €. Our export quota is above the industry average, reflecting the fact that our company started early on the internationalization of its business.

In 2007 **Spain** improved its position and is now the world's second largest photovoltaic market, moving further ahead of Japan (230 MW) and the USA (260 MW). According to information from the National Energy Commission CNE (Comisión Nacional de Energía), the newly installed capacity was increased by more than six times to 400 MW versus 60 MW in 2006. The total installed power of 521 MW means that Spain has already exceeded by about 150 MW the target of 371 MW set by the Spanish government for 2010.

Annual Group Report 2006, p. 32

The legislation adopted at the end of May "Real Decreto 661/2007" set new grid feed-in tariffs for renewable energies, thus eliminating uncertainties in the market caused by the amendment to the old grid feed-in legislation in July 2006. The grid feed-in tariff for photovoltaic systems between 100 kW and 10 MW was increased by 82 per cent and the differences from systems smaller than 100 kW correspondingly reduced. This led to a demand boom for large systems in the second half of the year – due to the extensive availability of space and intensive solar radiation these systems dominate the Spanish market. The result was that 85 per cent of the total market goal of 371 MW specified in the legislation was already achieved by the beginning of October 2007.

Starting from that time, there is a transitional phase of twelve months, within which the existing feed-in tariffs will be paid for photovoltaic systems connected to the grid by October 2008. In the course of this, the Industry Ministry put forward a new legislation draft to increase the limit from 371 to 1,200 MW by 2010, while at the same time reducing feed-in tariffs. The rapid submission of the new parliamentary bill may be seen as a sign of the willingness of the Spanish government to support the growth of the national photovoltaic market.

The solar market in **Italy** expanded strongly in 2007, becoming the third-largest market in Europe. Provisional calculations by EPIA assume a rise in accumulated photovoltaic capacity to 90 (previous year: 50) MW. Growth dynamics accelerated following the amendment to the feed-in tariff act "Conto Energia" at the beginning of 2007, abolishing the annual installation limit of 85 MWp photovoltaic, and substantially raising the total target for installed photovoltaic power by 2016 to 3,000 MW (previous target: 1,000 MW by 2015).

In **France**, the market was likewise substantially expanded with new installed power of 45 (previous year: 14) MW, according to EPIA figures. The growth drivers were on the one hand decentralized systems (off-grid) in the overseas regions and on the other hand rooftop systems smaller than 3 kW, which receive the highest feed-in remuneration.

We were able to make use of these favorable framework conditions for a local market entry, in particular with our Energyroof®.

Greece was still significantly behind other European markets, with new power installation of about 2 (previous year: 1) MW. This was due to lack of clarity in approval and feed-in procedures as well as long waiting periods for approval of investment grants. There is plenty of customer interest and market potential, simply due to the optimal radiation conditions. This young market is in a typical exploration phase and is still operating at a small level.

The photovoltaic market in the **USA** experienced a major upswing in 2007, growing by about 80 per cent on the previous year. Thus total photovoltaic power installed in the US was up to about 884 (previous year: 624) MW. The driver in the USA was California again in 2007 – according to preliminary data from the Californian Energy Commission, new photovoltaic systems adding up to about 140 MW were connected to the grid in the framework of the "California Solar Initiative" (CSI) (previous year: 59 MW), corresponding to 54 per cent of new installations throughout the US in 2007. New targets for expansion of solar power were also defined in the US State of Maryland, providing for new installations of about 1,500 MW by 2022.

Despite major regional differences, the US solar market as a whole developed very positively and, as forecast in 2006, has become a major pillar of our international business.

Trading
47

Japan maintained its position as the largest solar power market in Asia in 2007, even though the volume of business, according to EPIA figures, went down some compared to the previous year due to discontinuation of the funding program in 2006. Nevertheless, Japan had new installed capacity of some 230 (previous year: 286) MW, demonstrating that photovoltaic is a competitive option in power generating even without government funding.

South Korea established itself in 2007 as the second-largest market in Asia for on-grid systems, with rapid growth of more than 135 per cent in newly installed capacity. Total installed solar power was up to 85 (previous year: 35) MW at the end of 2007. We succeeded in entering this attractive market at a high level, with orders in the MW range.

Strong growth in export business
48

China and **India** mainly installed off-grid photovoltaic systems in 2007. Although growth was remarkable at 70 per cent respectively, both markets were still relatively small compared with Japan and South Korea, with newly installed capacity of 20 (previous year: 12) MW each, according to EPIA. We moved cautiously into this market in 2007, via development projects for power supply to Chinese villages.

Effects of the framework conditions on the 2007 business development

The worldwide awareness of progressive climate change which again increased in 2007, the rising energy and electricity prices as well as the increasingly reliable background conditions for renewable energies were again the crucial driving forces for our business. **SolarWorld** positioned itself in this young industry in a forward-looking manner in the most important growth markets. We meet the mounting competitive pressure by way of our edge in the market and our quality, our reliable customer relations and the appropriate production volumes as well as our market shares in the worldwide solar power markets. Our internationalization strategy has worked as planned. Our sales in the new markets outside Germany could be significantly increased.

Significant events affecting the course of business

> **Internal growth and targeted acquisitions.** We made major progress with the expansion of our international production capacities in 2007. In the first quarter, we succeeded in acquiring a new production facility in Hillsboro, in the US state of Oregon.° This facility is an existing hall for the silicon wafer production. At the time of acquisition, the production building had a basic infrastructure for wafer production which we will build and expand step by step. This acquisition supports our planned growth strategy in the US photovoltaic market.°

Investment analysis 62

Integrated production 2008+ 101

In parallel to that, we strengthened our wafer capacities at the Freiberg site – in the first half-year, we started operating our highly advanced wafer production facility DS 1000. The DS 1000 facility provides the infrastructure for further expansion of wafer capacities to 500 MW.°

Integrated production 2008+ 101

> **Group-wide international technology and raw materials unit.** For the Research and Development as well as Raw Materials units we created separate companies in 2007 thus strengthening their standing in our group of companies. Effective 2008 we will pool infrastructure, know-how and cost structures in this field.°

Changes in the legal structure; Strategic raw materials activities; Research and development 21, 44, 74

> **Concentration of the group structure.** In the course of the concentration of our manufacturing capacities in the USA and in Germany we completed the negotiations on the sale of 65 per cent of the shares of our Swedish subsidiary Gällivare PhotoVoltaic AB (GPV) to the Swedish company Borevind AB at the end of the year.° **SolarWorld** AG retains an interest holding of 35 per cent of the module production, securing already fixed module quantities beyond the year 2008 from delivery relations with GPV. In addition, the solar cell production in Gelsenkirchen, with a capacity of 25 MW, was sold to the Scheuten Solar Group at year end, as planned. The sale of these two facilities means that we save costs within the group caused by lack of critical mass and limitations in growth potential, enabling us to implement rapidly and efficiently the investment projects at our two fully integrated production sites.

Supplementary report 86

> **Inflow of funds for group-wide financing of expansion.** We succeeded in securing the necessary liquid funds for capacity increase in 2007. Compared with the previous year we increased our free liquidity by 489.7 million €.°

Liquidity analysis 62

> **External wafer business expanded.** Our subsidiary Deutsche Solar AG signed further long-term agreements for delivery of solar silicon wafers in 2007. About 50 per cent of our finished wafers were sold to cell manufacturers in 2007; 50 per cent went into our group's own cell and module production.*

Order development 59

> **Letter of Intent for the construction of a photovoltaic production facility in South Korea.** **SolarWorld** signed a Letter of Intent with the South Korean company SolarPark Engineering Co. Ltd., Seoul, in the 4th Quarter of 2007 for the two companies to realize construction of an integrated module production facility with an initial capacity of 60 MW in South Korea. The project is to be operated as a Joint Venture with equal rights, under the name of **SolarWorld** Korea Ltd. Production start is planned at the earliest for the end of 2008/beginning of 2009. Thanks to strong support from feed-in tariffs, South Korea is the second-largest Asian market, following Japan, for on-grid photovoltaic systems.

Business Development 2007

Integrated production for crystalline photovoltaic technology

For the further enhancement of our internationally leading market position, we are not only broadening our international sales activities, but also applying a production strategy which goes for size, concentration, vertical integration and technological leadership. In relation to our own capacities, we expanded in 2007 both in the upstream sector (from silicon production to solar cell manufacture) and in the downstream sector (solar cell manufacture to traiding).

Group annual nominal capacities at year beginning and end 2007

Upstream		Downstream
Wafers	**Cells**	**Modules**
From 245 to 385 MW	From 185 to 205 MW	From 140 to 185 MW*

incl. GPV

Supplementary report 86

We also generate a substantial contribution to profit from our fast growing external wafer business. To secure our order status, we focused on building up this sector of production in 2007, strengthening this area with its strong margins and high value added for further growth.*

Order development 59

About half the wafers we manufacture go into the group's own solar cell production and subsequently module production. As an integrated manufacturer of crystalline photovoltaic technology, we are expanding our production capacities from the wafer via solar cells up to modules. Our quality control and batch tracking systems enable us to monitor, track and optimize our processes and products at every stage of production. In addition, we input our research and development results into the corresponding processes, thus increasing the performance of our modules and kits at the end of the value chain.

It was not until the end of the year that we expanded our technical facilities to achieve group-wide nominal wafer capacities of 385 MW. These capacities are available from the beginning of 2008. In solar cell production, we were not able to make full use of annual production capacities of 205 MW group-wide in the course of the year, because of some technological changes. In module production, we made full use of our group-wide annual production capacities, before our module lines in Freiberg/Germany were modernized with further capital expenditure, and then at year end we had nominal capacities group-wide of 185 MW.

At the future production site of Hillsboro/USA we started setting up our technical facilities and conducted the first machine runs on schedule. In 2007 we started squaring the crystals produced in Vancouver in production tests as early as three months after acquiring the Hillsboro site.•

Integrated production 2008+ 101

Strategic raw materials activities

The substance of our growth is the raw material silicon. We have banked on a variety of procurement options to back up the expansion plans for our production with an appropriate security of supply of raw materials in the medium- and long-term also beyond the year 2008 thus avoiding dependence on the – currently very high – spot prices in the market. As a supplement to long-term raw materials supply contracts we rely on three competence pillars in our internal group silicon supply system. The manufacturing costs are reduced in the medium-term by process innovations and alternative processes.

Joint ventures – Strategic expansion of industrial silicon manufacture. We are evaluating and developing various processes within Sunicon AG, with respect to their feasibility and cost-effectiveness in industrial manufacture.

The main emphasis of our development in the solar silicon production in 2007 was on the JSSI process, transferring it into industrial manufacture in the second half of 2008 with a target year-end capacity of 850 tons.• This process was developed in the framework of our joint venture with Joint Solar Silicon GmbH & Co. KG (JSSI) with Evonik Degussa GmbH (formerly Degussa AG).•

Strategic raw materials activities 2008+ 102

Scope of consolidated financial statements and legal group structure 115

The technology used is a cost-effective manufacturing method for solar silicon, for achievement of maximum cell efficiencies. The major benefit in terms of production cost and thus in competition compared with the currently leading processes is the significant improvement in the energy efficiency balance – the energy input in deposition is only 10 per cent.• What is more, the capital expenditure for the equipment required for the separation is clearly below that of the conventional Siemens process.

1.2

The input product monosilane will be supplied by Evonik Degussa GmbH, which is also the partner in the joint venture for construction of the additional deposition facility for manufacture of solar silicon. 10-year contracts have been signed between Evonik Degussa GmbH, JSSI and **SolarWorld** AG for supply of the input product monosilane. This secures the necessary quantities of silicon for our production at start of manufacture in August 2008. The first of a total of three reactors with monosilane was started in mid 2007.

The deposition process developed in this context is protected by four patents. All rights are vested exclusively in JSSI. The general conditions of the joint venture are governed by a framework agreement.

In addition, Sunicon AG has taken up the strategic task of examining alternative competitive process approaches for the manufacture of solar silicon and developing them with partners. We are currently developing a process for transforming metallurgical silicon into high-purity solar silicon, in the framework of the joint venture Scheuten **SolarWorld** Solicium set up at the end of 2006 (Scheuten: 50 per cent; **SolarWorld** AG: 50 per cent) at the Freiberg site in Germany. This is a medium-term project.

Recycling – expansion and increase in annual capacity. Early expansion of the business unit and commissioning of newly developed technologies means that SolarMaterial currently accounts for more than 20 per cent of the raw material supplies of the group. After the commissioning of a new etching technology in the year 2007 we now have available a capacity of up to 1,200 (previous year: 800) tons per year. As a result of the further technological development the recycling activities could be significantly improved so that now also such raw materials can be successfully employed in solar production that previously could only be sold to the metallurgical industry because of their insufficient degree of purity and were not available to the solar industry as a raw material.

SolarMaterial has a clear competitive lead worldwide – no other company at the present time has such a wide range of technologies for recycling a variety of products, starting with solar and semi-conductor waste, through off-spec and broken material in semi-conductor, wafer and cell production, right up to finished modules.

The recycling processes were increasingly automated and made more cost-efficient in 2007. Energy input in recycling is substantially below that required in primary silicon production. The processing costs including purchase costs for secondary silicon are far below the silicon prices in world market trading. Thus internal recycling activities have given us a reduction in raw materials costs, with a positive impact on group earnings.

The wafers obtained from the recycling process go directly into solar cell production, and thus also module production. In internal recycling, that means that we recycle practically all products that occur as off-cuts in ingot and wafer production, putting them back into the production process. The quality of modules produced from recycled material is the same as with new modules. In the framework of our capacity growth, SolarMaterial is continually adapting to the product requirements and the necessary processing capacities by means of accompanying research and development.

Important products, services and business processes 24

We do a part of our recycling activities under contract for third parties.• Our competitive position meant that there was plenty of demand for services from Europe, the USA and Asia again in 2007. This is one of the ways that we obtain new wafer customers, who supply us with secondary materials for recycling and purchase finished wafers from us. That in turn strengthens our wafer business.

We also have a small-scale processing facility at our US plant, to handle production on site. At our future production site in Hillsboro/USA we are planning a recycling unit similar to the one in Freiberg/Germany.•

Strategic raw materials activities 2008+ 102

www.pvcycle.org

PV Cycle – Framework for high-quality solar recycling. The PV Cycle Association was set up in 2007• with its office in Brussels, comprising member companies active in module and solar cell production, and covering some 70 to 80 per cent of the European photovoltaic market. Its activities include support for sustainable production, creation of a voluntary European collection and return system for photovoltaic modules and measures to ensure recycling quality. In this way the association puts the photovoltaic industry in line with the goals of European waste management policy• and with the expected legislative developments, and at the same time it creates a positive environment for growth in the industry.

Ec0nomic performance opportunities 107

The experts within our Group have played a leading role in the project on behalf of the European Photovoltaic Industry Association (EPIA) and the German Solar Industry Federation (BSW), presenting a concept for a voluntary return system for used photovoltaic products.

External raw materials contracts

The main pillars of our silicon supply are our external delivery contracts that we have concluded with well-known silicon manufacturers who have long years of experience and technical know-how. New silicon contracts concluded in the year 2007 as well as contracts already concluded in the past will secure the supply of raw material for our production capacities in 2008 and 2009.•

Procurement 49

Trading

Quality leadership as a goal. We see our module and kit business as branded product business with a high quality standard. We give priority to maximizing the performance of our products in order to reinforce our high quality brand image. The Europe-wide introduction of our brand Sunmodule® Plus in 2007 was a product activity in this direction.* Our vertical integration with quality control at all phases is unique in the market. This quality claim is backed by a high standard of service to our customers.

Important products, services and business processes
24

We see ourselves not as a premium manufacturer in a niche market, but as a leading quality supplier in the volume segment of photovoltaic technology. Within the group, we make use of standard components, for example connectors that can be used worldwide in our global modules.* This optimizes the automation processes, reduces unit costs, and increases availability and delivery reliability for the benefit of our customers. At the same time, our systems engineering provides individual solutions for practically any customer requirements.

1.2

With increasing global competition, we see the long life and stability of our modules as a distinguishing product characteristic. We document this with our internationally valid 25-year long service certificate. An endurance test conducted on a manufacturer-independent basis by magazine Photon put our **SolarWorld** SW 210 poly module and our former Shell module Shell Solar SQ 150-C among the best three places. Their annual yield (kWh/kW) determined over a one-year period was among the top performers. The results substantiated the positive **SolarWorld** image with our customers.

Brand awareness increased. The **SolarWorld** brand has already built up an excellent reputation. According to an end customer survey conducted by the press service Europressedienst in Germany in 2007,* **SolarWorld** is the leader in unprompted brand awareness. That is due in part to our positive stock exchange track record, our long-term customer relations as well as our advertising activities such as sponsoring of the Live Earth concert at the beginning of July 2007.

4.16

High-quality customer relations for long-term success. Our policy is to tie in our customers with our growth. Our direct customers are wholesalers and retailers – they are our links with the installing companies, and they sell our products to the final customers. Reliability generates customer satisfaction and forms the basis for long-term customer relations. We have positioned ourselves as a dependable partner by means of sound framework agreements and reliable delivery. The results of our annual product and service survey with international wholesale and specialist trade customers showed a clear improvement in assessment of **SolarWorld** service and product quality in 2007, particularly in Germany, where we have been in the market for longest. The results there are good to excellent, and we have derived from them uniform internationally applicable targets for further improvement of our product and service quality in 2008. The levels determined at the end of the year reflect the implementation of our sales strategy, as seen by our customers.* Since 2007 we are offering our installing personnel our special planning software Suntool®. It simplifies the process of quotation and planning solar systems, thus increasing profitability for our customers when doing business with **SolarWorld** products.

Internal corporate management and control system
34

Expected development of the solar power market 96

International sales strategy successfully continued. We are concentrating on strategic core markets with dynamic growth potentials.* Here our objective is to be among the top three in the respective markets and to secure double digit market shares. In 2007 we expanded our presence at a total of 10 (previous year: 9) international trade fairs in Germany, Spain, the USA, Italy and France. On the occasion of our exhibition debut in the USA we were able to score valuable points with trade visitors as a solar technology group with production facilities in the same country. This image gain for the **SolarWorld** brand benefits our US business.

Employees 68

We have fitted out our sales offices worldwide with the same software, managing thus to further harmonize and optimize our processes. We have also expanded our sales offices in terms of workforce and infrastructure to meet the increased market needs.*

Strong growth in export business. We increased the share of our foreign volume in the trading segment to 48 (previous year: 36) per cent in 2007. That shows the successful expansion of our module and kit business in new international markets.

In our home market **Germany** we increased our sales in 2007 by about 20 per cent in line with budget.

In our most important European export market **Spain** we increased our sales by about 50 per cent.

Sales growth in the **USA** in 2007 was about 20 per cent, and we surpassed our target of 25 per cent growth in the Asia-Pacific region. We got off to a flying start in **South Korea**, which is regarded as a promising photovoltaic market, becoming one of the market leaders with a 15 MW photovoltaic project for Gochang SolarPark Co. Ltd. That is the biggest individual photovoltaic project to date in Asia.

The photovoltaic market in **Italy** experienced a real boom. Our sales were up a multiple of the previous year's level. We managed a successful entry into this dynamic market in 2007 with a double-digit market share.

We succeeded in entering the markets in the young European solar markets **France, Belgium and Greece** via many small installations spread throughout the country. France gives excellent conditions for our Energyroof® system, with rooftop arrays dominating the scene there because of the specific funding conditions.

Large-scale plants. On behalf of Deutsche Bank AG we planned four solar power stations with a top output totaling 8.9 MWp in Majorca/Spain and supplied all the necessary components. The plants will be connected to the grid in early 2008, generating 11.9 million kWh of clean power that will keep 3,500 three-person households supplied with electricity.

Off-grid business. The global decentralized off-grid business is handled via our sales offices in Bonn, Singapore and California, in cooperation with distributors and systems integrators in the respective sales markets. In the first half-year, we received our biggest project order in China so far, "Qinghai 2". This electrification project gives 44 villages in the West Chinese Province of Qinghai access to electricity for the first time. Our contribution to this project was component deliveries (4,800 solar modules) and installation of the photovoltaic systems.

Quality and environmental management.
Our integrated quality management and our environmental management system currently being set up are designed to address the risks in the process chain, and to ensure group-wide quality standards and in future also environmental standards. Our production locations and almost all sales offices are certified according to ISO 9001.

4.8, 4.9, 4.11, 5

The quality of products from our external suppliers is also checked continuously in the framework of our quality management system. Our regular auditing and assessment process ensures consistently high quality of products and goods from our suppliers.

Environmental management established. We include protection of the climate and conservation of resources in our processes, so that environmental targets contribute to the sustainability of our business model. Environmental policy is an integrated part of our quality policy. In order to maintain environmental standards, we started in 2007 on the development of a comprehensive environmental management system to ISO 14001. That builds on the certification of our module production Solar Factory in Freiberg. In the first half-year 2008 we are planning to conduct certification at the Bonn and Freiberg sites, and in future this is to be expanded to cover the whole of the group. In order to optimize the "environmental performance" of **SolarWorld**, the environmental impact has been recorded and assessed systematically, and appropriate action has been derived from that. We have based this on the requirements of the Global Reporting Initiative. In 2007 we defined parameters for measuring and controlling our future environmental management, covering the key environmental aspects (energy, waste, water, and CO_2 emissions). We appointed Environment Officers for the sites in Bonn, Freiberg and the USA in 2007, and defined their responsibilities. The Executive Board also set group-wide environmental targets for 2008+, and allocated the department goals derived from these to the relevant Heads of Department. Internal environmental audits and annual determination of the parameters have been set up to ensure the effectiveness of these measures. The Environment Officer is responsible for internal reporting to management, with comparison of actual and budget values. The environmental targets will also be used beyond 2008, together with the other group goals, for the development of generally applicable methods of control.

Supplementary report 86

Sustainability report annex

Management and control; Sustainability report 34, 82

Procurement
In 2007 we concluded additional silicon contracts in order to secure the capacity utilization of our production facilities. In this context the down payments to suppliers added up to 242 (previous year: 102) million e. These down payments accounted for 69 per cent of our inventories. Our integrated production makes the input products wafers/solar cells/modules available to the next downstream production stage thus securing internal procurement.

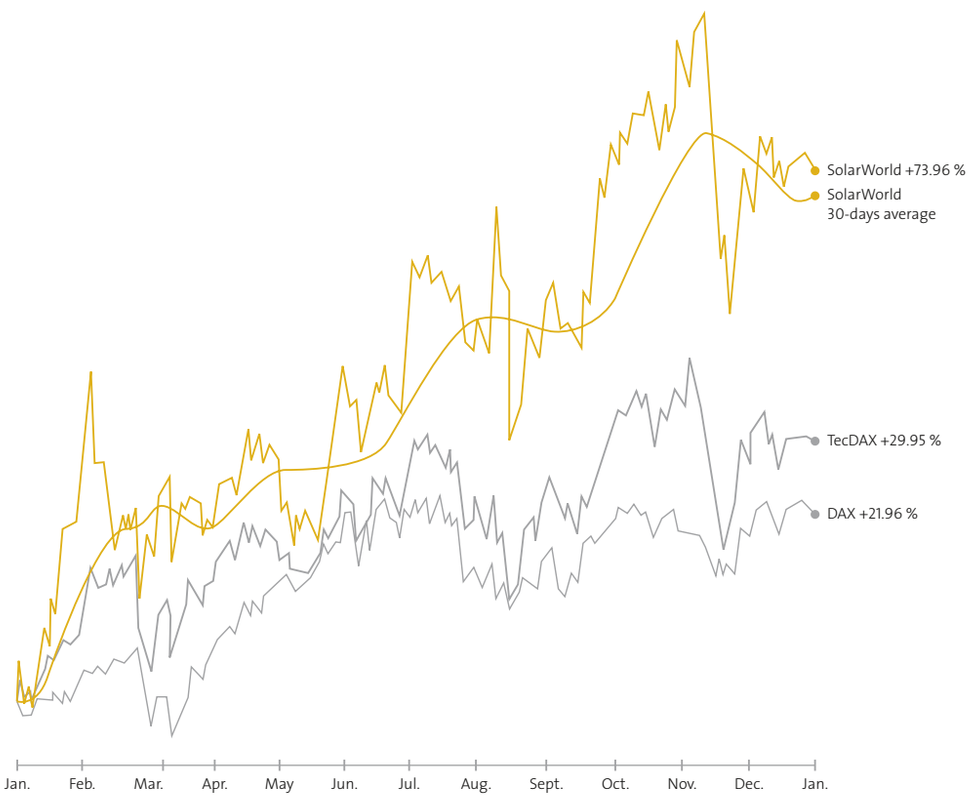
External raw materials contracts 46

For wafer production silicon blocks are cut into very thin slices (wafers) by the advanced wire sawing process.
The silicon wafer is the blank that goes into the production of a solar cell.

II. THE SOLARWORLD SHARE

Share price substantially higher. The shares of **SolarWorld** AG were again among Germany's highest yielding stocks in 2007. Our stock generated a value gain of 74 per cent versus 70 per cent in 2006, with a year end price of 41.75 € versus a year opening price of 24.00 €. The trading volume was up 11 per cent in 2007 to 11.4 billion € versus 10.3 billion € in 2006 (first place in TecDAX), and market capitalization was up 70 per cent to 4.6 billion € versus 2.7 billion € in 2006. That made us one of the top two companies in the TecDAX.

Development of SolarWorld share by comparison



Source: Deutsche Börse AG

01.01.2007 - 31.12.2007

International capital markets continue to progress. The international stock markets continued the positive development of the previous years. However, in the second half-year, the US mortgage crisis caused uncertainty in the market and thus a high level of volatility in share prices. The Dow Jones Industrial Average, one of the key international leading indices, gained 6.5 per cent in the course of the year, closing at 13,265 points, and the DAX rose by more than 22 per cent to 8,067 points, while the TecDAX was up 30 per cent to 974 points. By comparison, sustainable values, particularly renewable energies, performed better again. The Dow Jones Sustainability Index was up 9.1 per cent, the "Nature Stock Index" NAI was up by some 27 per cent to 5,867 points, and the ÖkoDAX (German ethical share index comprising 10 companies in renewables) was up 25 per cent to 711 points.

Increased attention to sustainable investment criteria. Sustainable share funds achieved a performance of 7.5 per cent in 2007 according to "Finance & Ethics Research", that is 0.5 per cent better than the fund market as a whole. The market for sustainable general-public funds in 2007 in Germany, Switzerland and Austria grew from 19 to 30 billion €. **SolarWorld** AG returned the best individual performance among sustainable funds for the whole of 2007, according to the study results.

In view of this positive context, 11 new sustainability indices were launched at the key international stock exchange centers in 2007. That increased the number of index families in the field of climate change, environmental engineering and renewable energies to 32 (versus 22 in 2006).

Institutional investors also pay increasing attention to sustainability criteria in their investment decisions. This is the context in which the Carbon Disclosure Project (CDP)* was set up. It is the world's largest initiative by the finance sector to analyze the impact of global climate change on companies and their climate protection strategies, with disclosure of their CO_2 emissions.

The number of institutional investors that have signed the CDP rose by 40 per cent in 2007 to 315 (previous year: 225). The investment capital represented increased by 32 per cent to 41 (previous year: 31) trillion US dollars. A total of 2,400 companies (previous year: 2,100) were asked to disclose the relevant data on a voluntary basis. The response rate among companies surveyed in Germany was 52 (previous year: 31) per cent. **SolarWorld** has been participating in this project since the launch of CDP in Germany in 2005.*

Sustainability aspects were also included by the BVI (German Association for Investment und Asset Management) at the end of 2007 in its list of critical issues for Annual General Meetings. The BVI criticized public-listed companies for infringements of the generally accepted Socially Responsible Investments (SRI) and Environmental Social Governance (ESG) guidelines and also for lack of adequate participation in the CDP.

Another indicator of the growing prominence of sustainable investment is the change in the Insurance Regulatory Body Act which entered into force at the end of August 2007. In future, it will be necessary not only for pension funds, but also for all pension schemes set up by companies and all company "direct insurance" schemes to inform the insured before they sign the agreement and at yearly intervals whether they meet the (environmental, social and ethical) sustainability criteria in their capital investment, and if so how. This trend is also reflected among the leading insurance companies, which have undertaken a voluntary commitment to continuous increase in their sustainable and responsible investment and to disclosure.

Index quotations of the SolarWorld share

Germany	
TecDAX > Technology companies	
GEX > Owner managed companies	
ÖkoDAX > Renewable energies	•
Europe	
Dow Jones STOXX 600 > Industry	
ERIX > Renewable energies	•
Global	
MSCI-World > Industry	
NAI > Environment	•
Global Challenges Index (GCI)* > Environment	•
DAXglobal Sarasin Sustainability Index* > Environment	•
DAXglobal Alternative Energy Index* > Renewable energies	•
S&P Global Clean Energy Index* > Renewable energies	•
WilderHill New Energy Global Innovation Index (NEX)* > Renewable energies	•
Merrill Lynch Renewable Energy* > Renewable energies	•
RENIXX > Renewable energies	•
PPVX > Solar	•
SOLEX > Solar	•
KLD Global Climate 100 SM Index > Climate change	•

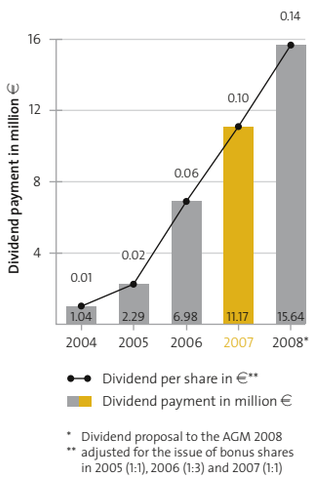
• Sustainability

* New in 2007

4.11

Sustainability
82

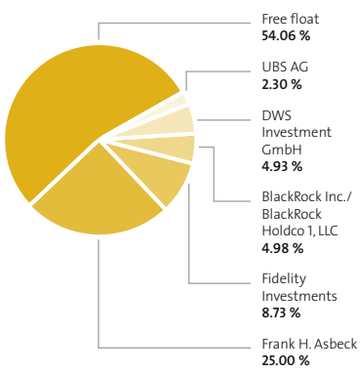
Dividend and distribution



* Dividend proposal to the AGM 2008
** adjusted for the issue of bonus shares in 2005 (1:1), 2006 (1:3) and 2007 (1:1)

Shareholder structure*

at 31/12/2007



New shareholder structure

86

2.6

Dividend maintains continuity. We are continuing our earnings-oriented distribution policy in 2007. The Management Board and Supervisory Board will propose distribution of a dividend of 14 € cents per share at the forthcoming Annual General Meeting on 21 May 2008. That is 40 per cent up on 2006. The proposed distribution total is 15.60 million € of the annual earnings from the individual financial statements of **SolarWorld** AG.

Capital increase from company funds by bonus share issue. To increase liquidity and the attractiveness of the **SolarWorld** shares, the Annual General Meeting decided again in 2007 to issue bonus shares in a 1:1 ratio. That doubled the company's capital stock to 111,720,000.00 €. The capital stock is divided into 111.72 million no-par-value bearer shares with an imputed par value of 1 € each. The transfer of correction shares to the depots of investors with effect from 29 June 2007 halved the share price on the conversion date, in accordance with the issue ratio. Thus the total value held by shareholders in their depots remained unchanged.

International capital market communication expanded. Our Investor Relations work in 2007 was again characterized by an expansion of contacts with international investors in Europe, the USA and for the first time also in Asia. Altogether we conducted more than 25 road shows and numerous investor meetings, including meetings at international photovoltaic exhibitions, such as the European Photovoltaic Solar Energy (organized by WIP Renewable Energies) in Milan, and the Solar Power conference in Los Angeles. From the bulk of the feedback it could be gathered that our shareholders are convinced of our strategy, that they appreciate our forward-looking management and that they place their trust in **SolarWorld**. The share was analyzed by more than 25 research companies in 2007. The recommendations by the financial analysts are an important basis for the investment decisions of both institutional and private investors. Current recommendations are: "Buy" (Sal. Oppenheim jr. & Cie. KGaA, 15/11/07); "Buy" (Landesbank Baden-Württemberg, 12/12/07); "Buy" (Deutsche Bank AG, 12/02/08); "Buy" (Citigroup Inc., 14/02/08); "Buy" (UBS AG, 25/02/08).

High standards implemented in Investor Relations work. We define our high quality and transparency standards for capital market communication firstly by the information needs of our shareholders, and secondly by the increased expectations of the capital market. On the basis of permanent demand analyses, market observations and an intensive dialogue with our shareholders we again managed to improve the quality and transparency of our communication while fully meeting our reporting duties. In the external assessment by Handelsblatt under the title „Annual Reports under Scrutiny" which looked at a total of 124 publicly listed companies in the DAX, MDAX, SDAX and TecDAX we succeeded in improving our position by some 40 places to No. 16. In the category TecDAX we came in at No. 2. The competition by Manager Magazin, analyzing some 200 corporate annual reports by German and European public companies, put us in the Top 3 of the TecDAX. We were also able to demonstrate the credibility and comprehensibility of our corporate communication in a survey conducted by the Internet portal "Börse Online" in 2007, where users gave our Investor Relations work the best rating of all TecDAX companies (Place No. 1).

Takeover Directive Implementation Law (§ 315 Sec. 4 HGB)
The information pursuant to § 315 Sec. 4 No. 1 and No. 3 HGB (composition of the subscribed capital and participation in capital) can be gathered from the previous paragraphs.

The instructions for the appointment and the dismissal of board members and for the change of the articles of incorporation (§ 315 Sec. 4 No. 6 HGB) can be gathered from the stock corporation act.

As far as the authorities of the Executive Board (§ 315 Sec. 4 No. 7 HGB) are concerned reference is made to the German stock corporation act and to the Notes on Equity Capital.

At the cut-off date there were financial liabilities amounting to the equivalent of 534 million € for which the creditors can demand early redemption in the event of an exchange of control (§ 315 Sec. 4 No. 8 HGB). A change of control exists if and when a party (with the exception of Frank H. Asbeck, members of his family or shareholders that are controlled by the latter) directly or indirectly hold more than 50 per cent of the voting rights in the shares issued or gains the possibility of appointing or electing the majority of the Supervisory Board members or to cause such an appointment or election.

With reference to § 315 Sec. 4 No. 2, 4, 5 and 9 no statements have to be made.

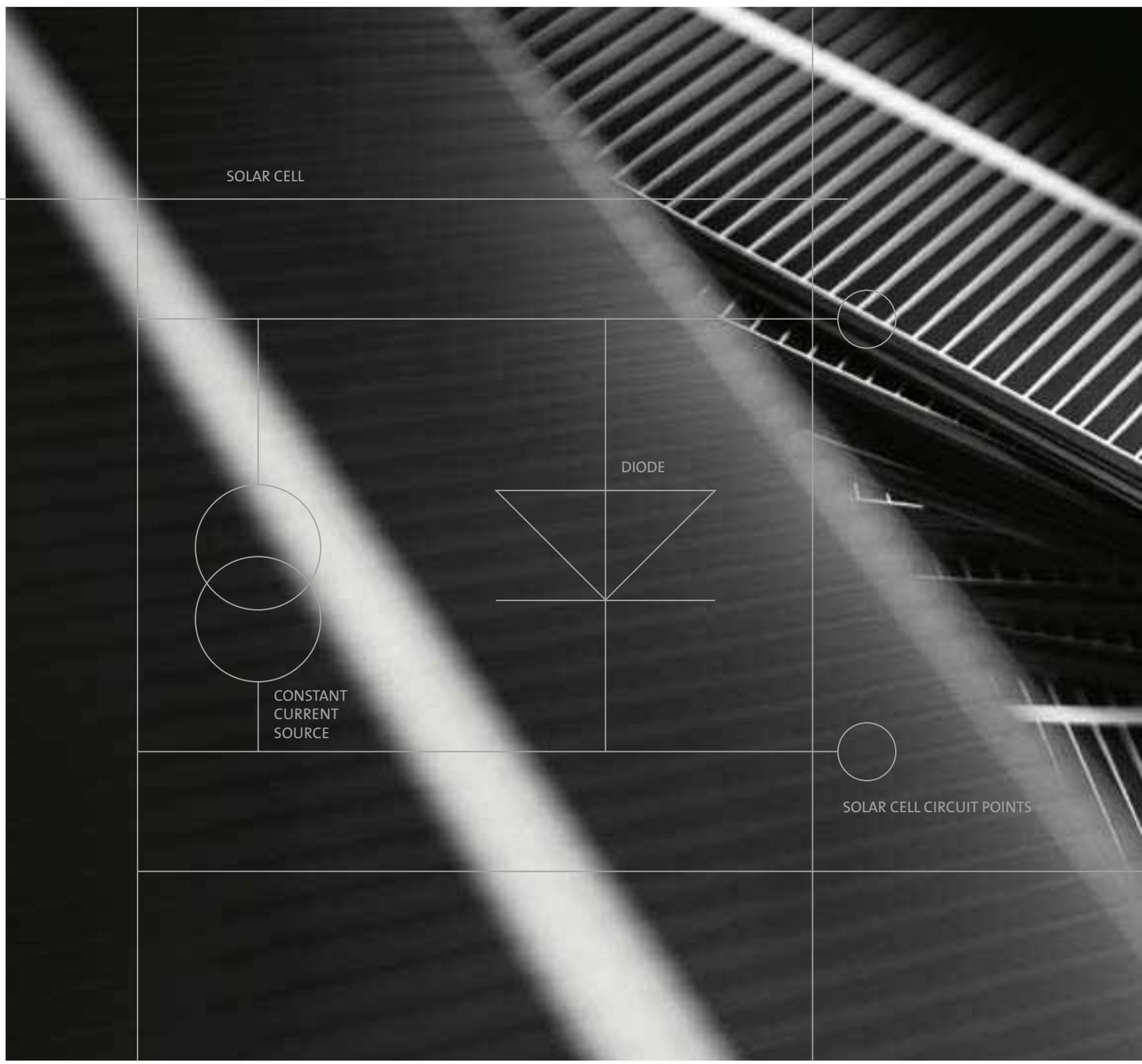
Overall statement by the Executive Board on business development and target achievement

In 2007 we were able to expand our business internationally through organic growth (expansion of production capacities) as well as acquisitions. We could enhance the capacity utilization of our US production facilities accordingly. The international solar market was characterized by a high level of dynamism in our core markets. This resulted in strong temporary demand peaks that we could use positively for our group business. Our sales and earnings forecast from last year was therefore exceeded in fiscal year 2007.

	Plan 2007	Actual 2007
In million €	Plan as at 31 December 2006	As at 31 December 2007
Sales	minimum 620 ++	698.8
EBIT*	minimum 140 ++	174.5

* corrected EBIT figures 2007 excluding special effects®

Sales and earnings development
58



Cells | Wiring diagram of a solar cell

The solar cell is the basic element of the solar module. For its manufacture the wafers are coated and provided with metal contacts. The completed solar cells are individually measured to guarantee their quality.

III. EARNINGS, FINANCE AND ASSET SITUATION

Earnings situation

2.8

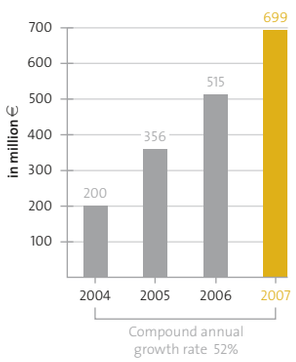
Sales and earnings development*

In fiscal year 2007 group sales rose by 35.6 per cent to 698.8 (previous year: 515.2) million €. Earnings before interest and tax (EBIT) reached 202.2 (previous year: 179.8) million €. The operating EBIT corrected for special effects rose by 48.6 per cent to 174.5 million € versus the comparable figure of the previous year of 117.4 million €.

Supplementary report 86

Due to the sale of 65 per cent of the shares in our subsidiary Gällivare PhotoVoltaic AB (GPV) in Sweden at the beginning of the year 2008* the earnings contributions, assets and debts of GPV are now carried separately in the Profit & Loss Statement according to IFRS 5 under the item "discontinued operations". The result of the continued operations therefore exclusively includes the income and expenditure items that are also comparable with our future business activities. In order to guarantee comparability with the previous year the relevant statement was accordingly adjusted in the Profit & Loss Statement of the previous year.

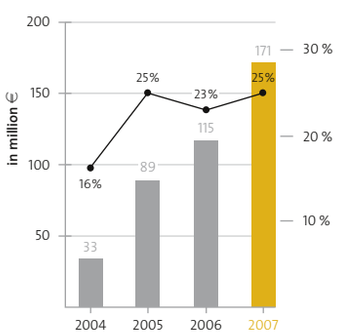
SolarWorld Group sales



The following comments therefore refer only to the sales and earnings development of the **SolarWorld** Group corrected for GPV (continued operations).

Group sales from the continued operations increased in the 2007 fiscal year by 180.4 million € (plus 35.4 per cent) to 689.6 (previous year: 509.1) million €. The largest sales growth of 42.3 per cent or 155 million € was provided in the fiscal year just ended by the Trading segment. Sales growth in this segment was favored by the continuous expansion of the production capacities along the entire value chain as well as the full integration of the companies acquired in 2006. In addition, we were able to utilize extra sales potential as a result of the clearly higher module availability from our own production and from the purchase of OEM (Original Equipment Manufacturing) products in the fourth quarter. The external sales revenues in the Wafer segment could be increased by 13.6 per cent or 17 million € in parallel to the substantially enhanced supply to our internal cell production. External cell sales rose by 9 million € to a total of 27 million €.

EBIT and EBIT margin (adjusted)



The group-wide share of foreign business amounted to 49 (previous year: 42) per cent.

Earnings before interest, tax, depreciation and amortization (EBITDA) grew by 9.7 per cent to 240.9 (previous year: 219.5) million € while the result before interest and tax (EBIT) rose by 12.0 per cent to 198.9 (previous year: 177.6) million €. The group result declined versus the previous year by 13.3 per cent to 113.3 (previous year: 130.6) million €.

These results are influenced by the losses in the US companies made up primarily of the scheduled start-up and reconstruction costs. In addition, there were positive special income items, consisiting of subsidies for the restructuring of the US activities amounting to 27.6 million € that have completely compensated for these losses. For a better assessment of the operating business of the **SolarWorld** Group it is recommended to adjust the statement of the operating results of the year 2007 for these special income items (27.6 million €). With regard to the adjusted figures for the previous year you are referred to the 2006 Group Management Report.

The result before interest and tax (EBIT) adjusted for special effects increased over the previous year by 48.6 per cent to 171.3 (previous year: 115.3) million €. The margin calculated on the basis of the adjusted EBIT improved from 22.6 per cent in the previous year to 24.8 per cent in the current fiscal year.

The adjusted group profit could be increased over the previous year by 33.7 per cent to 97.3 (previous year: 72.8) million €.

Order development

Due to the early decision in favor of a consistent expansion of the production capacities in the wafer field we could not only secure the supply of our downstream production stages but also further expand the external wafer business by way of the conclusion of well-paid long-term contracts. The order volume of these contracts running until 2018 at the latest amounted to a total of 5.4 billion € at the end of the year. The foreign share of the delivery volume continues to be about 90 per cent.

In the Trading business with modules and kits we could already contractually fix the sales volumes planned for the domestic and the European export business in the fiscal year under review. In the rapidly growing markets of Asia and the USA we are expecting to almost double the sales volumes in comparison with 2007. A contribution to the sales growth in Asia will be made by the establishment of a solar park in South Korea. The contract concluded with Gochang SolarPark Co. Ltd. envisages the creation of a solar park with a total output of 15 MW until September 2008.

Development of major P&L items

The rate of material expenditure has been reduced versus the previous year by 6.4 percentage points to 49.6 (previous year: 56.0) per cent.

