SOLARIA ENERGÍA Y MEDIO AMBIENTE, S.A.
(formerly SOLARIA ENERGÍA Y MEDIO AMBIENTE, S.L.)

Auditor's Report and Financial Statements
for the years 2006, 2005 and 2004

PRICEWATERHOUSECOOPERS

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A free translation of the report on the financial statements originally issued in Spanish and prepared in accordance with International Financial Reporting Standards adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails

AUDITOR´S REPORT ON FINANCIAL STATEMENTS

To the Sole Administrator of Solaria Energía y Medio Ambiente, S.A. (formerly Solaria Energía y Medio Ambiente, S.L.)

We have audited the financial statements of Solaria Energía y Medio Ambiente, S.A., consisting of the balance sheets as at 31 December 2006, 2005 and 2004 and the income statements, changes in shareholders' equity, the cash flows and the related notes to the financial statements for the three years then ended, the preparation of which is the responsibility of the Sole Administrator of the Company. Our responsibility is to express an opinion on the financial statements taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain which require the examination, on a test basis, of evidence supporting the financial statements and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

The Company prepares its annual accounts in accordance with generally accepted accounting principles in Spain, nevertheless, as indicated in Note 2.1., the accompanying financial statements have been prepared for the sole purpose of presenting financial information in accordance with International Financial Reporting Standards adopted by the European Union, given that the Company is currently in the process of making an Initial Public Offering.

On 18 May 2007, the transformation of the Company from private to public limited liability company was registered in the Madrid Mercantile Registry.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Solaria Energía y Medio Ambiente, S.A. as at December 31, 2006, 2005 and 2004, and the results of its operations, changes in shareholders' equity and cash flows for each of the three years then ended, and contain all the information necessary for their interpretation and comprehension in accordance with International Financial Reporting Standards adopted by the European Union, applied on a consistent basis.

PricewaterhouseCoopers Auditores, S.L.

Originally in Spanish signed by
Francisco J. Martínez Pérez
Audit Partner

May 21, 2007

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SOLARIA ENERGÍA Y MEDIO AMBIENTE, S.L.

BALANCE SHEETS

AT 31 DECEMBER 2006, 2005 AND 2004 (In Euros)

	Note	At 31 December		
		2006	2005	2004
ASSETS				
Non-current assets				
Property, plant and equipment	7	7,219,437	2,216,363	290,642
Intangible assets	8	12,104	-	-
Available-for-sale and other financial assets	9	20,270	-	36,026
Loans to related parties	10	-	587,332	41,550
Deferred tax assets	19	9,180	-	-
		7,260,991	2,803,695	368,218
Current assets				
Inventories	11	17,655,387	125,280	-
Trade and other receivables	12	8,987,103	275,146	223,547
Loans to related parties	10	591,194	-	-
Available-for-sale and other financial assets	9	600,000	36,026	460,642
Derivative financial instruments	18	11,966	-	-
Current income tax assets	19	31,102	16,311	-
Cash and cash equivalents	13	4,227,789	1,267,110	59,914
		32,104,541	1,719,873	744,103
Total assets		**39,365,532**	**4,523,568**	**1,112,321**
EQUITY				
Capital and reserves attributable to the equity holders of the Company				
Share capital	14	777,600	777,600	242,330
Reserves	14	46,588	23,585	3,929
Profit for the year	14	5,642,759	23,003	79,646
Total equity		**6,466,947**	**824,188**	**325,905**
LIABILITIES				
Non-current liabilities				
Borrowings with financial institutions	16	8,770,100	1,453,472	510,575
Deferred income	15	4,909,792	421,973	148,435
Deferred tax liabilities	19	165,859	-	-
		13,845,751	1,875,445	659,010
Current liabilities				
Borrowings with financial institutions	16	7,615,194	421,317	35,318
Trade and other payables	17	8,563,334	1,148,815	72,688
Deferred income	15	58,544	253,803	4,114
Derivative financial instruments	18	30,600	-	-
Current income tax liabilities	19	2,785,162	-	15,286
		19,052,834	1,823,935	127,406
Total liabilities		**32,898,585**	**3,699,380**	**786,416**
Total equity and liabilities		**39,365,532**	**4,523,568**	**1,112,321**

Notes 1 to 27 attached are an integral part of these annual financial statements.

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SOLARIA ENERGÍA Y MEDIO AMBIENTE, S.L.

INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004

(In Euros)

	Note	Year ended 31 December		
		2006	2005	2004
Revenue	6	19,146,563	698,866	408,864
Deferred income transferred to the income statement	15	47,337	9,543	-
Other government grants related to income		3,907	-	5,694
Other income		2,497	19	-
Consumption of raw materials and other consumables	20(a)	(7,849,453)	(51,293)	(116,845)
Other external expenses	20(b)	(1,333,363)	(2,393)	(26,910)
Employee benefits expense	20(c)	(603,904)	(269,884)	(101,842)
Depreciation and amortization expense	7 & 8	(209,662)	(96,966)	(6,016)
Operating expenses	20(d)	(442,886)	(242,721)	(47,573)
Net loss on disposal of non-current assets	20(e)	(9,546)	-	-
Impairment of trade receivables	12	(14,220)	-	-
Other expenses		(31,268)	(6,400)	-
Operating profit		**8,706,002**	**38,771**	**115,372**
Finance income	20(f)	223,440	27,119	3,637
Finance costs	20(g)	(317,036)	(33,029)	(5,229)
Profit before income tax		**8,612,406**	**32,861**	**113,780**
Income tax expense	19	(2,969,647)	(9,858)	(34,134)
Profit for the year		**5,642,759**	**23,003**	**79,646**
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in euros per share)				
- Basic and diluted	21	72.57	0.54	4.29

Notes 1 to 27 attached are an integral part of these annual financial statements.

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SOLARIA ENERGÍA Y MEDIO AMBIENTE, S.L.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004
(In Euros)

	Attributable to equity holders of the Company				
	Share capital (Note 14)	**Legal reserve** (Note 14)	**Voluntary reserves** (Note 14)	**Profit for the year** (Note 14)	**TOTAL EQUITY**
Balance at 1 January 2004	**92,300**	-	-	**3,929**	**96,229**
Profit for the year	-	-	-	79,646	79,646
Total income recognized in 2004	-	-	-	79,646	79,646
Issue of share capital	150,030	-	-	-	150,030
Distribution of profit 2003	-	393	3,536	(3,929)	-
Balance at 31 December 2004	**242,330**	**393**	**3,536**	**79,646**	**325,905**
Profit for the year	-	-	-	23,003	23,003
Total income recognized in 2005	-	-	-	23,003	23,003
Issue of share capital	535,270	-	(59,990)	-	475,280
Distribution of profit 2004	-	7,965	71,681	(79,646)	-
Balance at 31 December 2005	**777,600**	**8,358**	**15,227**	**23,003**	**824,188**
Profit for the year	-	-	-	5,642,759	5,642,759
Total income recognized in 2006	-	-	-	5,642,759	5,642,759
Issue of share capital	-	-	-	-	-
Distribution of profit 2005	-	2,300	20,703	(23,003)	-
Balance at 31 December 2006	**777,600**	**10,658**	**35,930**	**5,642,759**	**6,466,947**

Notes 1 to 27 attached are an integral part of these annual financial statements.

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SOLARIA ENERGÍA Y MEDIO AMBIENTE, S.L.
CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004
(In Euros)

	Note	Year ended 31 December		
		2006	2005	2004
Cash flows from operating activities:				
Cash (utilized in)/ generated from operations	22	(5,664,062)	996,642	(19,968)
Interest paid		(201,613)	(34,371)	(3,887)
Income taxes paid		(42,598)	(41,456)	(20,827)
Net cash (utilized in)/ generated from operating activities		**(5,908,273)**	**920,815**	**(44,682)**
Cash flows from investing activities:				
Acquisition of property, plant and equipment		(5,177,388)	(1,913,521)	(263,113)
Proceeds from sale of property, plant and equipment	22	109,397	-	-
Acquisition of intangible assets		(15,740)	-	-
Cash outflow on constitution of deposits		(602,270)	-	(460,000)
Proceeds from liquidation of deposits		-	460,000	-
Acquisition of available-for-sale financial assets		-	-	(36,026)
Cash outflows on loans granted to related parties		-	(522,791)	-
Repayments received on loans granted to related parties		98,309	-	34,079
Interest received		129,473	4,770	365
Net cash utilized in investing activities		**(5,458,219)**	**(1,971,542)**	**(724,695)**
Cash flows from financing activities:				
Proceeds from the issue of share capital		-	475,280	150,030
Proceeds from government grants received		-	230,770	123,748
Proceeds from borrowings with financial institutions		11,475,077	1,807,610	673,256
Repayment of borrowings with financial institutions		(445,231)	(295,045)	(128,705)
Net proceeds from current accounts held with financial institutions		3,428,705	56,098	-
Repayment of finance lease liabilities		(131,380)	(16,790)	-
Net cash generated from financing activities		**14,327,171**	**2,257,923**	**818,329**
Net increase in cash and cash equivalents		**2,960,679**	**1,207,196**	**48,952**
Cash and cash equivalents at the beginning of the year		1,267,110	59,914	10,962
Cash and cash equivalents at the end of the year	13	**4,227,789**	**1,267,110**	**59,914**

Notes 1 to 27 attached are an integral part of these annual financial statements.

