

REPORT ON EXPECTED DEVELOPMENT WITH ITS MAJOR OPPORTUNITIES AND RISKS

OPPORTUNITIES AND RISKS

In the course of the first quarter of 2010 no major changes occurred in the internal and external background conditions and factors of influence. With regard to the individual opportunities and risks we therefore refer you to the → [*Annual Group Report 2009/Report on the expected development with its major opportunities and risks*](#) • p. 114//. At the time of the current reporting on the first quarter of 2010 there existed no risks whatsoever that might jeopardize the continued existence of the SOLARWORLD Group. From today's point of view the Management Board of SOLARWORLD AG does not expect any fundamental changes in the risk situation.

FORECAST REPORT

EXPECTED MACROECONOMIC ENVIRONMENT

According to expert opinion the **world economy** will continue to recover only very slowly from the repercussions of the financial crisis. There was indeed a fundamentally positive trend but the dynamics of the development are predicted to be lower this year and in the coming year than they were in the second half of 2009. This applies above all to the **industrialized countries**. The reason for this is that the post-crisis economic stimulus packages have come to an end and therefore important incentives for a quick recovery have been removed.

For **Germany** experts are working on the assumption that the Gross Domestic Product in real terms will increase by 1.5 per cent in 2010 and by 1.4 per cent in 2011. In the medium term prospects for the German economy have deteriorated due to the financial crisis. Not until 2013 is the Gross Domestic Product expected to return to the level of 2008 again.

In the **USA** experts think that the current upswing will also slow down substantially in comparison with the powerful growth in the second half of 2009. The forecast is for a growth rate of 2.8 per cent in the current year and around 2 per cent in the year 2011.

Europe will be particularly slow in leaving the repercussions of the crisis behind. The economic institutes are expecting a growth rate of as little as 0.9 per cent in the year 2010. In 2011 the growth rate is not expected to be much higher, either.

In the **threshold countries**, on the other hand, development will continue to be dynamic. On the whole **world trade** is expected to grow by 2.9 per cent in 2010 and by 2.7 per cent in 2011.

As before the leading economic research institutes consider the risks for the further economic development worldwide to be high. This danger is exacerbated by the growing concern about the finances of individual states. The situation in the banking sector also remains difficult. This might have a negative impact both on the development at the international financial markets and in the real economy.

EXPECTED DEVELOPMENT OF THE WORLD POWER MARKET

The Energy Information Administration (EIA) assumes that the **oil price** will remain stable in the short and medium term. By the end of the year the average oil price of the WTI crude grade is expected to amount to around 81 US\$/barrel. By the end of 2011 it is forecast to average slightly higher at 85 US\$/barrel. In spite of this generally steady development the oil price may be subject to strong price fluctuations in the course of the year. These will be influenced by potential bottlenecks in refining capacities as well as reductions of production volumes and inventories.

Some German utilities have announced price increases for **domestic electricity** by up to 16 per cent starting this summer. The US-wide average price for domestic electricity in 2010 will, according to estimates by the EIA, remain constant in comparison with 2009. For the year 2011 the EIA is predicting an increase again.

EXPECTED DEVELOPMENT OF THE SOLAR POWER MARKET

Experts expect the **worldwide solar market** to continue to grow vigorously in the years to come. Bank Sarasin, for example, assumes an increase in the newly installed output capacity by 46 per cent to 8.4 (2009: 5.8) GW in the year 2010. The European Photovoltaic Industry Association (EPIA) forecasts a growth of 6.0 to 10.8 GW.

Germany will remain the most important solar market worldwide in 2010 according to expert forecasts. Current estimates assume a newly installed solar capacity of up to around 5.8 GW in 2010. In this context there will probably be renewed demand peaks above all in the first half of the year. If the current plans to



promote the investors' self-consumption of solar power should be implemented in the EEG amendment it is safe to assume that the private demand of complex systems that enable an increase of the share in self-consumption will go up as of the second half of the year. Investments in free-field systems, on the other hand, can be expected to show a declining trend.

It is safe to assume that the other European markets will also continue to grow. Above all **Italy** is described by experts as showing a great deal of dynamism. For 2010 a newly installed solar output capacity of 924 (2009: 582) MW is being forecast. According to information provided by Gestore di Servizi Elettrici (GSE) an accumulated solar power output of more than 1,200 MW will have been installed shortly. As soon as this threshold has been reached the law on feed-in compensation will have to be amended. An announcement to this effect still in the course of the year 2010 might trigger a year-end rally. The **Czech solar market** can be expected to remain an attractive market in spite of the feed-in tariff reduction that came into force on 1 January 2010. For 2010 Barclays expects a newly installed output capacity of 150 (2009: 112) MW. After the amendment of the feed-in tariff law in **France** in early 2010 the market for fully integrated roof systems there can be expected to grow vigorously. Experts expect a quadrupling of the installed output capacity to 400 (2009: 100) MW in the year 2010. On the whole Bank Sarasin expects **Europe** (excluding Germany and Italy) to add an amount of 1,190 (2009: 896) MW of newly installed output capacity in the year 2010.

