



**Interim Report as of September 30, 2007**

## SOLON AG für Solartechnik

### Selected Financial Data of the Financial Statements as of September 30, 2007

| <b>SOLON Group's key figures</b>            |            | September 30, 2006 | September 30, 2007 | Change in % |
|---|------------|--------------------|--------------------|-------------|
| Revenue                                     | € million  | 218.0              | 333.9              | 53          |
| Total operating performance                 | € million  | 270.4              | 367.7              | 36          |
| Gross profit                                | € million  | 57.0               | 77.5               | 36          |
| EBITDA                                      | € million  | 19.9               | 32.7               | 64          |
| <i>in % of revenue</i>                      | %          | 9.1                | 9.8                |             |
| EBIT  | € million  | 15.5               | 26.8               | 73          |
| <i>in % of revenue</i>                      | %          | 7.1                | 8.0                |             |
| Earnings before taxes                       | € million  | 14.4               | 26.9               | 87          |
| <i>in % of revenue</i>                      | %          | 6.6                | 8.1                |             |
| Net income after minority interest          | € million  | 9.5                | 20.2               | 113         |
| <i>in % of revenue</i>                      | %          | 4.4                | 6.0                |             |
| Number of employees*                        |            | 543                | 649                | 20          |
| Revenue per employee                        | € thousand | 401.5              | 514.4              | 28          |
| Number of outstanding shares                | million    | 9.3                | 11.9               | 28          |
| Earnings per share (according to IAS 33.10) | €          | 1.04               | 2.09               | 101         |
| Cash flow from operating activities         | € million  | -26.9              | -52.9              |             |
| Depreciation and amortization               | € million  | 4.4                | 5.9                | 34          |
| Capital expenditure                         | € million  | 17.0               | 31.4               | 85          |
| Production capacity                         | MW         | 120                | 130                | 8           |
| Production output                           | MW         | 60                 | 84                 | 40          |

|                  |           | December 31, 2006 | September 30, 2007 | Change in % |
|------------------|-----------|-------------------|--------------------|-------------|
| Total assets     | € million | 326.9             | 480.7              | 47          |
| Equity           | € million | 116.1             | 240.5              | 107         |
| Equity-to-assets | %         | 35.5              | 50.0               |             |
| Return on equity | %         | 12.4              | 8.4                |             |

\*excluding management board

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Dear Shareholders, Friends, and Business Partners of SOLON AG,

The most recent quarter was once again a period of growth. The global market for photovoltaics continued to develop in an extremely dynamic fashion, a fact reflected in our current operating figures. Revenues of the SOLON Group grew by 53 % year-on-year to € 333.9 million in the first nine months of 2007, EBIT saw a 73 % improvement to € 26.8 million, and net income after minority interests, adjusted for non-recurring items, reached € 15.3 million, an increase of 61 % over the same period of the prior year. In response to this encouraging trend, we have increased our sales and earnings targets for 2007 as a whole. We now assume a rise in Group revenue and earnings of around 40 % compared to the prior year.

In Spain, currently the world's fastest-growing market for solar technology, growth accelerated even further in the third quarter of 2007. Demand for turnkey power station projects in the multi-megawatt range experienced a particularly significant increase. SOLON was therefore able to post a total incoming order volume of over 100 megawatts for Spanish projects in the third quarter. The key factors in this success were our comprehensive experience in setting up large systems and our size – as one of Europe's leading solar module manufacturers, we have both the capacity and the resources needed to implement such large-scale projects.

In order to continue benefiting from this rapidly growing market, we have undertaken a number of activities in the past quarter to create the basis for further growth. In September, we announced that we would expand our group-wide production capacities to 500 megawatts by the end of 2008. By signing another € 1 billion multiyear contract with the Erfurt-based solar cell manufacturer ersol Solar Energy AG, we have already been able to secure additional quantities of solar cells to cover the higher production output. These expansion plans will be financed through proceeds from a cash capital increase that was carried out in September and successfully placed with institutional investors.

To support our business development in the American photovoltaic market, we acquired shares in two American companies at the end of September 2007. The Solar Center, Inc., a subsidiary of American Clean Power, Inc., with headquarters in New Jersey, and Sungevity, Inc., with headquarters in California, are both active in the installation of solar energy systems.

Growth, however, depends on more than just securing raw materials and procuring new equipment and facilities. It also requires the simultaneous buildup of additional management resources. For this reason, our Company's Supervisory Board has decided to strengthen our two-person Management Board by adding a third member. We are happy to welcome our new Management Board member, Dr. Gero Wiese, who has extensive international management experience. Since October 1, 2007, Dr. Wiese has been responsible for operations management.

In addition to the extension of the Management Board, we want to adapt existing structures to meet changing business conditions. With this in mind, we laid the cornerstone for our new group headquarters and a new production facility in Berlin-Adlershof at the beginning of July. We will be moving into these new quarters at the beginning of 2008.

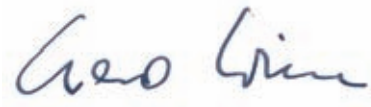
Berlin, November 2007



Thomas Krupke  
Chief Executive Officer



Dr. Lars Podlowski  
Chief Technical Officer



Dr. Gero Wiese  
Chief Operating Officer

## **SOLON AG für Solartechnik, Berlin**

### **Notes to the Group Interim Report in accordance with IFRS as of September 30, 2007**

#### **Key figures for the 2007 reporting period:**

- Group revenue up 53 % to € 333.9 million
- Earnings before interest and taxes (EBIT) increased 73 % to € 26.8 million
- Net income excluding non-recurring income improved by 61 % to € 15.3 million
- € 1 billion additional long-term cell supply agreement signed
- Major orders signed for more than 100 megawatts in Spain
- Repayment of convertible bonds through stock issue completed
- Cash capital increase placed

#### **Type of business**

SOLON AG was founded in 1997. The Company went public in 1998, making it the first listed solar power company in Germany. The SOLON Group currently employs 649 people and has production sites in Germany, Austria, Italy, and Switzerland. A subsidiary founded in the U.S. in January 2007 (SOLON America Corporation) commenced operations on July 6, 2007, and will begin mass production in early 2008. The SOLON Group's core business is the manufacture of solar modules and complete photovoltaic systems for the construction of solar power plants.

#### **Performance in the first nine months of 2007**

##### **Revenue and total operating performance**

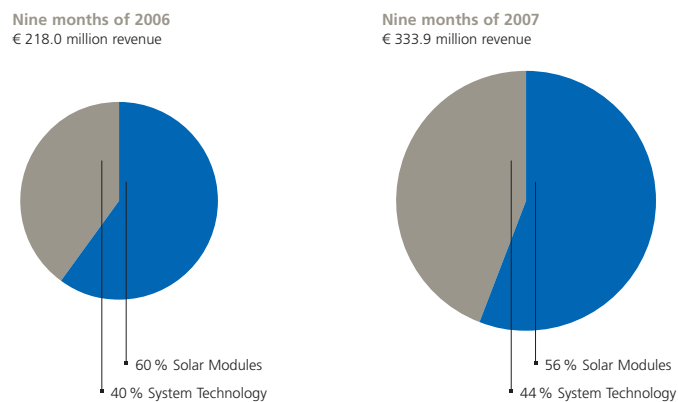
The SOLON Group earned revenues of € 333.9 million in the first nine months of fiscal 2007 (prior-year period: € 218.0 million) which corresponds to an increase of 53 %. Total operating performance rose by 36 % to € 367.7 million (prior-year period: € 270.4 million). The lower rise in total operating performance compared with the prior year resulted mainly from the significantly lower increase in inventories of work in progress and finished goods.