1. General information

Solaria Energía y Medio Ambiente, S.L. (hereinafter the Company) was incorporated on 27 November 2002 as a limited liability company.

The Company's main corporate objectives are as follows:

- Installation and repair of solar, thermal, photovoltaic and wind energy plants, as well as installations and repairs relating to any other type of renewable energy.
- Installation and repair of plumbing, gas, electricity, heating and air conditioning equipment.
- Performance and execution of technical projects relating to the above matters.
- Maintenance and repair services relating to plant constructed either by the Company or by third parties.
- Manufacture of modules, cells and components relating to solar, thermal, photovoltaic, wind and other renewable energy sources.

On 21 September 2006, the Company changed its registered address to Madrid, Calle Núñez de Balboa, 120. Its main offices are located at the same address. The production plant for manufacturing thermal and photovoltaic modules is located in Puertollano (Ciudad Real).

The Company is controlled by Solaria DTL Corporación, S.L., which holds a 97.55% stake in the Company.

The Company's activity, from the time it was incorporated until 2005, consisted of supplying and installing solar energy plants, either for its own account or on behalf of the related party, Instalaciones Díaz Tejeiro, S.L.

As from the second half of 2005, the Company started its expansion by building a photovoltaic and thermal module production plant on the land it owns in Puertollano (Ciudad Real). The construction of the photovoltaic module production line was completed in the first quarter of 2006, from which time the Company commenced production of photovoltaic modules for use in the following lines of business:

a) Photovoltaic modules for sale to third parties.

b) Photovoltaic modules for use in turnkey projects, consisting of the design, planning and execution of photovoltaic solar energy projects in terms of agreements covering the construction, installation and launch of photovoltaic solar plants. The Company assumes responsibility for all stages of the process, from obtaining administrative permits to the launch of the operation.

In addition, during the final quarter of 2006, the Company started to design, produce and install thermal solar modules in buildings.

To facilitate its expansion in the future, the Company plans to integrate vertically throughout the value chain, eliminating dependence on suppliers and reducing costs, while increasing control over the design and production quality of the photovoltaic modules. In this regard, the outlook for the following two years fundamentally depends on the following:

a) Construction of a photovoltaic cell production line, initiated during the first quarter of 2007, and which is expected to enter into production at the end of the third quarter of 2007.

b) Construction of a silicon wafer production plant that is expected to enter into production in 2008.

In addition, the Company expects to increase production capacity of both photovoltaic and thermal modules, thereby generating economies of scale.

Since incorporation, the Company's expansion has mainly been financed through loans and government grants granted by several financial institutions and public entities, respectively.

In order to finance the above-mentioned investments, the Company is currently in the process of making an Initial Public Offering (IPO), with the intention of completing this process during the first half of 2007.

The figures set out in the annual financial statements are stated in euros, unless otherwise indicated.

2. Accounting policies

The principal accounting policies used to prepare these financial statements are set out below. These policies have been applied on a consistent basis to all the years presented in these financial statements, unless otherwise indicated.

2.1 Basis of preparation

The Company's annual financial statements at 31 December 2006, 2005 and 2004 have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU), effective at 31 December 2006. This is the first set of annual financial statements presented by the Company in accordance with these standards.

Until the year ended 31 December 2006, inclusive, the Company's annual accounts were prepared in accordance with the provisions of Spanish mercantile legislation and the rules established in the Spanish General Accounting Plan. Given that these rules differ in some areas from the criteria established by IFRS-EU, the Management of the Company have restated the figures relating to the 2004, 2005 and 2006 financial years in order to present comparative information in accordance with IFRS-EU (Note 5).

These annual financial statements have been prepared by the Management of the Company for the sole purpose of presenting financial information in accordance with IFRS-EU, given that the Company is currently in the process of making an Initial Public Offering. The Management of the Company believe that this process will be completed at the end of the first half of 2007.

The annual financial statements have been prepared on the historical cost basis, as modified in certain cases established by IFRS-EU, where certain assets and liabilities are stated at their fair values.

