

# BUSINESS DEVELOPMENT

## FIRST HALF 2010

### THE SOLARWORLD STOCK

The **international capital markets** were again subject to strong fluctuations in the first half of 2010. Especially the second quarter was characterized by considerable uncertainty among investors – mainly caused by the financial instability of the Euro zone and by the high level of indebtedness of some European countries. At the beginning of the third quarter the mood brightened somewhat. The background to this was the economic development that turned out better than expected both in the Euro zone and in the U.S., as well as the stabilization of the European financial markets.

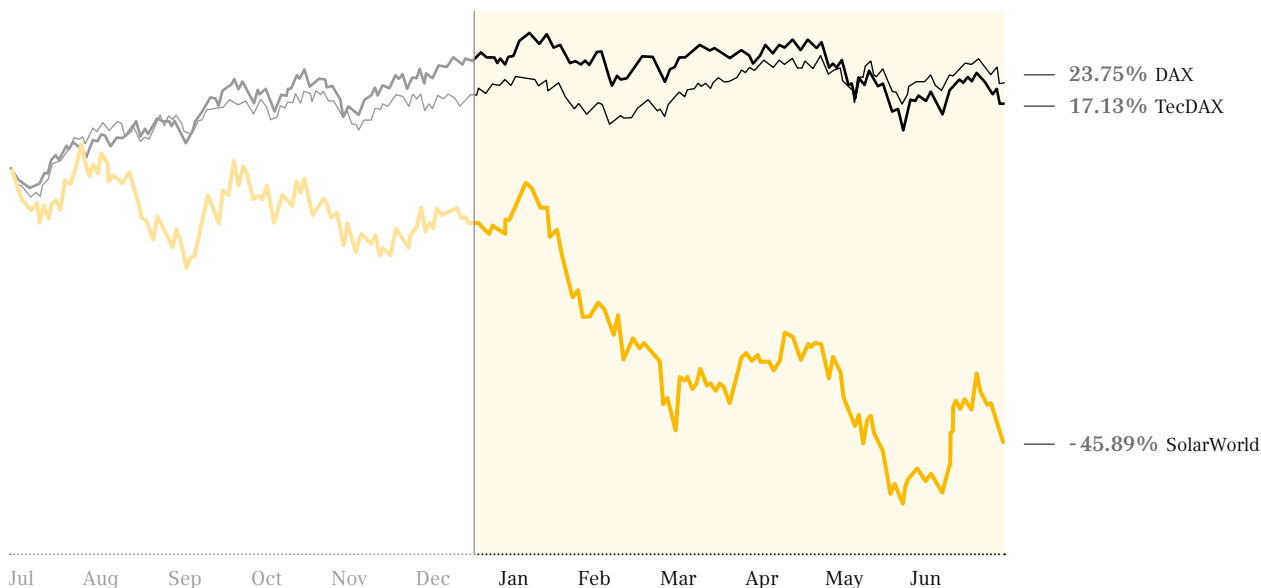
The **DAX** closed at the cut-off date (30 June 2010) on 5,966 points and thus dropped only slightly in comparison with the opening price on 4 January 2010 (5,976 points) by -0.2 (H1 2009: -1.0) percent. The **TecDAX**, on the other hand, showed a great deal more volatility. It lost a total of 10.2 (H1 2009: +18.2) percent in the first half of the year 2010 closing on 30 June 2010 on 734 (4 Jan. 2010: 818) points.

The **solar stocks** were not able to escape the general development of the capital markets and were additionally pressured by the persistent discussion on the amendment of the German law on renewable energy sources (EEG): Only once a concrete decision had been taken could the values recover towards the end of the second quarter. → [The solar power market](#) • p. 09 // Thus, the closing price of the **SOLARWORLD stock** on 30 June 2010 was at 9.16 (4 Jan. 2010: 15.20) €. The highest price the stock reached in the period under review was 16.61 €, the lowest one was 7.99 €.