A quarterly comparison shows an even greater increase in revenue. Compared to the third quarter of 2006, revenues were increased by 84 % to € 140.2 million in the third quarter of 2007. The higher growth rate in the third quarter of 2007 was the result of a continued increase in demand, especially in the German market, as well as project deferments from the prior year to the fourth quarter of 2006. Total operating performance increased by 54 % compared with the third quarter of 2006, to a total of € 154.5 million. At the same time, the Company experienced a decrease of changes in work in progress and finished goods, from € 21.9 million in the third quarter of 2006 to € 11.0 million in the third quarter of 2007.

The Solar Modules segment reported a 44 % increase in external revenues to € 188.0 million in the first nine months of 2007 (prior-year period: € 130.3 million). This represents 56 % of total Group revenues during the reporting period. Total operating performance for this segment amounted to € 236.1 million (prior-year period: € 185.6 million).

External revenues in the System Technology segment increased by 67 % in the first nine months of 2007, to € 145.9 million from € 87.6 million in the prior-year period, representing a 44 % share of Group revenues. Total operating performance rose by 45 % to € 164.7 million from € 113.8 million in the prior-year period.

#### Segment revenue trend\*



The share of revenue generated outside of Germany amounted to more than 65 % in the first nine months of 2007. The SOLON Group's production output rose to 84 megawatts (prior-year period: 60 megawatts) and had therefore already reached the production volume for the entire fiscal year 2006 after only nine months.

By the end of the third quarter of 2007, the SOLON Group already had an order backlog for the coming fiscal year of 50 % of planned annual production for 2008.

\* Segment revenues are presented after adjustment for business activity between the segments. Revenues for the Consolidation/Other segment have not been presented separately due to their immateriality.

## Financial performance

The costs of material rose by 36 % in the first nine months of 2007 to € 290.2 million from € 213.4 million in the prior-year period. The lower increase in the costs of material compared to revenues is due in particular to a significantly lower increase in inventories.

Gross profit during the reporting period increased proportionally to total operating performance, improving by 36 % to € 77.5 million (prior-year period: € 57.0 million). The ratio of gross profit to total operating performance remained unchanged from the prior year at 21 %.

Personnel expenses rose by 26 % to € 18.5 million in the first nine months of 2007 (prior-year period: € 14.7 million) primarily as the result of new hires of additional employees throughout the Group. Compared to the third quarter of 2006, personnel expenses increased by 25 % in the third quarter of 2007, from € 5.2 million to € 6.5 million.

Depreciation and amortization increased by 34 % to € 5.9 million in the reporting period (prior-year period: € 4.4 million) due to scheduled amortization of acquired intangible assets and the modernization and expansion of the machine fleet. The third quarter of 2007 accounted for € 2.1 million of this amount (3rd quarter 2006: € 2.0 million).

Other operating expenses increased by 18 % from € 22.3 million to € 26.3 million in the first nine months of 2007. Compared to the third quarter of 2006, other operating expenses increased from € 7.5 million to € 8.0 million in the third quarter of 2007.

EBIT improved to € 26.8 million and EBITDA rose to € 32.7 million in the SOLON Group (prior-year period: € 15.5 million and € 19.9 million, respectively). Based upon the revenues generated, the EBIT margin rose from 7 % in the prior-year period to 8 %. EBIT and EBITDA in the third quarter of 2007 were € 11.2 million and € 13.3 million, respectively (3rd quarter 2006: € 6.1 million and € 8.1 million, respectively).

EBIT in the Solar Modules segment rose by 79 % to € 21.1 million in the first nine months of 2007 from € 11.8 million in the prior-year period. EBIT in the System Technology segment rose by 31 % to € 17.7 million in the first nine months of 2007, from a prior-year level of € 13.5 million. This contrasts with EBIT of € -12.0 million (prior-year period: € -9.8 million) in the Consolidation/Other segment, which includes the holding activities of the Group parent and the elimination of intersegment transactions.

The financial result was € 14,000 in the reporting period (prior-year period: € –1.1 million). In addition to the net interest expense of € 3.7 million, this figure includes non-recurring income of € 10.0 million from the sale of the Company's stake in Dutch solar cell producer Solland Solar Energy Holding B.V. and losses of € 2.7 million from the sale and impairment of other equity investments, as well as non-recurring items of € –3.6 million from the calling of the convertible bond. Earnings before taxes (EBT) were € 26.9 million in the first nine months of 2007 (prior-year period: € 14.4 million).

Income tax expenses during the reporting period amounted to € 6.7 million (prior-year period: € 4.9 million). The tax rate of 25 % (prior-year period: 34 %) is a result of the low tax rate on the non-recurring sales proceeds. If the aforementioned non-recurring items are not taken into account, the resulting tax rate is 34 %.

Net income after minority interests increased from € 9.5 million to € 20.2 million in the first nine months of 2007. Adjusted for non-recurring items, this results in a 61 % increase in net income after minority interests to € 15.3 million. The third quarter of 2007 accounted for € 6.5 million of this amount (3rd quarter of 2006: € 4.0 million).

Earnings per share improved to € 2.09 compared with € 1.04 in the prior-year period. Not including the non-recurring items generated, earnings per share amount to € 1.59 for the first nine months of 2007.

## **Financial position and cash flow**

### **Non-current assets**

SOLON invested € 31.4 million in intangible assets and property, plant and equipment throughout the Company during the reporting period. As of September 30, 2007, the reported carrying amount of property, plant and equipment and intangible assets was € 45.6 million and € 28.5 million, respectively (December 31, 2006: € 22.4 million and € 28.8 million, respectively).

Broken down by segments, this results in capital expenditure of € 6.0 million in the Solar Modules segment and € 3.8 million in the System Technology segment in the first nine months of 2007. Investments in the Consolidation/ Other segment totaled € 21.6 million. This involves primarily investments related to the construction of the new group headquarters in Berlin-Adlershof.

Financial assets amounted to € 36.9 million as of September 30, 2007 (December 31, 2006: € 36.4 million). This figure includes long-term loans related to securing future cell supplies and strategic equity investments in particular.

Other non-current assets amounted to € 15.6 million as of September 30, 2007 (December 31, 2006: € 18.7 million).

### **Current assets**

Inventories increased to € 146.8 million as of September 30, 2007 (December 31, 2006: € 102.5 million). This figure includes raw materials and supplies totaling € 45.1 million, work in progress of € 14.2 million, finished goods of € 73.6 million, and advance payments on inventories of € 14.0 million.

Despite full utilization of the available groupwide production capacity in the third quarter of 2007, inventories of finished goods are practically unchanged compared with June 30, 2007. Having built up a strategic inventory in the previous quarters, the SOLON Group is in a position to meet the high seasonal demand in the fourth quarter by reducing the inventory. The inventory of raw materials and supplies will also ensure a high level of production output for the following quarters.

Trade receivables increased to € 129.6 million (December 31, 2006: € 77.7 million). This development is due to the fact that the majority of sales within the third quarter occurred in the month of September, with a scheduled payment date after the balance sheet date.

Cash and cash equivalents increased to € 37.2 million on the balance sheet date (December 31, 2006: € 9.4 million). This increase resulted from the placement of a cash capital increase in September 2007.

### **Shareholders' equity**

Equity increased from € 116.1 million as of December 31, 2006 to € 240.5 million as of September 30, 2007. The equity-to-assets ratio increased to 50 % from 36 % as of December 31, 2006.