The preparation of financial statements in accordance with IFRS-EU requires the use of certain critical accounting estimates. It also requires that management apply its judgment in the process of implementing the Company's accounting policies. Note 4 discloses the areas that involve a higher degree of judgment or complexity, or the areas in which assumptions and estimates are significant to the financial statements.

a) Standards, amendments and interpretations effective in 2006 but whose application have no effect on the Company's financial statements

The application of the following standards, amendments and interpretations are mandatory for years commencing as from 1 January 2006, although they do not have any effect on the Company's operations:

- IAS 21 (Amended December 2005), "Net Investment in a Foreign Operation".
- IAS 19 (Amended December 2004), "Employee Benefits".
- IAS 39 (Amended April 2005), "Cash Flow Hedge Accounting of Forecast Intragroup Transactions".
- NIC 39 (Amended June 2005), "The Fair Value Option".
- IAS 39 and IFRS 4 (Amended August 2005), "Financial Guarantee Contracts".
- IFRS 1 (Amended June 2005), "First-time Adoption of International Financial Reporting Standards", and IFRS 6 (Amended June 2005), "Exploration for and Evaluation of Mineral Resources".
- IFRS 6, "Exploration for and Evaluation of Mineral Resources".
- IFRIC 4, "Determining Whether an Arrangement Contains a Lease".
- IFRIC 5, "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".
- IFRIC 6, "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment".

b) Amendments to existing standards not yet effective that the Company has early adopted

The Company has early adopted the amendment to IAS 1 "Presentation of Financial Statements: Capital Disclosures", which will be mandatory for accounting periods commencing on or after 1 January 2007. This amendment requires the presentation of information regarding the objectives, policies and procedures for managing capital needs (equity), quantitative information regarding what is considered to be capital, whether or not any external capital requirements have been met and the consequences of any failure to comply with these external requirements (Note 3.2).

c) Standards and interpretations of existing standards that are not yet effective and that the Company has not adopted early

At the date of preparation of these financial statements, the following standards and interpretations had been published. The application of these standards and interpretations is obligatory in future accounting periods.

i) Standards issued by the IASB and approved by the European Union:

- IFRS 7, "Financial Instruments: Disclosures" (mandatory for accounting periods commencing on or after 1 January 2007). IFRS 7 introduces new disclosures to improve information provided in the financial staements regarding financial instruments. The Company is currently analysing the potential impact that this standard will have on its financial statements.

ii) Standards and interpretations of existing standards issued by the IASB but not yet approved by the European Union:

- IFRS 8, "Operating Segments" (mandatory for accounting periods commencing on or after 1 January 2009). IFRS 8 replaces IAS 14, "Segment Reporting" and requires the disclosure of financial information by segment in line with the requirements of generally accepted accounting practice in the United States (US GAAP) (SFAS 131, "Disclosures about Segments of an Enterprise and Related Information"). The Company is currently analysing the potential impact that this standard will have on its financial statements.

- IFRIC 10, "Interim Financial Reporting and Impairment" (mandatory for accounting periods commencing on or after 1 November 2006). IFRIC 10 does not allow impairment losses that have been recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost be reversed at a subsequent balance sheet date. The Company will apply IFRIC 10 from 1 January 2007, although it does not expect this interpretation to have any impact on the Company's financial statements.

d) Interpretations of existing standards that are not yet effective and that are not relevant to the Company's operations

At the date of prepartion these financial statements, the following interpretations had been published. The application of these interpretations is mandatory in future accounting periods, although they are not relevant to the Company's operations.

i) Interpretations of existing standards issued by the IASB and approved by the European Union:

- IFRIC 7, "Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies" (mandatory for accounting periods commencing on or after 1 March 2006). IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. Given that the Company does not have operations in any country whose functional currency is that of a hyperinflationary economy, IFRIC 7 is not relevant to the Company's operations.

- IFRIC 8, "Scope of IFRS 2" (mandatory for accounting periods commencing on or after 1 May 2006). IFRIC 8 requires the consideration of transactions that involve the issue of equity instruments, where the identifiable consideration received appears to be less than the fair value of the equity instruments granted, in order to determine whether or not these transactions fall within the scope of IFRS 2. The Company does not have any share-based payments and therefore IFRIC 8 is not relevant to the Company's operations.

- IFRIC 9, "Reassessment of Embedded Derivatives" (mandatory for accounting periods commencing on or after 1 June 2006). IFRIC 9 requires an entity to assess whether any embedded derivatives are required to be separated from the host contract and accounted for as stand-alone derivatives when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. Given that the Company does not have any contracts that contain embedded derivatives, IFRIC 9 is not relevant to the Company's operations.

ii) Interpretations of existing standards issued by the IASB but not yet approved by the European Union:

- IFRIC 11, "IFRS 2 - Group and Treasury Share Transactions" (mandatory for accounting periods commencing on or after 1 March 2007). IFRIC 11 provides guidance on applying IFRS 2, "Share-based payment" to share-based payment arrangements involving an entity's own equity instruments or the equity instruments of another entity that forms part of the same group. The Company does not have any share-based payments and therefore IFRIC 11 is not relevant to the Company's operations.

- IFRIC 12, "Service Concession Arrangements" (mandatory for accounting periods commencing on or after 1 January 2008). IFRIC 12 addresses the application of existing International Financial Reporting Standards relating to the accounting for rights and obligations arising from service concession arrangements. The Company does not have any service concession arrangements and therefore IFRIC 12 is not relevant to the Company's operations.

