

# INTERIM GROUP MANAGEMENT REPORT

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# 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.

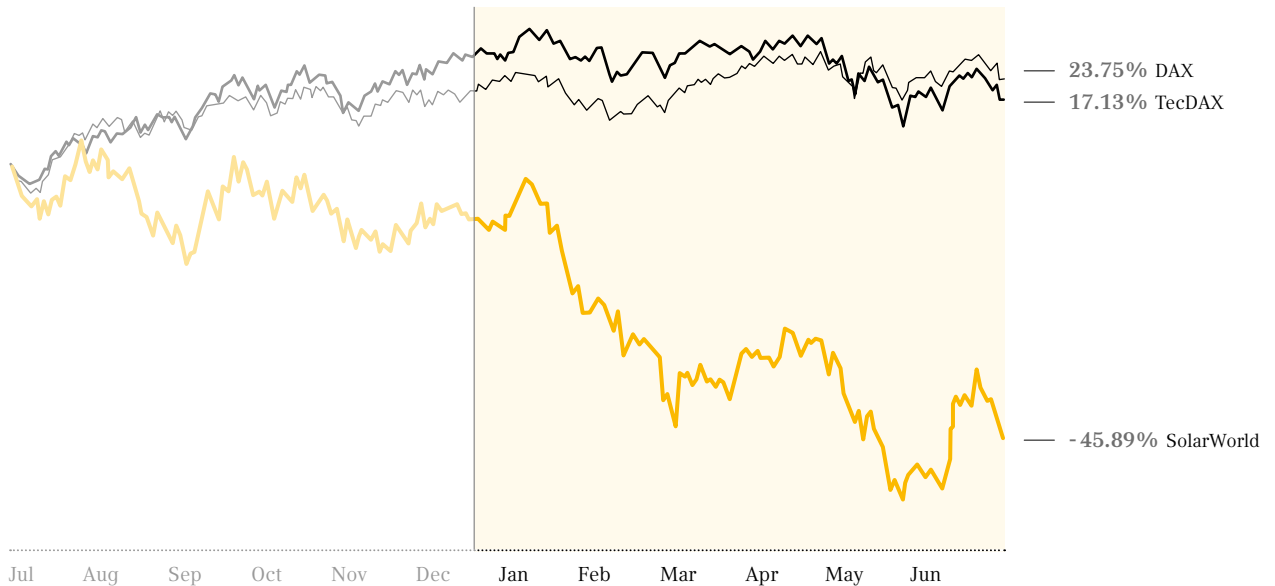
The **DAX** closed at the cut-off date (30 June 2010) on 5,966 points and thus dropped only slightly in comparison with the opening price on 4 January 2010 (5,976 points) by -0.2 (H1 2009: -1.0) percent. The **TecDAX**, on the other hand, showed a great deal more volatility. It lost a total of 10.2 (H1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



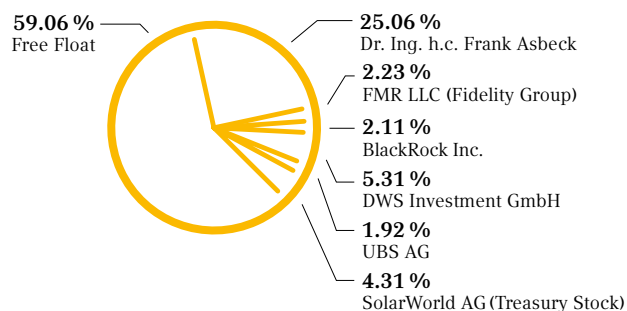
In July the stock of SOLARWORLD AG recovered further. The positive signals that came from Intersolar, one of the most important trade fairs in the solar industry, as well as the final approval of the long-awaited EEG amendment supported this development. Corporate news about capacity expansions of our 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.