Share capital rose from € 9.3 million as of December 31, 2006 to € 11.9 million due to the exercise of stock options and the calling of convertible bonds through the issue of new shares, as well as a cash capital increase on the balance sheet date. Capital reserves grew from € 71.0 million to € 180.1 million.

**Non-current liabilities**

Non-current liabilities amounted to € 65.1 million as of September 30, 2007 (December 31, 2006: € 45.1 million). The increase was due to a rise to € 56.6 million in non-current liabilities to banks (December 31, 2006: € 1.7 million). Non-current liabilities from bonds and other non-current liabilities declined from € 39.7 million as of December 31, 2006 to € 1.2 million as of September 30, 2007 following the calling of the convertible bond.

**Current liabilities**

Current liabilities to banks declined to € 68.9 million as of the balance sheet date (December 31, 2006: € 80.2 million) due to the restructuring of the credit portfolio. Trade payables were € 67.3 million as of September 30, 2007 (December 31, 2006: € 50.1 million). At the end of the first nine months of 2007, total current liabilities were € 175.1 million (December 31, 2006: € 165.7 million).

**Cash flow**

As of September 30, 2007, the net cash outflow from operating activities amounted to € 52.9 million (prior-year period: net cash outflow of € 26.9 million). The increase in inventories and trade payables was the main reason for the negative cash flow.

Cash flow from investment activities resulted in a net cash outflow of € 24.4 million (prior-year period: net cash outflow of € 13.9 million). The primary components of this cash flow are the proceeds from the sale of shares in Solland Solar Energy Holding B.V. and disbursements for construction of the new group headquarters and the setup of SOLON America Corporation.

Cash flow from financing activities was € 105.1 million as of the end of the reporting period (prior-year period: net cash inflow of € 30.3 million), mainly as a result of cash inflows from capital increases and the restructuring of the credit portfolio.

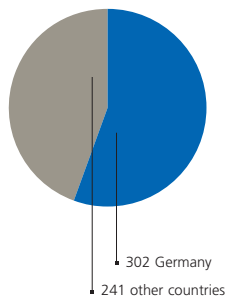
## Human resources

The number of people employed by the SOLON Group – not including Management Board members – increased 20 % to 649 employees as of September 30, 2007 (September 30, 2006: 543 employees). Of this total, 385 were production workers and 264 were office staff.

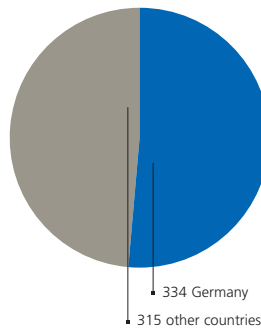
SOLON had 334 employees in Germany as of September 30, 2007, and a total of 315 employees in other countries.

### Number of employees

September 30, 2006  
543 employees



September 30, 2007  
649 employees



## Research and development

In the third quarter of 2007, SOLON AG concentrated its research and development activities on two projects: The first was the development of a new pedestal to enable a particularly fast and material-saving installation of standard modules in open areas. The other project, in which the SOLON Group has been involved since the third quarter, concerns the development of light-weight, flexible solar roof panels that will permit the use of photovoltaics with very limited loads on large industrial flat roofs.

**Risk report**

At the beginning of October, the German Federal Ministry for the Environment submitted an expert draft for a revision of the Renewable Energy Act (EEG). This draft provides for a continuation of subsidies for solar energy until 2014. Compensation for energy from photovoltaic roof-top systems shall be reduced by 8 % annually beginning in 2010. The federal government's final draft of the law is scheduled for submission on December 5, 2007. The revised EEG is expected to come into force on January 1, 2009.

Once the expansion goals have been reached, a new compensation arrangement for solar energy infeed to the grid is also expected for the Spanish market. It must be assumed that the current subsidy rates will be reduced significantly beginning in fall 2008.

Because of the growing demand for photovoltaic systems from other EU member states, Southeast Asia, and the U. S., as well as an improved ability to achieve economies of scale as a result of further company growth, the management of SOLON AG presumes that a reduction in photovoltaic subsidies in Germany and Spain will have only limited effects on the financial position and performance of the SOLON Group. A stable level of demand from the German market can be assumed even if German subsidies decrease in 2009.

Beyond this, there have been no additional significant changes in the opportunities and risk situation of the SOLON Group as compared to the situation described in the "Risk Management" and "Forecast" sections of the 2006 Annual Report.

## **SOLON stock**

The dynamic trend observed on the international exchanges in the first half of 2007 weakened in the third quarter as a result of the US mortgage crisis. While the German technology stock index TecDAX was able to post an increase of 3.7 %, the German barometer stocks listed in the DAX even registered a slight loss (-1.8 %). The price rally in international solar energy stocks also lost some of its strength, even though the PHOTON Photovoltaic Index PPVX was still able to record an increase of 11.8 %.

Despite the anxiety and sideways trading characterizing the stock markets, SOLON AG stock (ISIN DE0007471195/WKN 747119) turned in an extraordinarily strong performance in the third quarter: The price of SOLON stock improved by over 70 % to € 79.50 (XETRA closing price) against the closing price of the previous quarter. Since the beginning of 2007, SOLON stock surged 236 %. This made SOLON by far the most successful solar energy stock in the TecDAX both for the quarter as well as the year 2007.

In order to improve its equity position and finance further business growth, SOLON AG implemented a number of capital measures during the past quarter: On August 9, 2007, the Management Board and Supervisory Board of the Company decided to exercise their right to call the 4.5 % convertible bond 2005/2010. The convertible bond was redeemed on August 31, 2007 through the issue of a total of 1,070,314 new shares from the company's contingent capital.

In order to finance the announced expansion of production capacity to 500 megawatts, the Management Board and Supervisory Board of SOLON AG resolved on September 14, 2007 to carry out a 10 % cash capital increase from authorized capital, with exclusion of subscription rights. As part of this capital increase, a total of 1,079,654 new shares were issued and fully placed with institutional investors. This capital measure provided a cash inflow to the Company of approximately € 66 million (before transaction costs).

As a result of the aforementioned capital measures, the share capital of SOLON AG amounted to € 11,876,196.00 as of September 30, 2007, divided into 11,876,196 no-par-value bearer shares with a theoretical nominal value of € 1.00 per share. SOLON AG's market capitalization was therefore € 944 million as of the end of the third quarter. Earnings per share improved over the prior-year period to € 2.09 (September 30, 2006: € 1.04). Not including the non-recurring items generated in the nine-month period, earnings per share amount to € 1.59.

A total of 45.50 % of share capital was represented at the Annual Shareholders' Meeting of SOLON AG, which was held in Berlin on August 29, 2007. All resolutions involving the ten agenda items submitted for vote were passed with a clear majority. These included, among other things, the creation of a new authorized capital as well as a new contingent capital.

## **Outlook**

In the increasingly global market for solar technology, Germany will once again assert its leadership position this year as the world's largest market for photovoltaics. Growth in the first nine months has shown that demand from German customers for solar technology continues to be at an uninterrupted high.

The strongest growth this year and in the coming years can be expected from the new markets in Southern Europe, primarily Spain, where SOLON AG has already completed a number of power station projects since 2006. SOLON was able to post a total incoming order volume of over 100 megawatts for new Spanish power plant projects in the past quarter. Demand is also rising in Italy for both smaller roof facilities and turnkey power plants. In the U.S., where the market for large open-air facilities is currently growing at a significantly more dynamic pace than the market for rooftop systems, SOLON AG is currently building the first megawatt project with SOLON Movers. Other projects are in the negotiating stage.