2.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in the other economic environments.

2.3 Transactions and balances denominated in foreign currency

a) Functional and presentation currency

The items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates ("functional currency"). The financial statements are presented in euros, which is the functional and presentation currency of the Company.

b) Transactions and balances

The translation to euros of debtors and creditors expressed in foreign currency is realized by applying the prevailing exchange rate at the time the transaction is carried out, and is restated at the year end in accordance with the exchange rate applicable at that time.

Exchange gains and losses, which result from the translation and settlement of the abovementioned transactions and the translation to euros of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognized in the income statement.

2.4 Intangible assets

Intangible assets consist of software, and these items are capitalized based on their acquisition cost and costs incurred in preparing the specific software for use. Intangible assets are recorded at their acquisition cost less accumulated amortization and any relevant accumulated impairment losses. Software is depreciated on a straight-line basis over its useful life, which is estimated to be 3 years.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are not amortized. On an annual basis, impairment tests are performed to determine the existence of any impairment losses (Note 2.9) and such assets are recorded at their cost less any accumulated impairment losses.

The Company does not have any intangible assets with indefinite useful lives at the balance sheet date.

2.5 Research and development expenses

Research expenses are recognized as an expense when incurred. Costs incurred on development projects are recognized as an intangible asset when it is likely that the project will be a success, taking into consideration its technical and commercial viability, and when costs relating to the project can be reliably estimated. Other development expenses are recognized as an expense when they are incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs with a finite useful life are amortized from the start of commercial production of the related product, over the period during which profits are expected to be generated.

The Company did not incur any research and development expenses during the financial years under consideration.

2.6 Property, plant and equipment

Property, plant and equipment comprises mainly the buildings, plant and machinery utilized in the manufacture of thermal and photovoltaic modules. Property, plant and equipment is stated at acquisition cost, less accumulated depreciation and accumulated impairment losses. The cost of items of property, plant and equipment includes expenses directly related to the acquisition of the items concerned.

Subsequent costs are included in the carrying amount of an asset or are recognised as a separate asset only when it is probable that the future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured.

The carrying amount of the replaced items is derecognized. All other repairs and maintenance expenses are charged to the income statement in the year in which they are incurred.

The depreciation of property, plant and equipment is calculated on a straight-line basis in order to allocate the cost of an item to its residual value over its estimated useful life, as follows:

	Years
Buildings	33
Machinery	8
Plant and equipment	8 - 10
Data-processing equipment	4
Fixtures and fittings	10
Vehicles	6

The residual values and useful lives of assets are reviewed, and adjusted if necessary, at each balance sheet date. When the carrying amount of an asset is greater than its recoverable amount, it is immediately written down to its recoverable amount (Note 2.9).

Gains and losses on disposal of property, plant and equipment are calculated by comparing the proceeds obtained on the sale with the carrying amount of the asset concerned. These gains and losses are recognized in the income statement.

2.7 Leases

a) Finance leases

The determination of whether or not an arrangement contains a lease is based on an analysis of the substance of the agreement, which requires an evaluation of whether fulfilment of the agreement depends on the use of a specific asset, and whether the arrangement conveys a right to use the asset.

The Company leases several vehicles. A lease is classified as a finance lease when it transfers substantially all the risks and rewards incidental to ownership to the Company. Finance leases are capitalized at the commencement of the lease period at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding on the liability. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets acquired under finance leases are depreciated over their useful lives. Their useful lives are equal to the useful lives of vehicles that are not leased, given the existence of purchase options over the leased assets.

As a result, there is reasonable certainty that the Company will obtain ownership of the vehicles at the end of the lease period.

b) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership of the leased assets are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease.

2.8 Interest expense

Interest expenses are recognized in the income statement and are not capitalized as part of the cost of assets that necessarily require a substantial period of time to get ready for their intended use.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization. Annual impairment tests are performed to determine whether these assets have experienced any impairment losses. Assets subject to depreciation are subjected to impairment tests whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized in the income statement as the difference between the carrying amount of the asset and its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of evaluating impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that have suffered an impairment loss are subject to reviews at each balance sheet date to determine whether there have been any reversals of the impairment loss. The reversal of an impairment loss is recognized in the income statement.