Personnel expenses went up by 20 million € to 75.0 million €. This development is attributable to the significant number of new recruitments in the course of corporate growth and the full first-time integration of the companies acquired in the previous year. The rate of personnel expenses in the year under review reached 11.2 (previous year: 10.2) per cent.

After an adjustment for special effects in the previous year (13.0 million €) scheduled depreciations increased by 45.4 per cent to a total of 42.1 million € due to acquisitions and as a consequence of investments in the expansion of our production capacities.

Regional distribution of delivery volumes in the external wafer business

	delivery volumes in %
Asia	43
Europe	39
Germany	10
America	8

Other operating expenses increased by 35.0 per cent to 80.1 million € in the course of corporate growth as well as due to the full-year integration of the locations acquired in the previous year.

Other operating income amounted to 57.3 (previous year: 96.2) million € of which 27.6 million € is accounted for by expenditure subsidies agreed upon in conjunction with the acquisition made in 2006.

The financial result amounts to -23.0 (previous year: 1.3) million € of which -1.8 million € is accounted for by the shareholdings valued at equity. The financial result is significantly influenced by the borrowed capital raised in the fiscal year under review.

Multi-period overview of the earnings situation

in k€

	1-12.2003	1-12.2004	1-12.2005	1-12.2006	1-12.2007
Sales revenues	98,477	199,933	355,971	515,246	698,818
Sales revenues from continued operations				509,139	689,588
Changes in inventories of finished goods	26,198	-14,658	12,387	30,916	-17,670
Own work capitalized	0	0	3,359	590	542
Other operating income	10,332	10,616	14,856	96,185	57,253
Operating performance	**135,007**	**195,891**	**386,573**	**636,830**	**729,713**
Cost of materials	-87,992	-93,005	-210,902	-302,988	-333,654
Personnel expenses	-18,638	-30,833	-37,780	-54,958	-75,004
Depreciation and amortization	-14,828	-16,456	-19,687	-41,954	-42,054
Other operating expenses	-16,651	-22,706	-29,590	-59,351	-80,129
Sub-total	-138,109	-163,000	-297,959	-459,251	-530,841
Operating result	**-3,102**	**32,891**	**88,614**	**177,579**	**198,872**
Net financial income	-6,174	-4,356	-4,850	1,285	-22,962
Taxes on income	3,863	-10,421	-31,782	-49,811	-65,027
Result after tax of discountinued operations				1,513	2,373
Consolidated annual profit/loss	**-5,413**	**18,114**	**51,982**	**130,566**	**113,256**
Indicators					
Return on sales Consolidated annual profit or loss/Sales	-5.5%	9.1%	14.6%	25.3%	16.2%
Rate of material expenses Cost of materials/Sales from continued operations plus changes in inventory and own work capitalized	70.6%	50.2%	56.7%	56.0%	49.6%
Rate of personnel expenses Personnel expenses/Sales from continued operations plus changes in inventory and own work capitalized	14.9%	16.6%	10.2%	10.2%	11.2%

Financial situation

Principles and objectives of financial management

The objective of our financial management is to give the **SolarWorld** Group the necessary financial flexibility so as to be able to push ahead corporate growth and internationalization, promote the further development of products as well as to continue our shareholder-oriented dividend policy. In this context, securing liquidity, limiting financial risks as well as optimizing our capital costs through an adequate capital structure are very much in the foreground. The design of our financial activities is geared both to our corporate strategy and to the requirements of the operating business. We are striving for a stable equity ratio of 50 per cent. In the process we intend to satisfy a major portion of our financial requirements from our operating cash flow and, over and above this, to make use of a diversity of financing tools to raise outside capital depending on the market situation and the order of magnitude of the loan.

Financing analysis

The equity capital was 691.5 million € and thus by 94.2 million € higher than at the balance sheet cut-off date at the end of 2006. The equity ratio amounts to 40.6 per cent. Financial liabilities amounted to 641.2 million € as at 31 December 2007 with the non-current share amounting to 97 per cent. The share of financial liabilities in the balance sheet total was 37.6 per cent as at 31 December 2007.

In 2007 we mainly raised outside capital by floating note loans with maturities between 7 and 12 years to international investors in Germany and abroad. In the process we raised financial funds totaling some 522 million € in 2007 for the financing of our continued corporate expansion. Additionally, we withdrew a total of 35 million € from existing project financing for the capacity expansion of Deutsche Solar AG and to secure the raw supply to the silicon production of our Joint Venture JSSI as scheduled. This was juxtaposed by a payback volume of mainly project loans and short-term credits amounting to 71.9 million €.

Other financing sources were public investment grants and subsidies for the expansion of our production capacities.

These funds are carried under long-term debts and amounted to 54.9 (previous year: 57.1) million € at the balance sheet cut-off date. They will be dissolved affecting net income over the period of utilization of the capital goods subsidized in this way.

In the fiscal year now ended a major portion of the financial requirements could be satisfied from the operating cash flow. The cash flow from ongoing business activities amounted to 244.0 (previous year: -94.1) million €. This includes cash-in items from the restructuring of securities held for trading purposes amounting to 82.5 million €. The positive cash flow from ongoing business activities is primarily attributable to the high operating result. The rise in Working Capital and thus in tied-up capital was disproportionately low in comparison with the growth in business volume.

The cash flow from investment activities amounted to -622.3 (previous year: -109.5) million € and is being influenced not only by cash-out items for the acquisition of fixed tangible assets of -117.8 million € but also by payment flows from the investment of financial funds amounting to -517.4 million €. The investment of the liquid funds is a short- and medium-term investment in the context of earnings-optimized liquidity management.

The cash flow from financing activities amounting to 451.3 (previous year: 303.1) million € was characterized by a comprehensive intake of outside funds in the year under review. The cash-in from the intake of outside capital significantly exceeded the cash-out from credit pay-backs amounting to -71.9 million € and the increased interest payments of -25.3 million €. Over and above this the cash flow from financing activities is influenced by the dividend distribution of 11.2 (previous year: 7.0) million € which was 60 per cent higher than in the previous year.

Importance of off-balance sheet financing instruments to the financial situation
Off-balance sheet financing instruments were not used in the financing of the group.

Investment analysis
The investments in intangible assets and fixed tangible assets add up group-wide to 115.2 (previous year: 106.0) million € in 2007. The rate of investment expressed as the ratio of investment expenditure to depreciations amounts to 274 per cent. Of these, 30.3 million € are accounted for by the acquisition of the silicon wafer production site in Hillsboro/USA which was built by the Japanese Komatsu Group. Other priorities of our investment activities in 2007 were the construction of the production facilities in Hillsboro and the further capacity expansion of wafer production at Deutsche Solar AG in Freiberg. A total of 12.2 million € was invested into the enhancement of module production. Special mention needs to be made in this context of the expansion of module production at the Camarillo/USA location with an initial capacity of 100 MW.

The investments in equity shareholdings in Joint Solar Silicon GmbH & Co. KG, Scheuten **SolarWorld** Solicium GmbH and RGS Development B.V. added up to a total of 4.3 million € in the year 2007.

Liquidity analysis
As a result of the financing measures performed in the year under review as well as the continuously positive cash flow we have a sound liquidity situation. At the balance sheet cut-off date the free liquidity (i.e. liquid funds and other financial assets) amounted to 792.9 (previous year: 303.2) million €.

Multi-period overview of the financial situation

in T€

	31.12.2003	31.12.2004	31.12.2005	31.12.2006	31.12.2007
Consolidated annual profit/loss	-5,413	18,114	51,982	130,566	113,256
Liabilities (current and non-current)	167,299	151,801	229,523	407,089	1,012,920
Equity	107,543	124,488	217,056	597,321	691,546
Total assets	**274,842**	**276,289**	**446,579**	**1,004,410**	**1,704,466**
Indicators					
Return on equity Consolidated annual profit or loss/Equity	-5.0%	14.6%	23.9%	21.9%	16.4%
ROCE (cut-off date) EBIT/Capital employed*	-1.6%	19.1%	49.4%	38.4%	36.5%
Cash ratio Liquid funds plus other financial assets/ Current liabilities	0.3	0.5	1.4	2.3	7.0
Quick ratio Liquid funds plus short term available funds/ Current liabilities	0.6	0.7	1.7	3.0	8.1
Current ratio Current assets/Current liabilities	1.4	1.5	2.7	4.8	11.3

* Intangible assets and property, plant and equipment less accrued investment grants plus net current assets less short-term net liquidity

Asset situation

Asset structure analysis

In the course of group-wide growth and the raising of substantial outside capital funds the balance sheet total increased by 69.7 per cent to 1,704.5 (previous year: 1,004.4) million €. The increase in non-current assets by 60.2 to 422.7 million € is attributable to the increase in tangible fixed assets in the context of the expansion investments. The current assets amount to 1,270.0 million € and therefore exceed the comparative figure as at 31 December 2006 by 628.1 million €. A major portion of the increase is due to the influx of liquid funds received in the course of the financing measures conducted.

The assets of activities not continued are reported as a total under the position "Assets classified as held for sales" and amount to 11.1 million € as at 31 December 2007. This amount is juxtaposed to debts of non-continued activities amounting to a total of 3.3 million €.

The Working Capital, defined as the sum of inventories including prepayments made and receivables minus liabilities from the operating business and down payments received, rose underproportionately to the growth in sales by 40.7 to 260.8 million €. While the trade receivables increased because of the very high sales volume in the last quarter by 40.9 to 112.9 million € inventories of merchandise, semi-finished and finished products could be reduced by -27.2 million € versus the previous year in spite of a substantial growth in the business volume. The financing requirements for the down payments to be made in the context of the raw materials hedging measures could – also in 2007 – be reduced mainly as a result of the parallel conclusion of long-term wafer delivery contracts and the matching customer down payments.

The completed down payments reported within inventories amount to 246.6 (previous year: 107.6) million € as at 31 December 2007 of which 50 million € are accounted for by down payments made to Evonik Degussa GmbH for the silane supply to the silicon production facility of the jointly operated Joint Venture, Joint Solar Silicon GmbH & Co. KG. The down payments received which result from the conclusion of long-term wafer supply contracts add up to 169.8 (previous year: 62.0) million € at the balance sheet cut-off date.

Off-balance sheet assets

As at the balance sheet cut-off date our group of companies did not own any assets that were not visible on the balance sheet.

Importance of off-balance sheet financing instruments to the asset situation

Off-balance sheet financing instruments do not have any influence on the asset situation of our group.

Other intangible assets

We significantly generate procedural advantages in the current and future business of the company through our integrated Research & Development work at all levels of the solar value chain. At this point we refer you to the relevant sections of our group management report.

Research and development; Future products and services
74, 100

The expansion of value-containing customer relations is part of our sales strategy. Our increased group-wide sales are an indication of our stable and growing customer relations. In view of our increased brand awareness the brand value of **SolarWorld** AG has appreciated in value in 2007. We strengthen our capital market contacts through a transparent and strategically understandable Equity Story and a strong capital market development. Against this backdrop we consider our international investor contacts to be sound.

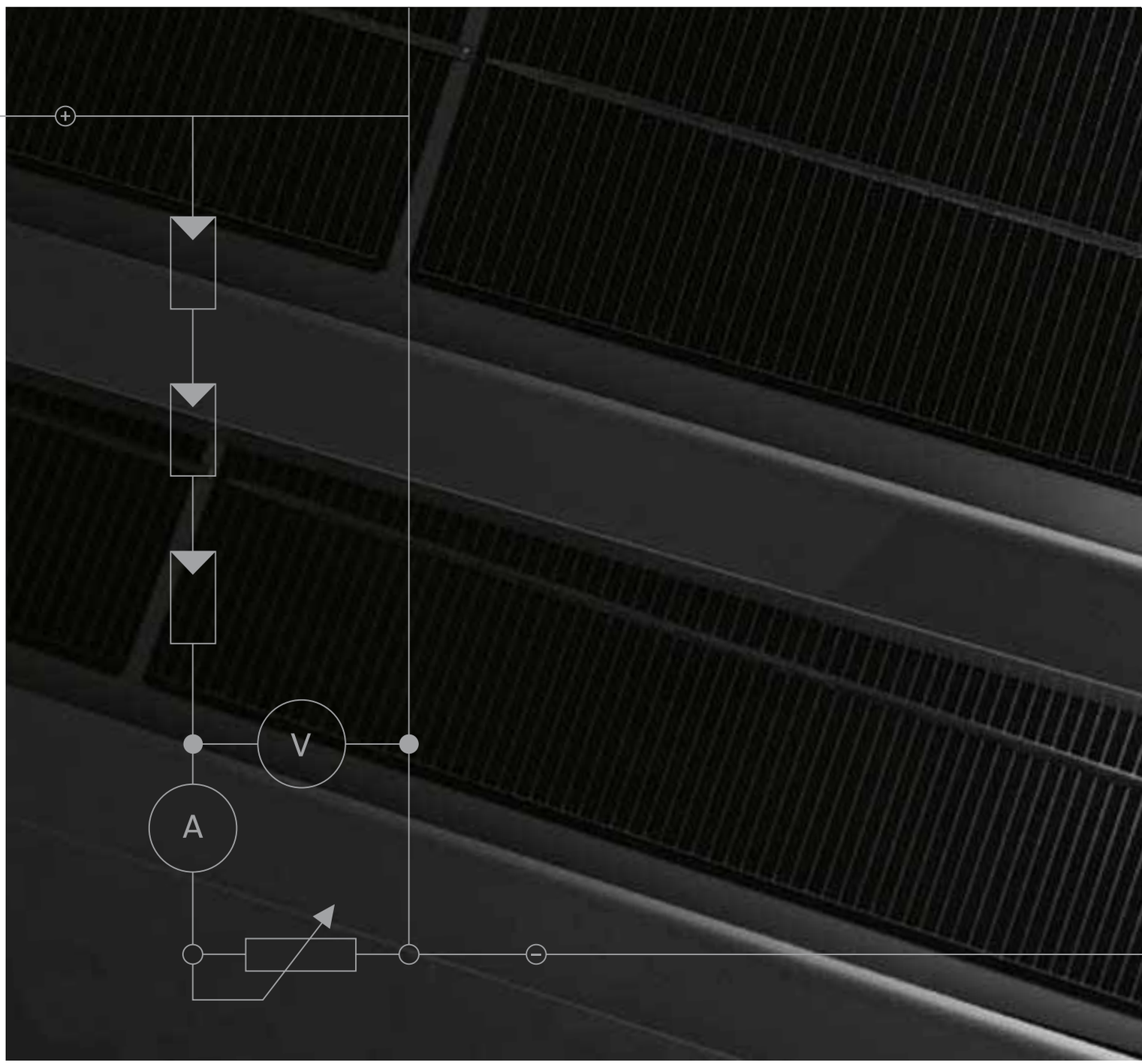
Brand awareness
47

International capital market communication
54

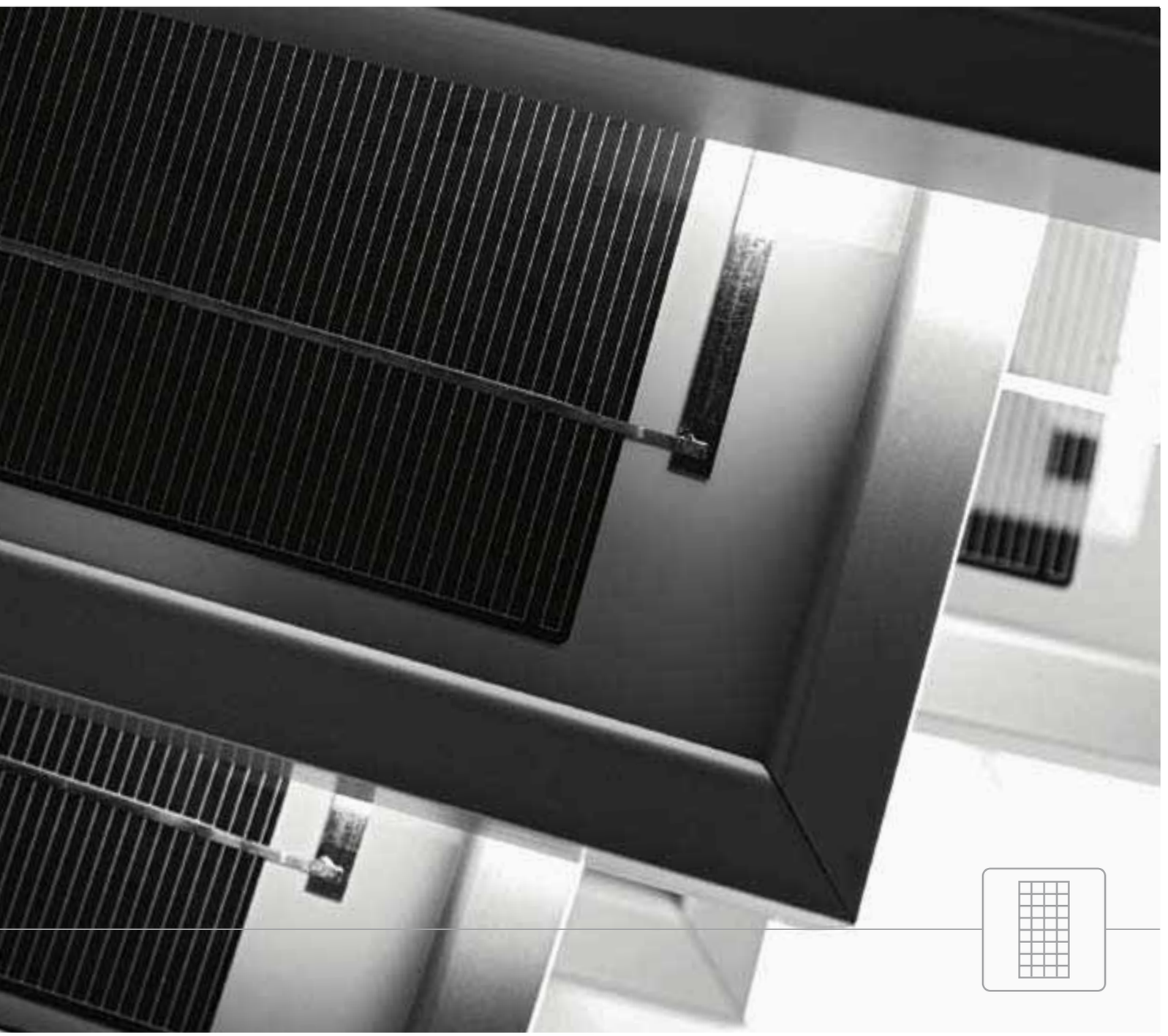
Multi-period overview of the asset situation

in k€

	31.12.2003	31.12.2004	31.12.2005	31.12.2006	31.12.2007
Assets					
Non-current assets	174,232	184,955	219,776	362,514	422,725
Current assets	100,610	91,334	226,803	641,896	1,281,741
Total assets	**274,842**	**276,289**	**446,579**	**1,004,410**	**1,704,466**
Capital					
Equity	107,543	124,488	217,056	597,321	691,546
Non-current liabilities	94,033	91,984	144,284	273,722	899,266
Current liabilities	73,266	59,817	85,239	133,367	113,654
Total capital	**274,842**	**276,289**	**446,579**	**1,004,410**	**1,704,466**
Indicators					
Equity ratio Equity/Total assets	39.1%	45.1%	48.6%	59.5%	40.6%
Investment intensity Non-current assets/Total assets	63.4%	66.9%	49.2%	36.1%	24.8%
1st Degree investment cover Equity/Non-current assets	0.6	0.7	1.0	1.6	1.6
2nd Degree investment cover Equity + non-current liabilities/ Non-current assets	1.2	1.2	1.6	2.4	3.8



As part of a solar power system solar modules generate electrical energy from sun light. They consist of solar cells that are linked up to cell chains. The cell chains are combined into a matrix and embedded into a protective sandwich of glass and film.



IV. EMPLOYEES

2.8, LA1

Increase in headcount. The global **SolarWorld** headcount rose by 10 per cent year-on-year in 2007. As at 31 December 2007, the group employed 1,486 (previous year: 1,348) employees.* Including temporary workers, flexibly used to cover production ramp-up and production peaks, the group employed 2,018 (previous year: 1,596) employees as at the cut-off date. Female employees accounted for 23.2 (previous year: 24.6) per cent of the workforce. We had to increase our workforce in particular at the Freiberg production site due to the expansion of capacity, as well as in our international sales team.

Group workforce as at 31 December 2007

	Employees as at 31 Dec. 2007	Employees as at 31 Dec. 2006	+/- absolute
Germany	1,000*	849	+151
USA	400	415	-15
Rest of World	86	84	+2
Total	**1,486**	**1,348**	**+138**

*incl. 66 trainees

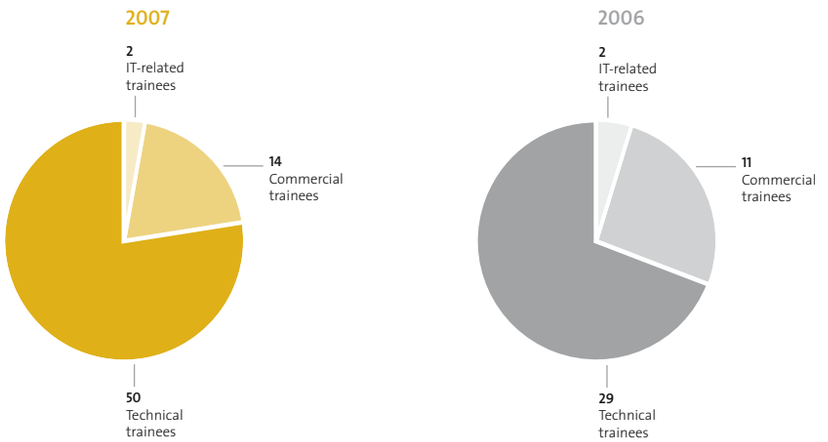
Training qualifications. As before, we offered vocational training to 66 (previous year: 42) young people in 2007 at group level. The training ratio in Germany stood at 7 (previous year: 5) per cent. In addition we offered 5 young people the opportunity of going through a practice-oriented sandwich course combining on-the-job training in the company with learning at a higher education establishment. These programs were complemented by practical terms, dissertations and PhDs. One of the reasons for our commitment to this type of cooperation schemes is to ensure a supply of qualified junior staff for the future.

Trainees at the German locations

	Number of trainees as at 31 Dec. 2007	Number of trainees as at 31 Dec. 2006	+/- absolute	Vocational training schemes completed in 2007	New trainees in 2007
Bonn	15	12	+3	3	6
Freiberg	51	30	+21	3	26
Total	**66**	**42**	**+24**	**6***	**32**

*of which 6 taken on with permanent employment

Training structure



We offer our trainees the opportunity of engaging in sustainability and energy efficiency programs complementing their training courses. In cooperation with trainees from other sectors, our trainees have for instance developed ideas and plans for improvements in energy utilization in the framework of the model project "Trainees full of energy",* sponsored by the BMU, since the end of 2007. They identify energy saving opportunities for the respective vocational training school and the training plant, focusing in particular on the economic benefit of "cost savings due to energy efficiency". The results on active climate protection at the place of work prepared by the trainees are included in the list of measures for environmental management.

1.2

Sustainable personnel development and recruiting. In view of the bottleneck in terms of skilled staff and the growing market requirements caused by globalization, competition and innovation, our focus is on the selective skills improvement of our employees for future tasks and positions. This enables us to train highly motivated and competent internal junior staff. This is an approach that we even pursue with our trainees: the proportion of trainees taken on with employment contracts was 100 (previous year: 84) per cent in 2007.

The individual development requirements of each and every staff member are determined at annual employee review dialogue sessions. We have established the proper implementation of such review sessions as one of our group-wide quality management goals.

The functional and personal development of the employee constitutes an important motivation and identification factor vis-à-vis **SolarWorld** as the employer. It creates individual future perspectives and links the business unit targets with the overarching corporate targets.

The qualification programs included in 2007 a large number of technical and non-specialized seminars as well as management training schemes. We also continued to give priority to foreign language training schemes to facilitate inter-cultural communication. Direct costs for vocational and further training schemes amounted to 566 (previous year: 402) thousand € at group level, growing disproportionately in relation to the increase in our workforce.• LA10

In order to recruit external staff, we increasingly use industry trade fairs, alongside the traditional channels, establish personal contacts with potential candidates and engage in active marketing activities at universities, efforts that we stepped up again in 2007. Intensive dialogue with professors in electro-technical, mechanical engineering, process engineering, physical and chemical faculties, i.e. the disciplines we are targeting, is as important as an active exchange with potential employees at job and university exchange forums. Our university marketing policy also includes a strong presence in trade and university media as well as practical placements, dissertations and PhDs. Specific sponsoring activities like the development of the solar-driven racing car "**SolarWorld** No.1" at the Bochum University of Applied Sciences or the annual presentation of the **SolarWorld** Einstein Junior Awards serve among other things to recruit young engineers.•• www.solarworldno1.com; www.einstein-award.de

Research and development 74

Profit-sharing policy as an element of our corporate policy. Our employees were again given a share in our business success in 2007 within the framework of the GOMAB program. For fiscal year 2007 this part of the remuneration accounts for 10.9 (previous year: 8.1) million €. So, in 2007 our employees again participated in our business success. By way of this profit sharing model we strengthen the identification of the individual with the objectives of the group. At the locations in Germany the employees benefit from the employee profit sharing program (GOMAB) by receiving – in addition to their salary – a performance-related bonus payment which depending on the performance of the group or the relevant subsidiary may range between 10 and 30 per cent of the annual salary. The group-related performance indicators are the EBT return and the return on equity before tax. GOMAB is covered by the Company Collective Agreement of the Freiberg-based companies and replaces other parts of the Agreement. Since the inception of this scheme, our Freiberg-based employees have earned more than the rates agreed in collective bargaining for eastern Germany, receiving wages and salaries accounting for western German levels. Our employees at other sites fall under individual target and bonus agreements. In addition, we offer a company pension scheme (BAV) and capital-forming benefits with full employer's contribution.• EC3

Health and safety as part of our group-wide quality management. As before, regular health and safety checks and training schemes were conducted throughout the group in 2007 in order to promote health and safety. All companies have their own Safety Officers. In addition, the manufacturing companies have special Safety Engineers. Direct health and safety costs totaled 1.81 (previous year: 1.34) million € in 2007.

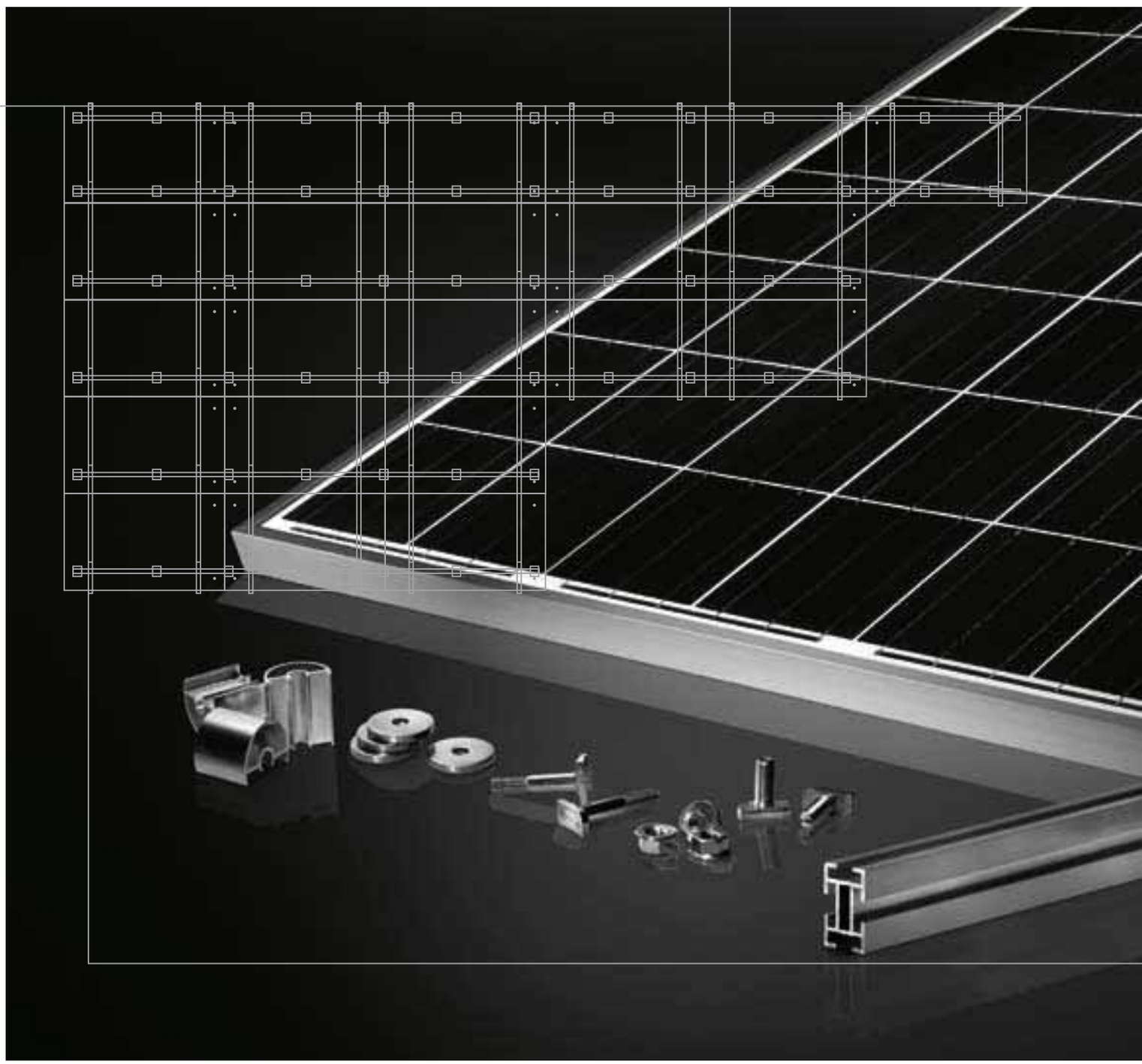
Corporate culture. Our mature corporate culture is one of our core competences. It is characterized by openness, flexibility and trust. Our principle "Trust comes from confidence" stands for cooperative leadership, characterized by autonomous action by our employees. Thanks to flat hierarchies, our decision-making paths are short, our employees receive direct feedback, and good ideas can be implemented swiftly. Innovative working hour models facilitate for instance individual solutions to allow our staff to reach a work-life balance (e.g. part-time, home office).

In order to anchor this corporate culture within our group, we further developed our Code of Conduct in 2007.* These fundamental rules and recommendations are directed to our employees. The Code will be published on our website during the current fiscal year 2008. We are aware that it will not suffice, in particular in a fast-growing company, to adopt a code of conduct without defining specific promotion measures. In order to further strengthen the corporate culture between the employees of different locations, different cultures and different seniorities we will include the way we handle our guidelines in our training offer in 2008, for example in our executive training.

4.8, 4.9, 5, LA13, HR6, HR7, PR6

High employee identification. By means of the measures listed above, we intend to promote the identification of our employees with **SolarWorld**. Staff turnover and absenteeism may be taken as indicators for successful implementation. Employee retention is very high in our group. At our German locations employee fluctuation was very low at 1.8 (previous year: 3.5/National average in Germany: 25) per cent. Group-wide the fluctuation rate amounted to 7 per cent. The absenteeism rate in German was 3.1 (previous year: 3.2/National German average 3.3) per cent.*

LA2, LA7



Construction kit | Rack plan of a solar system

Solar power systems are pre-assembled according to the wishes of the customer and supplied in the form of a module kit. Unusual design ideas and special technical requests can be realized by way of special constructions.


Sunny Boy

V. RESEARCH AND DEVELOPMENT (R&D)

Our technology development policy is based on an understanding of the mechanisms acting on the whole of the production and value chain. For example, the characterization of our photovoltaic cells and the technological understanding helps us to achieve continuous improvements in circuitry, performance quality and thus customer benefits with our branded product Sunmodule® Plus.

Scope of consolidated financial statements and legal structure 115

Organization. We re-structured our organization in 2007 with the establishment of **SolarWorld** Innovations GmbH, based in Freiberg.

This will be in future the center for global networking of our research activities and the use of synergies from group-wide technology know-how. The newly founded company has been defined by the Executive Board as the "international platform for technology and human resources development".

Future use of new processes 100

A special focus will in future be on process and system development and evaluation at the pilot-plant level, close to production conditions. The machines and processes will be subjected to comprehensive testing at the development stage before they are transferred to production, ensuring consistently high quality standards and efficient processes throughout the group. We will achieve further cost savings in production thanks to tested automation solutions and process variants, and by statistically demonstrated optimization of fuels and auxiliary materials. This core know-how cannot be acquired from institutes or supplier companies, and that gives our company a competitive edge.

Above and beyond this **SolarWorld** Innovations considers it one of its tasks to recruit expert staff and to enhance R&D know-how in a competitive manner. In 2008 the **SolarWorld** Innovations infrastructure will be expanded to include additional test laboratories to support quality assurance, new development laboratories, two technical laboratories for process and plant development and evaluation, a central patent and literature administration as well as a central project management also for group-wide coordination of publicly funded development ventures.

We also expanded our design department at our international distribution base in Bonn/Germany in 2007, increasing the staff and facilities for further development of our system and frame technology. Enhancement of our product and systems competence is an important strategic goal for future differentiation in competition and for increasing value in the trading business.

Strategy 31

Research and development approach going beyond focus on value added*

1.2

Strategic raw materials activities
44

Silicon	Wafer	Cell	Module
Development of new silicon raw material sources	**Increasing productivity from the economic and environmental viewpoints Further development of product quality**		
- Sunicon AG - Recycling - ...	>> Ingot production Shortening the crystallization process Re-usable moulds >> Wire sawing process Reduzierung des Reduction of sawing waste (kerf loss) Reduction of wafer thickness >> ...	>> Cell process Further development of production technology to increase cell efficiency 3-busbar technology >> ...	>> Module process Weiterentwicklung Further development of automation process Mechanical, electrical, climatic test methods for long-term stability of solar modules (e.g. module glass, film coating) >> Systems engineering Product development in systems and frame engineering >> ...

* Our descriptions of research and development are restricted to a few selected projects, because these are sensitive subjects in terms of competitiveness.

We made major progress in 2007 in our **overriding development focus areas**, which overlap in individual projects:

> **Quality leadership:** We constantly enhance our understanding of the causes and effects by analysis of the overall value chain. Detailed analysis of quality characteristics is vital for improving quality.

Selected development projects 2007	Goals achieved in 2007 (versus previous year)	Future performance potential/ Market opportunities (competitive advantage)	Production/ Market launch
Measurement process to determine physical wafer properties and electric sorting of wafers in production process	Pre-production phase of process	Process and cost optimization by yield improvement. Increase in productivity of subsequent cell process (internally and with our wafer customers). Securing high quality standard (electrical wafer properties). Optimization of process interface for recycling of rejected wafers.	2008 exemplary product launch. Group-wide changeover, step-by-step from 2009+.
Surface coating module glass	Long-term testing of anti-stick coating	Improvement in radiation collection by reduction of environmental pollution. Improved customer benefit by improved power yield per Wp.	2008 Continuation of long-term test/measurement field test. Cost-benefit analysis.
Tracker systems (Tracker/brand Suntrac®)	Manufacture of the prototype	Entry to an important market segment via a product with a clear competitive benefit/ Customer benefit from higher yield/Wp (Linking two commercially standards control systems – sensors and astronomic control/new snow sensor measurement system).	2008 test phase followed by market launch.

> **Productivity increase:** Numerous group-wide research projects are being conducted with the goal of advancing the cost reduction in manufacture. In this way we are counteracting the reduction in statutory remuneration for grid feed-in, and making photovoltaic power competitive in the mid-term:*

Competitiveness in the near future
106

Selected development projects 2007	Goals achieved in 2007 (versus previous year)	Future performance potential/ Market opportunities (competitive advantage)	Production/ Market launch
Reduction of kerf loss in wafer production*	Test phase for use of thinner wires in sawing process	Reduction of material loss in sawing by up to 20%. Cost-saving potentials by better yield from material.	2008 planned product introduction of first partial results.
Reduction in wafer thickness	Development of appropriate manufacturing processes for reduction to 180µm (at present: 210µm and subsequently to 150µm).	Reduction of total material input per wafer at 180µm by about 7%.	2008+ Adaptation of processes in cell and module production. Gradual production launch, in keeping with technological adaptations of customers doing further processing.
RGS technology (Ribbon Growth on Substrate)/ alternative wafer technology**	Setting up pilot plant for production on pre-industrial scale	Raw material saving wafer production process (extrusion instead of block crystallization with sawing process). Minimizing material loss. Cost-efficient wafer technology with high productivity (reduction of specific costs). Alternative to high-efficiency approach of conventional crystalline wafer technology.	2008 start pilot plant 2009+ planned production launch

* Funded by the BMU
** Interest holding*

Scope of consolidated financial statements and legal structure
115

> **Securing raw materials:** The key strategic issue of silicon supply is the focus of Sunicon AG and the SolarMaterial division.* In parallel with that, we are reducing specific raw material input, by means of the research projects for improvement of material efficiency as indicated above.

Strategic raw materials activities
44

> **Eco-efficiency:** One of the major goals of our business is to manufacture solar facilities in an environmentally acceptable manner. We defined reduction goals for energy and water consumption and for production-related CO_2 emissions and waste volume at the end of 2007 in our environmental management for 2008.

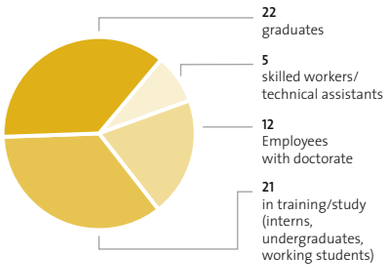
4.12

Selected development projects 2007	Goals achieved in 2007 (versus previous year)	Future performance potential/ Market opportunities (competitive advantage)	Production/ Market launch
ÖkoProfit*®	Research into technological relations in the crystalline cell process, to increase eco-efficiency and product quality. Optimization of overall process. Implementation of an automated inspection system.	Increase in yield by reduction in scrap. Increase in efficiency (cell efficiency). Optimal use of consumables (e.g. by optimization of cleaning processes).	2007 Production launch at Deutsche Cell GmbH We are taking on a leading role in eco-efficiency in the solar industry with this process.

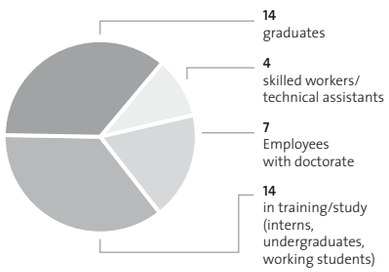
* Funded by the BMU/Cooperation project with our partner in systems planning, M+W Zander Facility Engineering GmbH

Qualification structure

2007



2006



Headcount

Increase in R&D headcount. The number of our R&D staff has increased by 45 per cent. In addition, an average of 92 (previous year: 114) employees were active within the framework of operational trials and process tests. Where necessary, we had recourse to the skills of associated institutes and universities.

	2007	2006	2005	2004	2003
People employed directly in R&D	60	39	24	23	11
Employees in group as a whole	1,486	1,348	759	616	525
Percentage	**4.0 %**	**2.9 %**	**3.2 %**	**3.7 %**	**2.1 %**

Recruitment of highly skilled young employees and senior know-how was conducted to a greater extent through career contact fairs in 2007 and via the traditionally close contacts maintained with research institutes, in particular the Technical University and Mining Academy of Freiberg (TUBA). Activities included internships, degree and doctorate arrangements, the employment of working students, and also lecture series and presentations by specialists from **SolarWorld** AG from the segments wafer and cell.

Cooperation with research establishments

Academic support from universities, institutes and other external specialists will remain a long-term necessity despite increased internal research activities. Cooperation was maintained with a wide range of partners in 2007. That included a range of activities from scientific cooperation with academic institutes to specific work on process development together with suppliers. The focal points of this cooperation are:

> Use of infrastructure and skills not available within the group
> Use of additional resources
> Outsourcing particularly high-risk research and development
> Gaining the services of specialists.

Together with the TUBA and the institutes and facilities of the Fraunhofer Gesellschaft (Institute for Solar Energy Systems (ISE); Institute for Integrated Systems and Component Technology (IISB)), which are grouped in the Freiberg Technology Centre for Semiconductor Materials (THM), we are working for example on a publicly funded project for the development of a wafer technology test rig in order to improve yield.

In Hillsboro/USA we already have good contacts with the UCEP (University Center of Excellence for Photovoltaics), at Georgia Tech/Atlanta, the US institute specializing in wafer-based technology.

Purchase of R&D know-how
There was no significant purchase of know-how in 2007. Within the framework of job orders and cooperation we naturally have access to supplementary know-how from third parties, mainly equipment manufacturers and research facilities.

R&D expenditure
The Research and Development expenditure in our fully consolidated companies rose in 2007 in line with the general growth of the group to 10.8 (previous year: 8.6) million €. This was publicly funded to the tune of 34.3 (previous year: 45.3) per cent.

Additionally, R&D expenditure of 8.7 (previous year: 5.4) million € was incurred within the framework of the research and development activities of our Joint Ventures.

Research rate/Research intensity
Our group-wide research rate including our Joint Ventures in the year 2007 amounted to 2.8 (previous year: 2.4) per cent.

Research rate = R&D expenditure/ Sales x 100

Our group-wide research intensity including our Joint Ventures in the year 2007 amounted to 3.7 (previous year: 2.9) per cent.*

Research intensity = R&D expenditure/ Total expenditure x 100

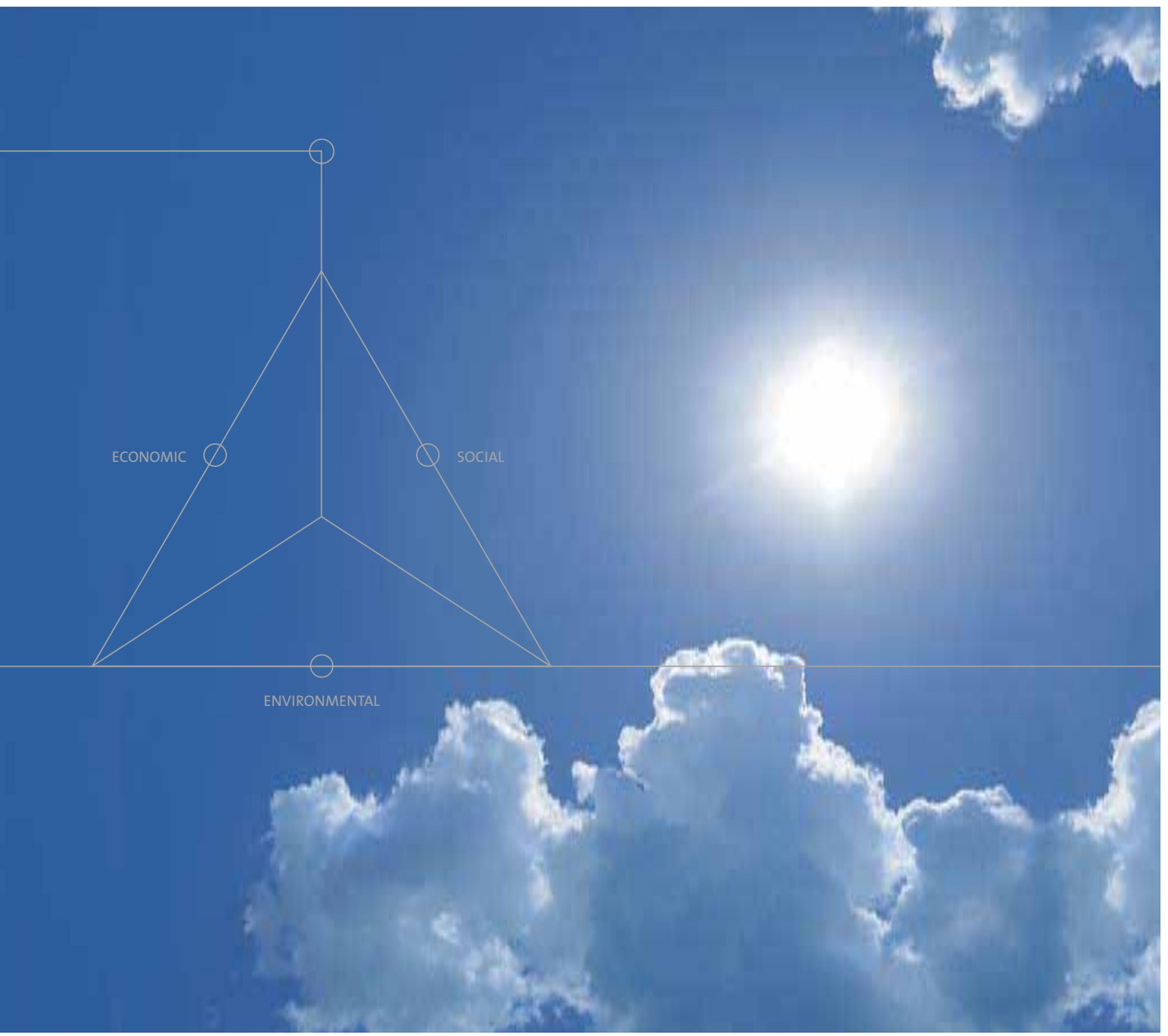
Intellectual property rights
In 2007 a total of 12 inventions were registered. The group is in the possession of 85 (previous year: 75) industrial property rights families and more than 170 (previous year: 180) industrial property rights and/or registrations. There is a pleasing development in the number of contributions of our employees to the internal company suggestions scheme: In 2007 about 150 such suggestions were submitted at the Freiberg production facility alone (60 in previous year). We earned royalties of 332,000 € from previous research and development work on recording of wafer data and development of module production lines. These results were obtained from joint work where we had released the rights for marketing by our partners.