The SOLON Group considers itself well-equipped to benefit from this positive market environment thanks to the Company's good supply of raw materials, an expanding export business, and strong strategic partnerships. In light of the results for the third quarter, which were even more successful than expected, the Management Board has once again revised its forecast upward for 2007 as a whole, and now expects that Group revenues and earnings will increase by around 40 % year-on-year.



## SOLON AG für Solartechnik, Berlin

### Consolidated income statement

|  | Note | 2006                       | 2007                       | 2006                       | 2007                       |
|--|------|----------------------------|----------------------------|----------------------------|----------------------------|
|  |      | Jan. 1 – Sep. 30<br>€ '000 | Jan. 1 – Sep. 30<br>€ '000 | Jul. 1 – Sep. 30<br>€ '000 | Jul. 1 – Sep. 30<br>€ '000 |
| Revenue  | 2    | 217,995                    | 333,871                    | 76,222                     | 140,209                    |
| Changes in work in progress and finished goods             |      | 46,007                     | 26,181                     | 21,926                     | 11,009                     |
| Own expenses capitalized                                   |      | 831                        | 1,288                      | 512                        | 327                        |
| Other operating income                                     |      | 5,544                      | 6,336                      | 1,925                      | 2,947                      |
| <b>Total operating performance</b>                         |      | <b>270,377</b>             | <b>367,676</b>             | <b>100,585</b>             | <b>154,492</b>             |
| Costs of material  | 3    | 213,404                    | 290,155                    | 79,787                     | 126,754                    |
| <b>Gross profit</b>  |      | <b>56,973</b>              | <b>77,521</b>              | <b>20,798</b>              | <b>27,738</b>              |
| Personnel expenses   |      | 14,720                     | 18,516                     | 5,227                      | 6,461                      |
| Depreciation, amortization and impairment                  | 6    | 4,427                      | 5,871                      | 1,983                      | 2,084                      |
| Other operating expenses                                   |      | 22,323                     | 26,272                     | 7,482                      | 8,001                      |
| <b>Operating result</b>                                    |      | <b>15,503</b>              | <b>26,862</b>              | <b>6,106</b>               | <b>11,192</b>              |
| Investment result  |      | 0                          | -19                        | 0                          | -16                        |
| <b>EBIT</b>  |      | <b>15,503</b>              | <b>26,843</b>              | <b>6,106</b>               | <b>11,176</b>              |
| Financial result   | 4    | -1,115                     | 14                         | -363                       | -7,130                     |
| <b>Earnings before taxes</b>                               |      | <b>14,388</b>              | <b>26,857</b>              | <b>5,743</b>               | <b>4,046</b>               |
| Income taxes   | 5    | 4,891                      | 6,704                      | 1,789                      | 1,512                      |
| <b>Net income before minority interests</b>                |      | <b>9,497</b>               | <b>20,153</b>              | <b>3,954</b>               | <b>2,534</b>               |
| Minority interests   |      | -2                         | 3                          | 1                          | 2                          |
| <b>Net income after minority interests</b>                 |      | <b>9,499</b>               | <b>20,150</b>              | <b>3,953</b>               | <b>2,532</b>               |
| Basic earnings per share in €                              | 10   | 1.04                       | 2.09                       | 0.42                       | 0.25                       |
| Diluted earnings per share in €                            | 10   | 0.98                       | 1.90                       | 0.40                       | 0.24                       |
| Basic earnings per share excluding one-time effects in €   |      | 1.04                       | 1.59                       | 0.42                       | 0.65                       |
| Diluted earnings per share excluding one-time effects in € |      | 0.98                       | 1.46                       | 0.40                       | 0.60                       |

## Consolidated balance sheet

| <b>Assets</b>                     | Note | December 31, 2006<br>€ '000 | September 30, 2007<br>€ '000 |
|-----------------------------------|------|-----------------------------|------------------------------|
| <b>A. Non-current assets</b>      |      | <b>108,226</b>              | <b>128,742</b>               |
| I. Intangible assets              | 6    | 28,753                      | 28,477                       |
| II. Property, plant and equipment | 6    | 22,441                      | 45,595                       |
| III. Financial assets             | 6    | 36,434                      | 36,873                       |
| IV. Other non-current assets      |      | 18,744                      | 15,589                       |
| V. Deferred tax assets            |      | 1,854                       | 2,208                        |
| <b>B. Current assets</b>          |      | <b>218,681</b>              | <b>351,915</b>               |
| I. Inventories                    | 7    | 102,523                     | 146,847                      |
| II. Trade receivables             | 8    | 77,716                      | 129,565                      |
| III. Other receivables and assets |      | 16,792                      | 38,263                       |
| IV. Cash and cash equivalents     |      | 9,440                       | 37,240                       |
| V. Assets held for sale           |      | 12,210                      | 0                            |
| <b>Total assets</b>               |      | <b>326,907</b>              | <b>480,657</b>               |

| <b>Shareholders' equity and liabilities</b>       | Note | December 31, 2006<br>€ '000 | September 30, 2007<br>€ '000 |
|---|------|-----------------------------|------------------------------|
| <b>A. Shareholders' equity</b>                    |      | <b>116,088</b>              | <b>240,460</b>               |
| I. Share capital                                  |      | 9,344                       | 11,876                       |
| II. Reserves                                      |      | 70,967                      | 180,040                      |
| III. Other comprehensive income                   |      | 8,323                       | 937                          |
| <i>thereof related to assets held for sale</i>    |      | 9,954                       | 0                            |
| IV. Retained earnings                             |      | 27,466                      | 47,616                       |
| V. Minority interests                             |      | -12                         | -9                           |
| <b>B. Non-current liabilities</b>                 |      | <b>45,080</b>               | <b>65,065</b>                |
| I. Provisions                                     |      | 3,478                       | 5,252                        |
| II. Liabilities to banks                          | 9    | 1,670                       | 56,574                       |
| III. Bonds and other non-current liabilities      |      | 39,656                      | 1,223                        |
| IV. Deferred tax liabilities                      |      | 276                         | 2,016                        |
| <b>C. Current liabilities</b>                     |      | <b>165,739</b>              | <b>175,132</b>               |
| I. Tax provisions                                 |      | 5,644                       | 5,508                        |
| II. Other provisions                              |      | 2,228                       | 2,505                        |
| III. Liabilities to banks                         | 9    | 80,244                      | 68,878                       |
| IV. Advance payments received                     |      | 12,287                      | 14,374                       |
| V. Trade payables                                 |      | 50,088                      | 67,320                       |
| VI. Other liabilities                             |      | 15,248                      | 16,547                       |
| <b>Total shareholders' equity and liabilities</b> |      | <b>326,907</b>              | <b>480,657</b>               |

