

REPORT ON EXPECTED DEVELOPMENT WITH ITS MAJOR OPPORTUNITIES AND RISKS

RISK REPORT

OPPORTUNITY AND RISK MANAGEMENT SYSTEM

SOLARWORLD's corporate strategy underlies our opportunity and risk management⁹ system → *Strategy and action* • p. 033// based on which the Management Board defines our risk policy. We implemented a group-wide opportunity and risk management system that is integrated into our business processes. Moreover, all fully consolidated companies of the SOLARWORLD Group are incorporated into our opportunity and risk management. → *Notes/Scope of consolidated financial statements and legal group structure* • p. 160// Risks are identified and monitored in a decentralized manner by the management of the operating business units. On the basis of a standardized reporting system, monthly risk reviews are presented to the Management Board; any current risks and opportunities are immediately notified to the Board. In close alignment with Group Controlling, the Management Board is able to assess the impact of identified risks and opportunities on our net assets, financial position and results of operations without delay and to initiate counter-measures where required.

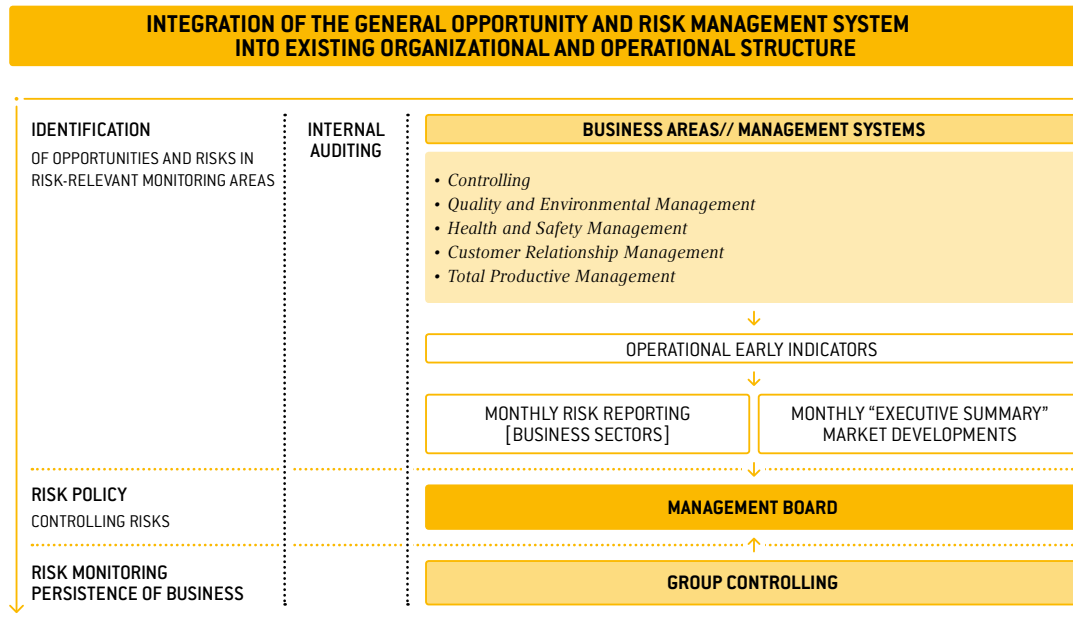
Group-wide bodies to identify, analyze and handle corporate strategy and performance opportunities and risks include our strategy meetings, in addition to Management Board meetings. At these meetings, which take place several times a year, the Management Board discusses any possible opportunities and risks with the managing directors and Board members of the subsidiaries – also with regard to corporate issues such as HR strategy and information technology. The Group Committee, which meets once a year, also involves the managing directors and the senior managers of the operating units. These bodies form a broad group-wide basis for our opportunity and risk management and enable us to rapidly implement the decisions taken at all management levels.

Opportunities and risks arising from the general economic conditions are determined by means of market, tendency and competition analyses in Investor Relations, Marketing and Distribution. They are evaluated and reported to the Management in the form of a monthly executive summary. In order to minimize ecological and social risks and tap economic opportunities, we have developed an integrated sustainability management system which reports directly to the Board in its function as a control and monitoring tool. We also operate an integrated group-wide quality and environmental management⁹ system → [Interlinking of management tools](#) • p. 044// in order to counter risks in our process chain and make quality process and environmental standards transparent. Statistics on waste, emissions, waste water, power consumption and the use of consumables facilitate early detection and risk identification with regard to consumption data. The monitoring of laws and regulations, for instance laws and guidelines against insider trading, is the responsibility of our compliance officer, backed by legal advice from external lawyers. External specialist legal experts also provide integrated consultation on general legal risks.