We have deliberately decided not to prepare a separate sustainability report but rather to comprehensively cover sustainability topics in our management report since this approach meets the integrative character of the subject at stake.

We have applied the international standard for sustainability reporting (Global Reporting Initiative – GRI). In order to facilitate orientation for the readers of our report, we have marked the respective GRI indicators at the margin with following symbol ◉. These as well as all other necessary GRI indicators for a comprehensive sustainability reporting are explained in further detail in the sustainability report annex*. The chapter "Sustainability" provides an in-depth presentation of sustainability and explains its implementation in our company.

◉ Sustainbility report annex (GRI indicators)

Power generation from renewable energies protects the earth's natural resources.
In this way the environment is also preserved for future generations.


ECONOMIC
SOCIAL
ENVIRONMENTAL

VI. SUSTAINABILITY*

1.1, 1.2, 4.5, 4.8, 4.9, 4.11, 4.15, 5

Integrated control approach. The **SolarWorld** pursues an integrated approach balancing the economic, ecological and social components. A similar control and monitoring approach was developed in 2007 and is highly relevant for the management in view of our international growth. Orientation is provided by focusing on the performance drivers within the company so that decision-making alternatives may be weighed up on a sound basis.

Handling trade-offs. Economic success forms the basis for our freedom of action. If this basic prerequisite were no longer given, **SolarWorld** would no longer be able to commit to promoting ecological and social concerns. The economic component therefore has priority in terms of substance preservation. Goals trade-offs are made transparent by the integrated sustainability management scheme. Ecological processes may for instance initially cause higher costs and therefore run counter to the cost-cutting efforts. In the long run, however, ecological efficiency entails cost benefits since sustainable processes will be used. In the long term, however, eco-efficiency tends to minimize risks and to offer cost advantages as processes viable for the future are relied upon.

4.16

Stakeholder groups.* Our stakeholders are involved in our strategic company management. They include our employees and their social environment, suppliers, customers, investors and shareholders, analysts, other contracting partners, municipalities and communities as well as the public at large.*

Trading; Employees 47, 68

Transparency. Trust between the company and its stakeholders is established by means of open communication. In line with the transparency principle, we again participated in the Carbon Disclosure Project in 2007.* In preparing our annual report, we took the guidelines of the Global Reporting Initiative as a basis.

The SolarWorld Share 52

Climate protection as value added. We systematically record our group-wide greenhouse gas emissions. The continuous improvement in our energy and materials efficiency allows us to improve overall processes on the basis of a holistic approach balancing economic and ecological aspects, e.g. in the framework of the "ÖkoProfit" development process completed in 2007.* Group-wide CO_2 emissions have risen to around 122 (previous year: 41; excluding new locations) thousand tons of CO_2 equivalents in 2007 according to a provisional estimate taking into consideration the increase in production as well as the first-time inclusion of our companies newly acquired in 2006.*

Research and development; Quality and environmental management 74, 49

EN 16

The solar modules we sold in 2007 at the end of the value chain will save the environment a total of some 2.8 (previous year: 1.9/2005: 1.2) million tons CO_2 in the next 25 years. The environmental damage avoided as a result amount to roughly 196 (previous year: 130/2005: 84) million €. If you contrast these avoided CO_2 emissions (over the module life time) of the modules sold in 2007 with the CO_2 emissions caused in fiscal year 2007 the result is a positive CO_2 balance in which the avoided emissions exceed the emissions caused group-wide by a factor of more than 23.

In 2007 our group was again listed worldwide among the "TOP 100 Low-carbon Pioneers" in the renewable energy segment of the CNBC European Business Ranking. The Ranking selects companies whose business models take account of climate change and offer forward-looking solutions in the form of low-carbon technologies.

Social engagement. We contribute to regional development with the use of solar power, in particular through rural solar power solutions. In 2007 we established the master brand Solar2World which pools our non-profit activities. The current focus of these projects is on Africa. In 2007 we installed a non-profit solar-powered TV station in Johannesburg/South Africa, which provides many people with access to modern media information for the first time.

Our company also assumes responsibility for the development of society in general and the social environment of our employees in particular as a corporate citizen, as the example of the restoration of the Freiberg Silbermann organ as a cultural heritage in Saxony/Germany, has shown. In line with our business mission we have supported the planned "Rain Forest" exhibition to take place in the Alexander Koenig Museum in Bonn/Germany in 2008, since 2007 in order to support awareness-raising campaigns for climate protection. In the framework of activities to promote research, we established the **SolarWorld** Foundation Fund for the Freiberg-based Technical University and Mining Academy in early 2007. The Foundation, funded with a six-digit € amount, is available for the chemical and physical faculty.

Responsibilities. SolarWorld is characterized by a high level of management identification with the development of the group. The company has been able to retain many of its original employees and new employees have in many cases decided in favor of **SolarWorld** because of the company's business mission. The Chairman and CEO as the main shareholder stands fully behind the development of the group. This initial situation favors a sustainable basic orientation of the company.

The organization of a company has to allow for sustainability "structure follows strategy". In 2007, the Ethics Council,** chaired by the CEO, was set up to promote ethical and sustainable management. In addition, we created a staff unit for sustainability-related topics, directly reporting to the Executive Board of the company. In order to take account of the integrative nature of sustainability, we are actively involving those responsible at departmental level in the development of our sustainability strategy (top-up process). The interaction between corporate management and specialized departments is to launch comprehensive discussions about sustainability and strengthen acceptance within the company.

For further details of the GRI (Global Reporting Initiative) indicators please refer to the "Sustainability report annex – GRI Indicators".

I

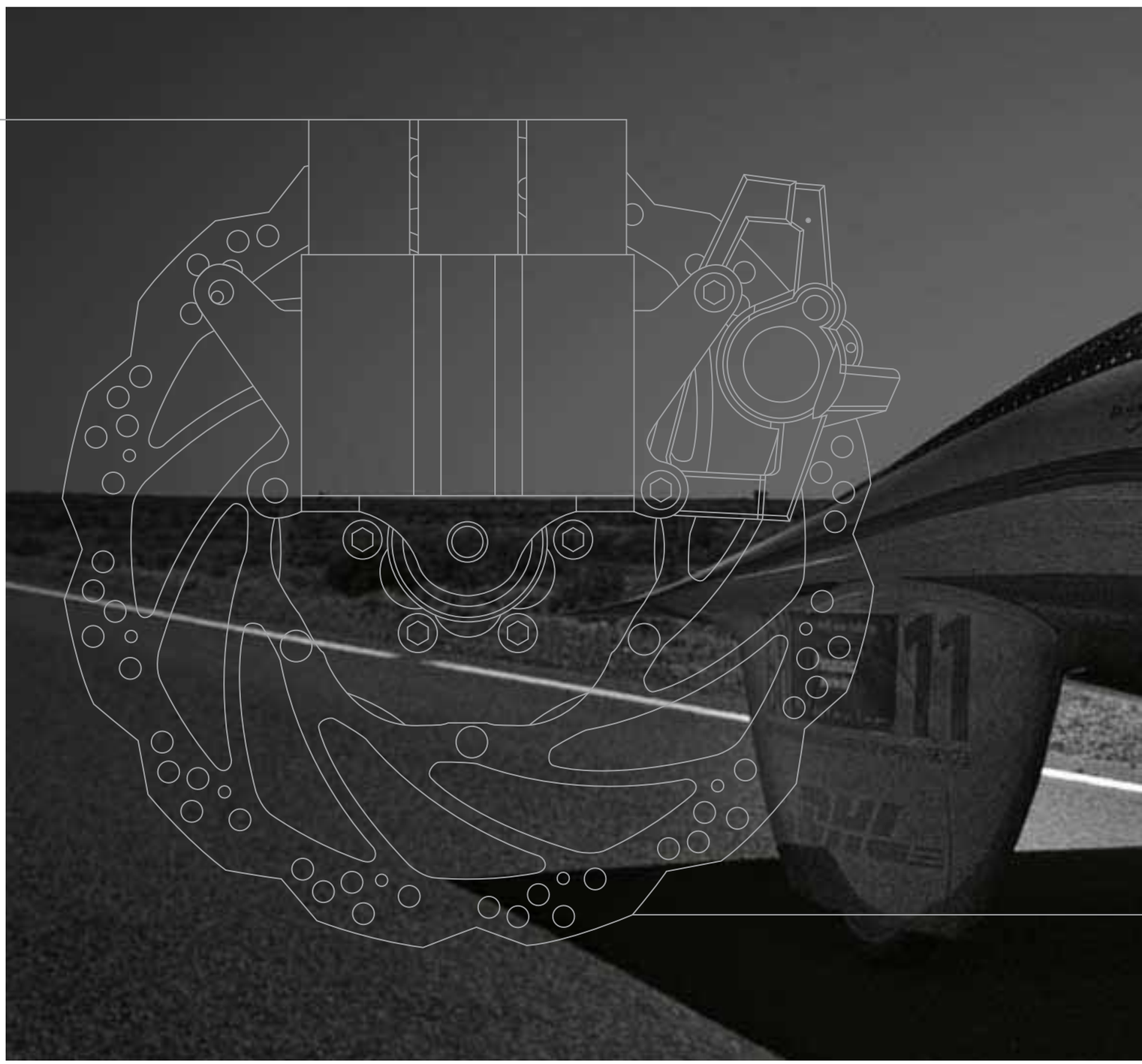
4.8

4.15

www.solarworld.de/sustainability

Management and control
34

4.6



Solar racer | Rear running gear

The efficiency of solar cells is demonstrated in a number of different applications. The solar racer SolarWorld No.1 developed jointly with the University of Bochum combines modern solar power technology with innovative engineering.

VII. SUPPLEMENTARY REPORT

List of transactions of particular importance

Production facility in South Korea to go live in 2009. In early February the management signed a contract with SolarPark Engineering Co. Ltd. from Seoul on the establishment of a module production facility in South Korea. In doing so we are implementing our plans to build up a solar production unit in Asia. The contract was preceded in October 2007 by a Letter of Intent. Part and parcel of the agreement is the foundation of the **SolarWorld** Korea Ltd. Joint Venture in which each party will hold a share of 50 per cent.

Sale of 65 per cent share in our module subsidiary GPV to Borevind AB. The time of sale was 14 January 2008. The purchase price achieved was in the low double digit million € range including selling and supplier rights.

External wafer business expanded. Until February 2008 our group subsidiary Deutsche Solar AG was able to conclude new supply contracts for the delivery of wafers with our solar cell customers in Asia and Europe.

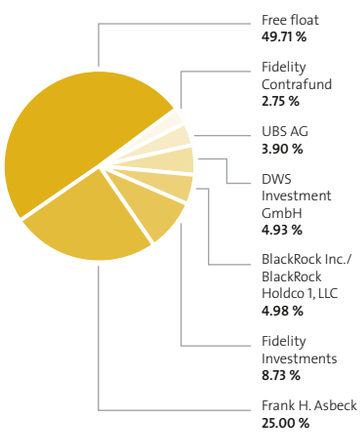
Other long-term raw materials contracts. Also in February 2008 our group subsidiary Deutsche Solar AG concluded a long-term contract for the supply of solar silicon with the Korean silicon producer DC Chemical Co. Ltd. (DCC). From the contractually guaranteed silicon volume it will be possible to produce wafers with a computed total production output of 600 MW.

Successful environmental management certification according to ISO 14001 in Bonn and Freiberg. At the locations of Freiberg (Deutsche Solar AG, Deutsche Cell GmbH, Solar Factory GmbH) and Bonn (SolarWorld AG) the quality management function was enhanced by the addition of an environmental management system. In February of 2008 certification was successfully obtained from an external certification company.

Change of location in South Africa. In February 2008 our sales subsidiary **SolarWorld** Africa (Pty) Ltd. moved from Johannesburg to Cape Town.

Shareholder structure

as of cut-off date 31 January 2008



New shareholder structure. The shareholder structure of **SolarWorld** AG has changed with effect from 31 January 2008.

Modified framework conditions – EU Commission sets standards. A positive impulse for the renewable energy industry has been provided by a Commission proposal – probably the last and final one – published on 15 January 2008 on an EU Directive regarding renewable energies. In it the already announced target of generating 20 per cent of the total EU power consumption from renewable energies by 2020 is to be laid down as a binding commitment. In addition, the targets of individual EU countries were enhanced. Accordingly, Germany would have to cover up to 18 per cent (previously 9 per cent) of its primary energy consumption from renewable energies until 2020. Another positive effect for the industry would be the possibility of granting the member states the right to stop certificate trading between companies if this were to jeopardize reaching their own national environmental targets. In an initially conceived certificate trading system the danger would have existed of limiting the growth of renewable energies had this

option not existed. In this case nationally determined environmental quotas could have been reached purely by way of certificate trading without guaranteeing sustainable investment safety in alternative energy technologies. Experience from other EU countries that operate a quota and certificate trading system to reach environmental targets have shown in the past that in this way neither continuous market growth nor the turning of the energy tide towards cleaner alternative energies can be achieved.

Repercussions of events of special importance

With the construction of the first group-wide module production facility in Asia we are responding to the increasing solar demand in the Asian growth markets. The closeness to the Asian core markets in logistics terms strengthens our international growth strategy. Especially in South Korea an increasing demand for modern solar power technology is being expected. In South Korea alone a market volume of 800 MW (2007: 50 MW) new installed capacity is anticipated. For Japan the market volume expected also amounts to 800 (2007: 230) MW. The production facility will have the most advanced, fully automatic module processes.

With the sale of our Swedish module factory GPV we are supporting our concentration on the solar core markets. Via supplier contracts our group has the possibility of buying modules in the next years.

After the conclusion of new wafer contracts our order books will mount to more than 5.5 billion € by the year 2018. The export share in the group-wide wafer business amounts to more than 90 per cent.

The additional silicon contracts will in the future support our further expansion plans, for example in South Korea for the construction of a module production plant.

The enhanced environmental management system enables us to reduce the environmental impacts of our products and processes by way of a systematic approach and in doing so to improve the environmental performance of **SolarWorld** AG and to integrate it into our corporate strategy.*

Management and control
34

The change of location of our sales office in South Africa will also help, because of the direct link to the sea port, to reduce logistics costs and to cut delivery times from our production sites in Europe and the USA to the customer by up to 4 days. In addition, the local provincial government has taken measures to expand renewable energies with the objective of developing the city into an “excellence center”.

In view of the assurance for the national compensation systems resulting from the Commission proposal to the EU Directive the framework conditions for a steady growth of the renewable energy industry both in Germany and in other EU countries seems to be guaranteed. Within new EU member countries this proposal may generate an impetus for renewable energies.

Overall statement on the economic situation pursuant to reporting time frame

The economic situation of the group is judged by the Management of **SolarWorld** AG to be positive, taking into consideration the earnings, finance and asset situation resulting from the 2007 annual financial statements and reported above as well considering the ongoing business in 2008 at the time of drawing up the group management report. Orders received in the wafer and trading business show the sound continued development of our business. Additional raw materials contracts substantiate our group-wide growth plans.

VIII. RISK REPORT•

1.2, EC2

Opportunity and risk management system•

1.2, 4.9, 4.11

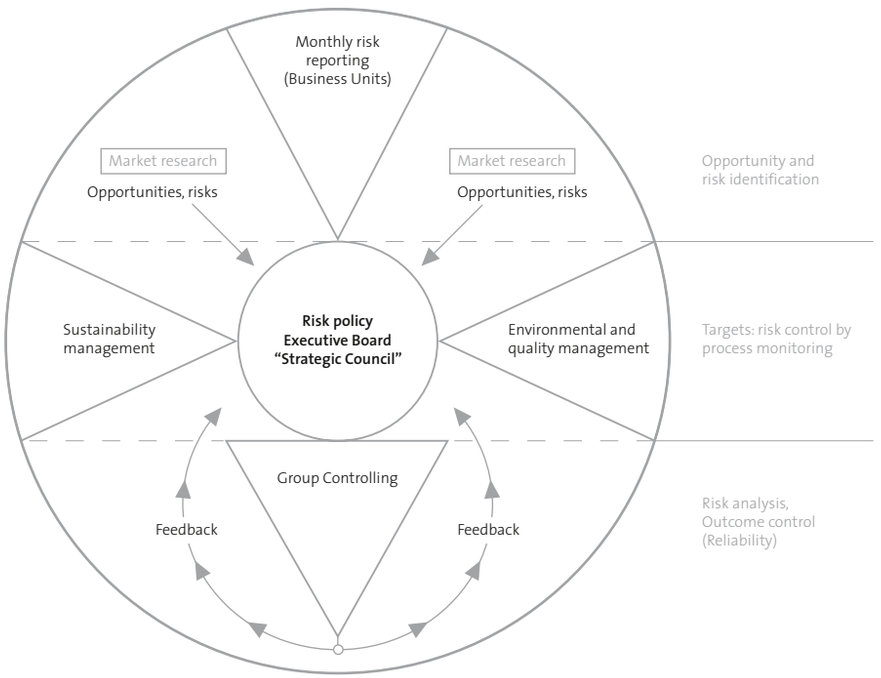
Integrated opportunity and risk management. Our group-wide opportunity and risk management system is an integral part of the structural and procedural organization of our business processes. Risk monitoring is decentralized, with responsibility allocated to the senior executives of the operating companies. A standardized monthly reporting system is in place for reports to the Executive Board, identifying risks and giving an overall picture of the risk situation in a timely and regular manner. The risk management system includes all fully consolidated companies of the **SolarWorld** Group.•· Any risks or opportunities requiring immediate response are communicated to the Executive Board without delay. Our decision making and information paths ensure early response thanks to flat hierarchies. Links are in place with Group Controlling, for assessment of the impact of any risks and opportunities identified on the earnings, financial and asset position of the group. Appropriate measures can be taken to limit risk, for example in the form of allocations to reserves.

Scope of consolidated financial statements and legal structure 115

Based on the corporate strategy, the Executive Board defines the risk policy in line with specified risk guidelines. The highest decision-making bodies are the Executive Board meeting and the "Strategic Council".•· Opportunities and risks are identified by market, trend and competition analyses in the areas of Marketing & Distribution and Investor Relations. They are assessed and reported to the Executive Board. The Board then decides on the basis of the acceptable overall risk which strategically worthwhile risks should be taken, in a controlled manner, in order to take advantage of opportunities. The Board also assesses how far risks can be minimized by appropriate back-up strategies, or transferred to third parties, or avoided completely. Another important body in this area is the Group Committee, which analyzes risks and opportunities on the basis of risk management policy, comprising members of the Executive Board and senior managers of the operating units. The Supervisory Board is also consulted in decisions of fundamental importance. This enables us to take appropriate measures in good time in the event of developments which could endanger the continued existence of the company.

Internal corporate management and control system 34

Opportunity and Risk Management



Regular monitoring, for instance the laws and regulations against insider trading, is effected by a Compliance Officer, backed by integrated legal advice from external experts. Environmental risks are monitored by our environmental management, which was set up in 2007.• There is an overall Group Quality Management system to provide support in risk identification as well as an early warning system, with standardized processes to ensure greater transparency of potential risks. We also include the relevant stakeholder groups in our strategic planning in order to meet the social challenges. For this purpose we set up in 2007 a staff position with responsibility for sustainability management reporting directly to the Executive Board.•

To keep the remaining risks within limits or eliminate them completely, insurance cover has been taken out to minimize the risks, with regular review of the extent of cover to keep pace with growth.

The risk early warning system is assessed annually by the auditor. He reports on the result of his examination to the Group Executive Board and the Supervisory Board.

Risk management system with respect to financing instruments. Responsibility for minimizing risks in the use of various financing instruments lies with the Executive Board and with the Managing Directors of the respective affiliates. The business units report to the Executive Board on any risks occurring and on any hedging transactions effected. The finance instruments used are directly allocated to specific projects, thus increasing transparency and permitting direct risk control. Please refer to the section "Notes."•

Supplementary report
86

Sustainability
82

Principles and objectives of the finance risk management
143

We manage financing risks such as price, currency and interest rate risks occurring in the context of our increasingly international business, by means of framework agreements, contract terms, and by hedging transactions.

Individual risks

Estimated risk

Estimated risk development versus the previous yearr

Counter-measures >>>

Risks from general economic conditions

Risk	Reduction in oil and conventional power prices would delay solar power in reaching competitiveness without state funding and would thus slow down the dissemination of solar power.
Effect	Little impact on economic situation of **SolarWorld**, because the statutory requirement for solar power in the major sales markets is independent of temporary oil price fluctuations.
Assessment	Little probability of long-lasting reduction in prices of oil and conventional electricity, because supply is becoming scarcer due to limited availability of conventional energy resources, while energy demand is rising at the same time.
>>>	Continuous cost reductions and improved efficiency make it possible to achieve competitive pricing without subsidies in the long term.*

Research and development 74

Risks from regulatory framework conditions

Risk	Changes in applicable national solar power subsidy legislation in the major solar markets, towards reduced subsidy rates or discontinuation of government programs.
Effect	Delayed market growth and regional decline in demand.
Assessment	There is always potential risk in individual sub-markets. The legal status is secured for 2008 in our core markets Germany, Spain, Italy, South Korea and the USA. In the mid-term we are expecting regional adjustment of rates, but not complete stopping of support*
>>>	Spread the risk by increasingly international business strategy in different markets. Vertical business model with strong, globally oriented wafer business. Diversification of core competence to cover new global markets, e.g. off-grid business*

Expected development of the solar power market 96

Future business development 100

Risks from tougher competition

Risk	Increase in competitive pressure. **Silicon and wafer segment:** Market entry of new competitors, mainly from Asian region, drawn by attractive margins and growth rates. **Module segment:** Recognizable trend towards consolidation by company alliances and joint ventures.
Effect	Potential loss of market shares and increasing price competition with more pressure on margins, particularly from low-wage countries.
Assessment	Risk for **SolarWorld** is low in the mid-term, because of strong market position in capital- and know-how-intensive wafer and raw materials sectors. Technological lead of estimated 2 or 3 years over potential new market entrants. Tight raw materials market limits capacity utilization in cell and module sector for new market entrants.
>>>	Securing the utilization of existing and future wafer capacities by concluding long-term wafer supply contracts with broad distribution of contracts among more than 30 customers to minimize risks, for example in the event of the bankruptcy of individual customers.* Further expansion of production capacities, thus securing economies of scale during strong industry growth.* Brand to be further strengthened and measures for customer retention to be taken.*

Order development 59

Investment analysis 62

High-quality customer relations 47

Corporate strategy risks

Risk	Wrong assessment of future developments of solar market and risk of wrong investment decisions and failed technological developments.
Effect	Potential market share and capital loss.
Assessment	This is low due to long years of successful market experience and continuous market observation.
>>>	Trend identification in the market by market analyses in all segments of business, and long-term relations with customers, suppliers and government policy makers*
	Broadly-based research and development activities with partnerships with universities and research centers. Spreading of investment risk by strategic alliances and joint ventures*

Opportunity and risk management system 88
Research and development 74

Risks from development of alternative technologies

Risk	Technological breakthrough of alternative technologies, catching up with the current efficiency lead of silicon-based technology.
Effect	Potential market share loss and increasing price competition with increased pressure on margins and risk of substitution.
Assessment	Little risk because, though market share of alternative technology will increase in the mid-term, it cannot compensate for the superiority of crystalline solar technology (market share 90%). The majority of companies in the alternative technology sector did not succeed in moving from pilot production to mass production in 2007. The temporary procurement bottlenecks in silicon-based technology have to be seen in perspective, because there are not sufficient deposits in the earth's crust of raw materials used in the alternative technology, such as tellurium, cadmium and indium. It could be problematic to cover the needs for long-term double-digit market growth. The shortage of silicon is expected to be less serious from 2009 onwards, thanks to build-up of new capacities. There are production and disposal risks in cadmium-tellurid technology because the raw materials are toxic to humans, i.e. cadmium (regulated in EU chemicals legislation) and tellurium.
>>>	Careful, analytical observation of the development of alternative technologies, in order to respond in good time*.

Opportunity and risk management system 88

Risks from procurement

Risk	Scarcity of silicon supply capacities for the solar industry.
Effect	Potential limitation of future growth rate with loss of market share. Increased pressure on margins.
Assessment	Same as in previous year, because growth in the solar market was characterized in 2007 again by shortage of silicon. The situation will remain tight in 2008, although new silicon sources are already entering the market. At present it is not yet clear whether the new silicon suppliers will be capable of supplying the necessary silicon quality at the dates announced. Relaxation in the raw materials situation in the solar market cannot be expected until 2009.
>>>	To conclude additional long-term silicon supply agreements with reliable partners who have decades of experience in silicon production as well as to receive down payments for wafer contracts from our customers to compensate for the down payments due for the raw materials contracts. Broadening of procurement sources by setting up own solar silicon production and increased silicon recycling.*
	Strategy of vertical integration to reduce procurement risk in the downstream value adding stages*

Procurement 49
Integrated Production; Integrated Production 2008+ 43, 101

Human resources risks

Risk	Shortage of specialist staff in the solar industry.
Effect	Potential danger to technological lead due to shortage of specialist staff, and problems for processes and procedures in further growth of the company.
Assessment	Increased risk due to strong growth in the industry, and increasing competition for skilled human resources.
>>>	Targeted, needs oriented development of skills of our existing staff to increase employee satisfaction, skill levels, and performance capacity. Employee motivation by performance-related, variable compensation systems. Definition of deputies and powers in the framework of our quality management system. University marketing, trade fairs and research cooperation to recruit new employees and skilled technicians.•

Employees; Research and development; Employees – Future development 68, 74, 102

IT risks

Risk	Disturbance in operation of IT system and networks.
Effect	Interruptions of work and loss of productivity.
Assessment	Low risk, because our IT systems are maintained on a regular basis and incorporate the latest security standards. This practically rules out the risk of failure in the whole of the group.
>>>	Regular investment in updates and use of software and hardware systems which meet the high requirements for a fail-safe, high-availability environment. BSI certified systems for greater security and reliability. Separation of IT systems from production and administration, to minimize the risk of possible failure of electronic information processing.

Financial risks

Risk	Unexpected developments and variance of international interest rates, currencies and prices.
Effect	Impact on the financial results of our operating business.
Assessment	Low risk, thanks to pro-active, regular review of our financial instruments. No liquidity risks apparent at present, due to our high level of liquidity.
>>>	Minimization of exchange rate risk by adjustment of the respective purchase and sales volume in the currencies relevant for us (natural hedge). Currency congruence of our long-term contracts by agreement of exchange-rate based price adjustment clauses. Individual instruments for currency security where finance instruments are taken up in a foreign currency. Securing of risks from variable interest rates by the use of interest rate hedging instruments. Diversification and expansion of capital base of our group by capital measures concluded in 2006 and 2007. Countering the risk of loss of receivables by cash-in-advance arrangements, ongoing monitoring and analysis of receivables, and targeted conclusion of credit insurance.•

Financial Situation; Financial instruments 61, 143

Legal risks

Risk	There are legal risks based on the wide range of regulations under tax, competition, patent, anti-trust and environmental law, in the framework of international business activity.
Effect	Impact on the results of our operating business. Tying up of funds. Risks to reputation.
Assessment	Low risk. At present no risks are known to us from legal disputes or patent infringement, or other legal risks which could endanger the business situation of our company in a significant manner.
>>>	Integrated legal advice from external legal experts

Warranty, liability and other risks

Risk	Granting of warranty of 25 years for solar modules marketed by us. Other risks as usual in the business.
Effect	Impact on results of our operating business.
Assessment	Low risk. Pro-active, regular analysis of cover concepts for other risks, on the basis of on-site inspections and management meetings.
>>>	Risk provision in Balance Sheet by allocation to reserve in the annual financial statements. Securing of other risks as usual in the business by extensive insurance cover with the usual concept in the market. Careful examination of the process and product quality to reduce the risk of claims being made against our product warranty.*

Noncurrent and current provisions 140

Overall statement on risk situation of the group

Our assessment of the risks described in connection with the Risk Report shows no negative departure from the risk levels set out in the Forecast Report. All in all, the risks are controllable, and do not endanger the continued existence of the **SolarWorld** Group at the time of reporting. This applies both to the individual companies and to the group. From our point of view the overall risk situation resulting from the individual risks presented above has not changed in comparison with the previous year. From the present viewpoint, we expect no major changes in the risk situation.

Risks endangering the continued existence of the company

Risk	Risks which endanger the continued existence of **SolarWorld** AG.
Effect	Impact on the results of our operating business. Risk to continued existence of company.
Assessment	From the viewpoint of management, there are no specific developments apparent which could constitute a major long-term negative risk to the earnings, financial and asset position of the **SolarWorld** Group.
>>>	At present there are no risks apparent which would endanger the continued existence of the **SolarWorld** Group.*

Opportunities and risk management system 88

IX. FORECAST REPORT

Future economic environment

The **world economy** will lose steam in 2008 but will continue to expand significantly in terms of year-on-year growth of 4.5 per cent. Economic activity in the **USA** is expected to slow down substantially against the backdrop of the sub-prime crisis. Overall, however, the Kiel Institute for the World Economy (IfW) expects the US economy to show moderate growth of 1.8 per cent. In 2009, economic activity is expected to gain momentum again at a growth rate of 2.2 per cent.

In the wake of the weakening of economic activity in the USA, the pace of expansion will also slow down in the **European Union** in 2008. According to the IfW forecast, GDP will grow by 2.2 and 2.3 per cent in 2008 and 2009. The rise of the Euro and the weakness of the US economy are expected to curb exports. The economy will be additionally impacted by high oil prices. In **Germany** the positive business trend will continue but slow down slightly. Expected GDP growth for 2008 and 2009 is 1.9 and 1.6 per cent, respectively. For 2008, the IfW expects domestic demand to pick up strongly, boosted by the persistently strong employment momentum.

GDP growth

(Year-on-year variation in per cent)

Country	2007	2008e	2009e
World	5.1	4.5	4.6
EU-27	2.9	2.2	2.3
• Germany	2.6	1.9	1.6
• Spain	3.7	2.6	2.5
• Italy	1.7	1.2	1.5
USA	2.2	1.8	2.2
Asia	9.4	8.6	8.3
• China	11.4	10.7	9.9
• South Korea	4.5	3.8	4.8

Source: Kiel Institute for the World Economy; 2007

Although production growth in the developing countries and emerging markets will probably be curbed by the weakening of economic growth in the industrialized countries, expansion is expected to continue. **China** will continue to be one of the key factors influencing the world economy and again see double-digit growth (10.7 per cent) in 2008, as in previous years. In **South Korea** experts expect growth of 3.8 per cent for 2008 and 4.8 per cent for 2009.

Based on these economic forecasts, we will be able to take advantage of the positive world economy trend for our growth.

Future energy and power market

For 2008, experts continue to expect high and volatile energy prices. Driven by economic expansion in the emerging markets and the persistently high level of consumption in the USA, world-wide demand for oil will continue to rise over the next few years. For 2008, the International Energy Agency (IEA) expects growth of 2.3 per cent. By 2030, the global demand for oil will be more than 35 per cent up on 2006 levels according to the most recent IEA World Energy Outlook 2007. The oil supply situation is expected to continue to be tight due to political instability in the oil-producing countries and the increasingly complex exploitation of new oil reserves.

Crude oil prices will continue to rise in 2008. The EIA (Energy Industry Administration) expects the price of crude oil Brent to grow by more than 12 per cent annually on average to around 80 US dollars per barrel. Goldman Sachs considers oil prices of more than 120 dollars realistic in the medium term.

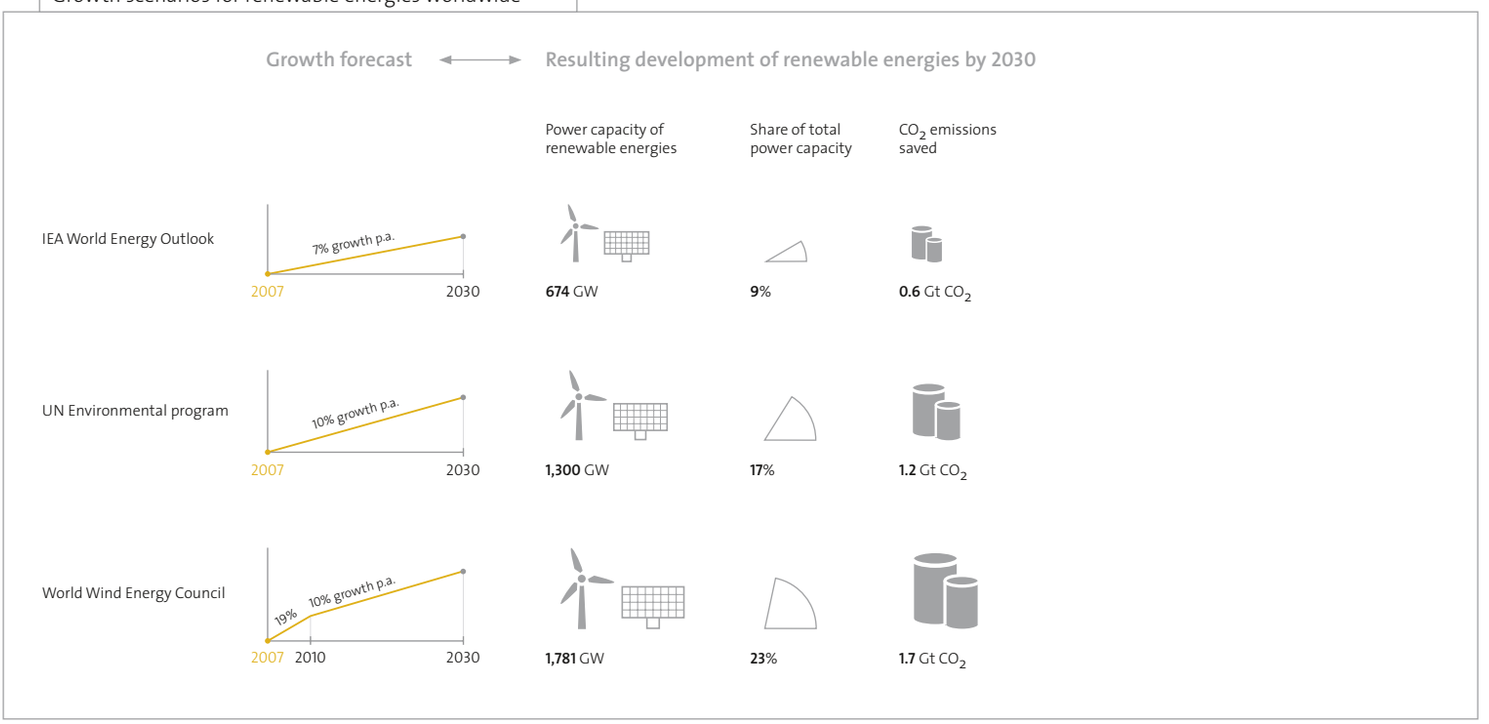
Against this background, power prices will continue to rise. In **Germany** the two largest electricity providers announced price increases of up to 10 per cent for private households as of January 2008. Gas prices are also expected to rise by up to 9 per cent. This trend causes a reduction in the price gap between power from renewable sources and electricity generated conventionally. According to a price comparison analysis conducted by the Verivox consumer association at the end of 2007, around 300 German utility companies will increase electricity prices by 6 per cent on average as

of 2008. Due to this trend, green energy will be offered at more favorable rates than conventional power in more than two thirds of all German cities so that more and more customers are expected to switch to green energy suppliers.

Alternative energies have become part and parcel of the set of political measures to solve the worldwide climate and energy problems. Many countries showed a strong propensity to invest accordingly last year. This was a clear indication illustrating the thrust of renewable energies in order to achieve climate protection goals in future.

Energy and power market; Opportunities
36, 104

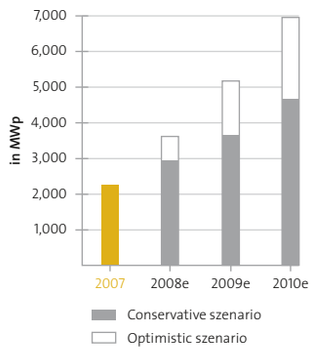
Growth scenarios for renewable energies worldwide



Expected development of the solar power market

For 2008, EPIA expects the **worldwide solar market** to grow by more than 30 per cent to an estimated newly installed solar power output of between 2.9 and 3.6 (2007: 2.2) GW. This growth rate will continue in 2009. In accumulated terms this will imply worldwide installed capacity of 12 GW (2008) and 16 GW (2009). According to the forecast, Germany will be able to defend its leading position, however its world market share will decline from 48 per cent in 2007 to 41 per cent by 2008 and 33 per cent by 2009. Spain and the USA, in contrast, will gain additional market shares.

Expected newly installed worldwide solar power capacity



Source: EPIA, 2007

Despite the expected 33 per cent growth in solar-grade silicon to 35.8 (2007: 27) thousand tons, the solar **silicon market** will continue to be tight in 2008. Large volumes have already been secured by means of long-term contracts. In parallel, the solar cell industry will globally expand its production capacity more swiftly in 2008 than the upstream silicon and wafer industry. For 2008, worldwide cell production capacity is expected to grow by more than 60 per cent to around 6.6 (2007: 4) GW. This will result in a temporary shortage of silicon as a raw material, in particular for suppliers newly entering the market and not having contracted corresponding volumes.

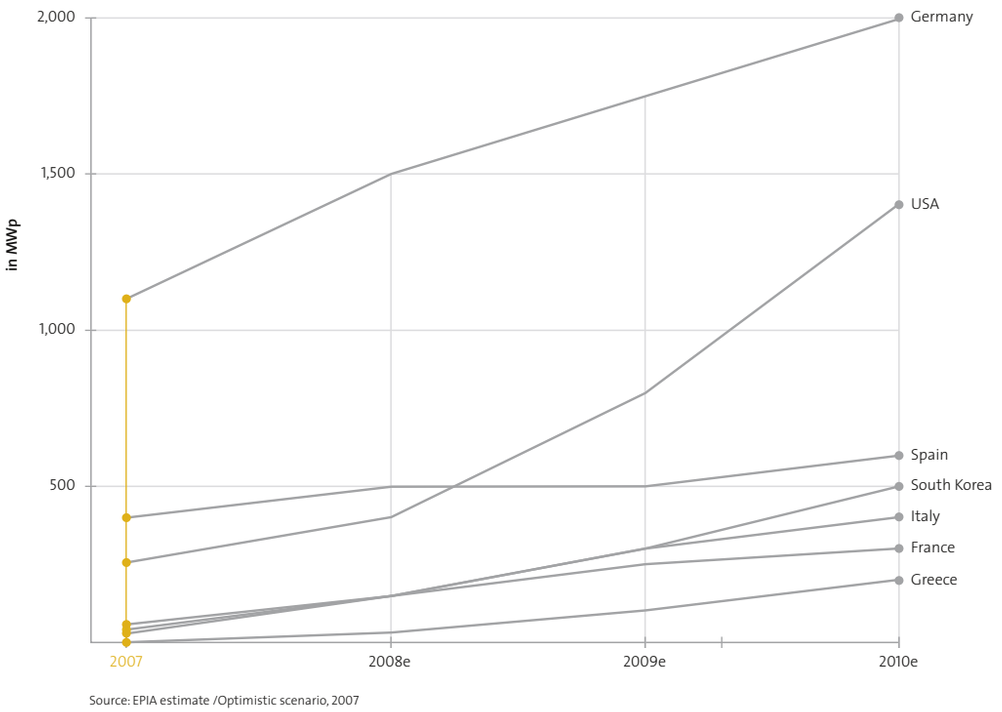
As of 2009 solar silicon supplies will grow by around 66 per cent year-on-year so that experts of the Swiss Sarasin Bank expect strains in raw material supplies to ease. It remains to be seen whether all new silicon manufacturers will be able to reach the silicon purity required for the solar industry.

EPIA forecasts worldwide investments in wafer production capacity of up to 800 (2007: 660) million € for 2008 and of up to 765 million € for 2009. According to unanimous estimates, the silicon-based solar power technology will continue to dominate the market over the next few years with a worldwide market share of significantly over 80 per cent.

This forecast trend will considerably support the growth strategy of our group business. Our strength manifests itself in particular in the wafer segment: in view of worldwide strong capacity expansion we can expect stable demand and stable margins in the cell and module segment.

For the **German solar market** EPIA expects growth rates of more than 20 per cent for 2008 and 2009. This corresponds to newly installed capacity of 1,500 (2007: 1,100) MW for 2008 and between 1,500 and 1,750 MW for the subsequent year.

Expected newly installed solar power capacity in our future core markets



Source: EPIA estimate /Optimistic scenario, 2007

Due to the expected amendment of the German law, which foresees a reduction of the feed-in fee for solar power by 7 per cent as of 2009 (by 5 per cent annually until the end of 2008) and 8 per cent as of 2011, we expect strong market growth in 2008 since many customers will bring their investment decision forward. In the subsequent year, a temporary slowdown in demand may occur which, however, is expected to be offset in the second quarter of 2009 at the latest due to declining prices for modules based on technical progress.*

In 2008 the **Spanish solar market** will be characterized by very strong growth owing to the running out of the current feed-in regulation in the fall of 2008.* No final comment can as yet be made about the dynamics of the market growth after the fall of 2008. Some experts, like Bank Sarasin and Landesbank Baden-Württemberg, assume that in the year 2008 the market will almost double to some 700 (2007: 400) MW. Investments brought to make use of the feed-in compensation wile it still applies will drive the market. Regarding the imminent amendment of the law it is expected that a solution will be put forward that will continue to support the growth of the solar market also beyond October 2008, albeit not at the same high level. Other assessments, like that of EPIA, see the development in a more conservative light. Yet, there is agreement that in the next few years Spain will continue to be one of the world's most important solar markets.

Risks from regulatory framework conditions
90

Development of the photovoltaic market
38

In **Italy** experts expect the strong growth to continue in 2008 and 2009 in view of the stable legal framework. The amendment of the "Conto Energia" Act adopted in 2007 does not provide for a review of the currently applicable feed-in fee before 2011. The goal of 3,000 MW of installed solar power capacity by 2016 creates the precondition for persistent market growth. EPIA expects newly installed capacity of 80 to 150 (2007: 70) MW in 2008 and of 130 to 300 MW in 2009.