## Consolidated cash flow statement

|  | 2006*            | 2007             |
|--|------------------|------------------|
|  | Jan. 1 – Sep. 30 | Jan. 1 – Sep. 30 |
|  | € '000           | € '000           |
| <b>Cash flow from operating activities</b>   |                  |                  |
| <b>Net income after taxes</b>  | <b>9,497</b>     | <b>20,153</b>    |
| <b>Reconciliation of net income before taxes to operating result before changes in working capital</b> | <b>10,682</b>    | <b>9,117</b>     |
| + Amortization of intangible assets and depreciation of property, plant and equipment                  | 4,427            | 5,871            |
| + Loss from disposal of non-current assets   | 185              | 47               |
| + Discounting of non-current advance payments  | 3,395            | 0                |
| +/- Financial result   | 1,115            | -14              |
| + Expenses for stock option plan   | 1,577            | 1,802            |
| -/+ Other non-cash income and expenses   | -17              | 1,411            |
| <b>Operating result before changes in working capital</b>  | <b>20,179</b>    | <b>29,270</b>    |
| <b>- Changes in assets not attributable to investing or financing activities</b>                       | <b>-79,797</b>   | <b>-108,384</b>  |
| - Change in inventories  | -69,578          | -45,153          |
| - Change in trade receivables  | -1,224           | -41,044          |
| - Change in receivables from construction contracts  | 0                | -11,346          |
| - Change in other receivables and assets   | -11,635          | -10,487          |
| +/- Change in deferred tax assets  | 2,640            | -354             |
| <b>+ Change in liabilities not attributable to investing or financing activities</b>                   | <b>32,732</b>    | <b>26,227</b>    |
| + Additions to current and non-current provisions  | 2,478            | 2,108            |
| + Change in trade payables   | 11,961           | 17,232           |
| + Changes in other liabilities   | 19,437           | 5,283            |
| -/+ Change in tax provisions and deferred tax liabilities  | -1,144           | 1,604            |
| <b>Changes in operating assets and liabilities</b>   | <b>-47,065</b>   | <b>-82,157</b>   |
| <b>Cash flow from operating activities</b>   | <b>-26,886</b>   | <b>-52,887</b>   |

\*Adjusted disclosure of cash flow from operating activities for the period 01/01/2006 to 09/30/2006 due to the new form of presentation in the reporting period 01/01/2007 to 09/30/2007.

|  | 2006<br>Jan. 1 – Sep. 30<br>€ '000 | 2007<br>Jan. 1 – Sep. 30<br>€ '000 |
|--|------------------------------------|------------------------------------|
| <b>Cash flow from investing activities</b>                         |                                    |                                    |
| + Purchase of subsidiaries and shares in subsidiaries              | 330                                | 0                                  |
| – Purchase of property, plant and equipment and intangible assets  | –6,310                             | –31,385                            |
| –/+ Change in financial assets and loans                           | –8,960                             | 7,013                              |
| + Proceeds from the sale of non-current assets                     | 581                                | 0                                  |
| + Grants received for non-current assets                           | 419                                | 0                                  |
| <b>Net cash flow from investing activities</b>                     | <b>–13,940</b>                     | <b>–24,372</b>                     |
| <b>Cash flow from financing activities</b>                         |                                    |                                    |
| + Proceeds from the issuance of share capital                      | 0                                  | 64,774                             |
| + Converted options  | 407                                | 4,296                              |
| + Change in financial liabilities                                  | 30,916                             | 40,248                             |
| – Interest paid/received in the period                             | –1,056                             | –4,252                             |
| <b>Net cash flow from financing activities</b>                     | <b>30,267</b>                      | <b>105,066</b>                     |
| <b>Effect of currency translation on cash and cash equivalents</b> | <b>–7</b>                          | <b>–7</b>                          |
| <b>Net change in cash and cash equivalents</b>                     |                                    |                                    |
| Cash and cash equivalents at beginning of period                   | 14,129                             | 9,440                              |
| Cash and cash equivalents at end of period                         | 3,563                              | 37,240                             |
| <b>Net change in cash and cash equivalents</b>                     | <b>–10,566</b>                     | <b>27,800</b>                      |
| <b>Additional disclosures</b>                                      |                                    |                                    |
| Interest received (with an effect on cash and cash equivalents)    | 1,884                              | 2,536                              |
| Interest paid (with an effect on cash and cash equivalents)        | –2,940                             | –6,788                             |

## Statement of changes in shareholders' equity

|   | Share capital<br>€ '000 | Capital reserve<br>€ '000 |
|---|-------------------------|---------------------------|
| <b>Balance on January 1, 2006</b>       | <b>9,244</b>            | <b>67,823</b>             |
| Net income                              |                         |                           |
| Treasury shares                         |                         |                           |
| Share acquisition                       |                         |                           |
| Currency translation differences        |                         |                           |
| Stock option plan                       | 94                      | 1,663                     |
| Converted options on convertible bonds  | 6                       | 223                       |
| Market assessment of AfS securities     |                         |                           |
| <b>Balance as of September 30, 2006</b> | <b>9,344</b>            | <b>69,709</b>             |

|   |               |                |
|---|---------------|----------------|
| <b>Balance on January 1, 2007</b>       | <b>9,344</b>  | <b>70,967</b>  |
| Net income                              |               |                |
| Currency translation differences        |               |                |
| Issuance of share capital               | 1,079         | 63,695         |
| Stock option plan                       | 272           | 5,826          |
| Converted options on convertible bonds  | 1,181         | 39,552         |
| Market assessment of AfS securities     |               |                |
| Fair value of hedged derivatives        |               |                |
| <b>Balance as of September 30, 2007</b> | <b>11,876</b> | <b>180,040</b> |

| Other<br>comprehensive income<br>€ '000 | Retained earnings<br>€ '000 | Treasury shares<br>€ '000 | Minority interests<br>€ '000 | Total<br>€ '000 |
|---|-----------------------------|---------------------------|------------------------------|-----------------|
| <b>-338</b>                             | <b>13,056</b>               | <b>-12,530</b>            | <b>-3</b>                    | <b>77,252</b>   |
|   | 9,499                       |                           | -2                           | 9,497           |
|   |                             | 12,530                    |                              | 12,530          |
|   |                             |                           | -7                           | -7              |
| -7                                      |                             |                           |                              | -7              |
|   |                             |                           |                              | 1,757           |
|   |                             |                           |                              | 229             |
| -969                                    |                             |                           |                              | -969            |
| <b>-1,314</b>                           | <b>22,555</b>               | <b>0</b>                  | <b>-12</b>                   | <b>100,282</b>  |

|              |               |          |            |                |
|--------------|---------------|----------|------------|----------------|
| <b>8,323</b> | <b>27,466</b> | <b>0</b> | <b>-12</b> | <b>116,088</b> |
|              | 20,150        |          | 3          | 20,153         |
| -7           |               |          |            | -7             |
|              |               |          |            | 64,774         |
|              |               |          |            | 6,098          |
|              |               |          |            | 40,733         |
| -7,531       |               |          |            | -7,531         |
| 152          |               |          |            | 152            |
| <b>937</b>   | <b>47,616</b> | <b>0</b> | <b>-9</b>  | <b>240,460</b> |

# **SOLON AG für Solartechnik, Berlin**

## **Notes to the interim report for the first nine months ended September 30, 2007**

### **1. General**

#### **SOLON Group and parent company**

SOLON AG für Solartechnik, with registered offices in Berlin, Germany (Ederstrasse 16, 12059 Berlin) was founded in 1997. The Company went public in 1998, making it the first exchange-listed solar power company in Germany. As the parent company, SOLON AG acts as a holding company for the SOLON Group and is responsible for strategy development, project business, and financing for the SOLON Group as well as research and development and distribution for the German and Austrian production companies.

SOLON Group's activities involve the manufacture of photovoltaic modules, industrially produced solar power plants, and power inverters. Production is located in Germany, Austria, Italy, Switzerland and the U.S. The SOLON Group is one of the largest solar module manufacturers in Europe and a leading supplier of intelligent photovoltaic solutions for large-scale projects.