2.10 Financial assets

The Company classifies its financial assets into the following categories: at fair value through profit and loss, loans and receivables, financial assets held to maturity and financial assets available for sale. Classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets carried at fair value through profit and loss are held for trading. A financial asset is classified in this category if acquired mainly for short-term sale. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Assets in this category are classified as current assets.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Short-term receivables with no established interest rate are stated at original invoice amount when any discounting effect would not be significant.

c) Held-to-maturity financial assets

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates, that the Company has the positive intention and ability to hold until maturity. If the Company were to sell a significant amount of held-to-maturity investments, the entire category would be reclassified as available-for-sale. These held-to-maturity financial assets are classified as non-current assets, except for those that mature within 12 months from balance sheet date, in which case they are classified as current assets.

d) Available-for-sale financial assets

Available-for-sale financial assets include assets designated as held-for-sale, as well as those that are not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of an investment within 12 months after the balance sheet date.

Accounting for financial assets

Acquisitions and disposals of financial assets are recognized on the trade date, that is, the date on which the Company commits to acquire or sell the asset. Financial assets are recognized initially at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognized at fair value, and related transaction costs are expensed in the income statement. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at their amortised cost in accordance with the effective interest method.

Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are disposed or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement.

The fair values of quoted investments are based on current bid prices. Available-for-sale financial assets relating to unlisted shares are carried at cost when there is insufficient financial information available regarding the business plans and financial outlook of the investee, to permit a reliable valuation to be performed using generally accepted valuation techniques, and when there have been no significant transactions involving these investments. However, based on publicly available information (latest financial statements) relating to these unlisted shares, there are no indications of impairment of these assets.

At the balance sheet date, the Company assesses whether there is objective evidence of impairment of a financial asset or group of financial assets. For equity instruments classified as available-for-sale, the existence of a significant or protracted decline in the fair value of the securities below cost is considered to be an indicator that the securities are impaired. If there is any evidence of this type for available-for-sale financial assets, the cumulative loss (determined as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in the income statement) is eliminated from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the transaction. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, on the nature of the item being hedged. The Company designates certain derivatives as either:

(i) Hedges of the fair value of recognized liabilities (fair value hedge); or
(ii) Hedges of a specific risk associated with a recognized liability or a highly probable forecast transaction (cash flow hedge).

The Company documents, at the inception of the transaction, the relationship existing between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its evaluation, both at hedge inception and continuously thereafter, as to whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The full fair values of hedging derivatives are classified as non-current assets or liabilities if the residual term of the hedged item exceeds 12 months, and as current assets or liabilities if the residual term of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

a) Fair value hedges

Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge ceases to comply with the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period until maturity.

The Company did not have any fair value hedges in existence at the balance sheet date.

b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are recyclyed to the income statement in the periods in which the hedged item affects results. However, when a hedged forecast transaction results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires, is sold, or when it no longer meets the requirements for hedge accounting, any accumulated gain or loss existing in equity up until that time remains in equity and is recognized when the forecast transaction is finally recognized in the income statement. When the forecast transaction is no longer expected to occur, the accumulated gain or loss included in equity is immediately transferred to the income statement.

The Company did not have any cash flow hedges in existence at the balance sheet date.

c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement. Increases in the fair value of interest and exchange rate derivatives are included in the line item "Finance income" in the income statement. Decreases in the fair value of interest and exchange rate derivatives are included in the line item "Finance costs" in the income statement.

2.12 Inventories

Inventories mainly include raw materials and finished goods relating to solar photovoltaic and thermal panels and are carried at the lower of cost and net realisable value. The cost of raw materials is determined on the basis of weighted average acquisition cost. The cost of finished goods includes design costs, raw materials, direct labour, other direct costs and manufacturing overheads (based on normal operating capacity) but excludes interest costs. The net realisable value of inventory is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds received on the share issue.

2.15 Deferred income

Government grants from public entities are recognized at their fair value when there is reasonable assurance that the grant will be received and that the Company will comply with all attached conditions.

Government grants related to assets

Government grants relating to the acquisition of property, plant and equipment are included in "Deferred income" in the balance sheet and credited to the income statement on a straight-line basis over the expected useful lives of the assets financed by means of the grants.

Other deferred income

Grants relating to the subsidization of interest expenses on loans obtained from financial institutions are recorded as "Deferred income" in the balance sheet. Such interest assistance is recognized in the income statement over the term of the loan in accordance with the effective interest method.

The transfer to the income statement of government grants related to assets and other deferred income is recognized in the line item "Deferred income transferred to the income statement" and is not offset against the depreciation expense of the subsidized assets or against subsidized expenses.

Interest-free loans granted by public entities

The interest-free loans received by the Company are recorded at their present values (calculated using an effective market-related interest rate). The difference between the nominal values of the loans and their present values at initial recognition is accounted for as follows:

a) When the financing is to be used to acquire an asset, the abovementioned difference is recorded as deferred income and recognized in the income statement over the useful life of the financed asset.

b) When the loan is to be used to finance an expense relating to an investment project, the difference between the nominal amount of the loan and its present value is recorded as a reduction of such expenses. In those cases where the expense has not yet been incurred, this amount is recorded as deferred income (current liability) and is recognized in the income statement as a reduction of the relevant expense when it is incurred.