France and Greece will also see an upswing in the solar sector. In **Greece** we expect a substantial growth thrust as of 2009, i.e. as soon as the project applied for in 2007 will be given the green light for investment assistance and will be commissioned. Approval processes will be accelerated due to the increasing experience gained by the market participants and the competent authorities. In 2008 EPIA expects a newly installed output of around 20 (2007: 2) MW and between 50 and 100 MW in the subsequent year. For **France** the forecast for 2008 is 60 to 150 (2007: 45) MW and for 2009 it is 120 to 250 MW. So far the financially interesting investments have been in plants integrated into buildings as well as investments in overseas regions.

For 2008 and 2009 EPIA expects the **US solar market** to grow by more than 30 per cent each year. Accordingly, newly installed capacity will rise to 350 to 400 (2007: 260) MW and to 600 to 800 MW by 2009. This will primarily be boosted by the Californian Solar Initiative (CSI) and the New Jersey solar initiative. These two federal states alone are planning to sponsor solar power capacity of around 4.5 GW by 2021. Other US states have also committed to promote solar power. Overall, the US federal states are planning to install a cumulative solar power capacity of up to 9.4 (2007: 0.9) GW by 2020. An extension of the national tax credit of 30 per cent of the systems costs which will end in late 2008 has not yet been decided upon. Until a new government is formed in early 2009 no new national funding programs or initiatives for the solar power market are to be expected. Thus, funding for solar power will probably be in the hands of the individual federal states in the years 2008 and 2009.

US federal state goal

For the installation of solar power by 2020 in MW

Arizona	Up to 1,000
California	3,000
Colorado	200
Delaware	175
Maryland	1,400
Nevada	500
New Jersey	1,500
North Carolina	240
Pennsylvania	800
Other	520
Total	**Up to 9,395**

Source: DSIRE, 2007

In Asia, **Japan** will defend its position as the largest Asian solar power market for on-grid systems in 2008 and 2009; however, the forecast growth rates are in the low double-digit range and the market could even stagnate. **South Korea** will continue to be the second largest market for on-grid solar power systems – and therefore one of our future core markets. In 2008 and 2009, the positive legal framework for the promotion of solar power will remain stable. The newly installed solar power capacity forecast by EPIA lies by 100 to 150 (2007: 75) MW in 2008 and between 250 and 300 MW for 2009.

In **China** the market is expected to double to 43 and 78 MW respectively in the years 2008 and 2009. The focus will mainly be on off-grid projects that will serve the electrification of decentrally located villages and regions. On-grid plants are currently not being implemented as the Chinese law on feed-in compensation does not provide for the funding of solar power. Experts expect that very much like in the USA individual cities and regions will take the initiative. Yet, on which scale this will be done is still uncertain. We will use this market potential for the continued growth of our group through increased sales activities and target-oriented product solutions.

Future orientation of the group

Planned changes in the business policy in the next two fiscal years
From today's point of view we are not planning any substantial changes in our business policy. Also in the future we will remain a thoroughbred solar power technology group that produces solar products along the entire solar value chain using mono- and poly-crystalline technology. We carefully observe the competition including alternative technologies so as to be able to use opportunities quickly. According to today's assessment, however, we see the greatest market potential in the crystalline technologies. At the time of writing we assume that our organization structure in the years 2008 and 2009 will be maintained.

Our future procurement policy provides for the group's internal raw materials sources to be further expanded. We will place the emphasis in 2008 on our Joint Venture JSSI and our recycling activities. The group-wide procurement management will be pooled at the Freiberg location also beyond the year 2008 so as to further strengthen our negotiating positions with suppliers.

Supplementary to our economic targets we also pursue ecological and social objectives. Our integrated sustainability management whose implementation we are planning for 2008 will make our performance drivers measurable and verifiable on the basis of indicators that have been defined group-wide. A number of indicators will be recorded for the first time. Some benchmarks will have to be developed in the first place using studies that will be performed in 2008. In this way we want to increase our company value in a sustainable fashion in order to secure our market leadership in the long-term.

Future corporate legal structure
After the sale of shares has become effective on 14 January 2008 we still hold 35 per cent of the shares of our Swedish subsidiary Gällivare PhotoVoltaic AB (GPV). Since then the shareholding has been carried as an at-equity shareholding.

Our 50 per cent share in the Joint Venture **SolarWorld** Korea Ltd. will also be reported as an at-equity shareholding after its foundation.

Future sales markets 2008+
Our group is positioned in the key solar core and growth markets worldwide. In line with the favorable market expectations and the resulting sales opportunities we expect double-digit growth of about 20 per cent for Germany for 2008. We are planning to double our sales in the USA. In the Spanish solar market we expect significant growth rates in the autumn of 2008 due to the expiry of the current framework parameters, which are expected to be offset again in the second half of the year from today's perspective. For the young EU solar markets Italy, France, Greece and Benelux we expect brisk growth for our business. In Italy in particular we will benefit from our strong position in the electrical wholesale trade established in 2007.

2.9
Strategy 31
Expected development of the solar power market; Risks from development of alternative technologies 91, 96
Group structure and business activity 20
Supplementary report 86
Expected development of the solar power market 96

In view of the growing energy requirements in emerging economies such as China and India as well as developing countries* we will increasingly tackle the off-grid solar business. It offers significant sales potential, which we will tap by means of the further expansion of our international sales activities as well as a local production facility. In 2007 we manifested our off-grid systems competence with electrification projects in China, which we will also be able to use as reference projects for other on-grid deals in these markets.

In our external wafer business we will continue to serve international customers.

Future business development

In order to use the dynamism in the international solar market for the benefit of our growth we will continue to rely on our size and our innovation and quality edge as well as our substantial growth due to a strong raw materials position and a high level of profitability to further expand our position of market leadership. These are the driving forces behind our success which allow us to gain a distinctive position in the light of the intensification of competition from low-wage countries. In order to defend our market position as one of the two largest wafer manufacturers in the photovoltaic business, we are planning to expand our capacity sufficiently so as to also cover the growth of our external wafer business.

Future use of new processes

Due to our long-standing experience in the solar power market and the production know-how that we have gained over several decades through the application and further development of several generations of technical systems, we have achieved a high level of automation in comparison with our competition. We will continue to increase our process and material yield by means of intensive technological development.

To this end, we will invest in two new buildings in the short term. They will serve as our wafer and module technical centers to develop new technologies all the way to production stage on a pilot scale. Group-wide **SolarWorld** standards embracing our "corporate technology" will be fixed on that basis. In this context, we will focus on increasing throughput, yield and efficiency rate on the one hand and on reducing defect rates and change-over times in production on the other hand. We will thus be able to achieve further cuts in production costs. New, highly efficient technologies such as the currently developed wafer RGS process* will be used as new production processes in the medium term. Silicon requirements in industrial production could be cut by up to 40 per cent.

Research and development 74

In addition, we have initiated group-wide measures to reduce resource consumption, focusing on energy, water, waste and CO_2 emissions. We have defined internal targets for 2008.

Future products and services

Crystalline solar power products with steadily optimized price/performance ratios will remain our core business in the near future. We will gradually convert our wafers to thinner products of 180 (currently: 210) µm and thus improve our material yield and cost efficiency, which in turn will be reflected by our consolidated earnings. The main reasons for a general roll-out are the technological adjustments by our cell and module customers.*

Research and development 74

In addition, we are steadily developing new cell and module generations with high efficiency rates. In 2008 we will again manifest our systems competence. Our rack system Sunfix® with

improved static properties and clear assembly advantages over conventional products will be launched Germany-wide in 2008 and subsequently in our European markets. We will thus offer the same level of quality but reduce systems and assembly costs for installers and for our internal staff. This added value will help us strengthen customer retention. A flat roof solution developed and patented under this brand will offer us new sales opportunities since flat roofs predominate in southern European architecture. We steadily continue to develop the individual components of our standard on-roof system for inclined roofs to optimize materials and assembly and achieve cost efficiency for 2008. With our Energyroof®, our product portfolio includes an optimum product to penetrate the French solar market. For 2008 we are also planning the market launch of our sun-tracking systems (Suntrac®), developed by our group, which increase the yield by around 35 per cent due to sensor-controlled orientation to the sun.

We will continue to be able to offer our recycling services to the market at competitive terms and conditions thanks to further automation and new processes. With this we will generate an added value factor for our business.

Economic performance opportunities
107

Integrated production 2008+

We will push our capacity growth ahead in a controlled manner while securing raw material supplies. In order to be able to satisfy the growing international demand for solar systems and manifest our market leadership as a fully integrated group, we are investing in expansion along the entire production line. In order to secure our internal wafer business we focus our investments on this stage of the value chain. This high-margin business will have a sustained positive impact on our consolidated earnings.

At the Freiberg site in Germany, we are planning to expand our state-of-the-art wafer production DS1000 from nominally 350 to 500 MW by the end of 2009. In parallel, we are developing a further industrial area (west) in the direct vicinity. We are planning to start the construction work in the second quarter of 2008. By the end of 2009 we will have established the 250 MW of nominal annual capacity. The building engineering and infrastructure will be designed such that a further expansion to a total of 500 MW of wafer capacity will be easy to implement and we will have around 1 GW of wafer capacity in Freiberg alone.

In the USA we have optimum site factors for the swift expansion of our production in Hillsboro. With the acquisition of the plant in early 2007 we acquired production permits and had them transferred to **SolarWorld** Industries America. This helped us save about 18 months. Moreover, the technology of the production building designed for the production of semi-conductors is available and can be fully used for expansion to 250 MW. This will facilitate a rapid start of production as per the third quarter of 2008 with a nominal annual capacity of 100 MW each in wafer and cell production. The land covers a surface of about 40,000 hectares, with only one third of the surface covered by production buildings to date. Our medium-term plan provides for a second expansion stage 2008+ to a total of 250 MW and 2010+ to a total of 500 MW. In cell production we will use a new, highly efficient cell process after 2008. The new module production in Camarillo will be designed for a nominal annual capacity of 100 MW in the first expansion stage by the end of 2008, which will be fully available as of 2009. This expansion represents a conversion of our existing production facilities.

Our Joint Venture **SolarWorld** Korea Ltd. will require investments for the construction of a module factory until the end of 2008. The opening of this **SolarWorld** production facility in Asia can be expected to take place in the first quarter of 2009. Our group will supply the required solar cells into the Joint Venture. Long-term silicon supply contracts concluded in 2008 will secure the raw material. Initially the module production will have a capacity of 120 MW which can later be doubled to 240 MW. Both partners possess a high level of process and plant know-how as a result of which a highly automated manufacturing process will be realized. Apart from this the partners keep the option open of establishing a cell manufacturing process at the same location.

Strategic raw material activities 2008+

Silicon production. From August 2008 forward, we will increase industrial production to a capacity of 850 tons by year-end in the framework of the joint venture. This capacity will be cover a significant part of our silicon requirements. Following the complete commissioning of this capacity, we will analyze the technological potential with regard to capacity expansion.

EN2

Recycling.* In line with our capacity growth and the increase in demand, we will significantly expand our international competitiveness by means of investments in technology and greater automation. Overall, we expect to achieve a cost-cutting potential of around 30 per cent in the medium term and around 50 per cent in the long term with consistent automation. Major savings are expected in particular in the measurement and classification as well as mass etching of silicon. This will help us to increase productivity.

Economic performance opportunities 107

The increasing disposal requirements of solar power manufacturers open up a welter of opportunities for our group business.*

In parallel to these activities, we will place our recycling efforts on a group-wide basis. A technology transfer adapted to American conditions will be realized at the Hillsboro site in the USA in 2008. Our recycling activities will be adjusted and expanded in the light of increasing internal and external requirements. We are preparing the corresponding building and infrastructure plans as part of the Hillsboro expansion.

In addition, we will in a sustainable manner expand our position in the fast-growing recycling market. We will generate earnings from this service and underpin our raw materials position.

Trading

International sales strategy 48

We will consistently continue our way to quality leadership further and involve our customers in our growth.* We will create value-added with our products and continue to support our customers by means of active sales support in their business with the **SolarWorld** brand.

Our quality strategy will also focus on an expansion of our systems competence. New rack technologies offering a larger array of potential uses will create value added for our customers.

Employees – future development

Personnel policy as a strategic task for the future: To further strengthen our competitiveness we will invest intensively in employment. By expanding our capacities and our international trading business we are planning to increase group-wide employment in the year 2008 by 25 per cent in comparison with the previous year. We will promote our junior staff by offering addi-

tional training places as well as study facilities in the form of sandwich courses. At our locations in Germany alone we are planning to make available another 26 training and practice-oriented study courses in 2008.

Within the framework of systematically designed processes like for example our annual employee talks we will identify the performance and learning potentials of our employees and further develop them in line with the individual development potentials and in harmony with our corporate objectives. Personnel development and talent spotting are seen by us as a management task to be performed by the superior. In the year 2008 we will offer training courses to our group-wide executive staff in order to support them in their leadership competency. In this process we will attach particular importance to strengthening and further developing our corporate culture. As an accompany measure we will specifically promote our high performers and our junior executives in their development.

We will further develop our "Brand Strategy as an Employe" and implement appropriate measures both internally for employee retention and externally for staff recruitment. In the study "Germany's Best Employer 2008" by the Great Place to Work® Institute Germany **SolarWorld** AG in Bonn who participated in the study in 2007 was elected to be among the 100 best employers. The assessment benchmarks underlying this study as well as the results of an internal management survey conducted in the USA and in Germany* in early 2008 will be pooled and implemented in a catalogue of measures designed to further develop our quality as an employer. In the process, topics like internal communication and leadership as well as pay structures will be taken into account as much as "work-life-balance" or in-company health promotion.*

4.16

Employees; Human resources risks
68, 92

Expected earnings situation

Anticipated earnings development

As far as the result before interest and tax (EBIT) is concerned we expect based on the adjusted EBIT of 171 million € a growth of between 25 and 30 per cent. We are working on the assumption that we can compensate for the price decline of our products by way of economies of scale as well as increases in efficiency in the coming fiscal year.

Anticipated sales development

In the coming fiscal year we expect to be able to increase our sales group-wide by 25 to 30 per cent. In this context we are working on the assumption of a balanced relative growth of the sales revenues in the two segments of Wafers and Trading. We are planning to expand our group-wide rate of foreign business to 60 (2007: 49) per cent.

Anticipated dividend development

SolarWorld Aktiengesellschaft pursues a constant dividend policy geared to the performance of the company. With a positive performance development our shareholders will be able to count on continuous dividend income in the following fiscal years. For Fiscal Year 2007 the Executive Board will propose to the Annual General Meeting in May 2008 the distribution of a dividend in the eighth year in succession. The dividend proposal by management amounts to 0.14 €.*

Dividend
54

Expected Financial Situation

Planned financing measures
At the moment we are financially set up in such a way that we are not planning any concrete financing measures for 2008. However, in the course of the year new constellations may materialize as we are active in a very dynamic and rapidly growing industry.

Planned investments
In the following years we want to expand our production capacities significantly. For 2008 we are assuming a group-wide investment volume of more than 300 million €. The lion's share of the investment expenditure will be accounted for by the locations of Freiberg and the expansion of the local wafer production to 500 MW as well as in Hillsboro/USA and the construction of the new integrated cell and wafer production plant with 100 MW each.

In addition we are planning to intensify our Research & Development activities for the purpose of which we will establish a Research & Technology Center at the Freiberg location. Together with our partner SolarPark Engineering Co. Ltd. from Seoul we are planning the establishment of a Joint Venture and the joint construction of a module production facility in Korea with an initial annual capacity of 120 MW until the end of 2008. With these investments we are continuing our strategy of internationalization and of integrated growth.

Strategy 31

Anticipated development of liquidity
As at 31 December 2007 free liquidity (liquid funds and other financial assets) amounted to 792.9 million €. The available liquidity is primarily used to finance the expansion of our production capacities in the next few years. Yet, we continue to assume that a major part of our financing requirements will be covered by way of the operational cash flow. This will lead to a stable liquidity throughout the year 2008. For the end of the year 2008 we do not expect any major deterioration of the ratios.

Opportunities

Opportunities from the development of the overall framework

Rising demand for energy and challenging climate change. By 2030 the worldwide demand for energy will probably rise by 54 per cent. This is the conclusion drawn by the World Energy Outlook 2007 set up by the IEA (International Energy Agency) in its reference scenario, which is based on an extrapolation of current trends without any further political initiatives. 70 per cent of this increase in energy demand will be accounted for by developing countries and emerging economies. China and India alone will account for around 45 per cent of the increase in demand for energy. The additional power required would be covered by fossil fuels under this scenario, causing a 56 per cent increase in worldwide greenhouse gas emissions to 41.7 Gigatons by 2030 (2005: 26.6 Gigatons of CO_2).

In an alternative scenario, the IEA concludes that a targeted policy to promote energy efficiency and low-carbon sources of energy would stabilize worldwide emissions by 2030, which in total would be 30 per cent lower than emissions in the reference scenario. In the alternative scenario, renewable energies would cover 28 (2007: 18) per cent of worldwide power supplies by 2030. At the same time, they would considerably enhance the cost-efficiency and security of energy supplies.

According to calculations by the Sarasin Bank, solar technology alone would help to avoid around 20 per cent (2.85 Gigatons) of the additionally forecast 15 Gigatons of carbon dioxide by 2030 in the IEA reference scenario. The opportunities arising for our business are obvious: an increase in the demand for power with a simultaneous expansion of renewable energies and a reduction in greenhouse gas emissions. This is the basis for our solar growth strategy in international markets.

Security of energy supplies thanks to solar power. In contrast to solar radiation, the availability of global oil, gas, uranium and coal reserves is limited. Moreover, dependency on politically instable regions presents an increasingly severe supply risk, affecting the industrialized countries as energy importers to a particular extent.

The **advantages of solar energy** over fossil fuels can be shown:

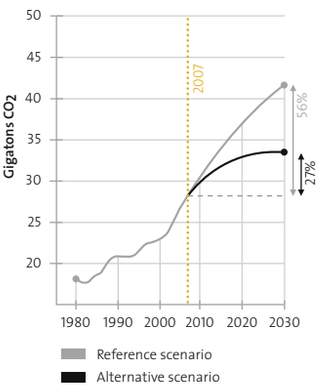
> It is endlessly available and useable.
> It reduces dependency on fossil fuels and avoids their use.
> It guarantees power production free of emissions and noise.
> It can be used in a decentralized way anywhere in the world by everyone and thus contributes to social fairness.
> It is a low-maintenance type of technology which does not need a complex infrastructure network.
> It produces power the most at peak load times.

The opportunities arising for **SolarWorld** AG are attributable to the medium- to long-term shift in worldwide energy policies.

Proven positive net benefit. According to a study by the BMU, the net economic benefit of the promotion of renewable energies in Germany totaled 6.1 billion € in 2006. This quantified and showed that the benefit of the political promotion of solar power and other renewable energies (reduction in power prices due to the merit order effect and avoidance of energy imports and environmental costs) far exceeds the conversion costs. This result will encourage other countries to push the required measures for a turnaround in energy policies ahead, creating opportunities for our international growth.

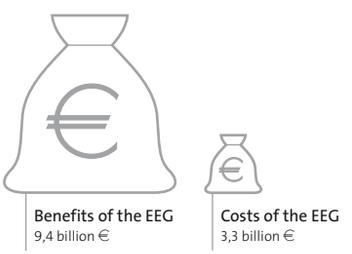
Ensuring security of supply for base load. In 2007 a pilot project was launched with the involvement of **SolarWorld** to document in practical terms how renewable energies can guarantee full power supplies around the clock under any weather conditions. This is achieved by the IT-supported networking and control of 36 decentralized sites with solar parks, hydropower and biogas plants in combination with a buffer solution in the form of a water storage power plant. The pilot project maps the demand for power in Germany at a scale of 1:10,000.° The project has shown that renewable energies are reliable sources of energy capable of ensuring 100 per cent security of supply. The success of the combined power plant creates new expansion potential for the future design of base load power supplies.

CO_2 emissions caused by worldwide energy consumption



Source: IEA, World Energy Outlook 2007

Cost-benefit effect of the EEG

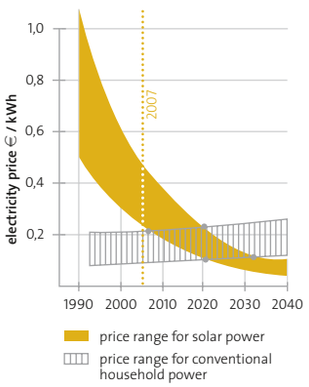


Source: BMU, 2007

www.kombikraftwerk.de

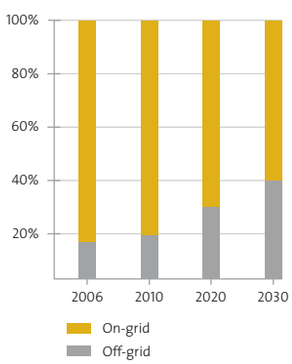
Development of production costs for solar power

in comparison with conventional power prices



Source: EPIA and greenpeace, 2007

Breakdown of the annual installation of solar power systems according to types of application



Source: EPIA, 2007

Competitiveness in the near future. One of the key opportunities for the further development of the global solar power market is the achievement of grid parity: once production costs for solar power can compete with the gross power prices of private households without any financial support, the solar power market will open up worldwide regardless of whether or not any funding programs are available. Due to the scarcity and price increases of conventional energies the price difference reduces itself every year further. At the same time solar power becomes, thanks to technical advancements, less expensive.

An extrapolation of these trends shows that grid parity is not a matter of generations but only of years. Experts of the Swiss Sarasin Bank expect e.g. the sunny federal state of California to be able to achieve grid parity for peak load power as early as in 2010. Spain, too, could achieve grid parity for solar power by 2013. For Germany, the German Solar Industry Federation (BSW) expects to achieve grid parity by the mid of the next decade. Upon achievement of grid parity, our group business will face an enormous expansion potential.

Rural electrification. In off-grid regions, solar power technology which can be decentralized already offers significant economic benefits. Many regions in the world, primarily in rural areas, do not have access to a central grid infrastructure but require access to energy sources in order to continue their economic and social development. Off-grid solar systems are ideally suited to provide power in such regions. They may replace diesel generators or complement the power mix and offer the additional advantages not only of a low-maintenance type of technology but also of independence from increasing oil prices.

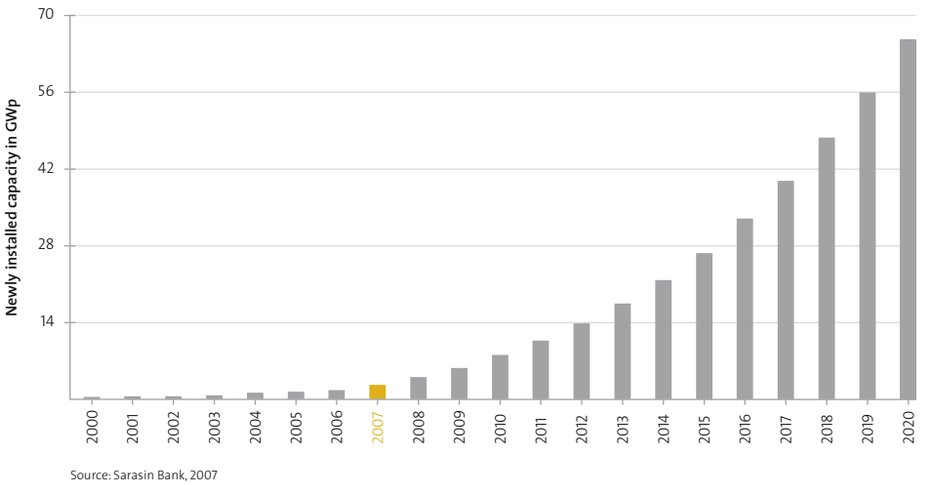
High-growth countries such as China and India have already recognized this advantage and have started to invest in the solar electrification of cities and villages with the support of international organizations. According to a study carried out by EPIA, off-grid solar systems will account for around 40 (2007: around 10) per cent of the worldwide newly installed solar power output by 2030.

As a solar power technology group operating internationally, we already anticipated this business area. For two years we have realized decentralized projects in Africa and Asia and have thus proven our reliability as a partner in development aid projects.* The planned expansion of this business area will offer enormous opportunities for our medium- to long-term growth.

Long-term outlook – strong growth. According to estimates by EPIA, the worldwide solar power market will be able to achieve a volume of 80 to 110 (2007: 9) billion € by 2020.

In its current forecast, the Sarasin Bank presumes average growth rates of around 50 per cent for the worldwide solar market by the end of this decade. For the period 2010 to 2020, experts expect newly installed capacity to increase by a factor of nearly 8, which corresponds to average annual growth of around 22 per cent.

Growth forecast for the global solar market by 2020



Source: Sarasin Bank, 2007

Corporate strategy opportunities

SolarWorld is an established solar power technology group. In the course of the growth of our group of companies we attach particular importance to security and liquidity. The measures we initiated in good time are based on a secure growth strategy for the sustainable strengthening of our international competitiveness by way of:

> a thoroughly planned capacity increase at all levels of the value chain,
> a secure raw materials base with internal and external procurement parameters,
> and good access to the capital market.

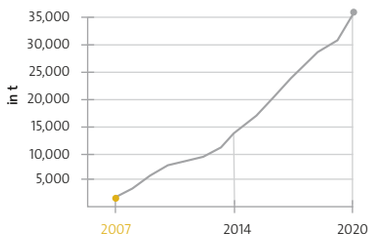
We have the financial funds to make our capacity expansion possible. Through our customer and supplier relations of many years' standing we are soundly positioned. If you add all that to our findings from research and development we have very good prerequisites for the further expansion of our leading market position in the world market in the future.

Economic performance opportunities

In our integrated manufacturing facilities we will implement a variety of process and product innovations in the next few years. In 2008 our internal silicon production will reach industrial scale. In this way we can secure our silicon procurement and cut costs. In addition, our recycling unit SolarMaterial constitutes a significant competitive advantage.

Recycling. So far, solar power module manufacturers are not subjected to the duty to take back end-of-lifecycle neither according to the German Electrical Law (ElektroG) nor according to the EU-wide rules and regulations (WEEE Directive: Waste Electrical an Electronic Equipment; RoHS Directive: Restriction of Hazardous Substances). However, as of the beginning of 2008 an adjustment concerning photovoltaic products is possible within the framework of an amendment of the WEEE Directive. In this case the responsibility of the manufacturer would span the entire product life cycle including the duty of the disposal of the final product. Both the European Union and the BMU are already today expecting recognizable progress on ecological waste management from the solar power manufacturers.

Estimated waste volume in the European photovoltaic industry



Source: PV-News, Landesbank- Baden-Württemberg, EPIA

SolarMaterial has a comprehensive bandwidth of ready-made recycling solutions for silicon. Today we are the only company worldwide that offers a recycling service for crystalline silicon products at all levels of the value chain. Our technological edge amounts to an estimated three years thus giving us a unique selling proposition (USP) in the world market. On the basis of the unique degree of automation of our mechanical, chemical and thermal processes we can meet the competition from lower wage cost countries like for example China also in the future. Productivity increases and economies of scale will lead to positive cost reduction effects.

The opportunities for our future group business are diverse:

> To avoid expensive, legally enforced solutions by actively assuming the manufacturer's responsibility
> To gain and retain more customers through expansion of service
> To generate positive ecological indicators within the framework of the certification according to ISO 14001
> To improve product protection by way of a product return system
> To strengthen the group's own raw materials base
> To boost our image through positive proof that we are a sustainable solar power manufacturer

Overall Statement by the Executive Board on the Anticipated Development of the Group

In summary, the opportunities described suggest to us that there is an optimum market environment for further growth in the long-term. Economies of scale and technological progress in manufacturing technology as well as a relaxation on the raw materials side will support this development. Our future economic development will build on our financial clout avoiding dependence on individual banks as much as possible. In the global, vigorously growing solar market we see ourselves as being competitive and well positioned for the further expansion of our leading market position. We will mainly grow organically. We are well prepared to cope with the increasing competitive and price pressure due to our depth of vertical integration, our international positioning in different currency regions and our financial strength. Following our strategy we will increase our growth over-proportionately in foreign markets.

To the extent that in the above Forecast Report statements are made that are based on the current assessment by management of future developments these risks and uncertainties and their actual occurrence are subject to events that are not under the influence of **SolarWorld** AG. If and when the assumptions made should therefore not materialize in the form as expected the actual results could deviate from the statements made above. A separate commitment on the part of **SolarWorld** AG to update the future-oriented statements does not exist in this particular case. The statements referred to above constitute neither a warranty nor an assurance that the future developments mentioned will actually materialize.

CONSOLIDATED FINANCIAL STATEMENTS

For the business year January 1, 2007 to December 31, 2007

Consolidated income statement 2007

in k€

	Notes	Jan 1 - Dec 31, 2007	Previous period
1. Revenue incl. discontinued operations		698,818	515,246
2. Revenue from discontinued operations	*34*	-9,230	-6,107
3. Revenue from continued operations	*23*	689,588	509,139
4. Changes in inventories of finished goods and work in process		-17,670	30,916
5. Own work capitalized	*24*	542	590
6. Other operating income	*25*	57,253	96,185
7. Cost of materials	*26*	-333,654	-302,988
8. Personnel expenses	*27*	-75,004	-54,958
9. Amortization and depreciation - of which shares measured at equity k€ 0 (prior year: k€ -13,035)	*28*	-42,054	-41,954
10. Other operating expenses	*29*	-80,129	-59,351
11. **Operating result from continued operations**		**198,872**	**177,579**
12. Income from investments measured at equity	*31*	-1,830	-1,308
13. Interest and similar income		17,317	11,746
14. Interest and similar expenses		-38,449	-9,153
15. **Income from continued operations before taxes on income**		**175,910**	**178,864**
16. Taxes on income	*32*	-65,027	-49,811
17. **Income from continued operations**		**110,883**	**129,053**
18. **Income after taxes from discontinued operations**	*34*	**2,373**	**1,513**
19. **Consolidated net income**		**113,256**	**130,566**
20. **Earnings per share**	*35*		
a) Weighted average number of shares outstanding (in 1000)		111,720	109,736
b) Income from continued operations (in €)		0.99	1.18
c) Income from discontinued operations (in €)		0.02	0.01
d) Consolidated net income (in €)		**1.01**	**1.19**

Balance sheet per December 31, 2007

in k€

Assets

	Notes	Dec 31, 2007	Dec 31, 2006
A. Noncurrent assets		**422,725**	**362,514**
I. Intangible assets	*7, 37, 38*	32,675	34,498
II. Property, plant and equipment	*8, 37, 39*	349,602	290,646
III. Investments measured at equity	*9, 40*	21,630	19,377
IV. Deferred tax assets	*32, 41*	18,818	17,993
B. Current assets		**1,270,011**	**641,896**
I. Inventories	*10, 42*	350,053	241,989
II. Trade receivables	*11, 43*	112,922	72,030
III. Current income tax assets	*44*	9,180	646
IV. Other receivables and assets	*12, 45*	3,589	21,870
V. Other financial assets	*13, 17, 46*	528,995	98,573
VI. Liquid funds	*14, 47*	263,862	204,655
VII.Prepaid expenses and deferred charges	*49*	1,410	2,133
C. Assets held for sale	*15, 48*	11,730	0
		1,704,466	**1,004,410**

Equity and liabilities

	Notes	31.12.2007	31.12.2006
A. Equity	*50*	**691,546**	**597,321**
I. Subscribed capital		111,720	55,860
II. Capital reserve		296,489	352,349
III. Other reserves		-10,180	-2,321
IV. Accumulated profits		293,517	191,433
B. Noncurrent liabilities		**899,266**	**273,722**
I. Noncurrent financial liabilities	*16, 17, 51*	620,722	112,577
II. Accrued investment grants	*18, 52*	54,925	57,106
III. Noncurrent provisions	*19, 20, 53*	20,195	18,119
IV. Other noncurrent liabilities	*21, 54*	188,405	75,429
V. Deferred tax liabilities	*32, 55*	15,019	10,491
C. Current liabilities		**110,384**	**133,367**
I. Current financial liabilities	*16, 17, 51*	20,443	50,960
II. Trade payables		32,306	31,909
III. Income tax liabilities	*56*	15,171	20,266
IV. Current provisions	*20, 53*	2,679	1,188
V. Deferred income	*49*	85	1,278
VI. Other current liabilities	*21, 54*	39,700	27,766
D. Liabilities of assets held for sale	*15, 48*	**3,270**	**0**
		1,704,466	**1,004,410**

Changes in equity statement

in k€

			Other reserves			
	Subscribed capital	**Capital reserve**	**Exchange reserve**	**IAS 39 reserve**	**Accumulated profits**	**Total**
As per Dec 31, 2005	**12,700**	**136,792**	**-286**	**0**	**67,850**	**217,056**
Capital increase	43,160	215,557				258,717
Differences from currency translations			-1,643			-1,643
Consolidated net income					130,566	130,566
Dividend distribution					-6,983	-6,983
Hedge reserve changes				-392		-392
As per Dec 31, 2006	**55,860**	**352,349**	**-1,929**	**-392**	**191,433**	**597,321**
Capital increase	55,860	-55,860				0
Differences from currency translations			-11,553			-11,553
Consolidated net income					113,256	113,256
Dividend distribution					-11,172	-11,172
Hedge reserve changes				3,694		3,694
As per Dec 31, 2007	**111,720**	**296,489**	**-13,482**	**3,302**	**293,517**	**691,546**

Cash flow statement 2007

in k€

	Note 60	2007	Prior year
	Income before tax	179,216	180,965
+	Amortization and depreciation	42,807	42,612
-	Earnings from initial consolidation	0	-56,963
-/+	Financial result	21,132	-2,593
+	Loss from investment measured at equity	1,830	1,308
+/-	Loss/Profit from retirement of assets	-1,036	187
-	Reversal of accrued investment grants	-8,170	-6,506
=	**Cash flow from operating result**	**235,779**	**159,010**
-/+	Increase/decrease of prepayments and customer advances (balance)	-28,026	-40,871
-/+	Increase/decrease of inventories (devoid of prepayments)	19,707	-48,307
-/+	Increase/decrease of securities (categorized as trading)	82,507	-76,326
-/+	Increase/decrease other net assets	-9,111	-39,313
=	**Cash flow from operating activities**	**300,856**	**-45,807**
+	Interest received	12,421	9,404
-	Taxes on income paid	-69,251	-57,653
=	**Cash flow from operating activities**	**244,026**	**-94,056**
-	Cash outflow for asset investments	-117,755	-105,947
+	Cash inflow from investment grants	6,453	6,050
+	Cash inflow from the disposal of assets	3,957	27
+/-	Cash inflow/outflow from financial investments	-517,404	0
+/-	Cash intflow/outflow for the acquisition of consolidated companies	2,465	-9,633
=	**Cash flow from investment activities**	**-622,284**	**-109,503**
+	Cash inflow from borrowings	559,628	105,771
-	Cash outflow for redemption of borrowings	-71,859	-22,611
-	Interest paid	-25,330	-6,460
+	Cash inflow from appropriations to equity	0	233,348
-	Cash outflow due to distributions	-11,172	-6,983
=	**Cash flow from financing activities**	**451,267**	**303,065**
+/-	Net changes in cash and cash equivalents	73,009	99,506
+/-	Exchange rate effects on cash and cash equivalents	-1,682	-1,150
+	Cash and cash equivalents at the beginning of the period	194,253	95,897
=	**Cash and cash equivalents at the end of the period**	**265,580**	**194,253**

Notes

General Information

1. Basic principles, accounting policies

In accordance with § 315a para. 1 HGB, **SolarWorld** AG prepared its consolidated financial statements pursuant to the International Financial Reporting Standards (IFRS) as applicable in the European Union and in consideration of the commercial law regulations further stated in § 315a para. 1 HGB. All mandatory applicable standards and interpretations were taken into account. IFRS not yet compulsory were not applied.

The consolidated financial statements were prepared in k€.

The most important measurement basis of the financial statements is that of (continued) cost.

In detail, the following accounting policies are applied in exercise of options:

Interests in joint ventures are accounted for in accordance with the equity method. Interest on borrowed capital is not included in the determination of cost. Investment grants received are not deducted from cost of the subsidized investments but recognized as items on the liabilities' side of the balance sheet. With regard to other accounting policies applied, we refer to the illustration of the accounting principles below.

The income statement was prepared in accordance with the nature of expense method. The balance sheet classifications follow maturity.

The following standards and interpretations or essential changes were to be initially applied in 2007:

> IAS 1 "Presentation of Financial Statements"
> IFRS 7 "Financial Instruments: Disclosures"
> IFRIC 7 "Applying the Restatement Approach under IAS 29"
> IFRIC 8 "Scope of IFRS 2"
> IFRIC 9 "Reassessment of Embedded Derivates"
> IFRIC 10 "Interim Financial Reporting and Impairment"

Initial application of the modified IAS 1 and IFRS 7 results in increased disclosures as regards the notes in **SolarWorld**'s 2007 consolidated financial statements. None of the other interpretations mentioned above had any effects on the consolidated financial statements.

In 2006 and 2007, the IASB passed several standards, additions to standards and interpretations applicable from 2008 or 2009 on. Some of these regulations, e.g. IAS 1 "Presentation of Financial Statements" and IFRS 8 "Operating Segments", only concern disclosure requirements. Others, e.g. IFRIC 11 "IFRS 2 Group and Treasury Share Transactions", IFRIC 12 "Service Concession Agreements", IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" are currently not – and are neither expected to become in 2008 – applicable within the group. Altogether, the company therefore does not expect these new regulations will have significant impact on the assets, financial and income situation.

The effects of the revised versions of IFRS 3 and IAS 27 as amended in 2008 will depend on the extent of the acquisitions or disposals of shares in other companies that **SolarWorld** will make in 2009, which cannot be reliably planned at this time.

In accordance with today's knowledge, we expect the potential effects of the application of – not yet adopted for European law by the EU – financial reporting standards IFRIC 13 "Customer Loyalty Programs" as well as those of the changes of IAS 23 "Borrowing Costs" (applicable as of 2009) to be marginal.

2. Scope of consolidated financial statements and legal group structure

The consolidated financial statements include **SolarWorld** AG and all domestic and foreign entities of which **SolarWorld** AG directly or indirectly owns the majority of the voting power of the company or can otherwise control the company's activities. These companies are included in the consolidated financial statements as per the time **SolarWorld** AG is able to exert control. Joint ventures are capitalized using the equity method. The following companies are part of the **SolarWorld** Group:

3. Consolidation principles

The financial statements of domestic and foreign companies included in the consolidation are reconciled to a uniform accounting policy for the purpose of preparing the consolidated financial statements.

For capital consolidation, cost of the participating interest is set off against the equity attributable to it – assessed at fair value – at the time of acquisition.

Any positive difference is allotted to the assets to the extent to which their carrying amount differs from the fair value. Any remaining positive difference is considered goodwill.

Any negative difference is recognized in an income-affecting way.

Balances, expenses and revenue resulting from intercompany transactions as well as intercompany profits are eliminated.

4. Currency translation

Financial statements of the consolidated companies that are presented in foreign currencies are translated into Euro (€) in accordance with the concept of functional currency as set forth by IAS 21. The functional currency of foreign companies is determined by the primary economic environment in which the company principally generates and uses means of payment. Within **SolarWorld** AG, functional currency basically equals the domestic currency with the exemption of **SolarWorld** Asia Pacific PTE Ltd. whose functional currency is the US-Dollar. For the purpose of translating the foreign companies' financial statements into the reporting currency of the group, assets and liabilities are translated per closing rate while expenses and revenue are translated by means of the average annual rate.

Due to the application of the closing date method, differences resulting from the translation are transferred to an exchange reserve, thereby not affecting profit or loss.

The following exchange rates were decisive for currency translation:

		Closing rate		Average rate	
1 € =		2007	2006	2007	2006
USA	USD	1.47	1.32	1.38	1.26/1.29*
Sweden	SEK	9.44	9.04	9.26	9.25
South Africa	ZAR	10.03	9.21	9.68	9.32*

* 2nd half of the year

5. Management estimations and evaluations

In the scope of preparing the consolidated financial statements in consideration of IFRS, some items require that assumptions are made which affect recognition and valuation of assets and liabilities on the balance sheet or the amount and presentation of revenue and expenses on the group's income statement as well as the statement of contingent assets and liabilities. The most significant assumptions concern the evaluation of the intrinsic value of goodwill, the usability of deferred tax assets, the uniform group specifications regarding the economic useful lives of property, plant and equipment, the recoverability of receivables as well as accounting and valuation of provisions. These assumptions and estimations are based on premises that are, in turn, based on the respective state of knowledge currently available.

Assumptions regarding expected business development particularly include as a basis the circumstances in existence at the time of preparation of the consolidated financial statements and the future development of the global and sector-specific environment as is deemed realistic at the time. In this, the most complex assumptions to be made are the ones that concern impairment tests of goodwill, evaluation of the usability of deferred tax assets and the determination of provisions. For more specific details on these assumptions, we refer to the statements in the respective items.

Accounting policies

6. Changes in disclosure

In 2007, we concluded an agreement regarding the sale of 65 per cent of the shares in our subsidiary Gällivare PhotoVoltaic AB (GPV), Sweden, which was not executed until January 2008. Thus, GPV's result contributions are recognized in the item "income after taxes from discontinued operations" on the income statement.

Due to the initial application of IFRS 7, net gains or losses from other financial assets are shown as part of the financial result. Some components of this result were included in other operating income or other operating expenses in the prior year. The adjustments of the prior year's figures on the income statement resulting therefrom are illustrated below.

in k€	6. Other operating revenue	10. Other operating expenses	13. Interest and similar income	14. Interest and similar expenses
Prior year amount	98,053	-61,306	11,203	-9,653
Discontinued operations	-874	1,933	-28	99
Adjustment due to initial application of IFRS 7	-994	22	571	401
Adjusted prior year amount	96,185	-59,351	11,746	-9,153

7. Intangible assets

Intangible assets acquired for value are recognized at cost and – with the exception of goodwill – are subject to regular straight-line amortization, their useful lives ranging between 4 and 15 years. Expenditure on research incurred upon generation of intangible assets is immediately recognized as an expense. The same applies as regards development expenditure because research and development are iteratively linked and reliable severability therefore does not exist. Sustained impairments are taken into account by extraordinary amortization.

Goodwill – including that from capital consolidation – are subjected to an annual impairment test in accordance with IFRS 3 and IAS 36. As in prior years, the impairment test per December 31, 2007 again showed that goodwill recognized is not impaired.

For the purpose of the impairment test, the goodwill's carrying amounts were assigned to the respective cash generating units (CGUs) "wafer production" and "module production Sweden". In the prior year, the "wafer production"-CGU was limited to Deutsche Solar AG, Freiberg. In the scope of advanced integration of the companies acquired over the course of the past year, especially the manufacturing location in the USA, the "wafer production"-CGU is now comprehensively defined.

Prior to and, for lack of devaluation, after the impairment test, the carrying amount of the goodwill assigned to "wafer production" CGU amounted or amounts to k€ 29,587 (prior year: k€ 29,587). Goodwill assigned to "module production Sweden" is included in assets held for sale due to the scheduled disposal of CPV.

Recoverable amounts were assessed as fair value less cost to sell. The determination occurred via DCF proceeding. Cash flow forecasts that were based on the most up-to-date planning approved by management were used for determining the recoverable amount. The forecasts, in turn, were based on the basic assumptions stated below. Basic assumptions are those that, if subjected to change, make for the highest level of sensitivity as regards the recoverable amount of the CGU.