#### **Basis of presentation**

The consolidated financial statements of the SOLON Group for the period ended September 30, 2007 were prepared in accordance with International Financial Reporting Standards (IFRS) and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The Group currency is the euro (€). Unless otherwise indicated, all amounts are stated in € thousands. Please note that rounding differences may occur when using amounts and percentages that have been rounded up or down.

In preparing these quarterly financial statements and calculating the comparative figures for the previous year, in principle the same consolidation principles and accounting policies were used as were applied to the published consolidated financial statements for fiscal 2006 with the following exceptions.

In light of the amendment of IAS 23 already published by the IASB and the associated mandatory capitalization of borrowing costs for qualified assets as of January 1, 2009, SOLON management has decided to make use of the capitalization of directly attributable borrowing costs for the construction of the new corporate headquarters. Due to the materiality of the borrowing costs for the construction, it is the opinion of management that the exercise of the presently still applicable option of IAS 23 in the direction of the future mandatory application for the capitalization of borrowing costs continues to represent a more accurate depiction of reality with respect to an accrual basis.

Due to the introduction of a new ERP system, changes in merchandise are no longer recognized under "Changes in work in progress and finished goods" on the income statement. Additions to merchandise are recognized directly in "Inventories" on the balance sheet; consumption is reported directly in "Costs of material" on the income statement.

For a description of the consolidation principles and accounting policies, please refer to No. 1 ("General") and No. 2 ("Summary of significant accounting policies") in the notes to the consolidated financial statements as published in the 2006 Annual Report. This report is available for download from the Internet at [www.solonag.com](http://www.solonag.com).

The income statement has been prepared in accordance with the nature of expense method.

## Scope of consolidation

### Subsidiaries included in scope of consolidation as of September 30, 2007

|  | Country     | Shareholding % | Date of formation/ addition* |
|--|-------------|----------------|------------------------------|
| SOLON Photovoltaik GmbH, Berlin            | Germany     | 100            | December 22, 1998            |
| SOLON Solar Investments GmbH, Freiburg     | Germany     | 100            | July 1, 2003                 |
| SOLON Nord GmbH, Greifswald                | Germany     | 100            | April 23, 2004               |
| asp AG, Laupen/Zurich                      | Switzerland | 100            | January 1, 2000              |
| SOLON Hilber Technologie GmbH, Steinach    | Austria     | 100            | August 19, 2005              |
| S.E. Project s.r.l., San Pietro in Gù      | Italy       | 100            | January 1, 2006              |
| SOLON America Corporation, Tucson, Arizona | USA         | 100            | January 2, 2007              |
| ERLASEE Liegenschaften GbR, Berlin         | Germany     | 90             | November 12, 2003            |

\* The date of formation/addition corresponds to the date of initial consolidation.

### Associates recognized in equity as of September 30, 2007

|                              | Country | Shareholding % | Date of formation/ addition* |
|------------------------------|---------|----------------|------------------------------|
| Green Utility S. p. A., Rome | Italy   | 40             | December 12, 2007            |

\* The date of formation/addition corresponds to the date of initial consolidation.

Other subsidiaries and associates whose influence on the Group's financial position and performance was immaterial were not included in the consolidated financial statements. This exclusion had an effect of less than 5 % on Group revenue, earnings, and total assets.

## Notes to the income statement

### 2. Revenue

Revenue of the SOLON Group amounted to € 333,871 thousand in the first nine months of 2007 (prior-year period: € 217,995 thousand), the majority of which was generated from the sale of solar modules and SOLON Movers.

Of this amount € 65,337 thousand (prior-year period: € 0 thousand) was attributed to revenues from construction contracts resulting from the Group's involvement in power plant projects. These revenues are calculated using the percentage of completion method as set out in IAS 11. The percentage of completion method refers to the stage of completion of a contract, which is determined by the proportion of contract costs incurred to the estimated total contract costs (cost-to-cost method). Total contract costs amounted to € 56,034 thousand as of the reporting date. Revenues from construction contracts are calculated by multiplying the amount of revenue agreed in the contract by the percentage of completion of the contract.

Please see the segment report for a detailed breakdown of revenues by segment.

### 3. Costs of material

The costs of material relate to the following items:

|  | 2006<br>Jan. 1 – Sep. 30<br>€ '000 | 2007<br>Jan. 1 – Sep. 30<br>€ '000 |
|--|------------------------------------|------------------------------------|
| Expenses for raw materials, supplies and merchandise                         | 203,047                            | 276,714                            |
| Expenses from the discounting of non-current advance payments on inventories | 3,395*                             | 0                                  |
| Expenses for services purchased  | 6,962                              | 13,441                             |
| <b>Total costs of material</b>   | <b>213,404</b>                     | <b>290,155</b>                     |

\*Expenses of € 3,395 thousand resulted from the discounting of non-current advance payments on raw materials and supplies in the previous year. The effects from the compounding until the advance payments are used are reported in the financial result as interest income.

#### **4. Financial result**

The financial result in the amount of € 14 thousand (prior-year period: € -1,115 thousand) refers to income from the sale of SOLON AG's stake in Solland Solar Energy Holding B.V., which was classified as an asset held for sale as of December 31, 2006, additional expenses from the sale and impairment of other investments as well as the expenses resulting from the early redemption of the convertible bond, which totaled € 3,618 thousand in the first nine months of 2007 (prior-year period: € 0 thousand). The resulting tax expense amounted to € 1,216 thousand (prior-year period: € 0 thousand).

#### **5. Income taxes**

With the consent of the Upper House of the German Parliament (Bundesrat) on July 6, 2007, the Lower House (Bundestag) adopted the 2008 Business Tax Reform Act. The reform will significantly change tax rates in Germany starting in 2008. The corporation tax rate will be reduced from 25 % to 15 %. In addition, the trade tax rate will be reduced from a maximum 5 % to a uniformly applied 3.5 %. As a countermove, however, trade tax is no longer deductible as business expenses. Consistent with the provisions of IAS 12 and IAS 34, the change in the tax rates was taken into account in measuring deferred taxes in the quarterly financial statements of SOLON Group as of September 30, 2007.

Deferred tax assets and liabilities were analyzed with regard to their reversibility. The 2007 expected tax rate is still applied to timing differences or temporary differences with a reversal still expected in 2007. The reduced tax rate of January 1, 2008 was applied to the differences that are not expected to be reversed until 2008.

The resulting tax expense amounted to € 250 thousand. An effect in the amount of € 23 thousand was taken directly to the balance sheet item "Other comprehensive income".