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### 05 DEVELOPMENT OF SOLARWORLD STOCK PRICE VERSUS DAX AND TECDAX

Period: 1 July 2009 - 30 June 2010 // Source: Deutsche Börse, 2010



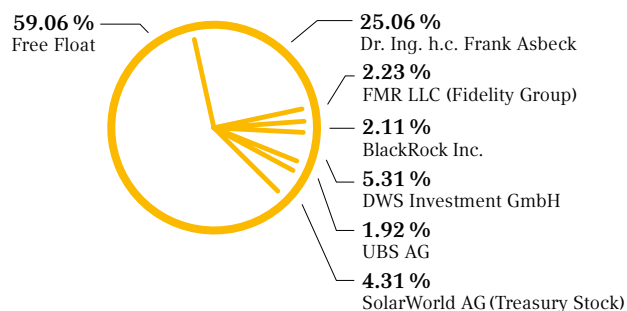
In July the stock of SOLARWORLD AG recovered further. The positive signals that came from Intersolar, one of the most important trade fairs in the solar industry, as well as the final approval of the long-awaited EEG amendment supported this development. Corporate news about capacity expansions of our most important production locations in Germany and the U.S. also had a positive impact on the development of the stock price.

The eleventh ordinary Annual General Meeting (AGM) of SOLARWORLD AG [\[1\] www.solarworld.de/HV2010//](http://www.solarworld.de/HV2010//) on 20 May 2010 adopted all the items on the agenda with a large majority. The Management Board and the Supervisory Board were discharged with 99.9 percent. In total, more than 1,000 shareholders and shareholder representatives were present constituting 42.36 percent of the voting capital. The dividend for shareholders increased for the sixth time in succession: For fiscal year 2009 an increased dividend of 0.16 (for fiscal year 2008: 0.15) € was approved. The payout took place on 21 May 2010. The largest portion of the balance sheet profit was allocated to revenue reserves of the SOLARWORLD AG, thus forming a sound basis for the worldwide group growth. The system of Management Board compensation was also approved by the AGM with a large majority. With this item of the agenda management had followed the provisions of the new law on the appropriateness of Management Board compensation. Already in the previous year the shareholders had approved the capping of the salaries of the Management Board members, thus sending out a signal regarding the level of Board salaries in Germany ➔ [Group Interim Report First Half 2009/Resolution to cap Management Board salaries](#) • p. 09//

The **capital stock** remained unchanged in the period under review being divided into 111,720,000 bearer shares of no par value with an imputed nominal value of 1.00 €. On 12 May the Management Board of SOLARWORLD AG decided to make use of the authorization granted by the AGM to **acquire treasury stock** pursuant to § 71 Sec. 1 No. 8 AktG (German Stock Corporation Act) of up to ten percent of the capital stock of the company. By the cut-off date of 30 June 2010 a total of 4,817,723 stocks were bought, which is equivalent to a share of 4.31 percent. The authorization is limited until 20 November 2010. In order to increase transparency vis-à-vis our shareholders and stakeholders we publish the information on the respective daily trade transactions under [\[1\] www.solarworld.de/treasurystock//](http://www.solarworld.de/treasurystock//)

With effect from 1 June 2010 Black Rock Inc. reduced its shareholding in SOLARWORLD AG to 2.11 percent. The Chairman of the Management Board of SOLARWORLD AG, Dr. Ing. h.c. Frank Asbeck, increased his shareholding to 25.06 percent on 6 June 2010.

#### 06 SHAREHOLDER STRUCTURE AS OF 30 JUNE 2010



In the first half of 2010 we further intensified our **capital market contacts**. For example, we participated in a number of road shows and conferences and conducted individual talks with analysts, investors and shareholders in Europe and the U.S.. The objective is to improve service and transparency for our stakeholders. To this end we are also continuously expanding our Internet presence. Our online report for fiscal year 2009 was endowed with a Gold Award by the League of American Communications (LACP). For this report which can be downloaded under the address [\[1\] annualreport2009.solarworld.de/en.html](http://annualreport2009.solarworld.de/en.html) a specially user-friendly navigation structure was developed.

## THE MARKET

### ECONOMIC ENVIRONMENT

In the first half of 2010 the **world economy** recovered more quickly than expected. Especially, industrialized countries were able to benefit from the positive impulses; production volumes and international trade increased noticeably. On the basis of this development the Kiel Institute for the World Economy (IfW) increased its economic forecast. The experts are now expecting the global gross domestic product (GDP) to grow by 4.4 percent in 2010. In March they had still assumed a growth rate of 3.7 percent.

The economic dynamism also continued in **Germany**, where industrial production picked up substantially. In addition, the declining Euro exchange rate had a positive impact on the export business.