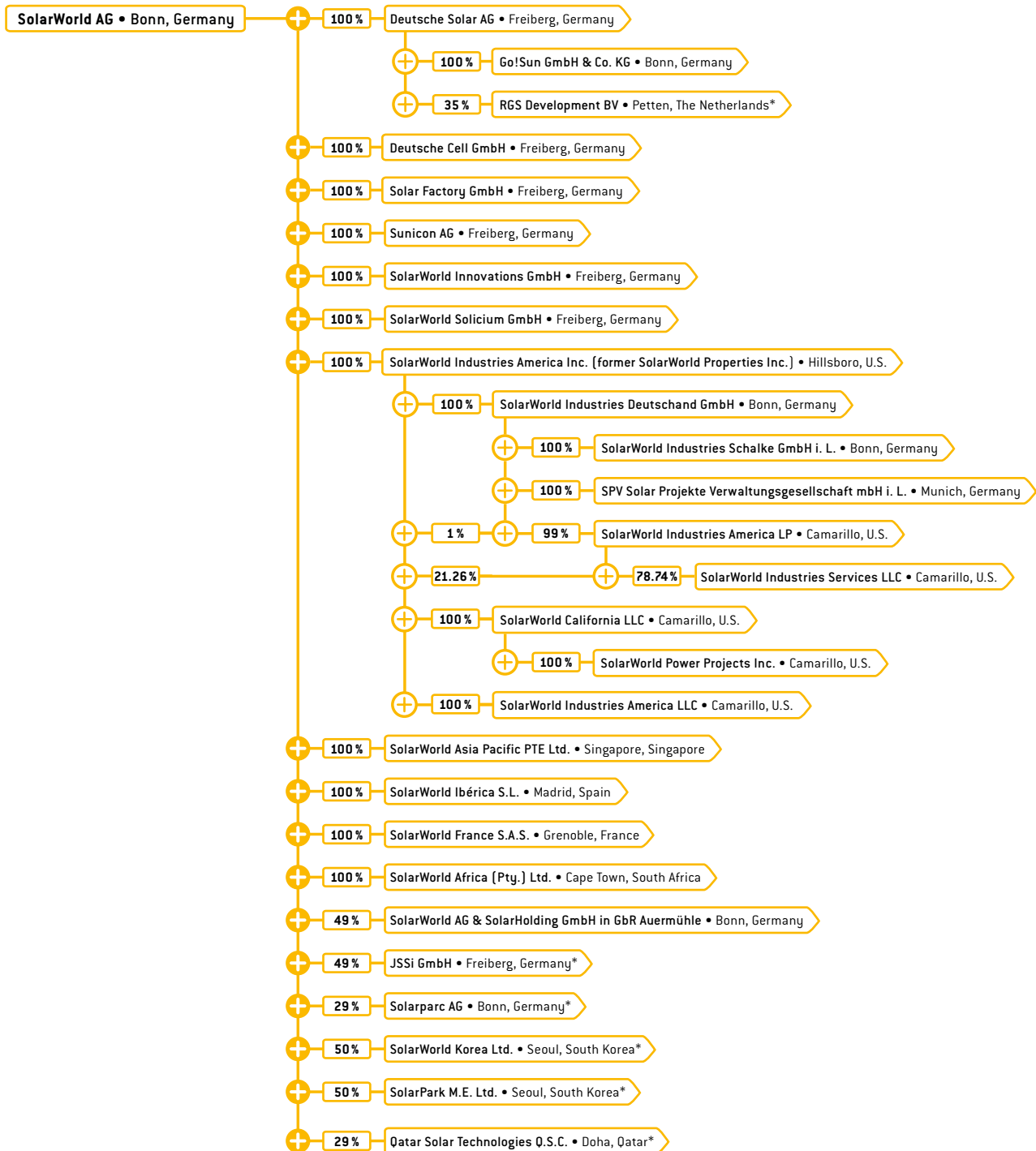
We also expanded our business in the **French market**. In April 2010 we converted our liaison office in Grenoble into the wholly owned subsidiary SOLARWORLD FRANCE SAS. [Ⓢ New group structure as of 30 June 2010 • p. 012](#) // There, our employees support our customers with technical advice and training 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

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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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# EARNINGS, FINANCE AND ASSET SITUATION

## EARNINGS SITUATION

### REVENUE AND EARNINGS DEVELOPMENT

SOLARWORLD AG was able to use the dynamism of the international solar markets to expand its business significantly. In the second quarter of 2010 we increased wafer and solar module shipments by 90 percent to 237 (Q2 2009: 125) MW. In the first half of 2010 sales rose in comparison with the first half of 2009 by 58 percent to 377 (H1 2009: 239) MW.