With regard to the "wafer"-CGU, the forecasts are based on the following basic assumptions:

> Prices for raw materials (silicon) steady in the short-term, however decreasing in the medium term; basis of this assumption are the concluded long-term contracts with silicon manufacturers.

> Increase of sales volume to at least 750 MW in 2010; basis of this assumption is the current expansion of capacities at the German and US locations and the market expectations or supply contracts already in existence.

> Annual decrease of the sales' market prices in a one-digit percentage range; basis of this assumption are relevant third party market surveys.

The goodwill proportion that falls upon the CGU "module production Schweden" is covered by the disposal price already contractually stipulated.

Cash flow forecasts for the CGU (wafer production) were derived from the company's detailed budgeting for a 5-year period. For the period beyond that, an extrapolation was performed on the basis of the last detailed forecast year. In doing so, a growth rate in accordance with growth expectations for **SolarWorld** AG from long-term external surveys was assumed.

For determining the recoverable amount, the future cash flows of CGU "wafer production" were discounted using a risk adequate discounting rate after taxes of some 9.3 per cent (prior year: 7.9 per cent). External analysts of **SolarWorld** AG also support this rate.

8. Property, plant and equipment

Property, plant and equipment are measured at cost less regular physical depreciation. Cost comprises all expenses directly allocable to the manufacturing process as well as appropriate proportions of the necessary cost of materials and manufacturing overhead. These include the depreciation caused by manufacturing and the manufacturing-related pro-rata costs for company retirement benefit plans as well as the voluntary social benefits of the company. Interest on borrowings is not capitalized.

Useful lives between 15 and 45 years are used as a basis for buildings while buildings and fixtures on leasehold land are depreciated in accordance with the terms of the respective lease agreements or a lesser useful life. Most of the depreciation rates range between 2 per cent and 4 per cent p.a. Technical equipment and machinery is predominantly assessed with useful lives of up to 10 years. Factory and office equipment is depreciated over a period of 3 to 5 years if subjected to a common level of wear and tear.

Leased property, plant and equipment subject to economic ownership, i.e. cases in which the lessee basically bears all opportunities and risks connected with the leased object, are, in accordance with IAS 17, recognized at market value to the extent to which the cash value of the lease payments does not turn out to be lower. Depreciation expenses and useful lives equal those of comparable acquired assets.

In accordance with IAS 36, intangible assets and property, plant and equipment are subject to irregular depreciation per balance sheet date if impairment is indicated and if the then performed impairment test shows that the "recoverable amount" of the asset fell below the carrying amount. Irrespective of such indications, an impairment test is performed annually as regards assets assigned to a goodwill-bearing CGU. Insofar, we refer to item 7 above. No indications for impairment of the other essential assets and CGUs arose in the course of the business year.

9. Investments measured at equity

Participating interests accounted for using the equity method are initially accounted for at cost and, in following years, are updated by pro-rata results, distributed dividends and other changes in equity as well as the undisclosed reserves and encumbrances disclosed at acquisition. Goodwill accounted for is included in the recognized investments and is not subject to regular amortization. An impairment test is performed if indicators for impairment arise. Necessary devaluations are initially effected with regard to the goodwill accounted for. No implications for impairment arose during the business year.

10. Inventories

Inventories include raw materials and consumables, work in process and finished goods, goods for resale and prepayments for inventories. Recognition occurs at cost, either at acquisition cost, which is determined uniformly for each type of inventory, i.e. in part on the basis of average prices and in part in accordance with the FiFo method, or at manufacturing cost. In addition to the individual cost, the latter includes adequate proportions of the necessary cost of materials and manufacturing overhead as well as depreciation caused by manufacturing which can be directly allocated to the manufacturing process.

Moreover, to the extent to which they are related to the manufacturing process, pro-rata expenses for company retirement benefit plans and voluntary social benefits are included. Administrative expenses are taken into account to the extent to which they can be allocated to manufacturing. Borrowing costs are not taken into account.

Measurement per balance sheet date occurs at the respective lower amount from cost on the one hand side and realizable net sales price less expenses to be incurred on the other. In principle, the net sales price of the final product is used as a basis. Finished goods are combined with goods for resale due to manufacturing realities of both company and industry.

Some of the prepayments shown in the inventories item were paid in US dollar. Measurement was carried out at historic rate as per payment because no monetary items were concerned in accordance with IAS 21.16. Though these prepayments are stipulated to be non-interest bearing, the circumstances, however, imply that a funding transaction formed the basis of the prepayments, a compounding was conducted at matched maturity or implicit interest rate.

11. Trade receivables

Trade receivables are accounted for at par value. Should doubts exist with regard to the collectability of the debt, the receivables are recognized at lower realizable value. In part, allowances are made using a contra account. Receivables stated in foreign currencies are accounted for at mid-rate of buying rate and ask price per balance sheet date. The decision whether an allowance is made via contra account or by directly reducing the carrying amount depends on the probability of the expected loss.

Receivables from construction contracts were accounted for in accordance with the percentage-of-completion-method as set forth by IAS 11. We refer to our statements in item 22 (revenue and expenditure realization).

12. Other receivables and assets

As a basic principle, other receivables and assets are accounted for at par value. Identifiable individual risks and general credit risks are taken into consideration by making corresponding value adjustments.

Upon initial recognition, receivables from finance lease agreements are realized at net investment amount from the lease and, in following periods, updated in application of a constant interest rate and in consideration of lease payments received.

13. Other financial assets

Other financial assets basically include securities. These are categorized either as financial assets “measured at fair value through profit and loss“, “held-to-maturity investments“, “financial assets available for sale“ or “loans and receivables“. Upon initial recognition, they are measured at fair value plus transaction costs. This does not, however, apply to financial assets categorized as “measured at fair value through profit and loss“ as these are initially recognized at fair value devoid of transaction costs.

As per balance sheet date, no securities categorized as “held-to-maturity investments“ or “financial assets available for sale“ exist.

Securities are “measured at fair value through profit and loss“ if they are either “held for trading“ or are designated as such.

Securities are categorized as “held for trading” if they were acquired with the intention to sell them in the short term.

They are designated as “measured at fair value through profit and loss“ if they are part of a portfolio that is evaluated and managed on the basis of their fair values. Acquisition and sale of securities takes place with regard to revenue-optimized liquidity management and is, for the most part, centrally managed by **SolarWorld**. In this, **SolarWorld** is supported and advised by independent experts who continuously supervise the portfolio’s development and report to the Executive Board on a weekly basis.

Financial assets “measured at fair value through profit and loss“ are recognized at fair value. Each profit or loss resulting from measurement is recognized through profit and loss. The recognized net gain or loss also includes possible dividends and interest of the financial asset. On the income statement, this net gain or loss is shown in the item “interest and similar income“ as, on principle, net gains are assumed due to the pursued investment strategy.

As a general rule, fair values recognized correspond with the market prices of the financial assets. In the event that these figures are unavailable, they are calculated in application of valuation methods based on discounted cash flow analyses and current market parameters.

Securities categorized as “loans and receivables“ are measured in accordance with the effective interest method at amortized cost less possible impairments.

14. Liquid funds

Liquid funds include cash and cash equivalents in the form of cash accounts held and current investments made with banks that fall due within three months when acquired. They are measured at amortized cost.

15. Assets and liabilities held for sale and discontinued operations

Individual noncurrent assets, asset groups or assets of discontinued operations are recognized as “assets held for sale“ if their carrying amounts are largely realized via sales transactions as opposed to via continued usage and, for the rest, they meet the criteria set forth in IFRS 5. Depreciation or amortization on these assets ceases. Impairments are only recognized if the fair value less costs to sell is lower than the carrying amount. Any impairment previously recognized needs to be reversed if the fair value less costs to sell is increased later on. The addition is limited to the impairments previously recognized for the respective assets.

The item “liabilities held for sale“ includes liabilities that are part of a discontinued operation.

Expenses and income from the business activities of discontinued operations – just as gains and losses from their measurement – are recognized at fair value less costs to sell as the result of discontinued operations. Profits and losses from the sale of the discontinued operation are also recognized in this item.

16. Financial liabilities

At initial recognition, financial liabilities are measured at fair value. The transaction costs directly attributable to the acquisition are also recognized with regard to all liabilities that are, subsequently, not measured at fair value through profit and loss.

Trade liabilities and other original financial liabilities are basically measured at amortized cost in accordance with the effective interest method.

17. Derivative financial instruments and hedging

Financial derivatives not included in an effective hedging relationship in terms of IAS 39 are categorized as "held for trading" and are, thus, measured at fair value through profit or loss.

If the need arises, **SolarWorld** utilizes derivatives for a hedge of interest rate risks and changes in foreign currency exchange rates resulting from operating activities, financial transactions and investments.

At recognition and after recognition, derivatives are measured at fair value. The recognized fair values of derivatives for which there is an active market correspond with the market price. Derivatives for which no active market exists are calculated in application of accepted measurement models on the basis of discounted cash flow analyses and by reverting to current market parameters.

The decisive factor for recognition of changes in fair value – recognition on the balance sheet through profit or loss or recognition in equity not affecting profit and loss – is whether or not the derivative is included in an effective hedging relationship in accordance with IAS 39. If hedge accounting is not applied, changes of the derivatives' fair values are immediately recognized through profit or loss. If, however, effective hedge accounting in terms of IAS 39 is at hand, the hedging relation as such is accounted for.

SolarWorld applies hedge accounting in accordance with IAS 39 for cash flow hedges.

At inception of the hedging relation, the relation between hedged item and hedging instrument is documented including risk management objectives. In addition, both at inception and in the course of the hedge, it is continuously documented whether the hedging instrument designated in the hedge is highly effective with regard to compensation of cash flow changes in the hedged item.

The effective part of the change in fair value of a derivate or a non-derivative financial instrument designated as a hedging instrument is recognized in equity. Profit or loss falling upon the ineffective part is immediately recognized through profit or loss in either "other operating income" or "other operating expenses".

Amounts recognized in equity are transferred to the income statement in that period in which the hedged item becomes effective through profit or loss. Recognition on the income statement occurs within the same item as the hedged item. If, however, a hedged forecast transaction leads to the recognition of a non-financial asset or a non-financial liability, the profits and losses previously recognized in equity are derecognized and taken into consideration at initial determination of cost of the asset or liability.

Hedge accounting is discontinued if the hedging relationship is revoked, the hedging instrument expires or is sold, terminated or exercised or no longer meets the criteria for hedge accounting. All profits or losses recognized in equity at this time remain in equity and are only accounted for through profit and loss once the forecast transaction is also recognized on the income statement. If the transaction is no longer expected to occur, the entire profit recognized in equity is immediately transferred to recognition on the income statement.

18. Accrued investment grants

Investment grants accounted for are accrued in application of IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) and released to income over the course of the useful lives of the respective assets. Thus, the item is allocated to the periods of useful lives of the subsidized property, plant and equipment, which will gradually increase future business years' pre-tax income. This increase in income faces amortization and depreciation expenses of corresponding amounts, which are, therefore, neutralized upon balancing. In addition, tax effects will arise whereas income-increasing reversal of the accrued investment grants occurs income tax exempt to the extent to which they result from tax-exempt investment grants.

19. Retirement benefits

Group retirement benefits predominantly occur via defined contribution plans. The company pays contributions into a state or private pension fund on the basis of statutory or contractual obligations or on a voluntary basis and, once the contributions are paid, has no further benefit obligations. The annual contributions are recognized as personnel expenses.

A defined benefit plan exists in one case. Pension provisions are measures in accordance with the actuarial projected unit credit method as required by IAS 19. Actuarial profits and losses are recognized as expenses or revenue if the balance of the accumulated unrecognized actuarial profits and losses does not exceed 10 per cent of the obligation at this time.

The interest proportion included in the pension expenses is recognized in the financial result.

20. Other provisions

Other provisions are recognized to the extent to which an obligation to third parties exists that will probably make for a future outflow of resources and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the extent of the obligation. Provisions for obligations that will probably not make for an outflow of resources in the year following the reporting year are recognized at present value of the expected outflow of resources.

If a provision cannot be recognized because one of the criteria is not met but the probability of the claiming of benefits is all but remote, the respective obligations are recognized as contingent liabilities.

21. Other liabilities

Accrued liabilities included in the balance sheet item "other liabilities" are recognized for services and goods received that do not yet meet the requirements for payment. With regard to these liabilities, future outflow of resources is, on the merits, certain and is merely subject to minor uncertainties as regards the amount. Measurement is conducted at the best estimate of the expenditure required.

A proportion of the customer advances recognized in other liabilities is denominated in US dollar. As no monetary items are concerned, they were recognized at historic exchange rate at the date of collection. Though these customer advances are stipulated to be non-interest bearing, the circumstances, however, imply that a funding trasaction formed the basis of the payments, a compounding was conducted at matched maturity interest rate.

Liabilities from finance lease agreements are recognized at value pursuant to IAS 17.

22. Revenue and expenditure realization

Revenue from the sale of goods or products is recognized at the time the significant risks and opportunities are transferred if – as commonly true – the other requirements (no continued involvement, reliable estimation of the amount of revenue and probability of inflow) are also met.

Revenue from project business is recognized in accordance with the percentage of completion method of IAS 11. Under this method, a pro-rata profit realization is recognized by reference to the state of completion if the assessment of the state of completion, total costs and total revenue of the respective contract can be reliably estimated in terms of IAS 11. The state of completion is assessed in accordance with the cost-to-cost method pursuant to IAS 11.30a. If the stated requirements are met, the overall contract revenue is recognized on a pro-rata basis in compliance with the state of completion. Contract expenses include the costs directly attributable to the contract and a proportion of overhead. Borrowing expenses are not recognized.

Advances and contributions are recognized on an accrual basis through profit as incurred.

Operating expenses are recognized through profit and loss upon claiming the benefit or at the time of being caused. Provisions for warranties are recognized at realization of the corresponding revenue. Dividends are recognized as per distribution resolution. Income from interest and interest expenses are recognized on an accrual basis.

Comments on the individual items of the income statement

23. Revenue

Revenue and its allocation to the business segments and regions can be taken from segment reporting in these consolidated notes. Consolidated revenue concern the following products and services:

in k€

	2007	Prior year
Module- and assembley kit sales (group and third party manufacturing)	489,147	341,021
Project proceeds	31,388	25,906
Cells	26,844	17,498
Wafer	142,209	124,714
	689,588	**509,139**

Project proceeds basically result from the construction of major solar plants.

As per balance sheet date, project proceeds include finalized projects as well as projects being undertaken whose revenue are accrued in accordance with the percentage of completion method as stated in IAS 11. Per balance sheet date, this revenue amounts to k€ 3,549 (prior year: k€ 6,564).

24. Own work capitalized

The item concerns the construction of photovoltaic plants operated by the Group company Go!Sun GmbH & Co. KG.

25. Other operating income

in k€

	2007	Vorjahr
Income from other expense grants	27,615	18,401
Reversal of accrued investment grants	8,009	6,292
Foreign currency gains	4,116	3,102
Gain from asset retirements	4,046	36
Earnings from expense grants for research and development	3,678	3,942
Income from other trade	2,034	3,249
Reversal of provisions	495	260
Result from initial consolidation	0	56,963
Other operating income	7,260	3,940
	57,253	**96,185**

Income from other expense grants results from an agreement of **SolarWorld** Industries Deutschland GmbH, Munich (SWID) and Shell Group, according to which SWID was awarded expense grants for anticipated under-utilization, necessary restructuring measures and the supply of silicon.

The research and development expense grants received are subject to a number of requirements. In accordance with today's knowledge, we will be able to meet all of these requirements. Thus, repayment obligations are not expected to arise.

Foreign currency gains primarily consist of gains from exchange rate movements in between the time of origin and payment of foreign currency receivables and liabilities and foreign currency gains from measurement at closing rate. Respective foreign currency losses are recognized in other operating expenses.

26. Cost of materials

in k€

	2007	Prior year
Cost of raw materials, supplies and merchandise	316,184	285,709
Cost of purchased services	17,470	17,279
	333,654	**302,988**

27. Personnel expenses

in k€

	2007	Prior year
Wages and salaries	60,947	45,605
Social security and pensions	14,057	9,353
	75,004	**54,958**

28. Amortization and depreciation

The composition of amortization and depreciation can be taken from the fixed-asset movement schedule. Of the additions to accumulated amortization and depreciation recognized in the fixed asset movement schedule in an amount of k€ 42,807 (prior year: k€ 29,577), amortization and depreciation of discontinued activities make for k€ 753 (prior year: k€ 658).

29. Other operating expenses

in k€

	2007	Prior year
Maintenance expenses	14,277	11,063
External staff	12,648	7,777
Foreign currency losses	6,354	5,767
Marketing costs and travel expenses	5,720	2,818
Selling expenses	5,415	4,088
Legal fees, consultancy and audit expenses	3,956	3,669
Insurances	3,749	2,325
Rent and lease expenses	3,624	2,946
Research and development costs (third party payment)	2,870	1,535
Losses from the retirment of assets	2,602	118
Expenses from appropriation to warranty provision	1,349	3,017
DP expenses	1,302	683
Allowances for receivables and uncollectible receivables	604	387
Other operating expenses	15,659	13,158
	80,129	**59,351**

30. Research and development costs

Research and development costs of **SolarWorld** Group made for a total amount of k€ 10,802 (prior year: k€ 8,562), the largest part of which results from personnel expenses.

31. Finance result

a) Income from investments measured at equity

in k€

	2007	Prior year
Income from investments measured at equity	673	0
Expenses from investments measured at equity	-2,503	-1,308
	-1,830	**-1,308**

b) Interest and similar income

in k€

	2007	Prior year
Interest income	11,548	6,855
Other financial yields	5,769	4,891
	17,317	**11,746**

Income from interest basically includes interest from interest-bearing securities, fixed term deposits and other bank balances all of which are categorized as “loans and receivables“.

c) Interest and similar expenses

in k€

	2007	Prior year
Interest expenses	33,154	7,704
Other financial expenses	5,295	1,449
	38,449	**9,153**

Interest expenses exclusively consist of interest payable for financial liabilities categorized as “measured at amortized cost“. They result from bank loans, from borrowing instruments issued by **SolarWorld** and from interest-bearing liabilities of **SolarWorld** towards their employees in the scope of the GOMAB program.

32. Taxes on income

The recognized tax expenses is composed as follows:

in k€

	2007	Prior year
Actual domestic tax expenses (+) / income (-)	63,798	52,680
Actual foreign tax expenses (+) / income (-)	380	722
Total actual tax expenses (+) / income (-)	**64,178**	**53,402**
Deferred domestic tax expenses (+) / income (-)	10,765	2,355
Deferred foreign tax expenses (+) / income (-)	-9,916	-5,946
Total deferred tax expenses (+) / income (-)	**849**	**-3,591**
Total recognized tax expenses (+) / income (-)	**65,027**	**49,811**

Taxes paid or owed on income in the individual countries and deferred taxes are recognized as taxes on income. Deferred taxes are determined with regard to temporary differences between assigned values of assets and liabilities in IFRS and tax balance sheet, consolidation processes and realizable losses carryforward. The tax rates are based on the statutory regulations effective or passed per balance sheet date.

Deferred taxes are only recognized for tax loss carryforwards if their realization is sufficiently probable in the medium term. No deferred taxes were recognized with regard to loss carryforwards at **SolarWorld** Industries America LP originating from a time prior to its acquisition by **SolarWorld** AG as, at this time, it is assumed that these cannot be utilized by **SolarWorld** AG.

For the rest, deferred taxes on existing loss carryforwards are consistently regarded realizable because a sufficient amount of positive future results can be expected on the basis of continuously updated plans and the group's strategic alignment. As in the prior year, no allowances were made on deferred tax assets.

The following chart shows unbalanced and balanced deferred taxes with regard to accounting differences in the different balance sheet items and to tax losses carryforward:

in k€

	Deferred tax assets		Deferred tax liabilities	
	2007	Prior year	2007	Prior year
Intangible assets/property, plant and equipment	27	497	12,890	14,376
Current assets	3,953	11,946	3,809	1,518
Accrued investment grants	1,656	1,326	0	0
Other noncurrent liabilities	3,998	3,180	3,754	1,548
Current liabilities	598	937	0	0
Losses carryforward usable for tax matters	14,020	7,058	0	0
	24,252	**24,944**	**20,453**	**17,442**
Offsetting	-5,434	-6,951	-5,434	-6,951
Recognized deferred taxes	**18,818**	**17,993**	**15,019**	**10,491**

Deferred tax assets and liabilities are set off if they concern the same tax authority and the same tax subject.

In connection with the recognition of hedging relations, deferred tax assets of k€ 673 (prior year: k€ 0) and deferred tax liabilities of k€ 2,268 (prior year: k€ 0) resulting in neither profit nor loss were recognized in equity at balance sheet date.

The substantial differences between nominal and actual tax rates in the course of the business year and the prior year are illustrated below:

in k€

	2007	Prior year
Income before taxes	175,910	178,864
Expected income tax rate (incl. trade tax)	**40.0%**	**40.0%**
Expected income tax expenditure (+) / gain (-)	70,364	71,546
Tax rate changes	-3,617	0
Deviating domestic and foreign tax burden	-775	-2,086
Tax reductions due to tax exempt gains	-1,244	-23,645
Taxes from other non-deductible expenses	102	4,961
Actual taxes relating to other periods	-291	-686
Other tax burden deviations	488	-279
Recognized income tax expenditure (+) / gain (-)	**65,027**	**49,811**
Effective income tax rate	37.0%	27.9%

In the course of the business year, on July 6, 2007, the Bundesrat passed the Corporation Tax Reform Act 2008 in accordance to which the expected tax rate of the German companies, particularly of **SolarWorld** AG, will be lowered to 31.6 per cent as of 2008. Due to this change in tax rate, the deferred tax assets and liabilities of the German companies were remeasured. Effects on profit and loss resulting therefrom are recognized in the item "tax rate changes".

33. Substantial expenses and income relating to other periods

As in the prior year, no substantial expenses and income relating to other periods existed in the 2007 business year.

34. Income after taxes from discontinued operations

In late 2007, we concluded an agreement regarding the sale of 65 per cent of the shares in our subsidiary Gällivare PhotoVoltaic AB (GPV), Sweden, which was executed in January 2008. No impairments were recognized in the course of the held-for-sale reclassification of the assets and liabilities as the stipulated selling price exceeds the carrying amounts of the respective net assets.

The result from discontinued operations separately recognized on the income statement is shown below. The disclosures concern expenses and earnings after expense and income consolidation:

in k€

	2007	Prior year
Revenue	9,230	6,107
Other income	1,367	904
	10,597	**7,011**
Expenditure and changes in inventory	-7,291	-4,910
Income before tax	3,306	2,101
allocable income tax expenses	-933	-588
Result from discontinued operations after taxes	**2,373**	**1,513**

Cash flows allottable to discontinued operations are presented in item 60.

35. Earnings per share

Earnings per share are calculated as ratio of the consolidated results and the weighted average of the number of shares in circulation during the business year. The key figure "diluted earnings" was not applicable as option rights or conversion privileges are not outstanding.

When calculating the earnings per share of the prior year, the number of shares in circulation used as a basis was adjusted with regard to the figure published in the 2006 financial statements because each shareholder was awarded three free shares and one free share at the May 2006 shareholders' meeting and the May 2007 shareholders' meeting, respectively.

36. Segment reporting

a) Business segments

The business segments constitute the primary format for the group's segment reporting. In 2007 as in the prior year, **SolarWorld** Group operated in four vertically integrated business sectors on a worldwide scale:

> Manufacturing of silicon wafers (wafer production and sale),
> Manufacturing of solar cells (cell production),
> Manufacturing of solar modules (module production),
> Solar module trade (trade).

Inter-segment sales and revenue are based on the arm's length principle. Administrative costs as well as the assumption of holding functions are, in part, calculated by way of cost allocation.

Segment assets and segment liabilities are initially recognized including inter-group receivables and liabilities and then reconciled to the group's consolidated values. Segment revenue and results illustrated below exclusively concern continued operations. Revenue and result from discontinued operations exclusively concern the segment "module". We refer to item 34.

Information on business segments for the 2007 business year

in m€

	Wafer	Cell	Module	Trade	Eliminination	Consolidated
Revenue						
External revenue	142	27	0	521		
Inter-segment revenue	259	264	319	3	-845	
Total revenue	**401**	**291**	**319**	**524**	**-845**	**690**
Result						
Segment result	**83**	**45**	**27**	**39**	**4**	**198**
unallocated gains						4
unallocated expenses						-3
Operating result (EBIT)						199
Interest and similar expenses						-40
Interest and similar income						17
Taxes on income						-65
Result for the period						**111**
Other disclosures						
Assets						
Segment assets	**542**	**145**	**81**	**237**	**-169**	**836**
unallocated assets						868
consolidated assets						**1,704**
Liabilities						
Segment liabilities	**282**	**35**	**25**	**91**	**-155**	**278**
unallocated liabilities						734
consolidated liabilities						**1,012**
Intangible assets and property, plant and equipment						
Investments	**71**	**29**	**13**	**2**		
regular amortization and depreciation	**23**	**14**	**4**	**1**		

Information on business segments for the 2006 business year

in m€

	Wafer	Cell	Module	Trade	Eliminination	Consolidated
Revenue						
External revenue	125	18	0	366		
Inter-segment revenue	157	160	172	0	-489	
Total revenue	**282**	**178**	**172**	**366**	**-489**	**509**
Result						
Segment result	**73**	**27**	**10**	**31**	**-6**	**135**
unallocated gains						57
unallocated expenses						-14
Operating result (EBIT)						178
Interest and similar expenses						-11
Interest and similar income						12
Taxes on income						-50
Result for the period						**129**
Other disclosures						
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						
Investments	**63**	**35**	**6**	**1**		
regular amortization and depreciation	**16**	**7**	**4**	**1**		

b) Geographical segments

Geographical segments constitute the secondary segment reporting format. The following chart illustrates the allocation of consolidated revenue in accordance with regional sales markets irrespective of the goods' place of production. The carrying amounts of the segment assets as well as the investments in property, plant and equipment and intangible assets are recognized in accordance with the location of the assets.

Geographical segments business year 2007

in m€

	Revenue	Assets	Investments
Germany	353	1,539	52
rest of Europe	190	12	0
Asia	45	18	0
USA	93	133	63
others	9	2	0
Total	**690**	**1,704**	**115**

Geographical segments business year 2006

in m€

	Revenue	Assets	Investments
Germany	293	888	103
rest of Europe	109	17	1
Asia	74	21	0
USA	30	77	1
others	3	1	0
Total	**509**	**1.004**	**105**

Comments on the balance sheet

37. Development of intangible assets and property plant and equipment

Composition and development of the intangible assets and property, plant and equipment can be taken from the following illustration:

Development of intangible assets and property, plant and equipment

in k€	Cost							Amortization and depreciation						Carrying amounts	
	As per Jan 1, 2007	Addition Cons. group	Reclassification	Addition	Retirements	Currency difference	As per Dec 31, 2007	As per Jan 1, 2007	Reclassification	Addition	Retirements	Currency difference	As per Dec 31, 2007	As per Dec 31, 2007	As per Prior year
I. Intangible assets															
1. Concessions, industrial property and similar rights and assets, and licenses in such rights and assets	**8,976**	0	641	1,564	875	-87	**10,219**	**6,201**	496	1,096	608	-54	**7,131**	3,088	2,775
2. Goodwill	**37,018**	0	0	0	2,136	0	**34,882**	**5,295**	-31	31	0	0	**5,295**	29,587	31,723
	45,994	**0**	**641**	**1,564**	**3,011**	**-87**	**45,101**	**11,496**	**465**	**1,127**	**608**	**-54**	**12,426**	**32,675**	**34,498**
II. Property, plant and equipment															
1. Land and buildings	**80,951**	0	105	45,124	966	-3,024	**122,190**	**9,537**	37	7,452	179	-249	**16,598**	105,592	71,414
2. Technical equipment and machinery	**280,631**	0	11,978	28,750	11,422	-2,994	**306,943**	**79,613**	-2,985	31,604	4,603	-529	**103,100**	203,843	201,018
3. Other equipment, factory and office equipment	**9,341**	0	3,241	3,130	975	-284	**14,453**	**3,927**	2,483	2,624	790	-205	**8,039**	6,414	5,414
4. Prepayments and construction in process	**12,800**	0	-15,965	39,780	1,420	-1,442	**33,753**	**0**	0	0	0	0	**0**	33,753	12,800
	383,723	**0**	**-641**	**116,784**	**14,783**	**-7,744**	**477,339**	**93,077**	**-465**	**41,680**	**5,572**	**-983**	**127,737**	**349,602**	**290,646**
	429,717	**0**	**0**	**118,348**	**17,794**	**-7,831**	**522,440**	**104,573**	**0**	**42,807**	**6,180**	**-1,037**	**140,163**	**382,277**	**325,144**

	As per Jan 1, 2006	Addition Cons. group	Reclassification	Addition	Retirements	Currency difference	As per Dec 31, 2006	As per Jan 1, 2006	Reclassification	Addition	Retirements	Currency difference	As per Dec 31, 2006	As per Dec 31, 2006	As per Prior year
I. Intangible assets															
1. Concessions, industrial property and similar rights and assets, and licenses in such rights and assets	**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**	**0**	**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. Technical equipment and machinery	**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 equipment, factory and office 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. Prepayments and construction in process	**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**	**0**	**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**	**0**	**29,577**	**3,738**	**65**	**104,573**	**325,144**	**212,919**

38. Intangible assets

Goodwill recognized in intangible assets results from the acquisition of Deutsche Solar AG in 2000. The goodwill is attributed to the "wafer-production" Cash Generating Unit (CGU). Goodwill resulting from the acquisition of Gällivare PhotoVoltaic AB recognized in the prior year is now recognized in "assets held for sale" due to the sale executed in 2008.

39. Property, plant and equipment

As per balance sheet date, leased property, plant and equipment to be recognized did not exist.

40. Investments measured at equity

in k€

	Dec 31, 2007	Prior year
Solarparc AG, Bonn	12,757	12,254
Joint Solar Silicon GmbH & Co. KG, Freiberg	6,346	4,617
RGS Development B.V., Petten/ The Netherlands	2,193	2,456
Scheuten SolarWorld Solicium GmbH, Freiberg	334	50
	21,630	**19,377**

The participating interest in the listed Solarpac AG, Bonn, is held via **SolarWorld** AG and concerns a 29 per cent share in assets, result and voting rights. Aside from regenerative power generation, the company's operations include management, project planning, conceptual design and marketing of solar parks and wind power plants. **SolarWorld** AG's profit share amounted to k€ 545 (prior year: k€ 125) in the reporting year. Attributable equity amounted to k€ 7,522 (prior year: k€ 7,145). The fair value of the shares in Solarparc AG derived from its stock market price amounted to k€ 16,229 (prior year: k€ 12,334) at balance sheet date.

The participating interest in Joint Solar Silicon GmbH & Co. KG is held via **SolarWorld** AG and concerns a 49 per cent share in the assets and result. The company's purpose is the joint development of solar silicon production with EVONIK-Degussa GmbH, which holds the remaining shares. **SolarWorld** AG's share in the loss amounted to k€ 1,208 (prior year: k€ 871). Attributable equity amounted to k€ 5,783 (prior year: k€ 4,243).

Deutsche Solar AG holds the participating interest in RGS Development B.V. The interest concerns a 35 per cent share in the assets and result. The company's purpose is the joint development of a new process for producing silicon wafers for use in solar cells. There are two further Dutch shareholders, holding 35 per cent and 30 per cent. Deutsche Solar AG's share in the loss for the year amounted to k€ 1,078 (prior year: k€ 357). Attributable equity amounted to k€ 1,986 (prior year: k€ 2,914).

SolarWorld AG holds the participating interest in Scheuten **SolarWorld** Solicium GmbH, which concerns a 50 per cent share in assets and result. The company's purpose is the joint development of a process for processing metallurgical silicon to high purity solar silicon. **SolarWorld** AG's share in the loss amounted to k€ 216 (prior year: k€ 0). Attributable equity amounted to k€ -8 (prior year: k€ 50).

The participating interests in Joint Solar Silicon GmbH & Co. KG, RGS Development B.V. and Scheuten **SolarWorld** Solicium GmbH concern jointly controlled entities in terms of IAS 31 as all significant decisions regarding business and finance policy can only be made in unison.

For the disclosures on related parties we refer to item 62.

The following chart includes summarized financial information regarding the investments measured at equity:

in k€

	Dec 31, 2007	Prior year
Attributable assets	31,791	22,936
Attributable liabilities	16,493	8,473
Attributable revenue	10,314	2,797
Attributable profit or loss for the year	-1,959	-1,103

41. Deferred tax assets

Deferred tax assets are calculated in accordance with IAS 12 (Income Taxes). The item did not require any valuation allowances. The development of deferred tax assets is included in the comments on tax expenditure.

42. Inventories

in k€

	Dec 31, 2007	Prior year
Raw materials and supplies	33,693	35,377
Work in process	45,663	60,829
Finished goods and merchandise	24,084	38,196
Prepayments	246,613	107,587
	350,053	**241,989**

Finished goods of the Group in terms of the aforestated itemization only concern photovoltaic modules and Deutsche Solar AG wafers.

Of the prepayments, an amount of k€ 233,271 (prior year: k€ 101,934) will not be due to be set off with raw material supplies for more than 12 months after balance sheet date.

43. Trade receivables

in k€

	Dec 31, 2007	Prior year
Trade receivables	106,509	60,435
Receivables from construction contracts	6,413	11,595
	112,922	**72,030**

The maturity pattern of the receivables can be taken from the following chart:

in k€

	Dec 31, 2007	Prior year
Neither past due nor impaired	88,525	55,596
Past due but not impaired		
- up to 30 days	14,624	14,929
- between 31 and 60 days	4,372	363
- between 61 and 90 days	97	249
- between 91 and 180 days	4,222	394
- between 181 and 360 days	1,006	69
- exceeding 360 days	73	427
Impaired	3	3
	112,922	**72,030**

We did not identify any indications requiring valuation allowances for those trade receivables not impaired. For the most part, the receivables included in the cluster "between 91 and 180 days" and "between 181 and 360 days" were paid in the course of preparation of the financial statements.

Valuation allowances developed as follows:

in k€

	Dec 31, 2007	Prior year
As per Jan 1	225	565
Utilization	-24	-398
Net appropriation/reversal	428	58
As per Dec 31	**629**	**225**

44. Income tax receivables

Tax receivables concern refund claims for corporation and trade tax paid or corresponding foreign taxes due to excessive prepayments and necessary changes to the assessment of previous business years.

45. Other receivables and assets

in k€

	Dec 31, 2007	Prior year
Electricity tax refund	1,165	0
VAT receivables	951	6,149
Suppliers with debit balances	126	0
Lease claim Scheuten	0	5,092
Accrued expenses grants Shell	0	3,523
Purchase price adjustment Shell acquisition	0	2,465
Others	1,347	4,641
	3,589	**21,870**

Financial assets included in other receivables and assets are not significantly past due. The maximum default risk equals the carrying amount.

46. Other financial assets

Accrued interest receivables and securities in the form of investment funds, promissory note loans and certificates are recognized in this item. They fall upon the following asset categories:

in k€

	Dec 31, 2007	Prior year
Money market and similar investments	102,657	27,371
Debt securities and similar investments	409,766	62,510
Real estate funds	14,026	8,441
Derivative financial instruments of which in hedging relation: k€ 411 (prior year: k€ 0)	411	217
Accrued interest	2,135	34
	528,995	**98,573**

Money market and similar investments include shares in an investment fund with regard to which payment of the return price and its calculation and publication was temporarily suspended per balance sheet date and until the time of preparation of the financial statements. The shares in the investment fund are recognized as designated financial assets measured at fair value with a carrying amount of k€ 55,027. Calculation of the shares' fair value occurred on the basis of individual measurements of the securities included in the fund assets. These, in turn, were mostly measured by way of a measurement model in consideration of current market spreads. The utilized market spreads considered individual rating categories and sector classifications of the respective securities.

For the rest and as regards to the investment strategy, measurement and risks, we refer to our comments on financial instruments in items 13 and 59.

47. Liquid funds

Liquid funds almost entirely concern bank balances. As per balance sheet date, these were invested in – mostly short term – fixed term deposits and day-to-day money at different banks.

48. Assets and liabilities held for sale

in k€

	Dec 31, 2007
Noncurrent assets of discontinued operations	2,964
Current assets of discontinued operations	8,106
Assets of discontinued operations	**11,070**
Property, plant and equipment held for sale	660
Assets held for sale	**11,730**
Noncurrent liabilities of discontinued operations	1,714
Current liabilities of discontinued operations	1,556
Liabilities of assets held for sale	**3,270**

Assets and liabilities of discontinued operations concern the assets and liabilities of Gällivare PhotoVoltaic AB, Sweden. We refer to our comments in item 34. The disclosures concern assets and liabilities after debt consolidation.

Property, plant and equipment held for sale concern several machines that can no longer be employed in the manufacturing process due to modified manufacturing proceedings and are scheduled for sale in the short run. In the course of reclassifying these machines to assets held for sale, impairments of k€ 1,406 were recognized. The remaining value equals the expected net selling price less cost to sell and results from market observations with regard to used machinery of this kind. The impairment expenses are recognized in other operating expenses.

49. Prepaid expenses and deferred charges and deferred income

Prepaid expenses and deferred charges include prepaid expenses. Deferred income includes earnings cashed in in advance.

50. Equity

Subscribed capital and capital reserve

Per balance sheet date, the capital stock amounts to m€ 111.7 (prior year: m€ 55.86) and exclusively comprises common stock in a total amount of 111,720,000 no-par bearer stocks.

The shareholders' meeting of May 24, 2007 decided an increase in capital stock from m€ 55.86 to m€ 111.72 from company resources. The capital increase was entered in the commercial register on June 22, 2007.

The shareholders' meeting of May 25, 2005 authorized the Executive Board to increase – upon approval of the Supervisory Board – the capital stock by a total of € 2,100,000.00 until Dec 31, 2009.

After partial utilization of the authorization granted by the shareholders' meeting of May 25, 2005 in the scope of a capital increase in 2006, the remaining approved capital amounts to € 1,510,000.00.

At the shareholders' meeting of May 24, 2006, the Executive Board was authorized to increase – upon approval of the Supervisory Board – the capital stock by a total of € 5,472,500.00 until December 31, 2010.

At the shareholders' meeting of May 24, 2007, the Executive Board was authorized to increase – upon approval of the Supervisory Board – the capital stock by a total of € 20,947,500.00 until December 31, 2011.

For the purpose of authorizing the issue of convertible and/or warrant bonds, the shareholders' meeting of May 24, 2006 decided the qualified increase in capital stock by an amount of up to € 6,982,500.00. Due to the conducted capital increase from company resources, the qualified capital amounted to € 27,930,000.00 at balance sheet date December 31, 2006. The shareholders' meeting of May 24, 2007 decided the revocation of this resolution.

The shareholders' meeting of May 24, 2007 authorized the company to acquire company shares to an extent of up to 10 per cent of the capital stock. In accordance with § 71 para. 1 No. 8 AktG, the authorization is subject to a fixed term and expires per 12 midnight of November 24, 2008.

Other reserves

a) Exchange reserve
The exchange reserve includes differences from currency translation with regard to financial statements of foreign subsidiaries.

b) IAS 39 reserve
This reserve includes gains and losses from hedging relations that were classified highly effective in the scope of cash flow hedges. With regard to deferred taxes set off against the IAS 39 reserve, we refer to item 32.

Dividend suggestion
The Executive Board suggests the distribution of a dividend of € .14 per share for the reporting year 2007. The payment of this dividend depends on the approval of the shareholders' meeting in May 2008 and will, if approved by the shareholders, amount to some m€ 15.6.

51. Noncurrent and current financial liabilities

in k€

	Dec 31, 2007	Prior year
Issued promissory note loans	421,137	0
Issued senior notes (US-Private Placement)	118,678	25,446
Bank loans	82,017	127,638
Derivative financial instrument of which in hedging relation: k€ 9,707 (prior year: k€ 429)	9,707	775
Bonds	9,286	9,678
Others	340	0
	641,165	**163,537**

Bank loans are hedged by customary chattel mortgage of property, plant and equipment and inventories as well as by land charge creation in an amount of m€ 35.2 (prior year: m€ 51.5), both of which are the respective group companies' responsibility.

52. Accrued investment grants

The item includes accrued capital investment bonuses and investment grants. They are all classified as non-current even to the extent to which they will have to be reversed in the course of the following year because they exclusively concern property, plant and equipment.

The capital investment bonuses and investment grants are subject to a number of requirements. In accordance with today's knowledge, we will be able to meet all of these requirements. Thus, repayment obligations are not expected to arise.

53. Noncurrent and current provisions

in k€

	As per Jan 1, 2007	Utilization	Reversal	Addition	Currency exchange	As per Dec 31, 2007
Warranties	8,623	270	14	1,455	-166	9,628
Pensions	7,749	356	0	430	0	7,823
Building restoration obligations	1,747	42	0	3,518	-324	4,899
Repayment bonuses and grants	39	0	39	0	0	0
Other provisions	1,149	340	442	179	-22	524
	19,307	**1,008**	**495**	**5,582**	**-512**	**22,874**

The provision for warranties is set up for specific individual risks, for the general risk of being called upon in accordance to statutory warranty regulations and performance guarantees granted with regard to photovoltaic modules sold. The provision for the risk of being called upon for performance guarantees is set up in an amount of .25 per cent of all of **SolarWorld** Group's revenue. Due to the noncurrent-nature of the provision (performance guarantees are granted for a period of 25 years), it is subject to compounding at matched maturity interest.

The provision for building restoration obligations concerns tenant fixtures that have to be removed by **SolarWorld** after expiration of the lease term. The addition in the reporting year basically results from a reevaluation of the potentially necessary deconstruction measures in the USA and reconstruction measures executed in the course of the business year.

The increase of the provision was added to the respective tenant fixtures in accordance with IFRIC 1. Thus, the increase does not affect the reporting year's profit or loss. Due to little remaining useful lives of individual tenant fixtures, a large part of the respective additions will become recognized through profit and loss in the next reporting year.

Pension provisions

Pension provisions include the promises of retirement benefits to employees of the group on the basis of direct compensation. The pension claims earned depend on the amount of pay at retirement.

The following measurement parameters were uniformly used as a basis for calculating the DBO (defined benefit obligation):

	Dec 31, 2007	Prior year
Calculatory interest	5.40%	4.25%
Rate of compensation increase	2.5%	2.5%
Rate of pension progression	2.0%	1.5%

The Heubeck standard tables RT 2005 G were utilized for mortality and invalidity.

Reconciliation of the DBO with the balance sheet occurs as follows:

in k€

	Dec 31, 2007	Prior year
Measured obligation	7,419	8,200
outstanding actuarial gains (+)/ losses (-)	404	-451
Pension provision	**7,823**	**7,749**

The DBO's development is shown below:

in k€

	Dec 31, 2007	Prior year
Extent of the obligation per Jan 1	8,200	0
Addition due to business combination	0	7,884
Interest expenditure	349	181
Expenditure of the period	82	46
Pension payments and other claiming of benefits	-357	-362
New actuarial gains (+) / losses (-)	-855	451
Extent of the obligation per Dec 31	**7,419**	**8,200**

Outstanding actuarial gains (+) and losses (-) are the result of:

in k€

	Dec 31, 2007	Prior year
As per Jan 1	-451	0
Redemption	855	0
Origin	0	-451
As per Dec 31	**404**	**-451**

54. Other noncurrent and current liabilities

in k€

	Dec 31, 2007	Prior year
Customer advances	169,844	61,999
Profit-oriented employee compensation	24,746	13,414
Other personnel obligations	11,178	7,523
Outstanding invoices	6,759	1,898
VAT	3,546	3,143
Claimed contributions	1,423	4,302
Others	10,609	10,916
	228,105	**103,195**

55. Deferred tax liabilities

Deferred tax liabilities entirely results from accounting policies for recognition and measurement of assets and equity and liabilities that differ from the tax principles. The item's development is included in the comments on tax expenses.