In the **USA** the demand is expected to pick up considerably in 2010; Barclays Capital forecasts a newly installed output capacity of 1,076 (2009: 468) MW. For 2011 the experts predict 2,945 MW. Growth is mainly expected to occur in the free-field market.

The most important growth driver in **Asia** is probably **Japan**. Experts predict a newly installed output capacity of 547 (2009: 365) MW. In **China** the government wants to make available two billion US dollars for the funding of solar power projects. **Taiwan**, too, has officially announced feed-in tariffs for solar power. In the year 2010 an output of 104 MW is to be funded. In 2011 a newly installed output capacity of 215 MW is to be reached. On the whole the **Asian market** is expected to reach a newly installed output capacity of 1,560 (2009: 896) MW in the year 2010. In 2011 a market volume of 2,475 MW is expected.

FUTURE BUSINESS DEVELOPMENT

SOLARWORLD will continue its successful strategy as a fully integrated, global solar technology group. The objective is to expand the market position we have achieved. This is why we will increase our **production capacity** from wafers, via cells all the way to modules as scheduled in the years 2010 and 2011. In the process we will particularly boost our module capacities at the Freiberg/Germany and Hillsboro/USA sites as well as substantially increase the capacity of our joint venture in South Korea.



For the year 2010 we are expecting another increase in worldwide shipments. Owing to the announced changes to the EEG we are expecting further demand peaks for modules and solar kits especially in **Germany** until the end of the second quarter. From 1 July onward the new funding conditions should then lead to a stronger demand for solar roof systems that make possible a higher self-consumption on the part of investors. To this end SOLARWORLD AG wants to enhance its systems and kits so that customers will be able to control their self-consumption of solar power.

In other European growth markets like **Italy, France, Belgium** and the **Czech Republic** we feel that our differentiated product range and our target-oriented marketing strategy enable us to increase our sales. Thus, we already showed in France in 2009 that with the ENERGYROOF® we were present with the right product – as it has fitted the funding legislation – at the right time.

In the future market of the **USA** we are also expecting a vigorous increase in the demand. We will substantially increase our marketing activities in this market and will focus even more stringently on the retail segment.

EXPECTED REVENUE AND EARNINGS DEVELOPMENT

In the further course of the year 2010 we are planning to increase our production volume by more than 30 per cent, which is to say that we are maintaining our speed of growth. In addition, we will intensify our investments into the expansion of our capacities, into our Research and Development as well as into the awareness of our brand. In this context we benefit from our high equity ratio and liquidity. We are planning to substantially exceed last year's revenue level of € 1 billion. Against the backdrop of the still unsettled legal background conditions in the important German market it will be crucial for our annual result which price reduction can and must be compensated for on the cost side.

EXPECTED FINANCIAL SITUATION

PLANNED FINANCING MEASURES

In January of 2010 we successfully placed a bond with a volume of € 400 million in the capital market. Taking into consideration our existing liquidity and our sustainable earning power we have, from today's point of view, sufficient financial funds to be able to implement our short- and medium-term growth objectives and, at the same time, to have access to a strategic liquidity reserve at any time.

PLANNED INVESTMENTS

We are continuing the worldwide expansion of our production capacities as planned. The major portion of our investments in 2010 will be accounted for by our locations in Freiberg/Germany and Hillsboro/USA. Group-wide we are expecting an investment volume of up to € 300 million in the current fiscal year.

FUTURE DIVIDEND

On 20 May 2010 the Annual General Meeting of SOLARWORLD AG will vote on the appropriation of the balance sheet profit from the financial statements of the stock corporation for fiscal year 2009 with a total dividend distribution of € 17.88 million for the 111.72 million share certificates with a dividend entitlement. The Management Board and the Supervisory Board have proposed a dividend amounting to € 0.16 (2009: € 0.15). After the resolution has been passed the remaining balance sheet profit of SOLARWORLD AG amounting to € 89.6 million will be allocated to revenue reserves. In this way we secure the equity capital base of the group.

EXPECTED DEVELOPMENT OF LIQUIDITY

As per 31 March 2010 the free liquidity (liquid funds) amounted to € 911.0 million (31 December 2009: € 428.1m). We will continue to have a stable liquidity basis.

OVERALL MANAGEMENT STATEMENT ON THE EXPECTED DEVELOPMENT OF THE GROUP

SOLARWORLD AG has established itself as a worldwide leader in the production and distribution of crystal-line solar power technology. The basis for this is above all our high quality product range as well as the positioning of our strong brand. As a fully integrated company we will take on the increased price and margin pressure caused by the planned EEG amendment in the important German market as well as the worldwide increase in competition through cost reductions and technology optimizations along the entire value chain. Following our strategy we will expand our production capacities as planned and further invest in the quality of our products as well as the awareness of our brand so as to consolidate our positioning in our core markets and to open up new growth regions.