Non-monetary government grants

Where the Company receives a non-monetary government grant, for example the right to purchase an asset from a government entity at less than market value, subject to compliance with certain conditions, the Company adopts the allowed alternative treatment and records the asset at a nominal amount, being the amount paid for the asset.

2.16 Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Short-term payables with no established interest rate are stated at original invoice amount when any discounting effect would not be significant.

2.17 Borrowings with financial institutions

Borrowings with financial institutions are initially recognized at fair value, net of transaction costs incurred. These borrowings are subsequently measured at amortized cost. Any differences between proceeds obtained (net of necessary transaction costs) and redemption values are recognized as interest expenses over the term of the borrowings, applying the effective interest method.

Borrowings with financial institutions are classified as current liabilities, unless the Company has an unconditional right to defer settlement for at least 12 months from the balance sheet date.

2.18 Provisions

The Company recognizes provisions when (i) it has a present legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of resources will be required to settle the obligation and (iii) the amount can be reliably estimated.

Long-term provisions are measured at the present value of the expenditures expected to be necessary to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the specific risks of the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Provisions for warranties

The Company grants customers warranties in respect of turnkey contracts relating to the construction of photovoltaic plants, operating and maintenance contracts, and contracts relating to the sale of photovoltaic modules.

The necessary provisions for warranties granted are calculated based on theoretical expectations and historical information on defect rates and estimated repair costs. These provisions are reviewed and adjusted on a regular basis.

At year end, the Company has not registered any provisions for warranties since no obligation in this respect has yet arisen.

It was not considered necessary to record provisions of any other nature at the balance sheet date.

2.19 Employee benefits

a) Pension and similar obligations

The Company has no pension or similar obligations with its employees or management.

b) Severance payments

Termination benefits are payable when an employee's employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises these benefits when it has demonstrably undertaken to terminate current employees' employment in accordance with a formal detailed plan that cannot be withdrawn, or to pay severance indemnities as a result of an offer made to encourage voluntary redundancy. Amounts that will not be paid within 12 months of the balance sheet date are discounted to their present value.

2.20 Income taxes

The income tax expense for the year is calculated based on profit before income tax as stated in the financial statements, adjusted for any differences between accounting and tax criteria, bearing in mind any tax credits or deductions that are deemed to be applicable.

Deferred income taxes are calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred taxes arise from the initial recognition of a liability or an asset in a transaction other than a business combination that at the time of the transaction has no effect on accounting or taxable income, they are not accounted for. Deferred income taxes are determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2.21 Revenue

Income and expenses are recognized on an accrual basis, that is, in the period in which the income or expense is earned or incurred, rather than the period in which the cash is actually received or disbursed.

a) Recognition of revenue

Revenue comprises the fair value of the consideration received or to be received on the sale of goods and services during the ordinary course of the Company's activities. Revenue is presented net of value added tax, returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and specific criteria for each of the Company's activities have been met, as described below. Revenue from the sale of goods is recognized and reflected in the income statement when the Company has transferred all significant risks and rewards of ownership of the goods to the buyer. The Company considers that revenue cannot be reliably measured until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, bearing in mind the type of customer, the type of transaction and the specific terms of each agreement.

To recognise revenue relating to agreements for the construction, installation and launch of photovoltaic solar projects delivered on a turnkey basis, the Company uses the percentage of completion method. This percentage is calculated based on total income established in the agreement and is determined on the basis of the ratio between the costs incurred to date and the total projected costs required to complete the project. Contract costs are recognized when incurred and are classified as inventories.

The difference between the amount of work performed and the amount invoiced to customers at the balance sheet date is recorded as "Trade receivables for invoices yet to be issued", included in the line item "Trade and other receivables". On the other hand, amounts invoiced to customers in advance for various reasons ("Prepayments from customers") are reflected as a liability on the balance sheet under "Trade and other payables".

Where the results of a construction contract cannot be reliably estimated, contract revenues are only recognized to the extent of contract costs incurred that are likely to be recovered. When the results of a construction contract can be reliably estimated and the contract is likely to be profitable, contract revenues are recognized over the term of the contract. When it is likely that the contract costs will exceed the total revenues related to the contract, the expected loss is immediately recognized as an expense.

b) Interest income

Interest income is recognized using the effective interest method.

2.22 Dividend distribution

Dividend distributions to the Company's shareholders are recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.23 Environmental matters

Expenses deriving from operations undertaken to protect and improve the environment are recorded as an expense in the year in which they are incurred. When such expenses entail additions to property, plant and equipment, the purpose of which is to minimise the environmental impact of the assets and to protect and improve the environment, such expenses are capitalized as part of property, plant and equipment.