56. Current income tax liabilities

The item includes corporation and trade tax assessed by the tax authorities and calculated or estimated by the group companies as well as corresponding foreign taxes including those amounts that will probably result from tax field audits performed.

With regard to potentially generated future tax profits of **SolarWorld** Industries America LP, Camarillo, **SolarWorld** Group is additionally burdened with German corporation tax plus solidarity surcharge irrespective of American taxation. This might make for future tax payments in a maximum amount of k€ 19,244 for **SolarWorld** Group. No current or deferred tax liabilities had to be set up in this regard as these tax payments neither concern the current period or previous periods nor result from temporary differences.

Other comments

57. Other financial obligations

in k€

	Dec 31, 2007	Prior year
Financial commitments from raw materials and license agreements	1,411,985	996,719
Financial commitments from investments in property, plant and equipment	138,248	14,313
Financial obligations from lease agreements concluded for several years	6,730	8,019
Financial obligations from service agreements	0	310
	1,559,192	**1,019,361**

58. Contingencies and events after the balance sheet date

A comprehensive presentation of corporate risks and events after the balance sheet date is included in the group management report which, in accordance with German laws and regulations, is to be prepared and published at the same time as these consolidated financial statements. The group management report goes into detail with regard to the expectations for future development of selling prices and the overall market.

SolarWorld AG executed the sale of 65 per cent of the shares in Gällivare PhotoVoltaic AB, Sweden after the balance sheet date.

59. Financial instruments

a) Capital structure management

A comprehensive presentation of the principles and objectives regarding the group's capital management is included in the group management report that, in accordance with German laws and regulations, is to be prepared and published at the same time as these consolidated financial statements. The details are given in the scope of the group's financial position.

b) Principles and objectives of finance risk management

With regard to its assets, liabilities and future transactions already set and planned, **SolarWorld** Group is exposed especially to risks from changes of exchange and interest rates. Objective of financial risk management is the limitation of these market risks by way of operating and finance-oriented activities. For this purpose, selected derivative and non-derivate financial instruments are utilized in accordance with the estimation of the risk. On principle, however, only those risks are adressed that have consequences on the group's cash flow. Derivative financial instruments are exclusively used as hedging instruments but not for trading or speculation purposes. To minimize default risks, hedging agreements are only concluded with leading financial institutions that have a credit rating in the investment grade area.

With regard to the investment of liquid funds, **SolarWorld** Group aims at attaining a rate of return slightly exceeding the money market level. Thus, **SolarWorld** Group invests free liquid funds in financial investment products in the form of investment funds, promissory notes and investment certificates. To limit the risks from changes in market prices, the investments are limited to financial investment products whose risk structure can be allotted to the money, debt securities and real estate market. Moreover, central management and broad diversification of the securities portfolio with regard to different market risks works against the establishment of risk concentrations. To minimize default risks, promissory notes and investment certificates are purchased only from leading financial institutions that have a credit rating in the investment grade area.

The financial policy basics are continuously coordinated by the Executive Board and supervised by the Supervisory Board. Implementation of the financial policies and ongoing risk management is managed by the respective departments, which report to the Executive Board on a regular basis.

c) Currency risks

SolarWorld Group's currency risks basically result from financing measures and operating activities. Foreign currency risks are adressed to the extent to which they influence the group's cash flows. On principle, risks that result from the translation of assets and liabilities of foreign subsidiaries into the group reporting currency are not adressed. However, hedging of these risks is not entirely ruled out.

In the financing sector, foreign currency risks result from the issuance of senior notes (US-private placement) in US dollar that, however, were fully hedged by application of an interest/currency swap.

In the operational sector, the individual group companies mostly handle their operations in utilization of the respective functional currency. Thus, **SolarWorld** Group's currency risk from operating activities is regarded as rather small. However, **SolarWorld** Group is subjected to foreign currency risks in connection with foreign currency transactions already set and planned. These mainly concern transactions in US dollars in connection with supply of raw materials and sale of products. Due to exchange rate-dependant escalator clauses, they are generally limited. The remaining risks are, in part, hedged by way of derivative (exchange rate futures) and non-derivative financial instruments (currency reserves).

For presentation purposes of market risks, IFRS 7 requires sensitivity analyses that show the consequences of hypothetical changes of relevant risk variables on result and equity. In addition to currency risks, **SolarWorld** Group is also subjected to interest and market price risks. Periodic consequences are determined by linking the hypothetical changes of the risk variables and the financial instruments' portfolio per balance sheet date. This is carried out under the assumption that the year-end portfolio typifies that of the overall year.

Exchange risks in terms of IFRS 7 arise from financial instruments that are denominated in a currency other than the functional currency and are of the monetary type; differences from the translation of financial statements into the group's currency caused by exchange rate changes remain unconsidered. In principle, all non-functional currencies in which **SolarWorld** Group holds financial instruments are considered relevant risk variables.

The significant non-derivative financial instruments aside from, in part, liquid funds, are either denominated in functional currency or are translated into functional currency by way of using derivates. Hence, exchange rate changes basically influence the result only with regard to the liquid funds denominated in foreign currency. Interest income and expenditure from financial instruments are also either directly recognized at functional currency or transferred to functional currency by way of using derivates. Thus, effects on the result cannot emerge in this regard.

However, upon utilization of hedging instruments that are involved in an effective cash flow hedge relationship for hedging currency risks, changes in exchange rates have consequences on the hedging reserve (IAS 39 reserve) recognized in equity. As these are not caused by currency rate change effects, a sensitivity analysis is not carried out.

Had the Euro been revalued (devalued) towards the US dollar by 10 per cent per December 31, 2007, the result would have been k€ 344 [prior year: k€ 866] lower (higher).

d) Interest rate risk

In the scope of determining the financial policy, the Executive Board decided to take up financial liabilities subject to variable rates only in exceptional cases. The original interest-bearing financial liabilities of **SolarWorld** Group are therefore basically either fixed-interest ones or transferred to fixed interest liabilities via use of derivates. All non-derivative financial liabilities are measured at amortized cost. Thus, the non-derivative interest-bearing financial liabilities are not subject to significant change of interest rate-risks in terms of IFRS 7.

Due to the use of hedging instruments that are involved in an effective cash flow hedging relationship for hedging changes of interest rates, however, changes in interest rate level affect the hedging reserve (IAS 39 reserve) recognized in equity. As this is not caused by interest rate risk effects, a sensitivity analysis is not carried out.

Had the market interest rate level been 100 basis points higher (lower) per December 31, 2007, the result would have been k€ 352 [prior year: k€ 896] lower (higher).

e) Other price risks

SolarWorld Group has a securities portfolio that is subject to various price change risks. The securities are basically accounted for at fair value. Thus, changes in market prices directly affect profit and loss.

Had the market price level of the securities included in the portfolio been lower (higher) by a total of 3 per cent per December 31, 2007, the result would have been k€ 15,857 [prior year: k€ 2,957] lower (higher).

f) Default risks

Promissory notes and certificates were exclusively purchased from leading financial institutions with an AA/Aa credit rating. Thus, the default risk is assumed to be very remote in this respect.

With regard to all supplies to customers, collateral is required depending on type and amount of the respective service, credit ratings/ references are collected or historic data from former business relations – especially as regards payment behavior – is used for avoiding default in payment. Hence, the default risk collateral is regarded as rather remote in this case, too.

Besides, the maximum default risk results from the carrying amounts.

g) Liquidity risks

For **SolarWorld** Group, liquidity risks arise from the obligation to redeem liabilities in full and in due time. It is therefore the task of the cash and liquidity management to assure the individual group companies' liquidity at any time.

Cash management for operating activities is carried out in a decentralized manner in the individual business units. **SolarWorld** AG predominantly balances the respective requirements and surpluses regarding the individual units' means of payment in a centralized way by granting and accepting intercompany loans. The central cash management determines the group-wide financial resources requirements on the basis of business planning. Due to available liquidity and existing credit lines, **SolarWorld** Group is not exposed to significant liquidity risks.

Promissory note loans and senior notes issued by **SolarWorld** AG contain regulations that grant creditors the right to demand redemption of the loans before maturity if certain financial ratios are not met (covenants). The respective relevant ratios are constantly monitored and reported to the Executive Board by group controlling. In the course of the business year, these ratios were continuously exceeded and there are no indications at hand that suggest they might not be met in the future.

The following chart shows the future undiscounted cash flows of financial liabilities that affect the future liquidity status of **SolarWorld** Group.

Both interest and redemption payments are taken into account. The interest and redemption payments are based on the contractually stipulated interest and redemption payments. The interest rates last specified prior to December 31, 2007 were used with regard to financial instruments subject to variable rates. The offset cash flows of the respective measurement unit are recognized to the extent to which derivative financial instruments are in an effective hedging relationship with financial liabilities.

in k€

Undiscounted cash flows per Dec 31, 2007	Total	2008	2009	2010	2011	2012	2013 ff.
Issued promissory note loans	**595,621**	22,002	22,036	21,980	21,987	22,042	485,574
Issued senior notes (US private placement)	**181,879**	6,676	6,676	6,676	6,676	6,676	148,499
Bonds	**11,359**	621	621	621	9,496	0	0
Bank loans	**94,861**	16,198	21,781	20,013	15,246	13,876	7,747
Derivative financial instruments with no relation to financial liabilities	**2,280**	2,280	0	0	0	0	0
Trade payables	**32,306**	32,306	0	0	0	0	0
Other liabilities	**33,191**	3,821	6,322	5,633	7,716	9,699	0
Total	**951,497**	**83,904**	**57,436**	**54,923**	**61,121**	**52,293**	**641,820**

in k€

Undiscounted cash flows per Dec 31, 2006	Gesamt	2007	2008	2009	2010	2011	2012 ff,
Issued promissory note loans	**0**	0	0	0	0	0	0
Issued senior notes (US private placement)	**36,302**	1,294	1,294	1,294	1,294	1,294	29,832
Bonds	**12,485**	647	647	647	647	9,897	0
Bank loans	**147,004**	55,756	20,756	15,254	13,588	9,492	32,158
Derivative financial instruments with no relation to financial liabilities*	**129**	129	0	0	0	0	0
Trade payables	**31,909**	31,909	0	0	0	0	0
Other liabilities	**24,686**	5,078	875	6,019	5,393	7,321	0
Total	**252,515**	**94,813**	**23,572**	**23,214**	**20,922**	**28,004**	**61,990**

* deviatingly determined on the basis of expected cash flows

h) Fair values, carrying amounts and residual term of financial instruments in accordance with classes

The following chart shows the fair values and carrying amounts of the financial assets and financial liabilities included in the individual balance sheet items:

Assets Dec 31, 2007	Measurement category IAS 39								
in k€	Designated as at fair value through profit or loss	Held for trading	Loans and receivables	Derivates in hedging relations	Recognition in accordance with IAS 17	**Total carrying amounts**	**Total fair values**	IFRS 7 not applicable	**Total carrying amounts**
Trade receivables			112,922			**112,922**	**112,922**		**112,922**
Other receivables and assets			126			**126**	**126**	3463	**3,589**
Other financial assets	484,683	16,745	27,156	411		**528,995**	**528,227**		**528,995**
Liquid funds			263,862			**263,862**	**263,862**		**263,862**
Total	**484,683**	**16,745**	**404,066**	**411**	**0**	**905,905**	**905,137**	**3,463**	**909,368**

Assets Dec 31, 2006	Measurement category IAS 39								
in k€	Designated as at fair value through profit or loss	Held for trading	Loans and receivables	Derivates in hedging relations	Recognition in accordance with IAS 17	**Total carrying amounts**	**Total fair values**	IFRS 7 not applicable	**Total carrying amounts**
Trade receivables			72,030			**72,030**	**72,030**		72,030
Other receivables and assets			2,465		5,092	**7,557**	**7,557**	14,313	21,870
Other financial assets		98,539	34			**98,573**	**98,573**		98,573
Liquid funds			204,655			**204,655**	**204,655**		204,655
Total	**0**	**98,539**	**279,184**	**0**	**5,092**	**382,815**	**382,815**	**14,313**	**397,128**

Liabilities Dec 31, 2007	Measurement category IAS 39							Residual terms	
in k€	Financial liabilities recognized at amortized cost	Held for trading	Derivates in hedging relations	**Total carrying amounts**	**Total fair values**	IFRS 7 not applicable	**Total carrying amounts**	up to 1 year	between 1 and 5 years	exceeding 5 years
Financial liabilities	631,458	0	9,707	**641,165**	**638,299**	0	**641,165**	13,266	72,558	555,341
Trade payables	32,306			**32,306**	**32,306**		**32,306**	32,306		
Other liabilities	24,746			**24,746**	**24,746**	203,359	**228,105**	41,319	110,778	76,008
Total	**688,510**	**0**	**9,707**	**698,217**	**695,351**	**203,359**	**901,576**	**86,891**	**183,336**	**631,349**

Liabilities Dec 31, 2006	Measurement category IAS 39							Residual terms	
in k€	Financial liabilities recognized at amortized cost	Held for trading	Derivates in hedging relations	**Total carrying amounts**	**Total fair values**	IFRS 7 not applicable	**Total carrying amounts**	up to 1 year	between 1 and 5 years	exceeding 5 years
Financial liabilities	162,762	346	429	**163,537**	**164,658**		**163,537**	50,960	70,662	41,915
Trade payables	31,909			**31,909**	**31,909**		**31,909**	31,909		
Other liabilities	16,158			**16,158**	**16,158**	87,037	**103,195**	32,829	37,983	32,383
Total	**210,829**	**346**	**429**	**211,604**	**212,725**	**87,037**	**298,641**	**115,698**	**108,645**	**74,298**

Trade receivables include receivables from construction contracts in an amount of k€ 6,413 (prior year: k€ 11,595).

Trade receivables, other receivables and assets, liquid funds, trade payables and the most significant part of the other liabilities in the scope of IFRS 7 predominantly have short residual terms. Therefore, their carrying amounts per balance sheet date nearly equal their fair values.

The other liabilities basically include financial liabilities towards employees from the GOMAB program. The liabilities are subject to variable interest rates. Therefore, the fair value at balance sheet date equals the carrying amount.

i) Net gains and losses by measurement category:

in k€

	2007	Prior year
Financial assets designated as measured at fair value through profit or loss	-5,895	0
Financial assets held for trading	2,631	1,737
Loans and receivables	-604	-58

The presentation of net gains and losses does not consider derivates in a hedging relationship. Stand-alone derivates are included in the measurement category “financial assets held for trading“.

In addition to results from market measurement, net profits and losses of the measurement categories “financial assets designated as measured at fair value through profit or loss“ and “financial assets held for trading“ also include interest and currency effects.

The net profits and losses of the measurement category “loans and receivables“ basically concern allowances and appreciations in value.

Net profits and losses from currency effects also arose with regard to the measurement categories “loans and receivables“ and “financial liabilities measured at amortized cost“, but were not allocated to the individual categories for reasons of a cost and benefit consideration. The balance made for a net loss of k€ 2,238 (prior year: k€ 2,590).

j) Hedging

In 2007, **SolarWorld** Group concluded an interest rate swap (“static pay – variable receipt“) with a nominal volume of k€ 40,000 for hedging the cash flow risk of a variable interest loan, the term of the swap expiring at the end of 2013. The variable interest loan was designated as hedged item. This hedging is aimed at transforming the variable interest loan in fixed interest financial liabilities. The fair value of the interest rate swap amounts to k€ 411 at balance sheet date.

For hedging existing currency risks from senior notes denominated in US dollar, **SolarWorld** Group has five cross currency swaps (“static pay in € – static receipt of USD“), the nominal volume of which amounts to a total of kUSD 175,000. The senior notes denominated in US dollar were designated as hedged items. The hedging is aimed at transforming the US dollar liabilities regarding the nominal amount as well as the open interest payments to financial liabilities in Euro. The fair values of the swaps amounted to a total of k€ -7,427 (prior year: k€ -429) at balance sheet date.

In 2007, **SolarWorld** Group concluded exchange rate futures (forward-buying USD/sale Euro) for hedging US dollar cash flows. Firm commitments for purchases of raw materials in US dollar were designated as hedged items.

The nominal volume amounts to k€ 96,000, evenly attributed to the course of the business year 2008. The hedging is aimed at eliminating the foreign exchange rate-induced risk from payments in US dollar. Per balance sheet date, the fair values of the exchange rate futures amount to a total of k€ -2,280.

Proof of prospective effectiveness is provided by way of the critical terms match method. The retrospective effectiveness is regularly provided by means of the hypothetical derivative method. The results of the retrospective effectiveness tests ranged within a scope of 80 to 125 percent. Thus, highly effective hedging can be assumed. An unrealized gain of k€ 3,302 (prior year: k€ -392) was therefore recognized in equity per balance sheet date.

60. Comments on the cash flow statement

Cash flow from discontinued operations
The cash flow statement shows the cash flows including those of discontinued operations. The following cash flow proportions fall upon discontinued operations:

in k€

	2007	Prior year
Cash flow from operating activities	1,051	-1,089
Cash flow from investment activities	-451	-467
Cash flow from financing activities	-676	-702
Net changes in cash and cash equivalents	**-76**	**-2,258**

Cash flow from operating activities
Cash flow from operating activities was prepared in accordance with the indirect method. At first, the pretax result used as a starting point is adjusted by earnings and expenses that are not cash-effective. This makes for the cash flow from operating result. Changes regarding prepayments and customer advances, inventories, securities categorized as held for trading and the remaining net assets are considered in cash flow from operating activities.

Customer advances and prepayments particularly concern noncurrent selling agreements regarding silicon wafers and noncurrent purchase agreements regarding elemental silicon concluded in a timely connection. The following chart illustrates the cash inflows and outflows resulting therefrom:

in k€

	2007	Prior year
Increase in customer advances	103,598	44,751
Increase in prepayments	-131,624	-85,622
Cash flow increase (+) / decrease (-)	**-28,026**	**-40,871**

Interest paid is included in cash flow from financing activities, interest received in cash flow from operating activities

Cash flow from investment activities
Cash flow from investment activities includes payments for asset investments and investment grants received for this purpose. In addition, it includes the payment from a purchase price adjustment for Shell Group's crystalline solar operations acquired in the previous year.

Cash flow from financing activities
Cash flow from financing activities takes into account the increased financial debts as well as appropriations to equity. Dividend distributions to the shareholders of **SolarWorld** AG are included as payments. Lastly, interest paid is shown as part of the cash flow from financing activities.

Cash and cash equivalents
Cash and cash equivalents comprise the balance of the liquid funds recognized on the balance sheet in an amount of k€ 265,580 (prior year: k€ 204,655) and the liabilities due on a daily basis recognized in the item current financial liabilities in an amount of k€ 0 (prior year: k€ 10,402). Part of cash and cash equivalents (k€ 1,718) falls upon discontinued operations.

61. Contingent liabilities
Substantial contingent liabilities did not exist at balance sheet date.

62. Related party disclosures
In the reporting year 2007, the following material transactions involving related parties were carried out:

Sale of photovoltaic modules to the engineering company Frank Heinz Asbeck, the total volume of which amounted to m€ 5.3 (prior year: m€ 14.5). The purpose of the module purchases was the installation and operation of large-scale photovoltaic plants for power input into the public power supply system. Per balance sheet date, outstanding items of m€ 0.1 (prior year: m€ 9.7) were accounted for.

Administrative and commercial real estate in Bonn was leased from members of the Asbeck family, the annual lease amounting to a total of m€ 0.6 (prior year: m€ 0.5).

Goods and services were supplied to Solarpac AG in an amount of m€ 21.7 (prior year: m€ 0.1), m€ 17.8 (prior year: m€ 0.1) of which were still unsettled per balance sheet date because one project was brought to account only per year-end.

Various goods and services were supplied to other companies which are measured at equity and brought to account in an amount of m€ 0.4 (prior year: m€ 0.1). Existing liabilities of m€ 1.4 (prior year: m€ 4.3) result from contribution requirements.

Silicon was purchased from Joint Solar Silicon GmbH & Co. KG, the total purchase volume amounting to k€ 1,149 (prior year: k€ 0).

The law firm of Schmitz Knoth Rechtsanwälte, Bonn, – a party related to the Chairman of the Supervisory Board, Dr. Claus Recktenwald, in terms of IAS 24 – is concerned with **SolarWorld** Group's legal issues; upon approval of the Supervisory Board, a total fee amount of m€ 0.4 (prior year: m€ 0.4) was rewarded for these services in 2007.

The remuneration of the members of the Executive Board is presented in a separate item or in the remuneration report which is part of the management report.

All transactions were handled in compliance with the arm's length principle.

63. Employees

The average number of employees amounted to 1,410 (prior year: 1,062) and falls upon the company's areas of operation or segments as follows:

Number

	2007	Prior year
Wafer production	792	626
Cell production	217	137
Module production	249	191
Commerce and group headquarters	152	108
	1,410	**1,062**

The number of employees per December 31, 2007 amounted to 1,486 (prior year: 1,348), including 66 trainees (prior year: 42).

As concerns the area of discontinued operations (module production), the average number of employees in 2007 was 65 (prior year: 64).

64. Executive Board and Supervisory Board

For assuming their duties in both parent company and subsidiaries in 2007, the members of the Executive Board received a total remuneration of k€ 2,504 (prior year: k€ 2,048), which includes variable remuneration of k€ 1,722 (prior year: k€ 1,295).

For assuming their duties in both parent company and subsidiaries in 2007, the members of the Advisory Board received remunerations including reimbursements in a total amount of k€ 226 (prior year: k€ 188), each plus statutory VAT. The total includes variable remuneration of net k€ 109 (prior year: k€ 72).

Individualized disclosures regarding the remuneration of the Executive Board are included in the company's management report

As hitherto, the Executive Board members are:

Dipl.-Ing. Frank H. Asbeck (Chairman)
Dipl.-Ing. Boris Klebensberger (operations)
Dipl.-Kfm. tech. Philipp Koecke (finance)
Dipl.-Wirtschaftsing. Frank Henn (sales)

At balance sheet date, the Chairman of the Executive Board, Frank H. Asbeck, directly and indirectly held 25 per cent (prior year: 25.96 per cent) of the shares in **SolarWorld** AG.

As hitherto, the Supervisory Board members are:

Dr. Claus Recktenwald (Chairman), Rechtsanwalt, partner with the law firm Schmitz Knoth, Bonn

Dr. Georg Gansen, Rechtsanwalt and in-house lawyer at Deutsche Post AG, Bonn

Dr. Alexander von Bossel, LL.M (Edinb.); Rechtsanwalt, partner with CMS Hasche Sigle, Partnerschaft von Rechtsanwälten und Steuerberatern, Cologne

Frank H. Asbeck, Chairman of the Executive Board, is a member of the Supervisory Boards of Deutsche Solar AG, Freiberg, Sunicon AG, Freiberg, and Gällivare PhotoVoltaic AB, Gällivare, Sweden.

Boris Klebensberger and Philipp Koecke, members of the Executive Board, are members of the Supervisory Board of Gällivare Photo-Voltaic AB, Gällivare, Sweden.

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

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

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

65. Auditor's fees

In 2007, the fees of the auditor of the consolidated financial statements, BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, Hamburg/Bonn, including reimbursement of costs, amounts to:

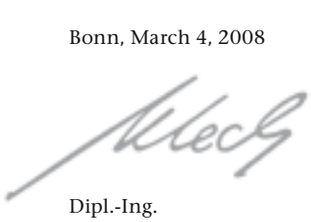
a) Annual audits k€ 535 (prior year: k€ 454)
b) Other certification and valuation services k€ 31 (prior year: k€ 21)
c) Tax consultancy services k€ 59 (prior year: k€ 0)
d) Other services rendered for the parent company or subsidiaries k€ 120 (prior year: k€ 153)

The total amount was accounted for as expenditure.

66. Corporate Governance

On August 6, 2007 and August 9, 2007, Supervisory Board and Executive Board, respectively, issued the statement required by § 161 AktG, stating that the recommendations of the "Regierungskommission Deutscher Corporate Governance Kodex" ("Government Commission German Corporate Governance Code") as announced by the Federal Ministry of Justice were and are complied with. The statement is published on the company's website.

Bonn, March 4, 2008



Dipl.-Ing.
Frank H. Asbeck
Chairman of the Board

Dipl.-Wirtschaftsing.
Frank Henn
Executive Board member/Sales

Dipl.-Kfm tech.
Philipp Koecke
Executive Board member/Finance

Dipl.-Ing.
Boris Klebensberger
Executive Board member/Operations

Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement, the notes to the consolidated financial statements, the cash flow statement, the statement of changes in equity, the segment reporting, and the group management report of the SolarWorld AG, Bonn, for the business year from January 1st 2007 to December 31st 2007. The preparation of the consolidated financial statements and group management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany/IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Bonn, March 4, 2008

BDO Deutsche Warentreuhand		
Aktiengesellschaft	Schäfer	ppa. Lubitz
Wirtschaftsprüfungsgesellschaft	Auditor	Auditor

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Bonn, March 4, 2008

SolarWorld AG
Board of Management

Dipl.-Ing.
Frank H. Asbeck
CEO

Dipl.-Wirtschaftsing.
Frank Henn
CSO

Dipl.-Kfm tech.
Philipp Koecke
CFO

Dipl.-Ing.
Boris Klebensberger
COO

SUSTAINABILITY REPORT ANNEX FOR THE CALENDAR YEAR 2007

GRI Application Framework

Report Applicaiton Level	C	C+	B	B+	A	A+
Standard Disclosures – G3 Profile Disclosures – OUTPUT	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4 , 4.14 - 4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
Standard Disclosures – G3 Management Approach Disclosures – OUTPUT	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach disclosed for each Indicator Category	
Standard Disclosures – G3 Performance Indicators & Sector Supplement Performance Indicators – OUTPUT	Report on a minimum of 10 Performance Indicators, including at least one from each of: social, economic, and environment.		Report on a minimum of 20 Performance Indicators, at least one from each of: economic, environment, human rights, labor, society, product responsibility.		Respond on each core G3 and Sector Supplement* indicator with due regard to the materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission.	

*Sector supplement in final version

Step I
Self-declaration

Step II
The KPI section was audited by BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft. BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft also takes account of information from auditing to ISO 9001 and 14001. Unless otherwise indicated, the GRI data refer to the **SolarWorld** Group.

Step III
The GRI has confirmed that our reporting meets the requirements of Application Level A+.

- ● Reported in full
- ◦ Reported in part
- *Data* *Data not available*
- *N.M.* *Not material*
- *N.A.* *Not applicable*
- [1] *Reason type 1*
- [2] *Reason type 2*
- [3] *Reason type 3*

Overview

Disclosure to GRI standard		Page	Status
1.1	Statement from the most senior decision maker	31, 36, 38, 82, E	●
1.2	Key impacts, risks and opportunities	24, 32, 44, 47, 69, 75, 82, 88, G, N, P, X	●
2.1	Name of organization	10	●
2.2	Brands, products, services	23	●
2.3	Operational structure	10	●
2.4	Location of organization's headquarters	21	●
2.5	Countries where the organization operates	22	●
2.6	Nature of ownership	54	●
2.7	Markets served	22	●
2.8	Scale of organization	23, 58, 68	●
2.9	Significant changes in size, structure or ownership	86	●
2.10	Awards	J	●
3.1	Reporting period	L	●
3.2	Date of last report, if applicable	L	●
3.3	Reporting cycle (annual, biennial, etc.)	L	●
3.4	Contact for questions on report or its contents	L	●
3.5	Process for defining report content	L	●
3.6	Reporting boundary	L	●
3.7	Limitations on scope of reporting	L	●
3.8	Joint ventures, subsidiaries, leased facilities, outsourced operations	L	●
3.9	Data measurement techniques	M	●
3.10	Re-statement of information from earlier reports	M	●
3.11	Changes in reporting scope, boundary or measuring methods	M	●
3.12	GRI index	This table	●
3.13	External assurance	M	●
4.1	Governance structure of the organization	25, M	●
4.2	Indication whether the Chair of the highest governance body is at the same time the Managing Director	25, M	●
4.3	Details of unitary organization	25, M	●
4.4	Mechanisms for recommendations or instructions to the highest governance body	25, M	●
4.5	Relationship between compensation for members of the highest governance body, senior executives, and members of the Executive Board on the one hand, and the organization's performance on the other	82, M	●
4.6	Mechanisms for avoidance of conflicts of interest within the highest governance body	25, 34, 83, M, P	●
4.7	Qualifications and expertise of members of the highest governance body with respect to sustainability topics	M	●
4.8	Statements of mission, code of conduct, principles	31, 49, 71, 82, 83, N	●
4.9	Procedures of highest governance body for overseeing sustainability performance	49, 71, 82, 88, N	●
4.10	Procedures for evaluating the highest governance body's own performance	N	●
4.11	Precautionary principle	49, 53, 82, 88, N	●
4.12	External agreements, principles or initiatives	46, 78, N	●
4.13	Memberships	O	●
4.14	Stakeholder groups	P	●

4.15	Selection of stakeholders	82, 83, P	●
4.16	Engagement of stakeholders	47, 82, 103, M, P	●
4.17	Key topics and concerns raised by stakeholders	Q	●
5.	Management approach EC, EN, LA, HR, SO, PR	31, 35, 49, 71, 82, Q R-S	●
Economic		**Page**	**Status**
EC1	Direct economic value generated and distributed	16, T	●[1, 3]
EC2	Financial implications due to climate change	88, T	●
EC3	Coverage of organization's defined benefits plan	70, U	●[2]
EC4	Financial assistance received from government	U	●
EC5	*Entry level wage compared to local minimum wage*	*Additional indicator*	*Data*
EC6	Selection of locally based suppliers	U	●
EC7	Locally based hiring of employees	U	●
EC8	Infrastructure investments and services provided mainly for public benefit	V	●
EC9	*Indirect economic impacts*	*Additional indicator*	*N.M.*
Environmental		**Page**	**Status**
EN1	Materials used	V	●[2, 3]
EN2	Recycled input materials	V	●[2, 3]
EN3	Direct primary energy consumption	V	●[1]
EN4	Indirect primary energy consumption	V	●[1]
EN5	*Energy savings*	*Additional indicator*	*Data*
EN6	*Initiatives for energy-efficiency and renewable energy*	*Additional indicator*	*Data*
EN7	*Initiatives to reduce indirect energy consumption and reductions achieved*	*Additional indicator*	*Data*
EN8	Total water withdrawal	W	●[1]
EN9	*Impact of water consumption*	*Additional indicator*	*N.M.*
EN10	*Water recycled and reused*	*Additional indicator*	*Data*
EN11	Land in or adjacent to protected areas or areas of high biodiversity value	W	●
EN12	Impact on biodiversity	W	●
EN13	*Habitats protected or restored*	*Additional indicator*	*N.M.*
EN14	*Strategies for protection of biodiversity*	*Additional indicator*	*N.M.*
EN15	*Threatened species*	*Additional indicator*	*N.M.*
EN16	Greenhouse gas emissions	W	●
EN17	Other relevant indirect greenhouse gas emissions	X	●[2]
EN18	*Initiatives to reduce greenhouse gas emissions*	*Additional indicator*	*Data*
EN19	Emissions of ozone-depleting substances	X	●
EN20	NOx, SOx and other air emissions	X	●
EN21	Total water discharge	X	●[1, 2]
EN22	Waste by type and disposal method	X	●[1, 2]
EN23	Significant spills	X	●
EN24	*Hazardous waste under Basel Convention*	*Additional indicator*	*N.A.*
EN25	*Impact of water discharges on biodiversity*	*Additional indicator*	*N.A.*
EN26	Initiatives to mitigate environmental impacts	X	●
EN27	Packaging materials	Y	●[2]
EN28	Sanctions for non-compliance with environmental laws and regulations	Y	●
EN29	*Environmental impacts of transporting*	*Additional indicator*	*Data*
EN30	*Environmental protection expenditures*	*Additional indicator*	*Data*

- ● Reported in full
- ● Reported in part
- *Data* *Data not available*
- *N.M.* *Not material*
- *N.A.* *Not applicable*
- [1] *Reason type 1*
- [2] *Reason type 2*
- [3] *Reason type 3*

Social		Page	Status
LA1	Total workforce by employment type, employment contract and region	68, Y	● [2, 3]
LA2	Employee turnover	71, Z	● [2, 3]
LA3	*Benefits to full-time employees*	*Additional indicator*	*Data*
LA4	Employees covered by collective bargaining agreements	Z	●
LA5	Minimum notice periods regarding significant operational changes	Z	●
LA6	*Employees represented in health & safety committees*	*Additional indicator*	*N.M.*
LA7	Injuries, occupational diseases, lost days, absenteeism and work-related fatalities	71, Z	● [2, 3]
LA8	Education and training on serious diseases	AA	●
LA9	*Health & safety topics covered in agreements with trade unions*	*Additional indicator*	*N.M.*
LA10	Initial and further training for employees	70, AA	● [2]
LA11	*Programs for skills management and life-long learning*	*Additional indicator*	*N.M.*
LA12	*Performance and career development reviews for employees*	*Additional indicator*	*Data*
LA13	Composition of governance bodies	AA	● [2, 3]
LA14	Ratio of basic salary of men to women	AB	● [2, 3]
HR1	Investment agreements	AB	●
HR2	Screening of suppliers and contractors on human rights	AB	●
HR3	*Training on aspects of human rights*	*Additional indicator*	*N.A.*
HR4	Incidents of discrimination	AB	●
HR5	Freedom of association and collective bargaining	AB	● [2]
HR6	Child labor	71, AC	● [2]
HR7	Forced and compulsory labor	71, AC	● [2]
HR8	*Training of security personnel*	*Additional indicator*	*Data*
HR9	*Violations of rights of indigenous people*	*Additional indicator*	*N.A.*
SO1	Impact on communities	AC	● [2]
SO2	Risks related to corruption	AC	●
SO3	Training in anti-corruption policies	AC	●
SO4	Corruption incidents and action taken	AC	●
SO5	Lobbying	AC	●
SO6	*Contributions to political parties, politicians and related institutions*	*Additional indicator*	*N.M.*
SO7	*Legal actions for anti-competitive behavior*	*Additional indicator*	*N.A.*
SO8	Sanctions for non-compliance with laws and regulations	AD	●
PR1	Impacts on customer health and safety	AD	●
PR2	*Non-compliance with health and safety regulations and voluntary codes*	*Additional indicator*	*N.A.*
PR3	Product information	AD	●
PR4	*Non-compliance with codes concerning product labeling*	*Additional indicator*	*N.Z.*
PR5	*Customer satisfaction*	*Additional indicator*	*Data*
PR6	Standards related to advertising	71, AD	●
PR7	*Non-compliance with marketing standards*	*Additional indicator*	*N.A.*
PR8	*Breaches of customer data privacy*	*Additional indicator*	*N.A.*
PR9	Sanctions for non-compliance with product and service regulations	AD	●
+	Confirmation	AE	●
+	No appropriate sector supplements exist		*N.A.*

Strategy and management

1.1

Preface

Dear customers, shareholders, employees and friends of SolarWorld AG,

This year we have engaged very intensively with the issue of sustainability. Sustainable management is a basic principle of **SolarWorld**, and one which we want to meet particularly in our position as an international group.

But what are the characteristics of sustainable management, and why is it so important to engage so closely with it? We share the generally held view that sustainable development is development which enables the present generation to meet its needs without compromising the ability of future generations to meet their own needs. This also means that the needs of the individuals in the present generation must be satisfied both in rich countries and in poor ones – an ambitious goal. Sustainability can be considered in three dimensions – economic, environmental and social, and these three always have to be considered in context (that is in an integrated way).

This integrated approach means that opportunities and risks can be anticipated better by means of sustainability management. So we are convinced that sustainable management will in future be decisive for innovative and competitive abilities, not only in industrialized countries, but also in developing and emerging countries. These regions are of the greatest importance to us in terms of developing new markets.

Solar energy is our answer to climate change and increasing scarcity of resources. It is our core competency. But also beyond that, our actions must be consistently guided by principles of sustainability. That is why we developed a group-wide sustainability management system in 2007, and we intend to expand and implement it further in 2008.

We use the GRI reporting framework, because it is the result of a dialogue process between stakeholders, and sets a generally applicable, international standard. We have decided to publish an integrated group and sustainability report, because we believe that is the best way to meet the ideals of sustainability.* We are using the GRI reporting framework for the first time, so we are reporting as comprehensively as we are able to based on the current state of data.

Group management report
20

Despite the very short preparation period, we have succeeded in reaching reporting level A+ already in the very first time. In the course of time, we intend to enlarge the boundary and contents of our reporting.

Corporate control, goals and strategy 31
Quality and environmental management 49
Sustainability 82

For further information on our vision and strategy, I refer to the group management report.* The main focus of our sustainability strategy is on issues of our quality and environmental management* and our commitment to concerns of society.* The basis of that is our economic success, which gives us the necessary freedom of action.

On behalf of the Executive Board, I invite you to gain your own impression of the achievements and challenges of the **SolarWorld** Group, which are described in summary form in this report. We welcome your comments and ideas, and wish to encourage you to enter into a dialogue with us via sustainability@solarworld.de. We look forward to your feedback!

www.solarworld.de/sustainability

Please also visit our website. You will find more detailed information there on our social commitment.*

Dipl.-Ing. Frank H. Asbeck
Chairman of Executive Board, **SolarWorld** AG

1.2

Key impacts of organization on sustainability and consequences for stakeholders

Stakeholder	Main impacts on sustainability	Opportunities and risks for SolarWorld	Achievements & measures taken by SolarWorld in reporting period
Employees	+ Creation of jobs + Organization of working conditions (Health & Safety, pay, social benefits, flexible working, corporate culture) + In-company qualification: range of initial and continuing training programs + Law-abiding behavior, complying with rights of employees	**Opportunities** + Support among population, contribution to social growth + Interest of job seekers in the company + Retention of employees in the company + Knowledge building in the company **Risks** - Sanctions - Internal resignation of employees - Departure of employees - Loss of know-how - Accidents - Negative climate at work-place	+ Creation of 108 jobs (422 including temporary workers) + Participation in study on "Germany's Best Employers 2008" + GOMAB (profit sharing) + BAV (pension scheme) + Declining accident rate + Declining sickness rate + Home office/part-time work available as option for all employees + Expansion of initial and continuing training + No infringements + Compliance with group-wide corporate ethics + Acceptance of main aspects into group-wide integrated sustainability management
Customers (wholesale, installers, also end consumers)	+ Compliance with quality standards + Recycling of old modules + Customer orientation (value for money, warranties, delivery reliability, service)	**Opportunities** + Growth and security due to strong customer relations and gaining new customers **Risks** - Sanctions - Losses due to insufficient customer orientation	+ Customer satisfaction analysis conducted for the 3rd year in succession® + Quality management: Successful quality assurance® + Compliance with group-wide corporate ethics® + Taking up main aspects into group-wide integrated sustainability management
Suppliers	+ Fair business relations + Reliability	**Opportunities** + Growth and security due to secured supplier relations **Risks** - Sanctions	+ Compliance with group-wide corporate ethics + Quality management®
Investors (shareholders, institutional investors, analysts as intermediaries)	+ Profitability as basic requirement + Sound prospect for investors, thanks to transparency, accurate data and sound corporate management	**Opportunities** + Preference over other companies, inclusion in sustainability funds + Freedom of action **Risks** - Sanctions - Poor capital market performance	+ Compliance with group-wide corporate ethics + Inclusion of main aspects in group-wide integrated sustainability management
Society (local community, municipality, Land government, professional associations, NGOs, interested public)	+ Protection of resources and the climate, and other environmental aspects + Contribution to technological progress + Fair competition - Energy consumption - Material consumption - Water consumption - Waste generation - CO_2 emissions	**Opportunities** + Differentiation in market due to environment and sustainability management as well as by sustainable product + Support in population **Risks** - Sanctions - Pollution of environment by business operations	+ Promoting research, raising awareness + Compliance with group-wide corporate ethics + Acceptance of main aspects into group-wide integrated sustainability management + Establishment of an environmental management system at the Bonn and Freiberg sites

47 Trading
47 Trading
Code of Conduct, see www.solarworld.de/sustainability
49 Quality and environmental management

Specifically in poor regions/ developing countries	+ Contribution to regional development	**Opportunities** + Support in the population + Presence in developing markets **Risks** - Project risks	+ Further Solar2World projects initiated

For us compliance with the legal requirements is fundamental to our operations. The concept of sustainability is also a part of our ethical management. We are convinced that this long-term approach will make us successful (e.g. by means of cost and/or risk reduction).

Priority	Sustainability trend	Opportunities and Risks	Value enhancement factor
High	Recycling of end products could become mandatory in the future	**Opportunity** + Building strategic competence in this sector (currently market leader), because we invested early in this sector and continue to invest in it	• Toughening of legal requirements • Internal further development of the processes, in particular for handling volume impurities • Capacity expansion of recycling unit
Medium	Superior performance of sustainability indices and funds	**Opportunity** + Eligibility for sustainability funds **Risk** - Inadequate application of voluntary reporting standards prevents inclusion in funds	• Consideration of sustainability factor in placements by investors • Application of internationally recognized sustainability standards in our reporting
High	Dynamism of photovoltaic industry	**Opportunity** + Risk reduction by comprehensive analysis + Anticipation of future developments + Hedging and cost reduction **Risk** - Short-term action or lack of focus on the essentials	• Early inclusion of possible scenarios in decision making
High	Pressure of competition in the photovoltaic industry	**Opportunity** + Cost reduction by ecological processes (eco-efficiency) **Risk** + Investment in unduly expensive and complicated processes	• Generating competitive advantages and higher margins

Sustainability; Opportunity and risk management system 82, 88

Our governance mechanisms, set up to handle the opportunities and risks indicated above, are our quality and environmental management, our risk management and our integrated sustainability management.*

Research and development 74

The goals, goal achievement and experience from the current operating period: the following tables include only key strategic aspects. Self-evident matters minor activities are not mentioned, because that would go beyond the scope of this framework. Apart from the goals indicated in the section on research and development,* these points have a direct impact on sustainability.

Goals 2007	Goal achievement	Experience
Reduction of energy consumption in silicon production	Reduction of energy consumption in JSSI by 90%	* See cross reference
Global standardization of modules	Roll-out of global module	* See cross reference
Compensation of a part of the emissions of business flights	Cooperation with NetJets in the framework of the Climate Initiative*	Declaration of intent on the part of the company; NetJets calculates the emissions and the costs
Implementation of project "Trainees Full of Energy"	Implementation of a package of measures developed by the trainees	* See cross reference

Strategic raw materials activities 44
Trading 47
EN17
Employees 68
Sustainability 82

As our sustainability management is very closely linked with the core business activity of our company* and refers to details in production, customer retention, human resources management, we cannot disclose sensitive data and goals in this area. So it is simply indicated for these points that we have defined internal goals or are currently working them out.

Goals 2008+	Goal achievement	Horizon
To maintain and if possible exceed the forecast for sales and earnings growth	25 to 30 per cent sales growth and 25 to 30 per cent EBIT growth	12/2008
To increase customer satisfaction	Internal goal	12/2008
To gain new customers	Internal goal	12/2008
To increase process efficiency	Internal goal	12/2008
To reduce costs	Internal goal	12/2008
To reduce resource consumption	Internal goal Focus on energy, waste, water, product efficiency and emissions	12/2008
To gain and retain qualified technical and management personnel	Internal goals	12/2008
To enhance corporate presence	Continuation and further development of voluntary certification (e.g. ISO) and disclosure (e.g. Carbon Disclosure Project, GRI)	12/2008
To raise awareness of protection of resources and the climate	Individual projects (see www.solarworld.de/sustainability)	12/2008
To promote research	Individual projects (see www.solarworld.de/sustainability)	12/2008
To contribute to regional development	Individual projects (esp. Solar2World, (see www.solarworld.de/sustainability)	12/2008
To put code of conduct online	Publication on website (www.solarworld.de/sustainability)	2008
To procure electric power exclusively from renewable sources	Own projects/Switch to renewable power provider in Germany and the USA	12/2009
To compensate for all CO_2 emissions resulting from business flights	Conduct of Solar2World projects to compensate for emissions	12/2009

2.10

Awards and distinctions obtained in reporting period:

Finance Top Deal Award 2007
Award for outstanding performance in the M&A sector: In November **SolarWorld** AG was awarded the prize for the best transaction with a volume of up to 100 million €. This award was given for the successful acquisition of Shell's crystalline solar activities in fiscal year 2006.