In order to limit the remaining risks, SOLARWORLD has taken out corresponding insurance cover to minimize risks. The extent of the cover is regularly reviewed in order to keep pace with our steady growth. Our opportunity and risk management system is evaluated by our auditors on an annual basis.

We will only be successful over the long term if we seize opportunities while identifying risks at an early stage, analyzing them, and managing and controlling them accordingly. Considering the acceptable overall risk level, the Management Board decides whether any risks are taken in a controlled manner to seize opportunities. Where the decisions taken are of fundamental importance to the company, the Supervisory Board is also involved. We thus identify developments that might jeopardize the continued existence of our company at an early point in time.

④ INTEGRATION OF THE GENERAL OPPORTUNITY AND RISK MANAGEMENT SYSTEM



INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM REGARDING THE GROUP REPORTING PROCESS

The objective of the control and risk management system regarding the (group) reporting process is to make sure that the reporting is uniform and in line with the legal requirements, the generally accepted accounting principles and the International Financial Reporting Standards (IFRS)⁹ as well as internal group guidelines so as to give recipients of the annual financial statements true and reliable information. To this end SOLARWORLD has principles, processes and measures whose essential characteristics can be described as follows:

Within SOLARWORLD AG and/or the SOLARWORLD Group there is a clear-cut management and enterprise structure in which the various group companies enjoy a large measure of independence and individual responsibility. On this basis the functions of Finance and Accounting, Controlling and Investor Relations essential to the reporting process are controlled right across the group by appropriate departments at SOLARWORLD AG.

The functions and responsibilities of Finance and Accounting, Controlling and Investors Relations are clearly separated and allocated with mutual control processes assuring a continuous exchange of information.

The basis of the internal control system is provided by precisely defined preventive and monitoring control mechanisms like systematic and manual coordination processes, predefined approval processes, the separation of functions and the adherence to guidelines.

The financial systems used are protected against unauthorized access by appropriate installations in the IT system. Standard software is used as far as possible.

Uniform reporting is guaranteed in particular by reporting guidelines that apply group-wide and by a standardized reporting format. The guidelines and the reporting format are regularly reviewed and updated by members of the group accounting department.

The group companies prepare their financial statements locally and communicate these in the prescribed format to group accounting. They are themselves responsible for adherence to the group reporting guidelines as well as the proper and timely management of all reporting-related processes and systems. In this context they are fully supported by group accounting throughout the entire reporting process.

Adherence to the reporting guidelines as well as to time and process requirements are monitored by group accounting. In addition to systems technology controls there are manual controls and analytical audit procedures. Here the appropriate control environment is taken as much into consideration as the relevance of certain reporting facts with regard to the contents of the financial statements.

For special technical questions and complex reporting issues group accounting acts as the central interlocutor. If required external experts (auditors, qualified accounting specialists, etc.) will be consulted.

On the basis of the data supplied by the group companies consolidation will take place centrally in group accounting. At least a four-eyes-principle will apply at each level.

Independently of group accounting a monthly analysis of target/actual and actual/actual deviations is conducted by group controlling as a result of which an examination of major or implausible changes takes place at an early point in time.



RISK MANAGEMENT SYSTEM REGARDING FINANCIAL INSTRUMENTS

The SOLARWORLD Group as an internationally operating group of companies is subject to market, liquidity and default risks within the framework of its business activities with regard to its assets, liabilities and future transactions either fixed or planned. The task and objective of risk management regarding financial instruments is to monitor these risks continuously and to limit them by way of operational and financial measures.

The monitoring of the risks involved lies in the responsibility of the respective board members and managing directors of the subsidiaries who report to the Board of Management of SOLARWORLD AG on existing and newly emerging risks. For the use and handling of financial instruments there are rules and regulations designed specifically to make sure that no major financial transactions take place without coordination with the Board of Management of SOLARWORLD AG. Derivative financial instruments are regularly only used for hedging purposes. Apart from this we refer you to the following information on the respective individual risks and the remarks in the [➔ Notes/Principles and Goals of Financial Risk Management • p. 196//](#).