A similar development was observed in the entire **Euro zone**. In spite of the high level of indebtedness of some European countries the economic experts therefore expect a positive growth of 1.3 percent for the year 2010.

The economic output of the U.S. also grew in the first half of 2010, albeit less vigorously so in the second quarter than in the first. There, forecasts assume a growth rate of 3.0 percent in 2010.

Towards the end of the second quarter economic risks have increased again worldwide, according to market experts. This might cause the positive economic development to be slowed down again in the second half of the year. ➔ *Expected macroeconomic environment • p. 22//*

### THE WORLD ENERGY MARKET

**Oil prices** fluctuated strongly in the first half of 2010. According to the Energy Information Administration (EIA) the average price for the oil grade WTI at the end of June 2010 amounted to 75 (end of June 2009: 68) US dollars/barrel.

As previously announced some German base load utilities increased **domestic electricity prices** by another six percent in the second quarter of 2010. In the U.S., on the other hand, prices remained stable. Yet, according to the EIA they can be expected to rise again slightly in 2011.

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## THE SOLAR POWER MARKET

The **international solar markets** grew in the first half of 2010.

The main driver was **Germany**. This market saw a veritable demand boom. According to the latest information of the Federal Grid Agency 715 MW solar power output were newly installed in Germany in the first quarter of 2010. For the first half of the year the Federal Grid Agency expects a newly installed output capacity of more than three GW (H1 2009: 545 MW). Germany can thus be expected to remain the most important worldwide solar power market in 2010 even though the demand may cool down somewhat in the second half of the year because of the EEG amendment coming into force. → *Expected development of the solar power market • p. 23//*

Other European markets like **Italy**, **France** or the **Czech Republic** also developed positively in the period under review. The highest level of dynamism was shown by Italy. There, the feed-in tariffs according to the Conto Energia II are to be reduced at the end of the year, which has caused many projects to be brought forward since June – an effect that will probably persist until the fourth quarter.

A new European market is developing in **Great Britain**. At the beginning of the second quarter a feed-in compensation was introduced. It is guaranteed for 25 years and linked to the inflationary development of the country. The prerequisite to receive the compensation is that the modules used are certified according to the UK Microgeneration Certification Scheme (MCS). → *Sales, production, brand • p. 11//*

Growth was also reported by the solar market in the U.S. with California remaining the most important sales region. In the first half of the year, applications for solar plants with a total output of 346 (H1 2009: 66) MW were filed in California. Unlike in Germany, the commercial segment continues to dominate the US-wide market. While the commercial segment accounts for some 85 percent of the market, private households make up the remaining 15 percent.

## EFFECTS OF GENERAL CONDITIONS ON BUSINESS DEVELOPMENT

As an established manufacturer of high quality solar power products we were able to benefit from the dynamic development of the international solar markets in the first half of the year and to increase our shipments in comparison with the same period of the previous year. In the process we profited from the recognized quality of our products and the high awareness level of our brand – not only in the German market but also in important markets of the future.



## SALES, PRODUCTION, BRAND

SOLARWORLD used the growth of the international solar markets in the first half of 2010 in order to sustainably expand its international business. In the first six months of the year we increased our group-wide shipments (wafers and modules) by 58 percent to 377 (H1 2009: 239) MW.

The main sales market was **Germany**. As an established quality manufacturer with a high awareness level we benefited from the persistently high demand there. We expanded our network of specialist partners and intensified our marketing activities. In the process we continued our tried and tested Push&Pull strategy by simultaneously appealing to trade audiences and to final consumers. We also presented ourselves in television commercials with our testimonial Lukas Podolski and as a partner in the Saturday evening popular TV show “Wetten, dass..?”. In the period under review we were able to double our sales in Germany in comparison with the same period of the previous year.

In other European markets we also succeeded in substantiating our position by way of sales promotion measures. We used the strong demand boom in **Italy** to place our products successfully both in the roof systems segment and in the large-scale project business. Our Italian distribution channels built up over the last few years as well as the installation of the solar power plant on the roof of the Papal audience hall in the Vatican aided us considerably in this context. Especially our well established relations to systems integrators and to the specialist wholesale trade turned out to be important competitive advantages. In this market SOLARWORLD was able to multiply its sales of solar modules and solar kits.