Most profitable company 2007 (Handelsblatt)
The Handelsblatt's annual "Company check" ranking in August identified **SolarWorld** AG as Germany's most profitable company in 2006, with 25.3 per cent return on sales.

Highest earning company 2007 (Handelsblatt)
The Handelsblatt ranking of Germany's highest earning companies put **SolarWorld** AG in third position. This assessment, made in September, was based on the indicators Equity Ratio, Return on Investment (ROI), Cash Flow/Sales Volume and Cash Flow/Capital.

Europe's best corporate groups (manager magazin)
An analysis by manager magazin on long-term value increase of companies put **SolarWorld** AG in third position among Europe's 500 biggest companies. **SolarWorld** AG also took top position in the category of highest share price gains and top position in individual assessment in the industrial goods sector.

Best annual reports 2006 (Handelsblatt)
The assessment of annual reports on fiscal year 2006 by the Handelsblatt put **SolarWorld** in 16th position (versus 55th position for 2005), with an overall score of 905 points (out of a maximum of 950 points). **SolarWorld**'s report took 2nd position among the TecDAX companies.

Best annual reports 2006 (manager magazin)
The assessment of annual reports for fiscal year 2006 by manager magazin put **SolarWorld** in 3rd place among the TecDAX companies. The assessment was made in the categories content, style and language.

Best IR department (Börse Online)
Readers of the business magazine "Börse Online" rated the Investor Relations department of **SolarWorld** AG as the best of all the TecDAX companies. This survey focused on the credibility and comprehensibility of corporate communication.

Deloitte Technology Fast 50 competition
The Technology Fast 50 prepared by Deloitte honors the 50 fastest growing companies in the technology sector for their company performance. **SolarWorld** took 32nd place in 2007. Assessment is based on sales from 2002 to 2006. The competition was started in the US in 1997 and is now held in more than 10 countries. In 2007 the competition was held in Germany for the fifth time (supported by Capital, Deutsche Börse and Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA) e.V.).

The following criteria have to be met:

> It must be a technology company with the following characteristics: self-developed technology contributes a significant proportion of the company's sales revenues; use of technology developed by others does not make the company eligible for participation. A significant proportion of the sales volume is used for research and development of technology.
> Sales volume is at least € 50,000 for fiscal year 2002 and at least € 1,000,000 for fiscal year 2006.
> The company's head office is in Germany.

Germany's best employer 2008

SolarWorld AG was chosen by the Great Place to Work® Institute Deutschland as one of the best employers in Germany, with strong support from an employee survey. **SolarWorld** AG took 57th position out of 100 award-winning companies.

A key element in the assessment of quality and attractiveness of the company as an employer was an anonymous survey of employees, asking about credibility and fairness of senior management, identification with their own activity and the company as well as about quality of cooperation. In addition, those responsible for human resources had to give information on the performance, concepts and activities of the company in the human resources area.

Hidden Champions of the 21st century (Hermann Simon)

In his new publication, "Hidden Champions of the 21st Century", Hermann Simon presents the success strategies of little-known world market leaders. **SolarWorld** AG is one of the companies cited.

Best company in the Deloitte Study "Best Practices in SD-KPIs"

SolarWorld took first place in the Deloitte ranking on integration of SD-KPIs (Sustainable Development Key Performance Indicators) in corporate management reports. Many companies show such indicators only in the voluntary part of their annual report, or in a separate sustainability report. **SolarWorld** leads the Top 12, followed by TUI and BASF.

Top individual stock in sustainable stock funds

A study by "Finance & Ethics Research" (status: January 2008) identifies **SolarWorld** AG as the top individual stock in sustainable share funds in 2007.

Balance between performance and enviroment

A survey conducted in August 2007 by the auditors and tax consultants Dr. Kleeberg & Partner and the corporate communications agency Kamman & Kuhn AG focused on the climate change issue in the capital market, and the balance between performance and environmental impact. This survey was based on the 10 companies listed in the ÖkoDAX (renewable energy index) of Deutsche Börse AG. **SolarWorld** AG was named as one of the three leading companies in terms of transparent presentation of its business model and climate protection, and communication of forecasts and risks. We will continue to operate with this transparency in the future.

3.1: Reporting period: Calendar year 2007

3.2: First report

3.3: Cycle: annual

3.4: Contact: IR Department

3.5

Materiality: Materiality is determined by the economic, environmental and social/societal impact of the various topics and indicators. Disclosure is effected for the purpose of informing stakeholders. It includes the topics and indicators which significantly influence the assessments and attitudes of stakeholders. We assume in principle that all Core Indicators contain significant information for the stakeholders in all organizations. In some cases there was not sufficient data available for Additional Indicators. The other indicators were not considered relevant.

Priorities: As this is the first time that we are reporting in the GRI framework, we have included the Core Indicators only to the extent permissible with the current data situation. In some cases we have internal data which we are not able to disclose because it includes confidential information. We are making every effort to increase the transparency of our GRI reporting in the future.

Stakeholders: The main stakeholder groups who will use this report are shareholders, investors, analysts and employees, customers and suppliers. In addition, the report serves as an information source for the interested public.

3.6

The general reporting boundary comprises the group with all its subsidiaries. Joint Ventures are included only where we exercise control and substantial influence on an indicator with respect to the unit in question. Upstream and downstream stages are included only to a limited degree, due to lack of control and influence. Any reporting boundaries that depart from this principle are indicated for each individual point of the GRI.

3.7

Limitations in scope are currently set by the reasons indicated (3.5 – Priorities). Further details are stressed for the individual indicators.

3.8

Subsidiaries and leased facilities are in principle included. Joint ventures are included only where we have control and significant influence on these entities with respect to the indicator in question. Outsourced activities are not included (e.g. logistics companies). The report boundaries do not significantly impair comparability of periods or data on the different organizations. The results are representative of the group, or are interpreted for this purpose.

3.9
The GRI Indicator Protocols are used in reporting.

3.10 – 3.11
Apart from annual and quarterly reporting based on stock exchange listing of the company, there are no previous reports. This is the first report in the GRI framework.

3.13
The present report, like the group management report and financial statements, was audited by the auditing company BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft.*

Confirmation
AE

4.1, 4.2 and 4.4
See Corporate Governance*

Corporate Governance
25

4.3
Not applicable.

4.5
Compensation to members of the Executive Board, the senior executives and the members of top management, is based on individual target agreements. Thus sustainability aspects are included by means of our integrated sustainability management.* For example, sustainability reporting was a quality goal for 2007.

Sustainability
82

4.6
Conflicts of interest are avoided by the fact that the Executive Board has set up an Ethics Council alongside the Strategic Council* dealing with issues of sustainable and ethical management. **SolarWorld** also maintains regular exchange with its stakeholders, thus ensuring that stakeholders' needs are known to the company and can be included in decision making.**

Management and control
34
Corporate Governance
25
4.16, SO1

	Stakeholders	Methods
Customer Service/Marketing	Customers	Direct contact, customer survey
Investor Relations	Shareholders, investors, analysts, interested public	Direct contact, feedback after roadshows, investor meetings
Human Resources	Employees	Company suggestions scheme, employee surveys, works councils
Executive Board	Local authorities, press	Direct contact
Procurement	Suppliers	Direct contact

4.7
The Chairman of the Management Board, Frank H. Asbeck, holds a degree in agricultural engineering. He was involved in development projects in Africa before setting up **SolarWorld** AG. He is a founding member of the Green Party. Philipp Koecke (Dipl.-Kfm. tech.) joined **SolarWorld** AG after a number of years working in the finance and loans business. Boris Klebensberger (Dipl.-Ing.) joined **SolarWorld** AG at about the time when he was finishing his degree studies, and since then he has been working intensively on matters such as improvements in the production processes. Frank Henn (Dipl.-Wirtschaftsing.) has many years of experience in sales and marketing in multinational companies.

Vision and strategy 31
Sustainability 82
www.solarworld.de/business-mission
Employees 68
www.solarworld.de/sustainability
Quality and environment management 49

4.8

Our vision our business mission and our Code of Conduct reflect our models in terms of economic, environmental and social/societal aspects. These models are applicable throughout the group and are implemented via our quality and environmental management (ISO Standards), our sustainability management and by exemplary behavior on the part of our senior executives.

Sustainability 32
Quality and environment management 49
Opportunities and risks management system 88
Employees 68
www.solarworld.de/sustainability

4.9

We started setting up integrated sustainability management in 2007 and likewise environmental management to ISO 14001, at the Bonn and Freiberg sites. Risks and opportunities are covered by our risk management; compliance with codes of conduct and principles is ensured by our Code of Conduct. In addition, this year we are reporting for the first time in accordance with the GRI reporting framework. Sustainability performance is to be determined annually.

Corporate Governance 25

4.10

Assessment of the performance of members of the Management Board is based on individual performance agreements. So far, there is no link with sustainability management (this is in preparation).

Quality and environment management 49

4.11

The precautionary principle is addressed by our organization via our risk management, our quality and environment management and our sustainability management. This basic orientation is also underscored by our voluntary disclosure and by GRI reporting, and by participation in the Carbon Disclosure Project.

The SolarWorld Share 52

4.12

Principles/Agreements/Initiatives	Since	Location	Established by/ Including	Motivation
Code of Conduct (revised)	2008	Group		Voluntary
Participation in Carbon Disclosure Project	2005	Bonn, Freiberg	Institutional investors	Voluntary
Application of ISO Standard 9001*	2003+	Bonn, Freiberg, Munich, Madrid, USA, Sweden	ISO	Voluntary
Application of ISO Standard 14001*	2005	Freiberg (Solar Factory)	ISO	Voluntary
Application of ISO Standard 14001*	2008	Bonn, Freiberg	ISO	Voluntary
ÖKOPROFIT®**	2007	Bonn	Municipalities and business community	Voluntary
PV Cycle®	2007	Group	Cell and module manufacturers	Voluntary
NetJets Climate Initiative®	2007	Group	NetJets	Voluntary

* Further details on our certifications are given at our website: www.solarworld.de/sustainability
** This project is not identical with our internal EcoProfit Project, which is described in the section on Research and Development.

Strategic raw materials activities 44
1.2, EN17

4.13

Membership of associations/Advocacy groups (voluntary)

Organization	Since	Member	Function
Camarillo Chamber of Commerce	1980	SolarWorld Industries America*/ Gary Barsley	Member of Board
VCEDA (Ventura County Economic Development Association)	1989	SolarWorld Industries America*/ Bob Beisner	Member of Board
FlaSEIA (Florida Solar Energy Industries Association)	1989	SolarWorld California, Inc.*/Peter DeNapoli	Member of Board
SEIA (Solar Energy Industries Association)	1990	SolarWorld Industries America* Raju Yenamandra, Boris Klebensberger	Members of Board
ASQ (American Society for Quality)	1992	SolarWorld Industries America*/ Alex Mikonowitz	Senior Member
ANSI (American National Standards Institute)	1997	SolarWorld Industries America*/ Alex Mikonowitz	Member
IEC (International Electrotechnical Commission) Technical Committee 82	1997	SolarWorld Industries America*/ Alex Mikonowitz	US TAG (Technical Advisory Group) Administrator (since October 2007)
UL/PV section	1997	SolarWorld Industries America*/ Alex Mikonowitz	Member of Advisory Board
IEEE (Int. Electrical and Electronics Engineers)	1998	SolarWorld Industries America*/ Alex Mikonowitz	Member of PV Standards Committee
SESHA (Semiconductor, Environmental, Safety and Health Ass.)	1998	SolarWorld Industries America*/ Sergio Vasquez	Member
NFPA (National Fire Prevention Ass.)	1998	SolarWorld Industries America*/ Sergio Vasquez	Member
DGS Deutsche Gesellschaft für Sonnenenergie e.V., München	1998	SolarWorld AG	Membership
Eurosolar, Bonn	1999	SolarWorld AG	Membership
FSEC (Florida Solar Energy Center)	2000	SolarWorld California, Inc.*/ Peter DeNapoli	Member of Board
Dresdner Gesprächskreis der Wirtschaft und Wissenschaft e.V.	2002	Deutsche Solar	Member
Freiberger Interessengemeinschaft der Recylings- und Entsorgungs-unternehmen (F. I. R. E) e.V.	2002	Deutsche Solar AG	Member
Solar Alliance	2003	SolarWorld California, Inc.*	Member
InnoRegio Freiberg e.V.	2003	Deutsche Solar AG	Member
Bundesverband Solarwirtschaft	2003	Deutsche Solar	Member
Silicon Saxony e.V.	2003	Deutsche Solar AG	Member
Mid-Atlantic SEIA (Solar Energy Industries Association)	2005	SolarWorld California, Inc.*	Member
SEBANE (Solar Energy Business Association of New England)	2005	SolarWorld California, Inc.*	Member
Central Coast MIT (Mass.Institute of Technology)-Forum	2005	Gary Barsley (SolarWorld California, Inc.)	Member of Board
VCREA (Ventura County Regional Energy Alliance)	2005	SolarWorld Industries America*/ Bob Beisner	Member of Advisory Board
NorCal Solar (Northern California Solar Energy Industries Association)	2006	SolarWorld California, Inc.	Member
European Photovoltaic Industry Association (EPIA), Brussels	2006	Boris Klebensberger	Member of Board
Foundation "Technische Universität Bergakademie Freiberg"	2006	Prof. Woditsch	Member of Foundation Board

Foundation for German Science (Stifterverband für die deutsche Wissenschaft)	2006	Prof. Woditsch	Member of Board of Trustees, Central Germany
International Advisory Board of the Centre for Development Research (ZEF), Bonn University	2007	Frank H. Asbeck	Member of Advisory Board
Federal Solar Industry Association	2007	Frank H. Asbeck	Member of Board
NYSEIA (New York Solar Energy Industries Association)	2007	SolarWorld California, Inc.	Member
OSEIA (Oregon Solar Energy Industries Association)	2007	SolarWorld California, Inc.	Member
Museum König	2007	Frank H. Asbeck	Chairman of Board of Trustees of Alexander-Koenig-Gesellschaft
Hillsboro Chamber of Commerce	2007	SolarWorld Industries America/ Bob Beisner	Member
UnternehmensGrün	2007	SolarWorld AG	Member
CanSIA (Canadian Solar Industries Association)	2007	SolarWorld California, Inc.	Member
PV Cycle	2008	Dr. Wambach	President

* Includes the former Shell Solar and/or Siemens Solar and/or Arco Solar.

4.14: See 1.2

4.15

We identify the stakeholder groups for our activities on the basis of the following questions (Mason and Mitroff, 1981)[1]:

> Who is affected by the impact of our activities?
> Who has an interest in the activities?
> Who is in a position to decide on implementation of the activities?
> Who has made a statement on these issues?
> Which groups (defined by demographic or other characteristics) are likely to be interested in the results of the activities?

All stakeholder groups thus identified (e.g. we include governments, NGOs, etc. under the heading of "Society") are taken into account. We engage in regular exchange of ideas with our stakeholders via our membership of associations and advocacy organizations as well as by our cooperation with academic organizations and NGOs, in particular in Solar2World projects.*

Sustainability 82

4.16

The needs of all stakeholder groups are currently included, but analyzed to varying degrees of depth. An internal analysis is made for all stakeholder groups, based on information available within the company (e.g. personal contact with suppliers, customers and local authority representatives) and in external studies. So far, final customers have been asked on an ad-hoc basis. Regular surveys are made among our customers (not including final customers)* and our employees.* The same procedure is also to be applied to other stakeholder groups in the mid-term future. We also maintain close contact with the local authorities at the locations of our facilities. In our Solar2World projects, we work closely with the local stakeholders, in order to offer solutions that will give the population the maximum benefit and can be continued by the local people themselves after completion of the project. No engagement was undertaken specifically for preparation of the report.*

Trading 47
Employees – Future Development 102
4.6

1 Mason, R. O. and Mitroff, I. I. (1981). Challenging strategic planning assumptions – theory, cases and techniques. New York, Wiley: 315.

4.17
There were no further key topics and issues related to the sustainability of our business, apart from those mentioned under items of GRI reporting, because we take account of the needs of our stakeholders at an early stage of our decision making process, and constantly apply the principle of sustainability.

5.
We intend to continue our group-wide emphasis on sustainability, by introduction of an integrated management system.* The following sections show how we have included the individual aspects in our approach.

Sustainability 82

Economic
Economic success is a fundamental condition for sustainability. It gives us the necessary freedom of action to take account of environmental and social aspects. The management report gives detailed information on this dimension.* Our commercial success also contributes to the economy as a whole, e.g. by creating jobs and promoting sustainable energy supplies with security for the future.

Vision and strategy; Management and control 31, 44

Environmental
Environmental aspects are relevant mainly in our internal processes, especially in production. We will analyze increased engagement of stakeholders and customers. This is a major challenge in view of the market situation (oligopoly with major bottlenecks on the supplier side, and a wide range of customers comprising wholesalers and installers). To take account of the environmental aspects, in 2007 we introduced environment management systems to ISO 14001 at our facilities in Bonn and Freiberg.*

Quality and environment management 49

Social
Our Code of Conduct* sets out our ethical principles and behavior rules and recommendations for all employees. It defines our working practices, our procedures to ensure compliance with human rights, acceptance of our social responsibility* and our product responsibility.*

Employees 68

Our management systems are explained in detail in the management report.*

Sustainability 82
Quality and environment management 49
Group management report 20

	Economic	Environmental	Social			
	EC	EN	LA	HR	SO	PR
Aspects	**Economic performance:** see Group Financial Statements.(1) **Market presence:** see Group Management Report.(2) **Indirect economic impacts:** We also include indirect economic impacts in our decision making, via our stakeholder analyses.(3) The indirect impacts of our business activity are to be rated as positive, due to the sustainable nature of our product and due to our growth (e.g. creating jobs).	**Materials:** controlled via our procurement management. **Energy, water, emissions, effluents and waste:** Controlled via our environmental management system. **Biodiversity:** Included in the planning of new production sites; our sales offices are not located in regions where biodiversity could be impaired. **Products and services:** products in keeping with the idea of sustainability; recycling of most of the packaging material.(4) **Compliance with legal requirements:** always; also regulated in our Code of Conduct.(5) **Transport:** effected by logistics service providers; associated environmental impacts are to be given more consideration in future. **Overall:** Environmental Management.	**Employment, Labor/ Management relations, Training and education, Health and safety, Diversity and equal opportunity:** Part of the Human Resources (HR) strategy.(6) **Occupational health and safety:** Part of quality management.(7) **Diversity and equal opportunity:** Element of our Code of Conduct.(8)	**Investment and procurement practices, Non-discrimination, Freedom of association and collective bargaining, Elimination of child labor and forced and compulsory labor:** These are taken up in our Code of Conduct(9) and are to be included in senior management training; the inclusion of **human rights clauses** in contracts is currently being examined. **Complaints procedures:** So far this has been possible by the direct channel via the supervisor of the HR department; procedures for ensuring anonymity are currently under discussion. **Security practices:** no training of security personnel with respect to human rights. **Indigenous rights:** No such constellations, because this has not so far been considered a priority issue.	**Community, Corruption, Public policy, Anti-competitive behavior, Compliance:** regulated in our Code of Conduct.(10)	**Customer health and safety, Product and service labeling, Marketing communication, Customer privacy, Compliance:** regulated in our Code of Conduct;(11) behavior compliant with legislation.
Goals and performance	See group management report.(12)	Internal goals (on energy, waste, water, product efficiency and emissions) in the framework of our environmental management system; goals are confidential and therefore cannot be indicated in detail here.(13)	See group management report.(14)	Revision of Code of Conduct(15) and implementation.		
Policy	In the framework of our quality management;(16) (on subjects like anti-corruption, fair competition) shown in our Code of Conduct;(17) there are no specific policy guidelines on SolarWorld's economic obligations.	In the framework of our environmental management system.(18)	In the framework of our Code of Conduct;(19) this also takes up points of the internationally recognized standards, e.g. the United Nations, ILO and the Vienna Declaration.			
Organizational responsibility		Highest level: Executive Board, next level: Managing Directors, next level: Divisional Managers and Environment Managers	Highest level: Executive Board; next level: Managing Directors, next level: Divisional Managers, Personnel Managers and Quality Managers		Highest level: Executive Board; next level: Managing Directors; next level: Divisional Managers.	Highest level: Executive Board; next level: Managing Directors; next level: Divisional Managers and Quality Managers.

(1) Group financial statements — 110, 22
(2) Competitive position and main sales markets; Trading — 47
(3) 4.15
(4) EN27
(5) www.solarworld.de/sustainability
(6) Employees; Employees – development — 68, 102
(7) Quality and environmental management — 49
(8) www.solarworld.de/sustainability
(9) www.solarworld.de/sustainability
(10) www.solarworld.de/sustainability
(11) www.solarworld.de/sustainability
(12) Goals that we have achieved!; Where do we want to go in 2008+?; Earnings, financial and asset situation — 32, 33, 68, 102
(13) Quality and environmental management; sustainability — 49, 82
(14) Goals that we have achieved!; Where do we want to go in 2008+?; Earnings, financial and asset situation — 32, 33, 58
(15) www.solarworld.de/sustainability
(16) Quality and environmental management — 49
(17) www.solarworld.de/sustainability
(18) Quality and environmental management — 49
(19) www.solarworld.de/sustainability

Economic	Environmental	Social			
EC	EN	LA	HR	SO	PR
Training and awareness					
	Conducted on quality management and environmental management; apart from this, there tends to be a high level of environmental awareness among the workforce due to the nature of our business activities.	Training courses are already carried out on occupational health and safety; the other subjects are to be taken up in the future in executive training.	Is to be taken up in future in executive training.		
Monitoring and follow-up					
	Data are captured at the individual locations; company-wide environmental goals have been defined for 2008; specific measures are defined at the individual locations; certification to ISO 14001 at the Freiberg and Bonn sites.[20]	Data are captured at the individual locations; an employee survey was conducted by an external agency at the Bonn site in 2007 in the course of the study "Germany's Best Employer 2008"; further internal surveys are to be held in 2008; these will be used by the Executive Board and Human Resources to define relevant activities.	The data are in some cases obtained by the Human Resources departments, and in some cases directly at top management level.	The data are obtained directly at top management level.	The data are collected by the corresponding departments and reported to the top management level.
Additional contextual information					
Key successes					
See group management report.[21]	Progress in production of our sustainable products;[22] Certification to ISO 14001 at the Freiberg and Bonn sites.[23]	See group management report.[24]	See group management report.[25]	Started revision of Code of Conduct, see also group management report.[26]	Started revision of Code of Conduct
Key shortcomings					
We were not yet able to give comprehensive data on all indicators, because some of the data is not available to us in the necessary form.					
Key opportunities and risks of the organization					
See group management report.[27]	No major environmental risks; Opportunities for photovoltaic energy: from increasing scarcity of fossil fuels and continuing climate change.[28]	Opportunities: from the positive forecast for the photovoltaic sector in general; from the growth of SolarWorld, a positioning as an attractive employer;[29] Risks: loss of credibility and possibly also incurring of sanctions if principles are violated; see also group management report.[30]	Opportunities: positioning as responsibly acting company in international competition. Risks: loss of credibility and possibly also incurring of sanctions if principles are violated.		
Major changes in the reporting period to systems or structures to improve performance					
See group management report.[31]	See group management report.[31]	See group management report.[31]	See group management report[31]	See group management report[31]	Revision of Code of Conduct, see group management report.[32]
Key strategies and procedures for implementing policies or achieving goals					
Goals agreed and activities for goal achievement specified in the framework of our quality management;[33] Revision of Code of Conduct, available in the course of 2008 from our website.[34]	Goals agreed and activities for goal achievement specified in the framework of our quality management.[35]	Code of Conduct[36] serves for further institutionalization of our social/ethical principles; supervisors have to set a good example; take up aspects of this in executive training.			

(20) Quality and environmental management 49
(21) Goals that we have achieved! 32
(22) Business development 2007; Research and development 43, 74
(23) Quality and Environmental Management 49
(24) Employees 68
(25) Employees 68
(26) Corporate Governance 25
(27) Opportunities and risks management system; Opportunities 88, 104
(28) EC2
(29) Opportunities 104
(30) Employee risks 92
(31) Sustainability; Employees; Major causative events for the course of business; Course of business 2007 82, 68, 42, 43
(32) Sustainability 82
(33) Quality and environmental management 49
(34) www.solarworld.de/sustainability
(35) Quality and environmental management 49
(36) www.solarworld.de/sustainability

Performance Indicators

The error margin in our quantitative data is so small that this does not impair decision making of stakeholders.

Economic Performance Indicators

EC1 (Core) •

Component	Value	Comments
Directly generated financial value		
a) Revenues	762,328 k€ (10,596 k€)	Sales revenues including activities not continued + other operating earnings + result from shares valued at equity + result from interest earnings and similar income
Distributed financial value		
b) Operating costs	-472,965 k€ (-10,893 k€)	Changes in inventories of finished goods + own work capitalized + cost of material + depreciation and amortization + other operating expenses
c) Salaries and company benefits	-75,004 k€ (-2,952 k€)	Staff cost
d) Payments to capital providers	-38,449 k€ (-75 k€)	Interest and similar expenses
e) Payments to government	-64,178 k€ (-905 k€)	Income taxes (for split between domestic and international see Cross Reference)
f) Investments in the Community	-364 k€	Donations
Retained financial value	111,368 k€ (-4,229 k€)	

* Continued operations (discontinued operations)

Reasons for partial reporting: Data disclosing more information than provided in our group management report and our group financial statement are confidential (reason type 3). Furthermore, we do not break results down by countries and regions, because at the present time we do not regard these as significant, and we put group performance in the foreground. In the course of the commissioning of the US production in Hillsboro and the production in South Korea, this topic will gain relevance (reason type 1).
Since definition of the individual items gives considerable scope compared with the precise data of IFRS, we feel that presentation in this form is not very meaningful. We will check for the next report whether a more detailed approach would be more appropriate, and consider what assumptions to make.
On item f): We use a restrictive definition of community investment, i.e. we include only donations in money and in kind. We do not include donations to political parties.

EC2 (Core) •

Energy and electricity market 36

Opportunities 104

We take account of the opportunities and risks related to climate change for our business activities.*
Opportunities come from the upswing in the market for renewable energy, with competitive advantages over conventional forms of energy. Risks for companies are higher insurance premiums due to more frequent storms/fires/drought periods.*
The financial consequences of climate change were not estimated on a detailed quantitative basis, because they are to be regarded as positive in view of the nature of our business activities. Our company is no more exposed than other companies to risks such as damage from more frequent storms/fires or drought periods. The risks are covered by our insurance policies.

EC3 (Core) •

In general, **SolarWorld** leaves it up to employees to make their own decisions on how they wish to save for retirement. In Germany, **SolarWorld** offers a company pension scheme for employees in the form of "direct insurance" and the "pension fund", either funded by the employer or with transformation of salary into pension rights (with employer subsidy). The Munich site has "direct pension commitments", funded by the company. The commitments in 2007 amount to 7,419 k€.• There is also a separate fund for the payment of liabilities for the company pension scheme, for a small number of senior executives, but this fund is not considered to be material (< 40 k€). In the USA there is a program for conversion of compensation rights to company pension rights. These are employer contributions, and not direct commitments. In this connection, **SolarWorld** provides employees at the US sites with 3 per cent of their annual basic salary for a retirement pension scheme (401k plan). There are no specific programs at the other sites. The amount of payments into the programs is determined on conversion of compensation by the employee. Where funding comes from the employer, the amount is specified in the contract of employment. Participation is voluntary. On the basis of our data it is not possible to give any indication of the extent of claims, because these data were not collected on a standardized basis, so no statistics could be drawn up (reason type 2). We intend to address this issue in the medium term.•

Non-current and current financial liabilities
140

Employees
68

EC4 (Core) •

Significant financial assistance received from government: investment grants of 8,009 k€ (discontinued operations 161 k€) and research grants of 3,678 k€ were made during the reporting period. There is no government body holding shares in **SolarWorld**.

EC6 (Core) •

The term "locally based" is defined in a way that is analogous to our segments (IAS 14).• There are no company guidelines specifying preference to local suppliers. We are working in an international supplier market which is currently characterized by delivery shortages. Geographical position plays only a minor role in selection of suppliers. In addition, most of the suppliers are based in industrialized countries.

Group financial statements
110

EC7 (Core) •

> We are an international group, and mainly recruit locally at our various sites, however no such company policy exists. We try to keep the number of "expatriates" down, but we do need some employees (senior executives) from our existing subsidiaries and from Head Office at the location, because that is important for harmonization of the various facilities in the course of taking over former Shell activities. We apply non-discrimination procedures to avoid preference to or discrimination against candidates in recruitment (agreement on application of the equal opportunities legislation AGG (Germany), action plans (USA), Anti-Discrimination Act (Sweden) and our group-wide Code of Conduct).

> Percentage of local recruitment for senior executives (definition of "local" corresponds to IAS 14, i.e. the "economic environment", and is thus analogous to our segments:• Germany (100 per cent), USA (76 per cent), Spain (100 per cent), Singapore (0 per cent), South Africa (0 per cent), Sweden (50 per cent).

> We define management starting from the first level as "senior executives". We do not use the definition of the Industrial Relations Act, since this would not be applicable to the whole of the group.

Geographic segments
132

EC8 (Kern) •

Our Solar2World projects actively involve the local stakeholders (i.e. members of the community, users) in the project design. In the case of restoration of the Silbermann organ in Freiberg, we were approached directly by the organist.* There were no further investments in infrastructure and services provided primarily for public benefit.

Sustainability 82

Environmental Performance Indicators

EN1 (Core) •

At present not all data are available on "materials used by weight and volume", because these data were so far not fully reported, so it is not possible to draw up statistics on this (reason type 2). We intend to address this issue in the medium term. It will be necessary to analyze the possible depth of data for disclosure, since some of the details require confidential treatment (reason type 3). We have started on monitoring of the climate-relevant materials, because they are also relevant for the Carbon Disclosure Project (CDP). This concerns 2.9 tons of tetrafluoromethane. This material is now used only in our US production. The final figures will be determined in the framework of the CDP (May 2008).

EN2 (Core) •

The rated etching capacity of our recycling unit "SolarMaterial" for recovery of silicon is currently 1,200 tons per annum. This core competency is of great strategic relevance. We cannot therefore disclose exact amounts,* because this information is subject to confidentiality (reason type 3). We also have our packaging material recycled.* Other materials which occur in the course of manufacture of photovoltaic products are re-used by us internally, but have so far not been statistically recorded (reason type 2). We intend to address this issue in the medium term. It will be necessary to analyze the possible depth of data for disclosure, since some of the details require confidential treatment (reason type 3).

Strategic raw materials activities 2008+ 102
EN27

EN3 (Core) •

Direct energy consumption applies to natural gas, and is internally covered by our environmental management since 2007; in 2007 this amounted to 16,307,279.65 kWh (i.e. 58,706,206,740 kilojoules). These data relate to the sites in Germany (Freiberg and Bonn), the US and Sweden. No data were available for the sales offices in Madrid, South Africa and Singapore and for the office in Munich, but these amounts are not material because they concern only minor amounts (reason type 1). The final figures will be determined in the framework of CDP (May 2008).

EN4 (Core) •

Indirect energy consumption was 177,606,358.89 kWh, with electricity accounting for 176,551,130.89 kWh and district heating 1,055,228.00 kWh. These data apply to the sites in Germany (Freiberg and Bonn), the US and Sweden. No data were available for the sales offices in Madrid, South Africa and Singapore and for the office in Munich, but these amounts are not material because they concern only minor amounts (reason type 1). The final figures will be determined in the framework of CDP (May 2008).

EN8 (Core) •

Total water withdrawal was 1,006,428.16 m³, broken down into surface water (445,000.00 m³) and water from municipal utility supply (561,428.16 m³). These data apply to the sites in Germany (Freiberg and Bonn), the US and Sweden. No data were available for the sales offices in Madrid, South Africa and Singapore and for the office in Munich, but these amounts are not material because they concern only minor amounts (reason type 1). Our JSSI silicon production uses water mainly for cooling purposes, operating in a closed-circuit system.

EN11 (Core) •

The production site in Hillsboro has an area of 0.39 km² (96 acres). 0.07 km² (16.1 acres) of this is taken up by buildings. The site is located in the Dawson Creek Industrial Park. There is a river nearby, at a distance of about 0.4 km (¼ mile) that is Dawson Creek. The water flows into the Tualatin River. The area is not designated as a protected area, and Dawson Creek has no specific conservation status. There are no specific points to observe, apart from the generally applicable regulations applying to rainfall drainage. All emissions from the plant are approved, and are recorded via monitoring where legally required. We maintain direct contact with the community, so that we can get first-hand information on any matters that are important to the community.
It has also been examined whether a rare species of bat (Barbastelle) is present at our site in Freiberg, Germany. This relates to the new site at I/G-Gebiet Ost (Industrial Park East), in particular for the bypass there. So far the Barbastelle has not been sighted there. Construction start in 2009 has therefore been confirmed by the relevant authorities for the bypass. Deutsche Solar AG has acquired a construction site of about 210,000 m² in I/G-Gebiet Ost.
Apart from that there are no sites located in or adjacent to protected areas with high biodiversity outside protected areas.

EN12 (Core) •

There are no major impacts of activities, products or services at our sites on biodiversity in protected areas or in areas of high biodiversity outside protected areas.

EN16 (Core) •

Calculation of greenhouse gas emissions includes the companies under the operational control of **SolarWorld** (but not the companies where **SolarWorld** only has an interest holding, e.g. joint ventures). The data were determined using the calculation tools of the GHG Protocol of the CDP, and the error levels associated with that are not known to us. We have estimated the following items for preparation of this report, because the data were not yet available:

> Energy consumption for the sales office in Spain (joint calculation for building, with calculation of energy consumption attributable to the company), South Africa and Singapore: data of previous year
> Vehicle fleet: previous year's consumption (based on kilometers driven)

The error margin here is 20 per cent. The final figures will be determined in the framework of CDP (May 2008). Thus the provisional total for direct and indirect emissions in 2007 is 122,319 $tCO_2eq.^*$ The final figures will be determined in the framework of CDP (May 2008).

Sustainability
82
1.2

EN17 (Core) •
This indicator includes emissions of our upstream suppliers, the vehicle fleet of our logistics service companies, emissions in the course of business travel, and emissions for the returns system for packaging and old products. However, these data have not so far been recorded, so no statistics can be drawn up on this (reason type 2). We intend to address this issue in the medium term. Our products do not generate any emissions themselves. The modules/systems which we sold in 2007 will save 2.8 million tCO_2eq. over a period of 25 years. This avoids environmental damage worth 196 million €.* The final figures will be determined in the framework of CDP (May 2008). We compensate a part of our emissions via participation in the Climate Initiative of NetJets.* Since we joined this system in 2007, these emissions have accounted for 49.26 tCO_2eq.

EN19 (Core) •
There is no emission of ozone-depleting substances.

EN20 (Core) •
Air emissions in the USA in 2007 by type and weight amounted to 0.33 tons of NOx, 7.25 tons of VOC, 2.16 tons of hazardous air pollutants, and 0.3 tons of particulate matter (PM10). These substances occur only in our US production.

EN21 (Core) •
Total water discharge is 793,224.24 m^3. That is the amount discharged to the municipal drainage system. The total precipitation water discharge is not measured; it is only in Germany that a charge is made on the basis of built up area. It is therefore not possible to draw up statistics (reason type 2). We intend to address this issue in the medium term. The above figure relates to the sites in Germany (Freiberg and Bonn), the US and Sweden. No data were available for the sales offices in Madrid, South Africa and Singapore and for the office in Munich, but these amounts are not material because they concern only minor amounts (reason type 1). The figures are currently estimated.

EN22 (Core) •
Total weight of waste was 11,488.42 tons. Of this, hazardous waste accounted for 7,257.55 tons and non-hazardous waste 4,230.87 tons. The exact place of disposal was so far not recorded, and can therefore not be specified (reason type 2). We intend to address this issue in the medium term. The data relate to the sites in Germany (Freiberg and Bonn), the US and Sweden. No data were available for the sales offices in Madrid, South Africa and Singapore and the office in Munich, but these are not material because they concern only minor amounts (reason type 1). The figures are currently still estimated.

EN23 (Core) •
There were no significant spills in the reporting period (chemicals, oils, fuels).

EN26 (Core) •
The products of **SolarWorld** AG have no significant environmental impact in terms of material input, water consumption, emissions, discharge water, noise or waste. The modules can be recycled at the end of their useful life. Production, use and recycling of our products do not give rise to hazards because our crystalline modules do not contain toxic materials, by contrast for example with alternative technologies based on cadmium telluride.

EN27 (Core) •

Our packaging materials are made of cardboard, paper and box board, together with packaging strips and plastic film. The packaging serves for protection of our goods during transportation, and not for advertising purposes. In Germany we have contracted out recycling and reclamation to Interseroh Dienstleistungs GmbH. 100 per cent of the material is recycled (type separated) and is 100 per cent directly recycled. The duly notified quantities of authorized packaging are determined by Interseroh in accordance with the inspection specification (status September 2007) (mainly on the basis of purchasing statistics, invoices and delivery notes) and are checked in the subsequent year by an auditor. Materials taken back via another collection system or taken back under our own collection system and reused, and packaging which is shown to have been exported, are not included in these figures. The value for 2007 is 366 tons packaging weight.
In the USA we recycle internally most of our packaging materials that occur at the US locations. At our other sales locations in Spain, South Africa and Singapore, the only waste materials are office and kitchen waste, which are disposed of in accordance with the legislation applicable there.
So far these data have not been recorded across the group, so no statistics can be drawn up (reason type 2). We intend to address this issue in the medium term.

EN28 (Core) •

SolarWorld did not have any significant fines or non-monetary sanctions imposed on it for non-compliance with environmental laws and regulations. The same also applies to the joint ventures of **SolarWorld**.

Social Performance Indicators

LA1 (Core) •

The total workforce at year end 2007 was 1,486 employees and 534 temporary workers.• We do not currently have a breakdown by employment type (full time/part time, for each country) or employment contract (indeterminate/permanent post, fixed-period/temporary contract), because these data have not so far been recorded on a standardized basis, so no statistics can be prepared on this (reason type 2). We intend to address this issue in the medium term. It will be necessary to analyze the possible depth of data for disclosure, since some of the details require confidential treatment (reason type 3). In particular in the USA, it is not possible to provide a breakdown by employment contracts of indeterminate duration and fixed-term contracts (weak protection from dismissal, employment contracts often not set out in written form). We are expecting an increase in our workforce by 25 per cent in 2008.• It is expected that up to 1,000 new jobs will be created in the course of expansion of our Freiberg production facility to 1 GW.

Employees
68
Future drientation of the group
99

LA2 (Core) •

The number of departures of employees (total employee turnover) was 106 in 2007, with the following breakdown: Germany (18), Madrid (1), Sweden (12), USA (66), Singapore (7), South Africa (2). It is currently not possible to give a breakdown by gender and age group on the basis of our data, because these data have so far not been recorded on a standardized basis, so no statistics can be prepared on this (reason type 2). We intend to address this issue in the medium term. It will be necessary to analyze the possible depth of data for disclosure, since some of the details require confidential treatment (reason type 3).•

Employees 68

LA4 (Core) •

It is estimated that 52 per cent of all employees at **SolarWorld** AG (an estimated 750 employees) are covered by collective bargaining agreements.

LA5 (Core) •

No notification periods are specified in collective bargaining agreements or company agreements. The obligations of the employer with respect to significant changes in operations are set out in legislation, e.g. in Germany this is the Industrial Relations Act (BetrVG) §§ 90, 92, 106, 111.

LA7 (Core) •

The data are not available in the form of the ILOC Code of Practice "Injury Rate (IR)", "Occupational Disease Rate (ODR)", "Lost Days Rate (LDR)" and "Absentee Rate (AR)" because these data have so far not been recorded in that way (reason type 2). We intend to address this issue in the medium term. We currently record the following figures:

	Germany	USA	Spain	Singapore	South Africa	Sweden	Group
Absentee rate	3.1%	N.A.	3%	2%	N.A.	4%	2.2%
Absence due to sickness in calendar year (hours)	59,768	N.A.	40	476	N.A.	3,948	6,4232
Sickness rate (percentage of employees who were sick once or more in the whole of fiscal year 2007)	59%	N.A.	33%	0%	100%	2%	40%
No. of employees reporting sick in the course of the calendar year	585	N.A.	2	0	2	1	590
Accident rate (occupational accidents per 1000 employees)	29	97.5	0	0	0	15.2	46.4
Number of occupational accidents in calendar year	29	39	0	0	0	1	69

For the US sites, it should be noted that it is not possible to distinguish between sickness-related and other absenteeism, because under US law it is not permissible to record sickness days for reasons of data protection. Thus in future it will likewise not be possible to obtain these data (reason type 3).

The above figures cover the whole of the workforce, but not independent contractors, because so far no data have been collected on them. The accident figures also include minor injuries of the kind requiring first-aid treatment. There were no work-related fatalities. The same also applies to the joint ventures of **SolarWorld**.•

Employees 68

LA8 (Core) •

In our group there are no programs of this kind, and nor are there workers involved in high-risk operational activities. We have taken precautions against all kinds of risks by means of technical inspections, personal protection equipment and training courses. The only possible hazard is due to chemicals, but this is minimized by the above methods of inspection. For purposes of documentation, we record company hygiene and conduct surveys (both of these annually). We also have insurance (environmental liability), in case of spills that cause damage to health.

LA10 (Core) •

The data are not yet available broken down by employee category, because the information has not so far been recorded in this way (reason type 2). We intend to address this issue in the medium term. But we document our continuing education expenditure per employee (380.68 €), total continuing education expenditure (565,691.55 €) and number of training and education courses (576). We define these expenditures restrictively, including only the direct costs (e.g. as shown by invoices). In 2007 we had a total of 66 trainees throughout the group (including employees pursuing in-work studies under the "Dual Studies" ("Duales Studium")).•

Employees
68

LA13 (Core) •

We are aware of the importance of diversity for **SolarWorld**; we work for equal opportunities in the whole of the group, and take account of these factors in recruitment. Key indicators of diversity and equal opportunities at **SolarWorld** are included in our Code of Conduct:•• ethnic origin, skin color, nationality, religion, sex, age, sexual orientation, gender identity, marital status, physical constitution/disability and appearance. Our statistics are not permitted to include all of these characteristics, because many of them affect the private sphere of the individuals concerned, and must therefore not be recorded (reason type 3). In addition, these data are not collected in the form wanted by GRI (reason type 2). We intend to address this issue in the medium term. For this year's reporting, we have selected the following categories:

Employees
68
www.solarworld.de/sustainability

The Group Executive Board comprises four members (male, age group 30-50 years), who do not belong to a minority.