Financial risks such as price, currency, and interest rate risks arising through our increasing international business are countered by means of general contracts, maturity structures and hedges in line with our risk management.

CORPORATE RATING

The SOLARWORLD Group is not subject to an official rating^a by Standard & Poor's, Moody's or comparable standards.

INDIVIDUAL RISKS

LEGEND

Risk assessment	
↑	Up on the previous year
↓	Down on the previous year
→	Flat on the previous year
×	Does not exist
Time horizon of effects	
Short term:	One to three years
Medium term:	Three to five years
Long term:	More than five years

PRELIMINARY NOTE: With regard to the risk analysis and the disclosure of counter-measures we do not distinguish between the reportable operative “Production Germany” and “Production USA” segments in our in-house production. By contrast, risk factors to be assessed differently for different regions constitute exemptions.

↓	Macroeconomic risks
Risks	<ol style="list-style-type: none"> 1. Worsening of the financial crisis and/or the recession: Falling propensity to invest among private end customers; tighter financing terms and conditions for investors in large-scale solar projects 2. Falling electricity prices for private households: Delays in solar power reaching grid parity; slowdown in tapping new markets
Probability	<ol style="list-style-type: none"> 1. Low: According to economic experts the recession has already bottomed out. We therefore assess the risk of a falling propensity to invest among private end customers as low. They will continue to have access to loans for investments in solar power systems in the framework of programs to promote economic activity. Medium: We assess the risk of tighter financing terms and conditions for large-scale projects as medium. According to experts, the most difficult phase of the financial crisis is behind us. Nevertheless, there may be short-term credit bottlenecks for large-scale investment projects. 2. Low: We assess the risk as low. Falling costs of primary sources of energy are hardly ever passed on to customers. Due to a further rise in energy demand, prices are expected to tend to rise in future.
Effect (strength, time horizon)	<ol style="list-style-type: none"> 1. Medium, short term: A decline in demand from end customers might have a medium negative effect on our group revenues and earnings. Low, short term: Large-scale projects only represent a small portion (9 per cent) of our revenues. If these investments were to decline, the negative effect on SolarWorld would be minor. 2. Medium, medium term: In the medium term, household power prices will impact on our business since, due to the incentive system for self-consumption of solar power, the economy of solar plants will be affected by price expectations for household electricity in the medium term.
Counter-measures	<ul style="list-style-type: none"> • Trade: Our internationalization strategy helps us spread the risk of a decline in consumption between different markets. → <i>Future sales markets 2010+ • p. 141 //</i> • Production; Other: Ongoing cost reductions and efficiency enhancements along the entire value chain⁹ help us shape competitive prices. → <i>Enhancing cost efficiency • p. 142 //</i>

↑ Political and regulatory risks	
Risks	Changes in laws to promote solar power: Slower market growth due to a reduction in, or even abolition of, financial incentives in individual countries
Probability	High: In our sales markets, Germany and Italy, changes in the regulatory framework have been announced and will probably take effect as of mid-2010 or 2011. → EEG amended • p. 136// → Growth in European markets • p. 137//
Effect (strength, time horizon)	High, short term: Declines in demand due to changes in the regulatory framework in individual regions may temporarily impact our revenues and earnings. As long as grid parity ² is not achieved in individual markets, SOLARWORLD will be exposed to this risk.
Counter-measures	<ul style="list-style-type: none"> • Trade: Our internationalization strategy helps us spread the risk between several markets. → Future sales markets 2010+ • p. 141// • All segments: Continual cost reductions and efficiency enhancements facilitate faster achievement of grid parity and thus far-reaching independence from promotion incentives as well as long-term competitive pricing. → Enhancing cost efficiency • p. 142//