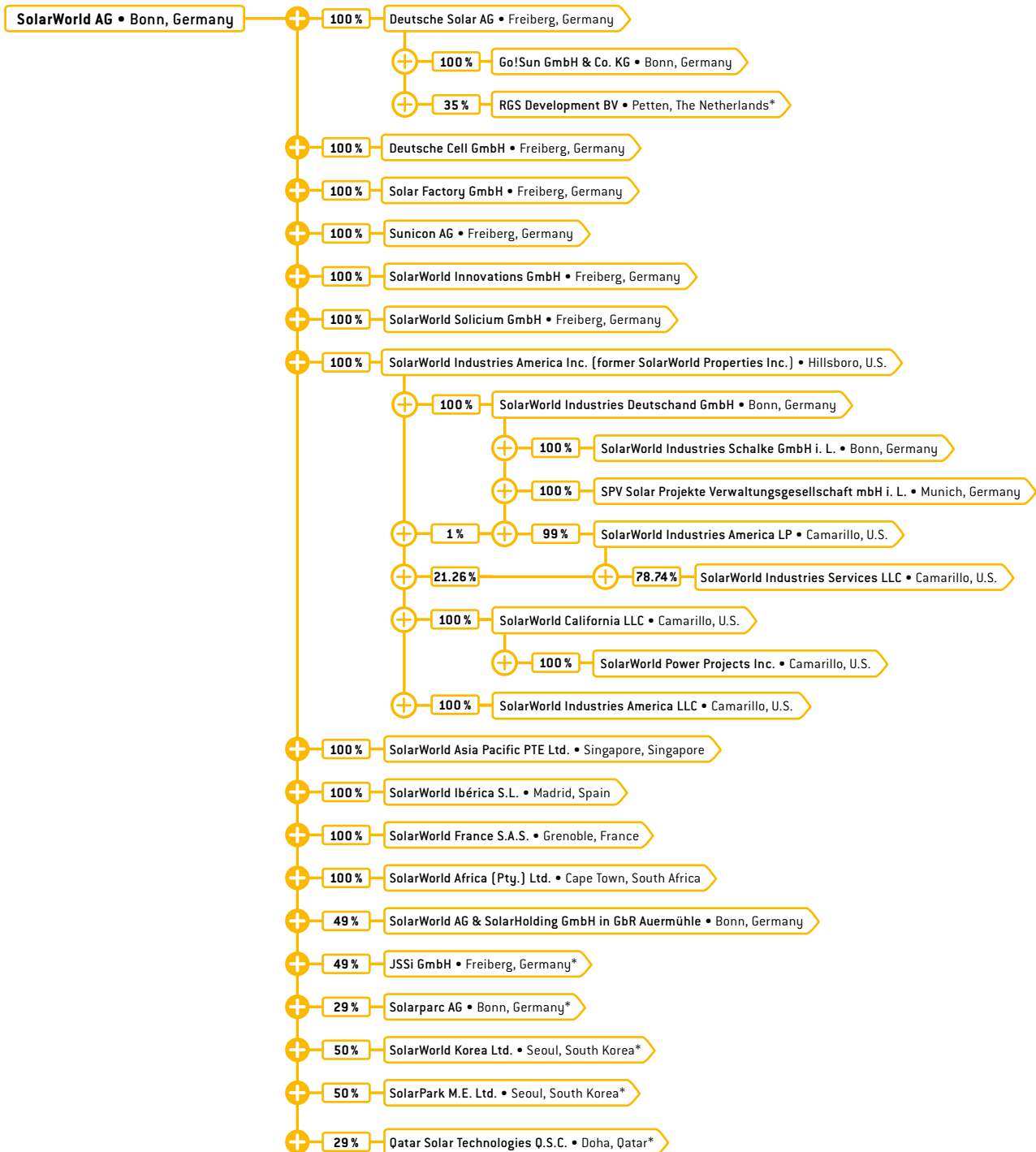
We also expanded our business in the **French market**. In April 2010 we converted our liaison office in Grenoble into the wholly owned subsidiary SOLARWORLD FRANCE SAS. [⌚ New group structure as of 30 June 2010 • p. 012](#) // There, our employees support our customers with technical advice and training as well as selling our products to installers. With this measure we are reconfirming our commitment to this growing solar market in which traditionally integrated roof-top solutions like our ENERGYROOF® are much in demand.