	Germany		USA		Spain		South Africa		Singapore		Sweden	
Executive Board/ Managing Directors*	**9**		**4**		**2**		**2**		**2**		**1**	
Female	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Male	9	100%	4	100%	1	100%	2	100%	2	100%	1	100%
1st tier of management	**29**		**12**		**2**		**1**		**2**		**3**	
Female	3	9%	2	17%	1	50%	0	0%	0	0%	0	0%
Male	26	81%	10	83%	1	50%	1	100%	2	100%	3	100%
Employees (not including trainees & temps)	**934**		**400**		**6**		**2**		**12**		**66**	
Female	196	21%	142	36%	1	17%	1	50%	3	25%	18	27%
Male	765	79%	258	64%	5	83%	1	50%	9	75%	48	73%
Trainees	**66**		**0**		**0**		**0**		**0**		**0**	
Female	11	17%	0	0%	0	0%	0	0%	0	0%	0	0%
Male	55	83%	0	0%	0	0%	0	0%	0	0%	0	0%
Employees with disability	**12**	**1.2%**	**24**	**6%**	**0**	**0%**	**0**	**0%**	**0**	**0%**	**1**	**2%**

* Multiple counting due to identity of persons.

No data is available from Munich site for 1st tier of management.
We do not yet have group data for the following:
> Percentage of women in middle management for the individual companies
> Percentage of employees younger than 30 years
> Percentage of employees between 30 and 50 years
> Percentage of employees older than 50 years
No further employment categories (administration, production, etc.) have been defined at present.

LA14 (Core) •
We pay wages and salaries at our sites mostly in line with the collective bargaining agreements, i.e. compensation for women and men subject to collective bargaining is identical. This applies for about 52 per cent of our employees worldwide. Reporting by employee categories is currently not possible, because the data have not so far been recorded in the form required by GRI (reason type 2). We intend to address this issue in the medium term. Some functions vary widely, and an average over the whole of the group would not be very meaningful. In addition, basic salary is only a part of compensation. For management executives, profit-related bonuses and pension schemes may make a considerable difference. We are working on a meaningful form of presentation. Challenges: it will have to be examined whether some of the data are barred from disclosure by data privacy considerations (reason type 3), because salaries could become too transparent in some categories with a very small number of employees.

HR1 (Core) •
In the reporting period there were no significant investment agreements with key importance in terms of volume or strategic importance of the company, and thus there were no human rights clauses associated with such agreements.

HR2 (Core) •
There was no screening of our suppliers and contractors on human rights aspects, and so far this has not been a high priority, because a large proportion of our suppliers and contractors are located in industrial countries where strict national standards are applicable. However, in future we plan to include sustainability and ethical standards in our cooperation agreements.

HR4 (Core) •
There were no incidents of discrimination in the reporting period.

HR5 (Core) •
So far no formal procedure has been carried out for identification of business activities in which the right to exercise freedom of association and collective bargaining could be at significant risk (reason type 2). We intend to address this issue in the medium term. We do cultivate open and direct relations with employees, which means that any such risk should be notified to us. The legislation in Germany, Spain, Sweden and the USA protects employees from restrictions of their rights. At the site in South Africa we currently have only 2 employees, and at the site in Singapore only 12 employees, which favors strong participation of the individual employees in the decisions of management.

HR6 (Core) •
Our business activity does not involve significant risk for incidents of child labor or work by young people under dangerous conditions. Our processes are very transparent and are supervised via the

documentation in the work schedules. These aspects are also included in our group-wide Code of Conduct.•• A formal procedure of inquiry has not been applied so far (reason type 2). We intend to address this issue in the medium term.

Employees 68
www.solarworld.de/sustainability

HR7 (Core) •
Our business activity does not involve significant risk of forced or compulsory labor. Our processes are very transparent and are supervised via the documentation in the work schedules. These aspects are also included in our group-wide Code of Conduct.•• A formal procedure of inquiry has not been applied so far (reason type 2). We intend to address this issue in the medium term.

Employees 68
www.solarworld.de/sustainability

SO1 (Core) •
So far no formal programs or systematic procedures have been established to assess and regulate the impact of business activities on the community, including entering, operating and exiting activities in a community or region (reason type 2). We intend to address this issue in the medium term. We always seek open stakeholder dialogue.•

4.6

SO2 (Core) •
Responsibility is in the hands of Executive Board Members and Managing Directors. So far no formal programs or systematic procedures have been established, but their development is planned for 2008.

SO3 (Core) •
So far no employees have been trained in the organization's anti-corruption policies and procedures, because so far no formal programs or systematic procedures have been established; however, this is planned for 2008.

SO4 (Core) •
There were no incidents of corruption.

SO5 (Core) •
SolarWorld conducts lobbying work in order to help photovoltaic energy become competitive, and lobbies for political funding programs. This relates for example to compensation through the Renewable Energy Act (EEG). We support the declining annual rates of compensation, because this gives the industry incentives for cost reduction and quality improvement. We are also working worldwide for free access to the electricity grid for power producers, because that is a prerequisite for solar energy to compete with other sources of power. In general terms, we work politically for climate and resource protection, and for sustainable development and ethical management. That means our lobbying activity is in accordance with our declared principles, sustainability goals and public statements of position.

SO8 (Core) •
No cases of non-compliance with laws and regulations were determined in the reporting period.

PR1 (Core) •
Apart from the measures already indicated under other points of the GRI (technical inspections, etc.) there are no further systematic programs to address health and safety impacts during the life cycle of our products.

PR3 (Core) •
We obtain the components from reputable manufacturers. The safety of the products we deliver is ensured by our quality management. Extensive product information is provided in the form of data sheets and assembly instructions. Substances which may have impacts on the environment or society are lead and halogens. Regulations for these (Restriction of certain Hazardous Substances (RoHS), Waste Electrical and Electronic Equipment (WEEE)) are currently in discussion in Germany, but these could become obsolete due to the progress made by PV Cycle. The use of substances is strictly regulated in the US. Supervision is effected via UL Listing. We use only substances which have been approved there for our product. That is confirmed by use of the UL label on our products for the US market. The following information is included in labeling of our products (i.e. for all essential products (100 per cent)):

Criteria	Procedure	Labeling of end products (module/system)
Origin of product components	In assessment of the environmental impact, we also include the upstream process (e.g. with social acceptance, etc.). We also assess suppliers as required in ISO 9001. The same criteria are applied in selection of suppliers of ancillary materials and raw material suppliers. There is also a product information sheet for our cells.	The country of manufacture is indicated, but not the origin of the individual components.
Composition	Not obligatory.	Not indicated.
Safe use of product	Our outgoing goods controls provides an additional check that no defective products are shipped, but only products that meet the customer requirements. In most cases there are also quality assurance agreements with the customers.	A warning is included on electrical danger. A user information sheet (assembly instructions) is included with the deliveries.
Disposal of product	Recycling of input products and final products is covered by PV Cycle, whereby our goal in all cases is to avoid production of defective products.	Our products are fully recycling-capable, and can be returned to SolarWorld for this purpose. However, this is not indicated on the product.

PR6 (Core) •
There are no organization-wide applicable written rules of conduct or standards specified with respect to advertising. The **SolarWorld** Group adheres to the laws in its advertising, and is guided by the values of the Code of Conduct,** e.g. fair competition, no discrimination. Compliance is continuously monitored by approval of adverting campaigns by the Management Board. We do not distribute any products whose sale is prohibited in certain markets, or which are called into question by stakeholders or are disputed in public opinion.

PR9 (Core) •
No incidents of non-compliance with laws and regulations were determined with respect to provision and use of products and services.

Employees 68
www.solarworld.de/sustainaibility

Confirmation to the sustainability report for the calendar year 2007

to SolarWorld AG, Bonn

We have performed a limited assurance engagement regarding the part "key indicators" (p. T – AD) of the sustainability report 2007 of SolarWorld AG.

The preparation of the sustainability report 2007 in accordance with the criteria stated in the GRI Guidelines Vol. 3 of the Global Reporting Initiative

- Materiality,
- Stakeholder inclusiveness,
- Sustainability context,
- Completeness,
- Balance,
- Comparability,
- Accuracy,
- Timeliness,
- Clarity and
- Reliability

is the responsibility of the Board of Managing Directors of SolarWorld AG. Our responsibility is to express a conclusion on the part "key indicators" based on our assurance engagement.

We conducted our assurance engagement in accordance with the German generally accepted standards for the audit of sustainability reports. For a limited assurance engagement this standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance about whether the part "key indicators" has been prepared, in all material respects, in accordance with the above mentioned criteria stated in the GRI Guidelines Vol. 3 of the Global Reporting Initiative (p. 7 – 17).

During our engagement based on the assessment of risks and materiality we gained evidence to obtain limited assurance on the compliance of the part "key indicators" with the specified criteria. We determined the nature and extent of our procedures, also on a sample basis, by using professional judgment to obtain limited assurance. Our assurance engagement included the following procedures:

- Inspection of the relevant documentation of group principles, management and reporting structures as well as inspection and random testing of existing documents and systems for sustainability data ascertainment, analysis and aggregation
- Discussions with the team commissioned with the preparation of the sustainability report
- Discussions with employees of other group divisions
- Obtaining an understanding of the topic finding process for the sustainability report 2007
- Inquiries and inspections of documents at the locations Bonn and Freiberg regarding the sustainability data of the corresponding operating sites

Regarding the environmental data we could also access the data and information of the regular audits according to ISO 9001 and 14001 during our engagement.

Our assurance engagement only relates to the German version of this sustainability report.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion on the part "key indicators".

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the part "key indicators" has not been prepared in all material respects in accordance with the above mentioned criteria stated in the GRI Guidelines Vol. 3 of the Global Reporting Initiative (p. 7 – 17).

Bonn, March 4, 2008

BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft	Schäfer Auditor	ppa. Lubitz Auditor

Glossary

A

At equity measurement
Balance sheet-related term (IAS 28): measurement of investments in associated companies. P. 118, 126, 134, 135, 150

B

Balance sheet
A company's assets arrayed against its liabilities as at a specific closing date. P. 111, 164,

Batch tracking
A number of digits facilitating accurate series identification in order to comply with relevant quality standards. SolarWorld's batch tracking system covers the entire -> supply chain. P. 32, 43

Brand awareness, unprompted
Percentage of members of a target group able to (spontaneously) name a specific brand when asked to list brands they are aware of for a specific product group. P. 47, 65

Brent
Europe's most important crude oil grade. P. 36, 94

Busbar
Current-carrying circuit bars made from silver, printed on -> solar cells to conduct the generated power away. P. 75

C

Capital increase
Increase in the -> equity of a stock corporation by means of the issue of new shares. P. 54, 139

Capital stock
Total of the par value of all stocks issued by a company. P. 29, 54, 138, 139

Carbon Disclosure Project (CDP)
Global cooperation of more than 300 institutional investors with investment capital of more than 41 trillion US dollars. Its goal is to disclose greenhouse gas emissions by companies and their respective strategies concerning climate change and its implications. The CDP thus constitutes the world's largest freely available emissions inventory for corporate CO_2 emissions. The second German CDP Report was published in October 2007. P. 53, 82, N, V, W, X

Cash flow
Cash surplus generated from ordinary business activities. An indicator of a company's self-financing strength. P. 33, 61, 62, 104, 113, 117, 118, 120-123, 134-141

Cash flow statement
Determination and presentation of the inflow and outflow of cash by a company within a specific timeframe from operating activities, investing activities and financing activities. P. 113, 139

Cells
The (solar) cells combined into modules serve to generate power from solar energy by means of the photovoltaic effect. Cells consist of two layers, both of which are impure (doped). An electrical field is produced at the interface between the two layers. When a light beam hits an electron in the upper layer, it can move freely and migrates outside. This creates an electrical voltage which can then be tapped by outer contacts. P. 20-24, 30, 33, 38, 39, 42-46, 49, 58, 74, 78, 86, 96, 100-104, 129, 134

CO_2 emissions
-> Greenhouse gas emissions II, 95, 112

Combined power plant
The initiative launched by Enercon GmbH, Schmack Biogas AG and SolarWorld AG demonstrates the advantages of an optimum combination of several renewable energies. The combined regenerative power station links and controls 36 wind, solar, biomass and hydro power stations located all across Germany and shows how the joint control of small and decentralised systems can reliably provide power in line with requirements. P. 105, www.kombikraftwerk.de

Compliance
Observation of laws, guidelines and voluntary codes by companies. P. 12, 25, 26, 89, H, N, Q, Y.

Consolidated companies
According to the German Commercial Code (HGB), the group of consolidated companies comprises the companies included in the consolidated financial statements. As a matter of principle, all subsidiaries have to be included, besides the parent company. P. 21, 115

Corporate citizenship
Systematic social commitment by companies; contribution made by companies to solve social problems. Derived from the term "good corporate citizen". The purpose of this approach is to combine benefits for the public at large with benefits for a successful, long-term business policy. P. 83

Corporate communications
Comprehensive, strategic, internal and external corporate communications derived from the company's vision and corporate objectives. P. 21, K

Corporate culture
The joint fundamental beliefs, values and attitudes shared by the members of a company concerning the purpose of the company. The corporate culture expresses e.g. the values of the management, the way managers deal with one another and with their staff. P. 71, 103

Corporate register
Internet platform available since 1 January 2007 to research company-relevant data published in the electronic Federal Gazette. P. 26

Corporate strategy
Long-term orientation of a company in order to achieve its goals. With the expansion of its core competences, the company achieves value added for its stakeholders and a leading competitive position. P. 61, 87, 88, 107

Crystallization
Process during which liquids or molten materials (e.g. silicon chunks molten at high temperatures) cool down slowly and under specific conditions and solidify in the form of crystals. P. 20, 22, 32, 75, 77

D

DAXglobal Altenative Energy Index
Shows the performance of the world's 15 largest companies operating in the alternative energies sector. The companies have to generate the bulk of their sales in natural gas, solar,

wind, ethanol or geothermal energy. Since 2006, SolarWorld AG has been the only German photovoltaic company represented in the index. P. 53

Depreciation (for wear and tear)
Gradual reduction in the value of a fixed asset or investment through the systematic write-down of the costs over an extended period of time. P. 58, 59, 62, 118-120, 122, 125,

Dividend
Portion of the earnings of a stock corporation distributed to the shareholders on an annual basis. The distribution of these earnings is resolved by the Annual General Meeting. P. 7, 27, 29, 33, 54, 61, 62, 103, 118, 120, 123, 139, 150

dm^2
square decimetres (square measure). P. 35

Dow Jones STOXX 600
Stock index comprising the 600 largest European companies, measured in terms of the capitalization of the free float. The SolarWorld share has been listed in this index since February 2006. P. 53

Downstream
Describes the solar value chain downstream of the cell manufacturer, i.e. module production and trading are downstream operations. P. 24, 43, 49, 59, L

E

EBIT
Operating Earnings Before Interest and Taxes, usually used in evaluating the earnings situation of a company, in particular for international comparisons. P. 14, 34, 58, 59, 103

EBITDA
Earnings Before Interest, Taxes, Depreciation and Amortization. This indicator facilitates international comparisons as it does not include national taxes. P. 14, 58

EBIT margin
Shows the percentage of operating Earnings Before Interest, Taxes and financial result generated by a company per sales unit, thus providing information about the company's profitability. P. 14

Economies of scale
The economies of scale resulting from mass production are reflected in a reduction in unit costs. These cost advantages are used in production, marketing, research and development. P. 31, 103, 108, 109

EEG
Acronym for Erneuerbare-Energien-Gesetz (German Renewable Energies Act). It governs the purchase of and compensation for power exclusively generated from -> renewable energies by utilities operating universal power supply grids. The Act aims to increase the proportion of renewable energies by 25-30% by 2020. P. 23, 38, 40, AC

Efficiency
The efficiency of a module/cell is defined as output per surface area. P. 24, 33, 39

Einstein Junior Award
Award annually presented by SolarWorld AG to junior scientists for scientific work in a photovoltaic segment. (www.einstein-award.de) P. 70

Employee profit-sharing program (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. P. 70, 126, 148, G

Energyroof®
Special type of assembly in which unframed modules are integrated into a sectional frame system. The surface created this way replaces the standard roof skin. The system is particularly well suited for new buildings or roof restoration. P. 24, 41, 48, 101

Environmental management
Systematic attempt by companies to reduce the environmental damage caused by them. The corporate strategy has to balance economic growth and ecological compatibility. The reduction of harmful emissions, waste avoidance and use of renewable energies are combined into a set of environmental measures to be implemented, comprising the corporate environmental policy, environmental audits and standards such as -> ISO 14 001. P. 32, 49, 69, 78, 86, 87, 89, F, H, N

Equity
Balance sheet item consisting of the capital stock and the reserves available to the company, e.g. for financing transactions. P. 14, 61, 63, 65, 111, 112, 116, 118, 121, 128, 134, 138, 142, 149, 150, 153

Equity ratio
Indicator depicting equity as a proportion of the total capital stock. Used to assess the financial strength of a company. P. 14, 61, 65, J

Equity story
Summary presentation of the development of a stock corporation with regard to its future opportunities and risks. P. 65

European Energy Exchange (EEX)
German energy exchange based in Leipzig. P. 36

F

Feed-in compensation
The compensation fixed by the -> EEG for 20 years for power from renewable energies fed into the public grid. P. I, 37, 40, 41, 43, 77, 97, 98

Fossil-fuel power generation
Power generation from natural gas, crude oil or coal. P. 38

Full integration
Combining upstream and downstream production stages of a product under uniform corporate management. SolarWorld covers the entire -> supply chain, all the way from raw material extraction to finished modules. P. 32, 58, 58

G

German Corporate Governance Code
The Code aims to enhance the transparency of corporate management and monitoring rules applicable in Germany for national and international investors and outline investors' rights in order to strengthen confidence in the management of German companies. P. 12, 25-27, 29, 152

German Entrepreneurial Index (GEX)
Index for owner-managed companies listed in the Prime

Standard whose IPO does not date back more than ten years. SolarWorld has been listed in the index since 2005. P. 53

Global Reporting Initiative (GRI)
Worldwide multi-stakeholder network of experts to define a global standard for the preparation of sustainability reports. The GRI reporting framework serves to ensure systematic presentation of the economic, ecological and social performance of companies in order to facilitate comparisons between companies (benchmarking) and a transparent presentation of the development over time. The reporting framework was prepared and continually developed in a consensus-oriented dialogue process involving stakeholders from the business community, investors, employer and employee representatives, civil society, accounting, science and other areas. The GRI is an official partner of the United Nations and cooperates closely with the Global Compact Initiative founded by Kofi Annan. P. 33, 49, 82, 83, A

GOMAB
-> Employee profit-sharing program

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 (CO_2) from the burning of fossil fuels (approx. 60%) and methane from agricultural activities and large-scale livestock husbandry (approx. 20%). P. 36, 37, 82, 104, 105, W

Grid parity
Cost parity for solar power and household rates. It is achieved when solar power is less expensive than the consumer price for household power from the grid. P. 23, 32, 33, 106

Gross domestic product (GDP)
Measure of the entire economic performance of an economy. The GDP is the total of all consumer expenditure, capital expenditure, government expenditure on purchases of goods and export proceeds minus import expenditure. P. 35, 94

Guidelines of the Global Reporting Initiative
-> Global Reporting Initiative. P. 82

I

IEC
Acronym for International Electrotechnical Commission. International standard-setting body fixing standards in the electrotechnical and electronics areas. P. 24

Income statement (P&L)
Summary of the revenues and expenses of a company during an accounting period. P. 15, 60, 110

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. Their aim is to harmonize national accounting rules. P. 114

Inverters
Converts the direct current produced by the -> solar cells into grid-conforming alternating current, stores operating data and monitors grid connection. P. 24

ISO 14 001
International environmental management standard fixing requirements on environmental management systems acknowledged worldwide. It relates to questions associated with production processes and services. P. 49, 86, 108, A, N, Q

ISO certification
Series of standards outlining the requirements which the management of a company has to satisfy in order to comply with a specific standard in implementing -> quality management. P. 108

J

Joint venture
Economic cooperation between companies aimed at taking better advantage of each party's know-how and resources. P. 22, 43, 44, 45, 61, 79, 86, 90, 91, 99, 104, 114, 115

JSSI process
Patented process for the manufacture of highly-pure (solar-grade) silicon as a primary material for the solar cell industry. P. 44

K

KLD Global Climate 100SM Index
Index for stock corporations operating activities with the potential to mitigate the causes of climate change in the short and long term. The index comprises 100 international companies offering solutions against global warming. SolarWorld has been listed since 2005. P. 53

L

Large-scale plants
Photovoltaic systems not installed on a building but in an open space. Primarily systems of more than 100 kW. P. 24, 48, 150

M

M&A
-> Mergers and Acquisitions

Margin
Difference or market margin between producer (production) price and sales (consumer) price of a tradable product. The margin covers the overhead costs included in production and distribution. P. 14, 38, 43, 59, 96, 101

Market capitalisation
Measurement referring to the number of shares times the stock price. P. 15, 52

Mergers and Acquisitions (M&A)
Acquisition and combination of companies. P. 21, J

Merit order effect
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. P. 38, 105

Module
A (solar) module comprises a multitude of -> solar cells interconnected in groups with weatherproof sealing in an aluminium frame behind a glass pane. P. 20-24, 32, 33, 39, 42-49, 58, 59, 62, 74, 75, 77, 79, 82, 86, 87, 100-102, 104, 108, 123, 129-131, 151, G

Mono-crystalline
The conditions prevailing during -> crystallization result in the solidification of the -> silicon in a single large and homogeneous cylindrical crystal. P. 24, 39

N

NAI
Nature stock index (Natur-Aktien-Index), comprising 30 international companies operating ecologically and selected as successful green pioneers on the basis of particularly consistent criteria. The SolarWorld share has been listed in this index since 2003. P. 53

O

Off-grid (rural electrification)
Solar systems not directly connected to the power grid; the power generated is directly consumed or stored locally (stand-alone system). P. II, 23, 32, 41, 48, 90, 98, 100, 106

Off-spec
Material not complying with its original specifications; i.e. off-spec(ifications). P. 45

On-grid
Solar systems connected to 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. II, 41, 100, 43, 98

P

Peak load
Temporarily high demand for energy in the power grid. The use of solar power can cover the increase in the demand for power at around noon. P. 106, 109

Performance dives
Process-oriented parameter. An improved performance in the leading indicators influences the future development of the lagging indicators in a positive manner. The leading indicators thus have an early warning character concerning the achievement of key strategic goals. P. 82, 99

PPVX, photon photovoltaic stock index (Photon Photovoltaik Aktien Index)
Worldwide index of the Photon trade journal listing the companies that generated more than 50 per cent of the previous year's revenues with products or services directly or indirectly associated with the installation or use of photovoltaic systems. SolarWorld AG has been listed since 2001. P. 53

Photovoltaic system
-> Solar power system

Poly-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. P 24, 39, 99

Primary energy consumption
Consumption of primary energy sources (lignite and hard coal, crude oil, natural gas) directly produced by nature as well as renewable sources of energy. Primary energy is converted into final energy (electricity, heat for district heating purposes, etc.). P. 86

Production costs for solar power
Designation of all costs incurred to convert power into electricity. Usually indicated as price per kilowatt hour. P. 106

Profitability
Effective return on capital employed. The return is the (annual) total yield on capital invested. It is usually measured in per cent. P. 31

Q

Quality management
Application of measures serving to improve products, processes or services of any kind. QM is considered part of functional management, aiming to enhance the efficiency of a transaction or workflow. P. 35, 49, 69, 71, 86, 89, 92, G, R, S, AD

R

Racer
-> SolarWorld No.1

Recycling
Returning used materials into the economic cycle and processing them into new products. Recycling offers the advantages of a reduction in waste volumes and conservation of raw materials. P. 20, 23, 24, 45, 46, 99, 101, 102, 107, 108, H, R, X, Y

Renewable energies
Energies from non-depleting sources including sun, water, wind, geothermal and biomass sources. P. 23, 36, 38, 40, 42, 53, 86, 87, 95, 106

RGS (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. P. 77, 100

RoHS Directive
(Restriction of Hazardous Substances) EU Directive limiting the use of specific substances such as lead and mercury in the manufacture and processing of electrical and electronic devices and components. It aims to eliminate the hazardous substances from throwaway electronic products. P. 108, AD

S

Silicon
The chemical element silicon is a semiconductor and forms crystals with a stable diamond structure. It is the second most frequent element of the earth crust after oxygen. Raw silicon to be processed for the solar sector is purified to form solar-grade silicon and cast into blocks to be further processed into -> wafers. P. I, 11, 20, 38, 39, 44-46, 49, 64, 75, 77, 86, 87, 90, 91, 96, 100, 102, 107, 108, 118, 124, 134, 149, 150

Solar2World
Under the master brand/designation "Solar2World", the SolarWorld Group pools its ethical activities to promote solar power, in particular in developing countries. P. I, 33, 83, P, V

Solar cell
-> Cell

Solar power system
Solar cells combined into a solar -> module produce direct current due to the photovoltaic effect. In order to feed the power into the power grid, an -> inverter converts the power produced into alternating current. P. 31, 98

SolarWorld No.1
A racer specifically produced in cooperation with Bochum University and exclusively powered with solar energy. The racer is driven by a highly efficient solar generator. P. 7, 70, www.solarworldno1.com

Spot market
General term for markets in which the purchase price is paid immediately upon delivery. P. 44

Stakeholders
Groups or individuals that may influence the goals achieved by a company or are affected by these goals. The key stakeholder groups include employees, shareholders, investors, suppliers, customers, consumers, authorities and non-governmental organizations. P. 32, 82, E, L, M, P, Q, T, V, AD

Sunmodule® Plus
Sunmodule Plus is an innovative module concept. The 'plus' grade indicates that every module achieves an output above the rated output (according to output test); it thus guarantees optimum efficiency of the system without sorting the modules. P. 24, 47, 74

Suntrac®
Assembly system for solar modules involving a sun-tracking mechanism for the assembled module field in order to increase the yield. P. 76, 101

Suppliers' market
Market constellation in which demand for a good exceeds supply. P. 38

Sustainability
1. lasting, describing the formal characteristics of a system lasting in the long term; 2. scientific concept concerning the objective limits to the use of environmental resources; 3. ethical normative concept hinging upon the question of justice and a balance between value added and ecological damage added. P. 2, 31, 33, 49, 53, 69, 83, A

Sustainability management
Control of ecological, social and economic effects in order to achieve a sustainable corporate and business development and ensure a positive contribution made by the company to the sustainable development of society at large. P. 34, 35, 82, 89, 99, E, G

T

TCVP (Temperature Controlled Volume Process)
High-quality -> crystallization of silicon requires specific conditions during the cooling phase. TCVP furnaces facilitate particularly well-defined temperature control during the entire process. P. 32

Toll manufacturing
In the framework of contractual arrangements, a company provides its confidential technology concerning the manufacture of a product to third parties. P. 24

Total assets
Total of all assets and liabilities in a -> balance sheet. P. 111

Tracker
-> Suntrac®

U

UL listing
The most widely accepted evidence certifying that a product meets American and Canadian safety requirements. P. AD

Upstream
Describes the solar value chain upstream of the cell manufacturer, i.e. silicon and wafer production are upstream operations. P. 43

V

Value chain
Term used to designate the value added of a product on every stage of production processes. The stages of SolarWorld's supply chain range from silicon to modules. P. 20, 22, 31-35, 43, 58, 65, 74, 76, 82, 99, 101, 107, 108

W

Wafers
Thin discs made of -> silicon, used to produce -> solar cells. The structures of the circuits are placed on the wafers by means of numerous photochemical processing steps. P. 21, 23, 24, 31, 38, 43, 46, 49, 86, 100, 103, 129, 134, 135, 149

WEEE Directive
(Waste Electrical and Electronic Equipment)
EU Directive relating to the collection, treatment and disposal of electrical and electronic scrap and formulating requirements concerning the design of such equipment from a waste management perspective. P. 108, AD

Work-life balance
Term covering issues focusing on questions associated with relationships and the balance between work and life. P. 103

Working capital
Current assets minus current liabilities, i.e. the portion of current assets financed with long-term schemes. It provides information about the company's financial stability and flexibility. P. 34, 61, 64

Index

The Annual Group Report 2007 is also available in German.
The German and the English version can be downloaded as PDF files from our homepage www.solarworld.de.

You may also order additional exemplars of the Annual Group Report and the Annual Financial Statements.

SolarWorld AG, Investor Relations Department
Kurt-Schumacher-Str. 12-14, 53113 Bonn, Germany

Tel.: +49-228-55920-470
Fax: +49-228-55920-9470
E-mail: placement@solarworld.de

Acronyms

A	AG	Aktiengesellschaft (stock corporation)
	AGM	Annual General Meeting
	AktFoV	Shareholder Forum Regulation (§ 127a German stock corporation law)
	AktG	German stock corporation law
B	BMU	German Federal Ministry of the Environment, Nature Conservation and Nuclear Safety
	BSW	German Solar Industry Federation
	BVI	German Association for Investment and Asset Management
C	CDM	Clean Development Mechanism
	CDP	Carbon Disclosure Project
	CEO	Chief Executive Officer
	CFO	Chief Financial Officer
	CNE	Comisión Nacional de Energía (Spanisch National Energy Comission)
	COO	Chief Operating Officer
	CSI	California Solar Initiative
	CSO	Chief Sales Officer
E	2008e	estimated; estimated valued for 2008
	EBIT	earnings before interests and taxes
	EBITDA	earnings before interests, taxes, depreciation and amortization
	EBT	earnings before taxes
	EC	economic
	EEG	German Renewable Energies Act
	EEX	European Energy Exchange
	EHUG	Act on Electronic Commercial Registers, Public Registers of Cooperatives and Corporate Registers
	EN	environmental
	EPIA	European Photovoltaic Industry Association
	EPS	Earnings per share
	ERIX	European Renewable Energy Index
	ESG	Environmental Social Governance
	EuPD	Europressedienst (independent market research institution)
G	GCGC	German Corporate Governance Code
	GDP	Gross domestic product
	GEX	German Entrepreneurial Index
	GOMAB	Employee profit sharing program
	GRI	Global Reporting Initiative
	GW	Gigawatt
H	HGB	German Commercial Code
	HR	human resources
I	IAS	International Accounting Standards
	IEA	International Energy Agency
	IEA-PVPS	Photovoltaic Power Systems Programme
	IEC	International Electrotechnical Commission
	IFRS	International Financial Reporting Standards
	IfW	Kiel Institute for the World Economy
	IPCC	Intergovernmental Panel on Climate Change
	ISO	International Organization for Standardization
J	JSSI	Joint Solar Silicon GmbH & Co. KG (Joint Venture with Evonik Degussa GmbH)
K	kW	Kilowatt
	kWh	Kilowatt per hour
	kWp	Kilowatt peak
L	LA	labour
	LBBW	Landesbank Baden-Württemberg
M	M&A	Merger and Acquisition
	MW	Megawatt
	MWp	Megawatt peak
N	NAI	Nature Stock Index (Natur-Aktien-Index)
P	P&L	Profit and Loss statement
	p.a.	per anno
	PPVX	Photon Photovoltaic Stock Index (Photon Photovoltaik Aktien Index)
	PR	product
	PV	Photovoltaic
R	R&D	Research and Development
	RGS	Ribbon Growth on substrate
	ROCE	Return on capital employed
	RoHS-Richtlinie	Restriction of Hazardous Substances
	ROI	Return on investment
	RPS	Renewable portfolio standards
S	SBSC	Sustainability Balanced Score Card
	SME	Small and medium enterprises
	SO	social
	SRI	Socially responsible investing
T	TUG	Transparency Directive Implementation Act
U	UNEP	United Nations Environment Programme
V	VAT	Value added tax
W	WEEE-Richtlinie	Waste Electrical and Electronic Equipment
	WpHG	German Securities Trading Act
	WpPG	German Securities Prospectus Act

Balance sheet – multi-period overview

in k€

Assets

	31.12.2003	31.12.2004	31.12.2005	31.12.2006	31.12.2007
A. Noncurrent assets	**174,232**	**184,955**	**219,776**	**362,514**	**422,725**
I. Intangible assets	35,263	34,845	34,474	34,498	32,675
II. Property, plant and equipment	130,466	145,786	178,445	290,646	349,602
III. Investments measured at equity	128	607	4,576	19,377	21,630
IV. Deferred tax assets	8,375	3,717	2,281	17,993	18,818
B. Current assets	**100,610**	**91,334**	**226,803**	**641,896**	**1,281,741**
I. Inventories	57,289	46,746	84,923	241,989	350,053
II. Trade receivables	18,615	12,957	20,790	72,030	112,922
III. Current income tax assets	1,986	505	492	646	9,180
IV. Other receivables and assets	2,079	3,600	1,877	21,870	3,589
V. Other financial assets	11	0	22,247	98,573	528,995
VI. Liquid funds	20,130	27,036	95,897	204,655	263,862
VII.Prepaid expenses and deferred charges	500	490	577	2,133	1,410
C. Assets held for sale					11,730
	274,842	**276,289**	**446,579**	**1,004,410**	**1,704,466**

Equity and liabilities

	31.12.2003	31.12.2004	31.12.2005	31.12.2006	31.12.2007
A. Equity	**107,543**	**124,488**	**217,056**	**597,321**	**691,546**
I. Subscribed capital	5,775	5,775	12,700	55,860	111,720
II. Capital reserve	100,592	100,592	136,792	352,349	296,489
III. Other reserves	97	-33	-286	-2,321	-10,180
IV. Accumulated profits	1,079	18,154	67,850	191,433	293,517
B. Noncurrent liabilities	**94,033**	**91,984**	**144,284**	**273,722**	**899,266**
I. Noncurrent financial liabilities	51,263	41,737	54,998	112,577	620,722
II. Accrued investment grants	33,552	38,550	56,477	57,106	54,925
III. Noncurrent provisions	189	3,547	504	18,119	20,195
IV. Other noncurrent liabilities	0	527	24,349	75,429	188,405
V. Deferred tax liabilities	9,029	7,623	7,956	10,491	15,019
C. Current liabilities	**73,266**	**59,817**	**85,239**	**133,367**	**113,654**
I. Current financial liabilities	52,214	25,326	15,591	50,960	20,443
II. Trade payables	5,858	14,289	25,312	31,909	32,306
III. Income tax liabilities	452	8,148	24,136	20,266	15,171
IV. Current provisions	2,425	8,287	2,187	1,188	2,679
V. Deferred income	556	202	205	1,278	85
VI. Other current liabilities	11,761	3,565	17,808	27,766	39,700
D. Liabilities of assets held for sale					3,270
	274,842	**276,289**	**446,579**	**1,004,410**	**1,704,466**

Financial calendar/Calendar of events 2008

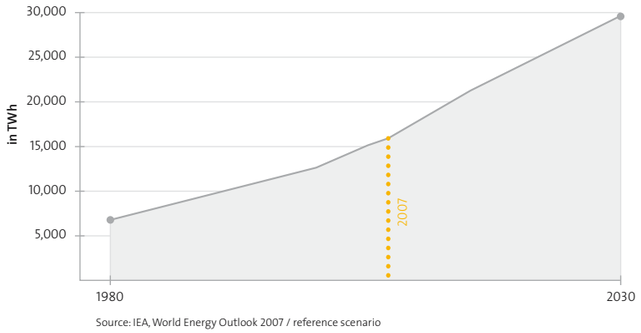
26-28 February 2008	GENERA, Madrid (Spain) **www.ifema.es**
13 March 2008	Publication Annual Report 2007 Press release Annual Business Press Conference; 11:00 am Analyst' Conference; 2:00 pm **www.solarworld.de/financialreports**
06-11 April 2008	light + building, Frankfurt a.M. (Germany) **www.light-building.messefrankfurt.com/frankfurt/de/**
14 May 2008	Publication Consolidated Interim Report First Quarter 2008 Press release; Presentation on SolarWorld website Analyst' conference call; 3:00 pm **www.solarworld.de/financialreports**
15-17 May 2008	SolarExpo, Verona (Italy) **www.solarexpo.com/**
21 May 2008	Annual General Meeting, Bonn **www.solarworld.de/agm**
22 May 2008	Dividend payment* for the financial year 2007
12-14 June 2008	INTERSOLAR, Munich (Germany) **www.intersolar.de**
14 August 2008	Publication Consolidated Interim Report Second Quarter 2008 Press release; Presentation on SolarWorld website Analyst' conference call; 3:00 pm **www.solarworld.de/financialreports**
01-04 September 2008	23rd European Photovoltaic Solar Energy Conference and Exhibition, Valencia (Spain) **www.wip-munich.de**
28 October - 01 November 2008	MATELEC, Madrid (Spain) **www.ifema.es**
14 November 2008	Publication Consolidated Interim Report Third Quarter 2008 Press release; Presentation on SolarWorld website Analyst' conference call; 3:00 pm **www.solarworld.de/financialreports**
20-21 November 2008	Forum Solarpraxis, Berlin (Germany) **www.solarpraxis.de**

* subject to the approval of the AGM

Global Challenge

World electricity demand

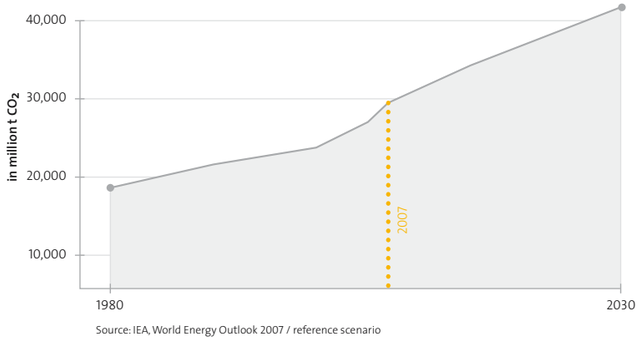
The supply with energy is among the major challenges of the 21st century. Above all, industrial and threshold countries like China, India and Brazil need energy. The other side of the medal: 2 billion people lack access to electrical power and thus to education and health services.



Source: IEA, World Energy Outlook 2007 / reference scenario

Worldwide CO_2 emissions

The world's hunger for energy also has an influence on future CO_2 emissions. If we merely project today's development into the future – without taking any countermeasures in energy supply – we will not combat the danger of an increasing climate change.

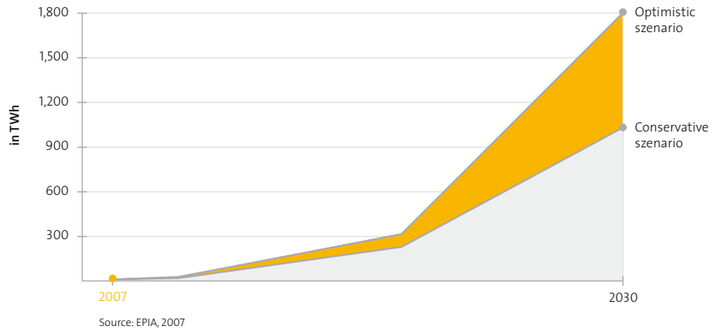


Source: IEA, World Energy Outlook 2007 / reference scenario

Solar Power as an Opportunity

Two forecast alternatives for solar power

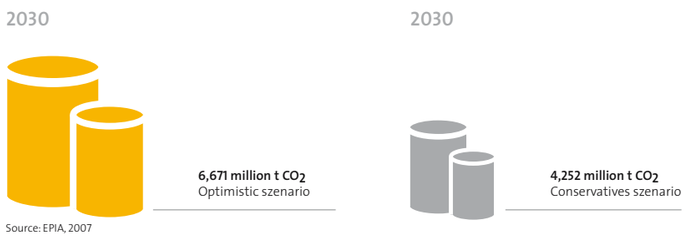
Solar power will contribute more and more strongly to the world's energy supply. The concrete potential for the next few decades is difficult to quantify today because of different factors of influence. Yet, the trend is clear: The future is inconceivable without solar power.



Source: EPIA, 2007

CO_2-savings through solar power

The formula is simple: The more solar power the less environmentally damaging CO_2 and the more people – especially in rural areas far away from national power grids – will have access to energy.

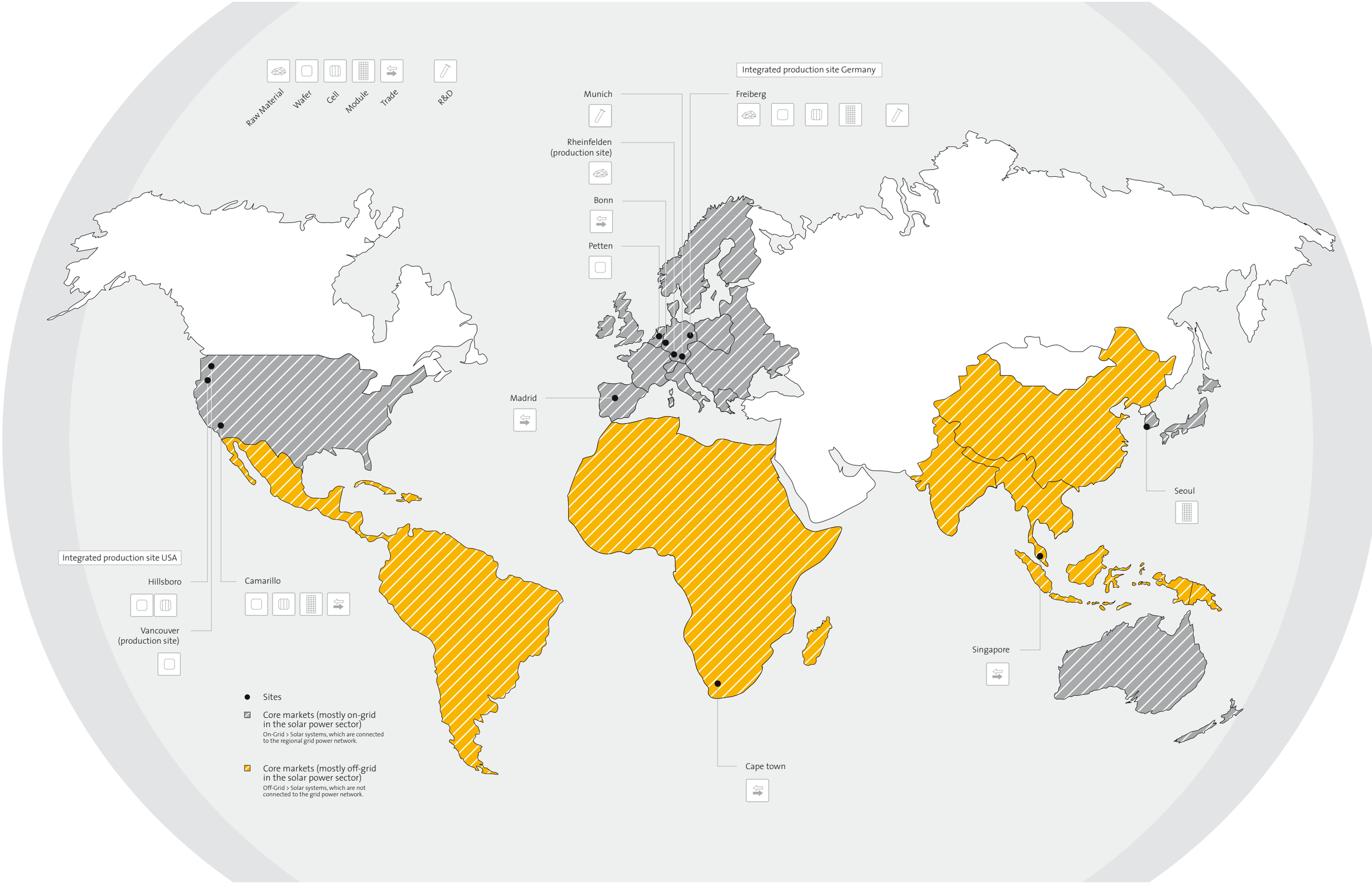


Source: EPIA, 2007

Solar power users worldwide

Source: EPIA, 2007

World energy demand, new markets and the SolarWorld Group of tomorrow



Design: Kreativ Konzept, Bonn [www.kreativ-konzept.com] Photos: Sandra Schuck

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

SOLARWORLD
THE SUNPOWERED COMPANY®

SolarWorld. And EveryDay is a SunDay.

www.solarworld.de