Revenues in the second quarter of 2010 grew by 68.6 percent and € 155.7 million respectively to € 382.8 million (Q2 2009: € 227.1m). In comparison with the first half of 2009 (€ 403.4m) revenues increased by 50.8 percent and € 205.0 million respectively to € 608.4 million.

The group-wide rate of international business amounted to 32.6 (H1 2009: 38.1) percent. This is attributable especially to the high demand for SOLARWORLD products in Germany.

Earnings before interest and taxes (EBIT) increased in the second quarter of 2010 by € 10.9 million to € 56.4 million (Q2 2009: € 45.5m). In the first half of 2010 EBIT amounted to € 81.2 million (H1 2009: € 83.3m). Earnings before interest, taxes, depreciation and amortization (EBITDA) went up in the second quarter of 2010 by € 16.7 million to € 77.8 million (Q2 2009: € 61.1m). In the first half of 2010 EBITDA could be increased by € 8.1 million to € 121.7 million. The group-wide EBIT margin in the second quarter was 14.7 (Q2 2009: 20.1) percent; in the first half of 2010 it was 13.3 (H1 2009: 20.7) percent.

The financial result improved in comparison with the second quarter of 2009 by € 2.2 million to € -7.9 million (Q2 2009: € -10.1m). The financial result of the first half of 2010, on the other hand, was significantly marked by the increase of the long-term financial debts and amounted to € -20.9 million (H1 2009: € -12.9m).

Consolidated net income rose in the second quarter of 2010 by € 1.6 million to € 29.5 million (Q2 2009: € 27.9m). In the first half of 2010 consolidated net income amounted to € 34.8 million (H1 2009: € 51.7m).

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## DEVELOPMENT OF MATERIAL INCOME STATEMENT ITEMS

Personnel expenditure changed in the first half of 2010 versus the same period of the previous year by € 7.7 million to € 58.5 million (H1 2009: € 50.8m). This increase results especially from the targeted increase of the headcount in the course of our consistent corporate growth. The rate of personnel expenditure improved in the first half of 2010 to 9.7 (H1 2009: 10.4) percent.

The rate of cost of materials went up in the first half of the year to 64.9 (H1 2009: 61.8) percent but fell 0.4 percentage points short of the same quarter of the prior year in the second quarter of 2010.

Amortization and depreciation increased as a result of the scheduled continuation of our investments in the expansion of our production capacities by € 10.3 million to € 40.6 million (H1 2009: € 30.3m).

Other operating expenses changed by € 18.9 million to € 67.3 million (H1 2009: € 48.4m). This is essentially due to increased expenditure owing to the higher production and sales volumes, the investments in the expansion of our brand awareness and the expenditure on raw materials transactions that are not part of our core business. The rate of expenses amounted to 11.2 (H1 2009: 9.9) percent.

Other operating income increased in comparison with the same period of the previous year mainly due to income from raw material transactions that are not part of our core business by € 10.0 million to € 35.9 million (H1 2009: € 25.9m).

## FINANCIAL SITUATION

### FINANCING ANALYSIS

In comparison with 31 December 2009 the equity capital increased by € 31.4 million to € 896.9 million (31 Dec. 2009: € 865.5m). On the balance sheet date the equity ratio amounted to 31.8 (31 Dec. 2009: 39.0) percent.

The financial liabilities changed in the first half of 2010 by € 553.7 million to € 1,343.2 million (31 Dec. 2009: € 789.5m) of which 96.3 percent are classified as non-current. This increase is especially attributable to the placement of a loan with a volume of € 400 million in the first quarter of 2010 and the call of a syndicated credit line amounting to € 100 million. In addition, the financial liabilities went up especially due to the first-time consolidation of SOLARWORLD AG & SOLARHOLDING GMBH IN GBR AUERMÜHLE → Group of consolidated companies • p. 35// by € 26.5 million.



The investment grants and allowances reported under non-current liabilities amounted to € 64.2 million (31 Dec. 2009: € 68.3m) on the balance sheet date. These public funds for the expansion of the production capacities as accrued on the liabilities side of the balance sheet will be written back over the period of utilization of the subsidized investment with an impact on earnings.

The other non-current liabilities were reduced by € 12.9 million to € 237.8 million (31 Dec. 2009: € 250.7m). The reported non-current portion of the received down payments for long-term wafer delivery contracts amounted to € 230.7 million (31 Dec. 2009: € 242.9m) on the balance sheet date.