## Notes to the balance sheet

### 6. Change in selected non-current assets

|   | Intangible assets<br>€ '000 | Property, plant<br>and equipment<br>€ '000 | Financial assets<br>€ '000 | Total<br>€ '000 |
|---|-----------------------------|--|----------------------------|-----------------|
| <b>Net carrying amount<br/>as of January 1, 2006</b>    | <b>14,768</b>               | <b>18,109</b>                              | <b>29,372</b>              | <b>62,249</b>   |
| Additions   | 10,260                      | 11,081                                     | 21,532                     | 42,873          |
| Additions to scope of consolidation/<br>Other changes   | 5,703                       | -2,697                                     | -14,470                    | -11,464         |
| Depreciation, amortization<br>and impairment            | -1,978                      | -4,052                                     | 0                          | -6,030          |
| <b>Net carrying amount<br/>as of December 31, 2006</b>  | <b>28,753</b>               | <b>22,441</b>                              | <b>36,434</b>              | <b>87,628</b>   |
| <b>Net carrying amount<br/>as of January 1, 2007</b>    | <b>28,753</b>               | <b>22,441</b>                              | <b>36,434</b>              | <b>87,628</b>   |
| Additions   | 1,659                       | 29,726                                     | 17,180                     | 48,565          |
| Additions to scope of consolidation/<br>Other changes   | -6                          | -2,630                                     | -16,741                    | -19,377         |
| Depreciation, amortization<br>and impairment            | -1,929                      | -3,942                                     | 0                          | -5,871          |
| <b>Net carrying amount<br/>as of September 30, 2007</b> | <b>28,477</b>               | <b>45,595</b>                              | <b>36,873</b>              | <b>110,945</b>  |

### 7. Inventories

Inventories comprise the following items:

|                                 | December 31, 2006<br>€ '000 | September 30, 2007<br>€ '000 |
|---------------------------------|-----------------------------|------------------------------|
| Raw materials and supplies      | 30,417                      | 45,104                       |
| Work in progress                | 2,022                       | 14,167                       |
| Finished goods and merchandise  | 54,538                      | 73,591                       |
| Advance payments on inventories | 15,546                      | 13,985                       |
| <b>Total inventories</b>        | <b>102,523</b>              | <b>146,847</b>               |

## 8. Trade receivables

Trade receivables are as follows:

|  | December 31, 2006<br>€ '000 | September 30, 2007<br>€ '000 |
|--|-----------------------------|------------------------------|
| Trade receivables, gross (without PoC) | 53,760                      | 94,567                       |
| General valuation allowance            | -310                        | -614                         |
| Specific valuation allowance           | -175                        | -175                         |
| Trade receivables, PoC                 | 24,441                      | 35,787                       |
| <b>Trade receivables, net</b>          | <b>77,716</b>               | <b>129,565</b>               |

## 9. Liabilities to banks

Liabilities to banks comprise the following:

|                                     | December 31, 2006<br>€ '000 | September 30, 2007<br>€ '000 |
|-------------------------------------|-----------------------------|------------------------------|
| Current liabilities to banks        | 80,244                      | 68,878                       |
| Non-current liabilities to banks    | 1,670                       | 56,574                       |
| <i>Maturity 1 to 5 years</i>        | 1,670                       | 49,350                       |
| <i>Maturity longer than 5 years</i> | 0                           | 7,224                        |
| <b>Total liabilities to banks</b>   | <b>81,914</b>               | <b>125,452</b>               |

## 10. Earnings per share

|   | 2006             |                  | 2007             |                  |
|---|------------------|------------------|------------------|------------------|
|   | Jan. 1 – Sep. 30 | Jan. 1 – Sep. 30 | Jul. 1 – Sep. 30 | Jul. 1 – Sep. 30 |
| Net income after minority interests in € '000   | 9,499            | 20,150           | 3,953            | 2,532            |
| Average number of shares outstanding in thousands   | 9,164            | 9,650            | 9,344            | 10,094           |
| <b>Basic earnings per share in €</b>  | <b>1.04</b>      | <b>2.09</b>      | <b>0.42</b>      | <b>0.25</b>      |
| Adjusted net income after minority interests in € '000                                    | 10,457           | 20,990           | 4,271            | 2,735            |
| Adjusted average number of shares outstanding for diluted earnings per share in thousands | 10,664           | 11,041           | 10,723           | 11,193           |
| <b>Diluted earnings per share in €</b>  | <b>0.98</b>      | <b>1.90</b>      | <b>0.40</b>      | <b>0.24</b>      |

The basis for calculating earnings per share is net income after minority interests as well as the weighted average number of shares outstanding for the reporting period.

Adjusted net income after minority interests reflects the changes in the net present value of the convertible bond, resulting in an adjustment of € 840 thousand to net income as of September 30, 2007 (prior-year period: € 958 thousand). For the third quarter of 2007, the adjustment was € 203 thousand (3rd quarter 2006: € 318 thousand).

For the purpose of calculating the diluted earnings per share, the effects of all dilutive shares from the stock option plan and the convertible bond\* are taken into account. The increase in the average number of shares from the stock option plan amounted to 356 thousand as of September 30, 2007 (prior-year period: 319 thousand), and the average increase based on the convertible bond was 1,035 thousand as of September 30, 2007 (prior-year period: 1,181 thousand). In the third quarter of 2007, the average increase in the number of shares from the stock option program amounted to 350 thousand (3rd quarter 2006: € 203 thousand). The convertible bond increased the average number of shares as of the third quarter of 2007 by 749 thousand (3rd quarter 2006: 1,176 thousand).

## 11. Segment Report

For purposes of segment reporting, the activities of the SOLON Group are divided into business segments. The breakdown is orientated on the internal management and reporting structures and accounts for the differing risk and earnings structures of the business segments. The SOLON Group includes the Solar Modules and System Technology segments. In addition, the Consolidation/Other segment comprises the intersegment elimination and holding activities of SOLON AG.

*\*Due to the calculation system based on average values, the convertible bond converted on August 31, 2007 is taken into account in determining the diluted earnings in 2007.*

Segment reporting for the period under review and the comparable prior-year period is as follows:

| € '000  | Solar Modules    |                  |
|---|------------------|------------------|
|   | 2006             | 2007             |
|   | Jan. 1 – Sep. 30 | Jan. 1 – Sep. 30 |
| Segment revenue   | 159,424          | 220,993          |
| <i>thereof revenue from group companies of other segments</i>               | 29,075           | 33,017           |
| Changes in work in progress and finishes goods                              | 24,077           | 12,218           |
| Own expenses capitalized  | 362              | 276              |
| Other operating income  | 1,750            | 2,606            |
| <b>Total operating performance</b>  | <b>185,613</b>   | <b>236,093</b>   |
| Cost of material  | 158,538          | 197,636          |
| <b>Gross profit</b>   | <b>27,075</b>    | <b>38,457</b>    |
| Personnel expenses  | 5,916            | 6,296            |
| Depreciation, amortization and impairment                                   | 2,464            | 2,910            |
| Other operating expenses  | 6,922            | 8,111            |
| <i>Non-cash expenses</i>  | 3,648            | 2,379            |
| <b>Operating result</b>   | <b>11,773</b>    | <b>21,140</b>    |
| Investment result   | 0                | 0                |
| <b>EBIT</b>   | <b>11,773</b>    | <b>21,140</b>    |
| Capital expenditure for intangible assets and property, plant and equipment | 10,355           | 6,016            |