↑ Risks from tougher competition	
Risks	Intensification of competitive pressure: A tendency towards consolidation at all stages of the value chain in the industry, price competition, oversupply
Probability	High: Due to development of the solar market towards an end customers' market, competitive pressure is intensifying significantly. The fight for market shares and an ongoing expansion of supply will result in price reductions in the wafer and module segments. → Further rise in supply • p. 135//
Effect (strength, time horizon)	Medium, medium term: Potential loss of market shares and stronger pressure on margins due to tighter price competition may have adverse effects on revenues and earnings. Due to our solid market position, we assess the probability of a significant impact of this risk on our group as medium.
Counter-measures	<ul style="list-style-type: none"> • Trade: Investments in expansion of the SolarWorld brand; differentiation of our products through quality, service, innovation; customer retention programs. → Brand investments stepped up – demand effects for our group and our customers • p. 084// • Production: Stronger expansion of production capacity in the cell and module segments in order to secure economies of scale and optimize our cost structure; → Facts: Worldwide production capacities • p. 140// cost reduction through efficiency enhancements • Production: Utilization of existing and future wafer capacity through selling our wafers to a diversified customer base and internal processing of wafers to solar modules

↓ Risks arising from alternative solar power technologies	
Risks	Technological breakthrough of alternative solar power technologies: Risk of substitution for crystalline technologies
Probability	Medium: Due to the fall in silicon prices, previous cost advantages of alternative solar power technologies versus crystalline technologies have declined. This applies mainly to the rooftop systems market. The potential for these companies to succeed is additionally impaired by the more difficult financing environment. Few of these companies have so far been able to produce on an industrial scale. These technologies might also be adversely affected by future regulation measures, disposal risks and the finite nature of the raw materials used such as cadmium, tellurium and indium. → <i>Supply exceeds demand</i> • p. 073//
Effect (strength, time horizon)	Medium, medium term: A potential loss of market shares and increasing price competition with stronger pressure on margins might adversely affect our revenues and earnings.
Counter-measures	<ul style="list-style-type: none"> • Production; Other: Ongoing investments in research and development in order to enhance efficiency and optimize costs • Production; Other: Regular, analytical observation of the development of alternative solar power technologies in the market. → <i>Opportunity and risk management system</i> • p. 144//

→ Procurement risks	
Risks	<ol style="list-style-type: none"> 1. Convergence of contract and spot market prices for silicon: Long-term silicon contracts less advantageous, higher procurement costs than competitors 2. Supply bottlenecks for kit components, consumables: Security of supply at risk
Probability	<ol style="list-style-type: none"> 1. Medium: With a rise in silicon supplies, the risk of market prices falling below the level agreed under long-term contracts increases. 2. Medium: The solar industry is a young sector so that supply bottlenecks may occur at suppliers of industry-specific consumables and kit components, e.g. inverters⁹ at the current point in time.
Effect (strength, time horizon)	<ol style="list-style-type: none"> 1. Medium, short term: Unchanged procurement costs might cause margin erosion if wafer and module prices should fall; they might thus have an adverse effect on our earnings. As a major silicon customer, we have good long-term relationships with our suppliers, giving us flexibility in renegotiations. We assess the effect of this risk on our business as medium. → <i>Procurement</i> • p. 079// 2. Medium, short term: Bottlenecks in supplies of kit components and consumables may adversely affect our cost structure, slow down production processes, and thus reduce our earnings.
Counter-measures	<ul style="list-style-type: none"> • Production; Trade: Expansion of our supplier networks and maintenance of our good, long-term supplier relationships → <i>Future procurement</i> • p. 143// • Production; Trade: International procurement management and supplier diversification increases independence from regional bottlenecks. • Production; Trade: Use of alternative products reduces dependence on individual suppliers. • Other; Production: Continuous reduction of silicon requirements per watt-peak

↑ Default risks	
Risks	Insolvency of individual customers: Loss of receivables outstanding
Probability	High: Due to rising consolidation tendencies in the market, the risk of wafer and trading costumers' insolvency is increasing. We assess this risk as high for us.
Effect (strength, time horizon)	Medium, short term: Contractual defaults and non-performance of payment obligations might have a negative effect on earnings and our order book.
Counter-measures	<ul style="list-style-type: none"> • Production; Trade: Ongoing monitoring and analysis of receivables and selective conclusion of credit insurance. • Production; Trade: Cash in advance and/or down payment arrangements.