## INVESTMENT ANALYSIS

In the first half of 2010 the investments in intangible assets and tangible fixed assets of the SOLARWORLD Group amounted to € 114.1 million (H1 2009: € 135.9m). The emphasis of our investment activities was placed on the expansion of our integrated manufacturing facilities at the Hillsboro/U.S. location (€ 58.4m) as well as our wafer production (€ 23.5m) and our module production (€ 19.0m) at the Freiberg/Germany site. We also invested € 6.9 million in the expansion of our research and development activities. Furthermore, a total of € 6.3 million went into the establishment of additional locations of the SOLARWORLD Group.

As a result of the first-time consolidation of SOLARWORLD AG & SOLARHOLDING GMBH IN GBR AUERMÜHLE the group gained assets worth € 39.5 million. The purchase price of the shareholding amounted to € 9.0 million.

The investments in the QATAR SOLAR TECHNOLOGIES Q.S.C. shareholding valued at equity amounted to € 17.2 million.

## LIQUIDITY ANALYSIS

The liquid funds of € 857.9 million (31 Dec. 2009: € 428.1m) include cash and cash equivalents mainly made up of overnight money and fixed term deposits. Over and above this the other current financial assets amounted to € 92.9 million (31 Dec. 2009: € 81.6m).

The cash flow from ongoing operations reached € 138.5 million (H1 2009: € -100.8m) in the first half of 2010.

The cash flow from investment activities amounted to € -123.9 million (H1 2009: € 24.7m) and was especially characterized by payouts for investments in tangible fixed assets running to € -136.0 million. The payout for the acquisition of a consolidated company amounted to € 9.0 million. On the other hand, in-payments from the divestments of fixed assets ran to € 10.9 million and in-payments from the write-back of financial investments amounted to € 10.2 million.

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The cash flow from financing activities amounted to € 407.8 million (H1 2009: € -44.9m) and was characterized by the placement of a loan with a volume of € 400 million as well as the call of the second part of a syndicated credit line of € 100 million. In addition it contained especially payouts due to dividend distributions and the acquisition of treasury stock amounting to € -59.3 million, interest payments running to € -19.3 million and the departure of funds for the payback of financial credits to the tune of € -8.9 million.

## ASSET SITUATION

### ASSET STRUCTURE ANALYSIS

The balance sheet total increased versus 31 December 2009 (€ 2,217.1m) by € 603.8 million to € 2,820.9 million.

The non-current assets went up in the first half of 2010 by € 178.3 million to € 1,060.1 million. This development is primarily attributable to the increase in tangible fixed assets caused by expansion investments. The working capital declined in the first half of the year by € 23.3 million to € 426.3 million (31 Dec. 2009: € 449.6m). This is especially the consequence of a volume of accounts receivable that was reduced by € 22.2 million to € 189.2 million with effect from 30 June 2010. The level of inventories remained fairly stable at € 600.9 million in comparison with 31 December 2009 (€ 598.2m). The down payments received that are reported within the inventory figure amounted to € 374.8 million (31 Dec. 2009: € 384.3m). Trade payables increased versus 31 December 2009 (€ 83.9m) by € 12.8 million to € 96.7 million. On the balance sheet date the down payments received ran to a total of € 267.1 million (31 Dec. 2009: € 276.0m).

### OFF-BALANCE SHEET FINANCING INSTRUMENTS

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

### OFF-BALANCE SHEET ASSETS

At the cut-off date of 30 June 2010 our group had no assets that would not be financially visible.



## HUMAN RESOURCES

The number of SOLARWORLD employees continued to rise in the first half of 2010. At the cut-off date we had 2,149 (30 June 2009: 1,905) employees on our payroll. This is 13 percent more than in the same quarter of the previous year. In comparison with the year-end of 2009 our headcount went up by seven percent.

⊗ GROUP EMPLOYEES // AS AT 30 JUNE

	Employees as at 30 June 2010	Employees as at 30 June 2009	+/- absolute
Germany	1,398*	1,268**	130
U.S.	732	618	114
Rest of the world	19	19	0
<b>Total</b>	<b>2,149</b>	<b>1,905</b>	<b>244</b>

\* incl. 70 trainees

\*\* incl. 68 trainees

Including temporary staff 2,985 (30 June 2009: 2,624) people worldwide worked for the SOLARWORLD Group on the cut-off day.