| System Technology |                  | Consolidation/Other |                  | Group            |                  |
|-------------------|------------------|---------------------|------------------|------------------|------------------|
| 2006              | 2007             | 2006                | 2007             | 2006             | 2007             |
| Jan. 1 – Sep. 30  | Jan. 1 – Sep. 30 | Jan. 1 – Sep. 30    | Jan. 1 – Sep. 30 | Jan. 1 – Sep. 30 | Jan. 1 – Sep. 30 |
| 88,330            | 146,227          | -29,759             | -33,349          | 217,995          | 333,871          |
| 689               | 332              | -29,764             | -33,349          | 0                | 0                |
| 21,879            | 14,155           | 51                  | -192             | 46,007           | 26,181           |
| 354               | 680              | 115                 | 332              | 831              | 1,288            |
| 3,231             | 3,654            | 563                 | 76               | 5,544            | 6,336            |
| <b>113,794</b>    | <b>164,716</b>   | <b>-29,030</b>      | <b>-33,133</b>   | <b>270,377</b>   | <b>367,676</b>   |
| 84,547            | 125,191          | -29,681             | -32,672          | 213,404          | 290,155          |
| <b>29,247</b>     | <b>39,525</b>    | <b>651</b>          | <b>-461</b>      | <b>56,973</b>    | <b>77,521</b>    |
| 5,059             | 8,233            | 3,745               | 3,987            | 14,720           | 18,516           |
| 1,882             | 2,362            | 81                  | 599              | 4,427            | 5,871            |
| 8,765             | 11,186           | 6,636               | 6,975            | 22,323           | 26,272           |
| 477               | 3,800            | 998                 | 2,434            | 5,123            | 8,613            |
| <b>13,541</b>     | <b>17,744</b>    | <b>-9,811</b>       | <b>-12,022</b>   | <b>15,503</b>    | <b>26,862</b>    |
| 0                 | 0                | 0                   | -19              | 0                | -19              |
| <b>13,541</b>     | <b>17,744</b>    | <b>-9,811</b>       | <b>-12,041</b>   | <b>15,503</b>    | <b>26,843</b>    |
| 4,863             | 3,755            | 1,788               | 21,614           | 17,006           | 31,385           |

## 12. Employee profit sharing plan

The SOLON Group issues stock options on a regular basis in order to promote long-term loyalty among employees and officers of the Company. The following shows the tranches not yet exercised as of the start of fiscal 2007:

| Type of agreement  | Share-based payment |               |               |              |               |
|--|---------------------|---------------|---------------|--------------|---------------|
|  | Tranche 3           | Tranche 4     | Tranche 5     | Tranche 6    | Tranche 7     |
| Date of issue  | Dec. 31, 2004       | Feb. 24, 2005 | Jan. 18, 2006 | Apr. 7, 2006 | Dec. 12, 2006 |
| Stock options issued   | 252,000             | 156,000       | 225,000       | 144,000      | 147,000       |
| Maximum term   | 10 years            | 10 years      | 10 years      | 10 years     | 10 years      |
| Options not yet exercised at the start of the reporting period | 252,000             | 156,000       | 225,000       | 144,000      | 147,000       |
| Options issued during the reporting period                     | 0                   | 0             | 0             | 0            | 0             |
| Options forfeited during the reporting period                  | 0                   | 0             | 6,000         | 0            | 3,000         |
| Options exercised during the reporting period                  | 168,000             | 104,000       | 0             | 0            | 0             |
| Options expired during the reporting period                    | 0                   | 0             | 0             | 0            | 0             |
| Options not yet exercised at the end of the reporting period   | 84,000              | 52,000        | 219,000       | 144,000      | 144,000       |
| Vested options not yet exercised as of September 30, 2007      | 0                   | 0             | 0             | 0            | 0             |

### Employee profit sharing plan (Tranche 3–7)

- Vesting period of 2 years for  $\frac{2}{3}$  of the tranche and of 3 years for  $\frac{1}{3}$  of the tranche.
- Exercise possible only within four weeks after the third banking day after release of the quarterly financial statements.
- The share price at the time of exercise must exceed the strike price on the date of issue by at least 20 percent. This figure will increase by 5 percentage points p. a. after expiration of the vesting period.
- Cash settlement possible if more favorable for SOLON.

The fluctuation occurring in tranches 5 and 7 in the current period made it necessary to recalculate the expected fluctuation in future periods. The expected fluctuation is shown below:

|                     | Expected fluctuation<br>for remaining term<br>% |
|---------------------|---|
| Tranche 5 (2 years) | 3.14  |
| Tranche 5 (3 years) | 4.72  |
| Tranche 7 (2 years) | 3.48  |
| Tranche 7 (3 years) | 4.69  |

For more information on SOLON's stock option plan, please see the 2006 Annual Report, which is available for download from the Internet at [www.solonag.com](http://www.solonag.com).

The stock option program resulted in the following expenses for the SOLON Group as of the reporting date for equity-settled share-based payment transactions:

|   | September 30, 2006<br>€ '000 | September 30, 2007<br>€ '000 |
|---|------------------------------|------------------------------|
| Total expense from equity-based payment transactions          | 2,831                        | 5,896                        |
| Expense for the period from equity-based payment transactions | 1,577                        | 1,802                        |

### 13. Related party transactions

Transaction volumes of the SOLON Group with related parties were as follows:

|  | 2006<br>Jan. 1 – Sep. 30<br>€ '000 | 2007<br>Jan. 1 – Sep. 30<br>€ '000 |
|--|------------------------------------|------------------------------------|
| Sales transacted with related parties                    | 8,043                              | 4,720                              |
| Materials purchased from related parties                 | 4,092                              | 5,586                              |
| Payments made to related parties for consulting services | 307                                | 8                                  |
| Receivables due from related parties                     | 3,703                              | 17,228                             |
| Liabilities due to related parties                       | 11                                 | 2,106                              |

### 14. Significant events after the balance sheet date

#### Expansion of Group Management Board through addition of Chief Operating Officer

On October 1, 2007, the Management Board of SOLON AG was expanded through the addition of a Chief Operating Officer (COO), who is responsible for the areas of production, sales, and IT. Dr. Gero Wiese, 45, has a doctorate in mechanical engineering and most recently worked at Gillette for eleven years. He is married and has two children. He studied mechanical engineering in Braunschweig and Waterloo (Canada), and prior to receiving his in-service doctorate in Darmstadt, earned a Master of Business Administration in Fontainebleau (France).

#### Increase of shareholding in Austrian solar cell manufacturer Blue Chip Energy GmbH

On October 22, 2007, SOLON AG increased its shareholding in the Austrian solar cell manufacturer Blue Chip Energy GmbH, Güssing/Burgenland, from the previous level of 19 % to 47 %. The shares were purchased as a capital increase through contributions in kind through the issuance of 327,000 new shares of SOLON AG. With the entry of the capital increase in the Commercial Register on October 29, 2007, SOLON AG's share capital increased to € 12,203,196.00, divided into the same number of shares. In the meantime, the Blue Chip Energy shareholding was contributed to SOL Holding AG. SOL Holding AG is a joint venture for strategic investments in companies involved with the solar value chain; SOLON AG has a 48 % shareholding in this company.

**Acquisition of shareholding in Greifswald-based electronics service provider ml&s GmbH & Co. KG**

On October 29, 2007, SOLON AG acquired a 41 % share in ml&s GmbH & Co. KG. This company, founded in 2002 and with domicile in Greifswald, Mecklenburg-Vorpommern, has more than 300 employees. Its core business is the provision of production and logistics services as a contract manufacturer of electronic devices and systems for a number of industries. SOLON AG and ml&s GmbH & Co. KG have already been successfully collaborating for many years in the manufacture of photovoltaic modules. The goal of the shareholding is to broaden the collaboration as part of the planned expansion of photovoltaic module production capacities by the SOLON subsidiary SOLON Nord GmbH, Greifswald, and to accommodate the increasing demand for electronic products and systems in the field of photovoltaic applications.

**15. Review by the Group auditor**

The interim financial statements as of September 30, 2007 and 2006 were not reviewed by the auditor.

### **Financial calendar of the fiscal year 2008**

March 31, 2008: Annual Report 2007

May 14, 2008: Interim Report as of March 31, 2008

June 24, 2008: Annual Shareholders' Meeting, Berlin

August 19, 2008: Interim Report as of June 30, 2008

November 12, 2008: Interim Report as of September 30, 2008

November 2008: Analyst Meeting, Berlin

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