An important step into another European market of the future – **Great Britain** – was successfully completed by getting our products certified according to the UK Microgeneration Certification Scheme (MCS). Only modules carrying that certificate will be funded according to the law that came into force on 1 April 2010. In the second quarter of the year we could already ship our first orders to Great Britain.

The **US market** picked up noticeably in the first half of 2010. SOLARWORLD was able to more than double its sales compared with the previous year. We intensified our marketing activities with the objective of gaining additional market shares and establishing the SOLARWORLD brand more firmly than before → [Supplementary report • p. 21](#) // One emphasis in this context will be on the specific appeal to final customers via the Internet and social media, which are much more established as communications and distribution channels in the U.S. than in other markets. Furthermore, we intensively advertised to and expanded our network of specialist partners “Authorized Installer Network”.



NEW GROUP STRUCTURE AS OF JUNE 30, 2010



\* Consolidated at equity

Our US sales subsidiary SOLARWORLD CALIFORNIA increased its personnel capacities forming a team of highly qualified specialists. A regional organization and a differentiated set of sales tools increase our selling power in the US and on the entire continent. Thus, we can better serve these regional solar markets with different conditions and target groups.

Our **production capacities** were fully utilized throughout the entire first half of 2010. At the same time we are pushing ahead the capacity expansion at all locations. → *Future business development • p. 24//*

On 31 May 2010 the German Federal Environment Minister Dr. Norbert Röttgen inaugurated our new 250 MW wafer production facility in the Industrial Park East at the German location of **Freiberg**. In the future we will therefore produce at clearly lower unit costs, among others because all manufacturing steps are fully automated and integrated in one building. Through this capacity increase SOLARWORLD will not only strengthen its international market position as an integrated provider but also meet the rising demand from its own module production. For the second stage of capacity expansion by another 250 MW the necessary infrastructure is already in place.

Our US location in **Hillsboro** was also characterized by expansion activities in the first half of the year. The quick and smooth expansion was ensured by our Corporate Technology: In the second quarter we built large parts of a new module line in Hillsboro following the example of the German Solar Factory II. As early as in the beginning of September the first modules are scheduled to come off the production line to start the ramp-up. The planned year-end capacity is 350 MW. We also increased the capacity of our cell production in the first half of the year by 35 percent. Wafer expansion has also progressed. The equipment for the scheduled increase to 250 MW is in place by now.

In the period under review we successfully completed the certification of our sites in South Korea and the U.S.. This means that all our sites are now certified according to ISO 9001 and 14001.

Our **product strategy** – high quality solar power solutions that we flexibly adapt to customer wishes and market requirements – has been consistently implemented in the first half of 2010 and has helped us to successfully differentiate ourselves from our competitors.

Thus, at Intersolar in Munich we were able to present a new, complete, energy-smart solution for the supply of solar power to households: In the future our SUNKIT® in conjunction with modern control and regulatory technology as well as our battery system SUNPAC® will make it possible for our customers to substantially increase their self-consumption rate. Both, new and existing SOLARWORLD power plants, can be retrofitted with this system. This is our answer to the changing market situation in Germany as a consequence of the EEG amendment. → *Expected development of the solar power market • p. 23//* In the first half of the year we also presented our SUNCARPORT®. This can serve as a “filling station” for electric and hybrid vehicles and can be integrated into the energy supply system of a household. → *Group Annual Report 2009/Up on the rooftops of the world//* In addition, we underlined our claim of being the leading

provider of complete, high quality solar power solutions with new products like the flexibly usable in-roof system SUNDECK® and with further developments of SOLARWORLD's established rack system.

The **quality** of our products has also been confirmed by external experts. Our modules not only achieved first place for the second time in the comparative test organized by the Photon trade magazine but were also rated to be “very good” by ÖkoTest. In addition, the Deutsche Landwirtschafts-Gesellschaft e.V. (German Agricultural Association) provided evidence for the ammonia resistance of our modules. In the tests it was proven that SOLARWORLD modules can withstand the influence of ammonia, which occurs in agricultural facilities in larger ambient air concentrations, for a utilization period of at least 20 years.

We are continuously working on further improving the quality of our products and on cutting costs at the same time. In doing so we cover with our **Research and Development** activities the entire value chain from silicon all the way to the finished module – a distinct competitive advantage over other manufacturers. For our current research priorities as well as individual projects please refer to → [Group Annual Report 2009/Innovation report 2009 • p. 90//](#).

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