Personnel changes on the Management Board or the Supervisory Board of SOLARWORLD AG did not take place in the first half of 2010.

## MATERIAL RELATED PARTY TRANSACTIONS

In the first six months, project services and module deliveries were rendered to the engineer office Asbeck as well as to Dr. Ing. h.c. Frank Asbeck in amount of € 2.8 million (H1 2009: € 0m).

As of 30 April 2010, 49 percent of the shares in SOLARWORLD AG & SOLARHOLDING GMBH IN GBR AUERMÜHLE have been purchased at a purchase price of € 9 million by SOLARWORLD AG from Solar Holding Beteiligungsgesellschaft mbH of which Dr. Ing. h.c. Frank Asbeck holds the majority of the shares. Furthermore, in connection with the purchase of the shares SOLARWORLD AG and Solar Holding Beteiligungsgesellschaft mbH respectively have received the right to purchase or sell further shares of the company, 45 percent at a maximum. Therefrom, a purchase price liability in amount of € 8.3 million has been set up at purchase date.

In the first six months SOLARWORLD Group did not receive any toll manufacturing services from associated companies (H1 2009: € 7.1m), whereas it provided project services amounting to € 18.5 million (H1 2009: € 2.4m from module deliveries) to associated companies. In addition, in the first six months, SOLARWORLD Group granted a short-term loan to an associated company in a net amount of € 0.5 million (H1 2009: € 0m). In this connection, interest income of € 0.1 million (H1 2009: € 0m) was recognized.

In the first six months fixed assets, toll manufacturing services and goods in amount of € 65 million (H1 2009: € 32.5m) were purchased from joint venture companies. Furthermore, SOLARWORLD Group sold goods and provided miscellaneous services to joint venture companies amounting to € 11.2 million (H1 2009: € 5.7m from toll manufacturing services). Additionally, in the first six months, SOLARWORLD Group granted a loan to a joint venture company in amount of € 16 million (H1 2009: € 0m). In this connection, interest income of € 0.3 million (H1 2009: € 0m) was recognized.

Apart from these transactions there were no related party transactions with a material effect on the net assets, financial position and results of operations of SOLARWORLD Group.

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# SUPPLEMENTARY REPORT

## EVENTS OF PARTICULAR IMPORTANCE AND THEIR REPERCUSSIONS

In order to significantly boost the awareness level of the SOLARWORLD brand also in the future market of the U.S., the group launched a TV campaign with actor Larry Hagman, internationally known from the TV series “Dallas” playing the part of J.R. Ewing. On the occasion of the trade fair Intersolar America in July, SOLARWORLD presented five television commercials featuring Hagman. The television ads will be aired by stations with national and regional coverage in the U.S.. An adaptation of the campaign for other markets is possible. In Germany we will air the new TV commercials in the course of the third quarter 2010.

On 13 July we were able to lay the foundation stone for the new building to house our third module production facility in Freiberg thus substantiating our expansion plans. On the same day we could also inaugurate the extension of the SolarLog logistics center. This will speed up our delivery processes and procedures. → *Future business development* • p. 24//

## OVERALL MANAGEMENT STATEMENT ON THE ECONOMIC SITUATION AT THE TIME OF REPORTING

The Board of Management of SOLARWORLD AG judges the economic situation of the company to continue to be positive against the background of the earnings, finance and asset situation as portrayed in the consolidated annual financial statements for 2009 as well as the figures for the first half of 2010 outlined above and taking into consideration the ongoing business at the time when the group interim report was drawn up. SOLARWORLD will continue its successful and profitable growth.

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# REPORT ON EXPECTED DEVELOPMENT WITH ITS MAJOR OPPORTUNITIES AND RISKS

## OPPORTUNITIES AND RISKS

In the course of the first half of 2010 no significant changes in internal as well as external background conditions and factors of influence occurred. With regard to individual risks and opportunities please refer to → *Group Annual Report 2009/Report on the expected development with its major opportunities and risks* • p. 114// At the time of reporting there were no risks that might jeopardize the continued existence of the SOLARWORLD Group. The Management Board of SOLARWORLD AG does not expect any fundamental change in the risk situation from today's point of view.