↑ Sales and price risks	
Risks	<ol style="list-style-type: none"> 1. Stronger price pressure and increased supply: Falling demand for our products 2. Purchase of less than agreed volume: Non-performance of long-term wafer contracts
Probability	<ol style="list-style-type: none"> 1. Medium: Due to growing internationalization, tougher competition and changes in the legal framework in the core market Germany, price and cost pressure might emerge in the market. Shifts in demand might increasingly be observed among customers basing their purchasing decision exclusively on price. ↻ <i>The future solar power market</i> p. 135// 2. High: Due to the dropped market prices and the increased supply of wafers, it is to be assumed that not all wafer customers will meet their contractual purchasing obligations in 2010 or demand re-negotiations.
Effect (strength, time horizon)	Medium, short term: None of our customers for wafers or modules accounts for more than ten per cent of our revenues. Sales and contractual defaults might have a negative effect on our earnings and order book. They can also lead to inventories being built up. If long-term contracts were to be cancelled, downpayments already made by customers would be retained.
Counter-measures	<ul style="list-style-type: none"> • Production: Flexibility through vertical integration. Building of capacities in order to be able to process not delivered wafer volumes into brand modules in our in-house value chain. • Trade: Further expansion of our brand and positioning as a quality supplier as customer retention measures. Risk diversification to considerably more than 100 international systems integrators, specialized wholesalers and installers as customers.

→ Corporate strategy risks	
Risks	Misjudgments concerning future developments: Wrong investment and technology decisions, lack of market acceptance for newly developed products.
Probability	Low: Thanks to our long-standing market experience and the conclusion of important partnerships and strategic alliances, we assess the probability of this risk as low.
Effect (strength, time horizon)	High, long term: Losses of market shares, image, and capital due to wrong strategic decisions might adversely affect the economic situation of our group. Lack of acceptance of new products might have a negative effect on revenues and earnings.
Counter-measures	<ul style="list-style-type: none"> • All segments: Identifying market trends by means of market analyses in all business segments and long-term relationships with customers, suppliers and political decision-makers. → <i>Opportunity and risk management system</i> • p. 114// • Production; Other: Concluding strategic alliances and joint ventures to split up the investment risk. • Other: Performing broadly based research and development activities and cooperation schemes with universities and research centers. → <i>Innovation report 2009</i> • p. 090//

→ Human resources risks*	
Risks	Shortage of highly qualified technical staff and executives: Difficulties in filling key positions.
Probability	Low: Due to our reputation as an attractive employer and increasing personnel marketing, we assess this risk as low for us. Moreover, interest in solar companies has risen in the labor market due to the growth of the solar industry.
Effect (strength, time horizon)	Medium, medium term: Potential reduction in our technological edge and corporate growth due to shortage of skilled technical staff may adversely affect our revenues and earnings.
Counter-measures	<ul style="list-style-type: none"> • All segments: Selective, needs-oriented development of skills of our existing staff • All segments: Strengthening our image as an attractive employer, university marketing, research cooperation schemes. → <i>Human resources – future development</i> • p. 144// • All segments: Promoting employee motivation through strong leadership and corporate culture, working hour schemes and profit-oriented variable remuneration schemes • All segments: Defining deputies and powers within the framework of our quality management system

* We also refer to the social performance indicators recorded in the integrated Sustainability Report, which indicates further risks from the perspective of “employees” as a stakeholder group. → *Report on sustainable corporate management/Social performance indicators* • p. 242//

→ IT risks	
Risks	Disturbances in the operation of IT systems and networks: Data security risks and interruption of work at our sites worldwide
Probability	Medium: Our IT systems comply with state-of-the-art safety standards and undergo regular maintenance.
Effect (strength, time horizon)	Medium, long term: Productivity losses due to interruption of production and workflows might have a negative impact on our productivity.
Counter-measures	<ul style="list-style-type: none"> • All segments: Regular investments in updates and soft- and in hardware systems; up-to-date virus scanners and firewalls reduce the risk of virus and hacker attacks; certified systems to enhance safety and reliability • All segments: Separation of IT systems from production and administration in order to minimize potential failure risks • All segments: Regular multiple daily backup of data