## FORECAST REPORT

### EXPECTED MACROECONOMIC ENVIRONMENT

Leading economic experts are forecasting that the dynamism of the **world economy** will weaken in the second half of 2010. The reason for this is that important economic policy impulses like stimulus programs are coming to an end. The tighter financial policy announced by many countries may also dampen economic growth. All the same, the economic institutes continue to assume that the global Gross Domestic Product (GDP) will go up by 4.4 (2009: -1.0) percent for the full year. For 2011 the growth forecast is 3.7 percent.

In **Germany** the rate of growth is also expected to slow down significantly in the second half of 2010 and exports may also decline. The IfW forecasts a GDP growth for the year 2010 of 2.1 (2009: -4.9) percent. In 2011 the German GDP is expected to increase by 1.2 percent.

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The economic development in the **Euro zone** is likely to be characterized by restrictive financial policy measures in the second half of the year designed to reduce financial debts and stabilize the Euro. For 2010 and 2011 a moderate growth of 1.3 (2009: -4.2) percent is therefore being forecast.

Experts think that the development in the **U.S.** will be similar. However, the growth rate of 3.0 (2009: -2.4) percent in the year 2010 and 2.4 percent in 2011 can be expected to be somewhat stronger than in Europe.

## EXPECTED DEVELOPMENT OF THE WORLD POWER MARKET

According to information from the Energy Information Administration (EIA) the **oil price** will continue to rise. For the full year of 2010 the experts are assuming an increase of 27 percent to 79 (2009: 62) US dollars/barrel for the WTI grade. In 2011 the average price may be expected to amount to about 84 US dollars/barrel. The reason for the price increase is the growing oil demand.

**Household electricity prices** in Germany will increase; in the U.S. they can be expected to remain stable in the second half of 2010.

## EXPECTED DEVELOPMENT OF THE SOLAR POWER MARKET

2010 could become the boom year for the solar industry: Market analysts from LBBW Bank and the European Photovoltaic Industry Association (EPIA) forecast that the **international solar markets** will grow by some 50 percent to almost eleven (2009: 7) GW.

In this context **Germany** will show the biggest growth. In spite of the amendment of the Law on Renewable Energy Sources (EEG) for the funding of solar power the newly installed output capacity in the full year is likely to exceed five GW. In 2009 the equivalent figure was 3.8 GW. The EEG amendment approved by the Bundestag (First Chamber) at the beginning of May was stopped at short notice by some Eastern German federal states, which demanded a more moderate reduction than the proposed eleven to 16 percent respectively (depending on system type). The Mediation Committee that was convened as a result confirmed the amounts of reductions but staggered them over time. The amendment came into force backdated to 1 July. It means that feed-in compensation for roof top plants will be cut by 13 percent, for free-field plants by twelve percent and for so-called conversion areas by eight percent. With effect from 1 October all feed-in tariffs are to be reduced by another three percent. For plants built on arable land funding has no longer been available since 1 July. In addition, the feed-in compensation will be further reduced by at least another nine percent with effect from 1 January 2011. The precise amount of the reduction depends on the growth of the German solar market. Should the market exceed the pre-determined thresholds of 3,500 MW, 4,500 MW, 5,500 MW and 6,500 MW respectively the compensation will be cut by an additional percentage point. In Germany, we expect a newly installed capacity of about 6,000 MW. This would mean a fit-in-tariff reduction of up to 13 percent at the turn of the year.

The solar market in **Italy** is also likely to grow vigorously in the second half of 2010. The Italian electricity authority Gestore di Servizi Energetici (GSE) has increased its forecast: For the full year of 2010 the experts are now forecasting a newly installed output capacity of between 1,000 and 1,300 (2009: 720) MW. At the beginning of the year the forecast had still been 850 MW. This strong demand is driven by the announcement that feed-in tariffs will be cut by 30 percent for large-scale plants and 20 percent for roof top plants with effect from 1 January 2011.

The demand is also expected to pick up in the **U.S.**. There, solar plants may for the first time generate a higher return than in Europe. The reasons for this are the weak Euro, the feed-in compensation reductions in important European markets as well as better funding for solar power in the U.S.. In addition to the already established regional markets of California and New Jersey the US states of Colorado, Arizona, Texas, Hawaii and Florida are also likely to see an increasing demand. A new regional market might also open up in Oregon: The Public Utility Commission (PUC) started a pilot program on 1 July that guarantees a feed-in compensation according to the German model. The pilot program was limited to 25 MW, and within a quarter of an hour the available permits were snapped up. The PUC is considering the continuation of the project under revised feed-in tariffs.

**China** wants to strengthen the home market for solar plants in the future. In July the tendering process for 13 projects with a total output capacity of 280 MW was initiated. The companies that are awarded the projects will be published at the beginning of August. Experts assume that only Chinese companies will benefit from the tender.

## FUTURE BUSINESS DEVELOPMENT

SOLARWORLD will continue its successful strategy of full integration strengthening its market position as a global solar power technology group in the process. In order to achieve these goals we will massively expand our worldwide **production capacities** for wafers, cells and modules in the years 2010 and 2011.

With the construction of Solar Factory III, for which we laid the foundation stone in July, we will increase our module capacity at our German production location to 550 MW. The extension to our **logistics center** has already been completed. As a result of this expansion we can substantially speed up our picking processes thus more than doubling our throughput performance. This in turn will shorten our delivery times.

At our largest US production site in **Hillsboro** the expansion is also proceeding according to plan. Probably as of September we will have a module production capacity of 350 MW at our disposal at this location. Cell production is to be increased to 500 MW by the year 2011 according to schedule.



We also want to again increase our sales in the second half of 2010. The order situation in the **German market** should remain stable in the third quarter in spite of the amendment of the EEG. We expect a vigorous demand – especially for our new products. We want to attract new, design-oriented groups of buyers for example with our black module **MONOBLACK®**. As a special service we have been offering our German customers a comprehensive insurance package for our solar kits in conjunction with a cooperation partner since 1 July. This insurance covers material damage to the photovoltaic system for example through fire or hailstorms, theft of the plant and also loss of income for two years. The insurance period can be extended up to five years.

Other European solar markets like **Italy, France, Czech Republic** and **Greece** should also continue to grow in the second half of the year. Thanks to our broad product range tailored to meet customer wishes and market requirements alike as well as to our regionally coordinated trading strategy we see ourselves in an ideal situation to benefit from the growth in these markets and to sustainably increase our shipments in these regions.

We are also expecting a major boost in the demand for SOLARWORLD products in the **U.S.**.

## EXPECTED REVENUE AND EARNINGS DEVELOPMENT

In the course of the year 2010 we will increase our production volume by more than 30 percent according to schedule, which means we will maintain our rate of growth. In addition, we will intensify our investments in the expansion of our production capacities, in our Research and Development and in the awareness level of our brand. In the process we will benefit from our high equity ratio and our liquidity. We are planning to significantly exceed the revenue level of the previous year which amounted to € 1 billion. In view of the amendment of the German EEG it will be crucial for our annual result which price reduction will and can be compensated for on the cost side.

## EXPECTED FINANCE SITUATION

### PLANNED FINANCING MEASURES

Due to our sustainable earnings power and our liquidity we have the necessary financial funds from today's point of view to implement our growth plans in the short and medium term. At the same time we continue to maintain a strategic liquidity reserve that we can fall back on at any time.

### PLANNED INVESTMENTS

We will expand our worldwide production capacities according to schedule. We will set priorities at our two largest production sites in Freiberg/Germany and in Hillsboro/U.S.. For the current fiscal year 2010 we are expecting a group-wide investment volume of up to € 300 million.

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#### EXPECTED DEVELOPMENT OF LIQUIDITY

SOLARWORLD will continue to have a stable liquidity base in the future that will sustainably secure our growth. As per 30 June 2010 the free liquidity (liquid funds) amounted to € 857.9 million (31 Dec. 2009: 428.1m).

#### OVERALL MANAGEMENT STATEMENT ON THE EXPECTED DEVELOPMENT OF THE GROUP

SOLARWORLD will further expand its position as one of the leading brand manufacturers of crystalline solar power products with a strong brand. To this end we invest in the expansion of our worldwide production capacities, in the strengthening of our brand and above all in our Research and Development activities. By cutting costs and exhausting additional technology potentials along the entire value chain we will not only substantially increase the quality of our products but also counteract the increasing price and margin pressure in the international solar markets.