→ Liquidity risks	
Risks	<ol style="list-style-type: none"> 1. Credit crunch: More difficult access to credit markets; rise in financing costs due to widening of interest spreads and shorter maturities in lending 2. Failure to reach financial indicators: Termination of borrowed funds
Probability	<ol style="list-style-type: none"> 1. Low: Due to our long-term credit agreements and our strong liquidity, we assess the short-term risk as low for us. Should the situation in the credit business not improve over the medium to long term, we would have to accept a widening of spreads⁹ in future financing measures. 2. Low: In the fiscal year the financial indicators were regularly exceeded substantially.
Effect (strength, time horizon)	<ol style="list-style-type: none"> 1. Medium, medium term: Tougher lending commitments would have a medium negative impact on the funding options for our expansion plans. 2. Medium, medium term: Premature refinancing needs with potentially poorer conditions.
Counter-measures	<ul style="list-style-type: none"> • All segments: Diversification and expansion of the capital base of our group by means of capital measures concluded in previous years. In 2009 a syndicated loan was additionally taken out → <i>Liquidity analysis</i> • p. 102// In early 2010 we placed a bond worth € 400 million on the capital market. → <i>Estimated development of liquidity</i> • p. 146// • → <i>Notes/Liquidity risks</i> • p. 199//

↑ Other financial risks	
Risks	Currency, interest rate and price risks
Probability	Medium to high: Due to the procurement of raw materials, in particular in US dollars, and the sale of US products in other currency regions, we are exposed to currency risks. As a global player we are also exposed to interest rate and price risks.
Effect (strength, time horizon)	Medium, long term: Impact on the financial results of our business operations. Thanks to the pro-active, regular, careful review of our financial instruments, we assess these risks as controllable.
Counter-measures	<ul style="list-style-type: none"> • All segments: Specific use of derivative and non-derivative financial instruments • → Notes/ Financial instruments • p. 196//

→ Legal risks	
Risks	Legal risks: A wide range of tax, competition, patent, anti-trust, copyright and environmental provisions in the framework of our international business operations
Probability	Low: SolarWorld is currently not aware of any risks from litigation, patent infringement or other legal risks that might significantly impact the business situation of our company.
Effect (strength, time horizon)	Medium, long term: Litigation might have an impact on earnings from business operations since it would tie up financial resources and might jeopardize our reputation.
Counter-measures	<ul style="list-style-type: none"> • All segments: integrated legal advice from external legal experts

→	Warranty, liability and other risks*
Risks	<ol style="list-style-type: none"> Warranty risks: Granting a warranty of 25 years for solar modules which we sell. Since 1 January 2010, this has been a linear performance warranty. Other customary liability risks
Probability	<ol style="list-style-type: none"> Low: Due to the careful review of our process and product quality, we assess the risk of claims being made against our product warranty as low. Low: Thanks to pro-active regular controls concerning protection against hazards and health and safety protection at our sites, we assess the probability of these risks as low.
Effect (strength, time horizon)	<ol style="list-style-type: none"> Medium, long term: Potential negative impacts on our net assets, financial position and results of operations in the event of warranty Medium, long term: Production loss, loss of assets, potential claims for damages
Counter-measures	<ul style="list-style-type: none"> All segments: Risk provisioning in our balance sheet for our warranty commitment through the formation of a provision.⁹ → Notes/Non-current and current provisions • p. 192 // All segments: Securing other risks via comprehensive insurance cover based on customary market concepts; regular review of the extent of insurance cover for our risks based on site inspection.

* We also refer to the performance indicators recorded in the integrated Sustainability Report, which indicate further risks from the perspective of SolarWorld's stakeholders. ☉ [Report on sustainable corporate management/Performance indicators](#) • p. 242 //

OVERALL STATEMENT BY THE MANAGEMENT BOARD ON THE RISK SITUATION OF OUR GROUP

According to our assessment, the risks described above are controllable and do not jeopardize the continued existence of the SOLARWORLD Group at the time of reporting. This applies both to the individual companies and the group. The overall risk situation resulting from the individual risks presented above has changed year-on-year, in particular due to tighter competition and potential changes in the regulatory framework. In connection with the individual risks mentioned and based on the assumption that the market will remain stable, no negative deviations of the developments outlined in the Forecast Report will occur. From today's perspective we do not expect any major changes in the risk situation.

x	Risks endangering the continued existence of the company
Risks	Risks threatening the SOLARWORLD Group's continued existence as a going company
Probability	From the management perspective, there are no specific trends apparent that might have an essential and sustained negative impact on the SolarWorld Group's net assets, financial position and results of operations.
Effect	Negative effect on the results from our business operations, risks endangering the going company assumption
Counter-measures	<ul style="list-style-type: none"> • Our opportunity and risk management system observes external and internal developments in order to be able to act in good time • At present there are no risks apparent which would endanger the SolarWorld Group's continued existence as a going company