3. Financial risk management

3.1. Financial risk factors

The Company's activities are exposed to a number of financial risks: market risk (including foreign exchange, price and interest rate risk), credit risk and liquidity risk. The Company's global risk management program focuses on the uncertainty in financial markets and seeks to minimise the potential adverse effects on the Company's financial profitability. Foreign exchange and interest rate risks are hedged mainly using derivative financial instruments.

Risk management is the responsibility of the Company's Finance Department, which identifies, evaluates and hedges financial risks in association with the Company's operating units.

a) Market risk

i) Foreign exchange risk

The Company operates internationally and is therefore exposed to foreign exchange risk on transactions effected in foreign currencies, particularly the US dollar. Foreign exchange risk arises from commercial transactions, which are generally effected to purchase machinery and raw materials abroad.

The Finance Department has implemented a procedure whereby all the Company's transactions falling due after more than 30 days must be hedged against foreign exchange risk, provided this is advisable in view of market conditions at the transaction date.

ii) Price risk

The Company is exposed to risk arising from the market price of raw materials. This risk is managed by concluding fixed-price contracts on the basis of market conditions at the transaction date (Note 26).

iii) Interest rate risk

As the Company has no significant interest-bearing assets, the revenues and cash flows from its operating activities are relatively unaffected by interest-rate fluctuations.

The Company's interest rate risk derives from non-current borrowings with financial institutions. Borrowings with financial institutions contracted at variable rates expose the Company to interest rate risks on cash flows, which are hedged by means of derivative financial instruments for variable-rate loans. During 2004, 2005 and 2006, the Company's variable rate borrowings with financial institutions were denominated in euros.

b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits at banks and financial institutions, as well as from trade receivables, including outstanding receivables and committed transactions. Transactions are only effected with reputable, high-quality banks and financial institutions, taking into account past experience and other factors. Where the credit quality of an individual customer has not been evaluated, the Finance Department performs this evaluation based on the customer's financial position, past experience and other factors. The Company does not have a policy of granting long-term credit to customers, barring exceptional cases.

c) Liquidity risk

The prudent management of liquidity risk entails maintaining sufficient cash and negotiable securities, financing in the form of sufficient committed credit facilities, and the capacity to liquidate market positions. Given the dynamic nature of the underlying businesses, the Company's Finance Department seeks to maintain flexible financing by means of committed credit facilities.

Management monitors liquidity forecasts based on expected cash flows.

3.2 Capital management and extent of indebtedness

The Company's capital management objectives consist of safeguarding its capacity to operate as a going concern in order to obtain a return for its equity holders, and to maintain an optimal equity structure and a low cost of equity. The Company monitors equity on the basis of the debt-equity ratio, in accordance with industry practice. This ratio is calculated as net debt divided by total equity. Net debt is calculated as borrowings (including borrowings with financial institutions and trade and other payables, as recorded in the balance sheet) less cash and cash equivalents. Total equity consists of share capital, reserves and undistributed profits for the year, as reflected in the balance sheet.

The Company's business is expanding rapidly and considerable financing is therefore required. The Company seeks to maintain the equity required to obtain the financing necessary for expansion, without undermining solvency and while maximising returns for equity holders. The Company does not operate in sectors subject to specific capital requirements and complies with general legislation (Spanish Companies Act) regarding minimum capital requirements.

Debt-equity ratios at 31 December 2006, 2005 and 2004 are shown below:

	Euros		
	2006	2005	2004
Total borrowings	24,948,628	3,023,604	618,581
Less: Cash and cash equivalents	(4,227,789)	(1,267,110)	(59,914)
Net debt	20,720,839	1.756,494	558,667
Total equity	6,466,947	824,188	325,905
Debt-equity ratio	3.20	2.13	1.71

Despite the growth in profits in 2005 and 2006, the debt-equity ratio increased due to the expansion of the business and financing obtained to purchase non-current assets for the extension of production lines and the acquisition of raw materials for the manufacture of photovoltaic and thermal modules.

3.3. Fair value estimation

The fair value of financial instruments traded in active markets (such as hedging instruments, held-for-trading assets and liabilities, and held-for-sale assets) is based on year-end market prices. The market price used by the Company for financial assets is the current bid price.

The fair value of unlisted financial instruments is determined using valuation techniques. The Company uses a number of methods and makes assumptions based on market conditions at each balance sheet date. Market prices of similar instruments are used for non-current liabilities. The fair value of other financial instruments is determined using methods such as the estimated discounted cash flow method. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The fair value of forward foreign exchange contracts is obtained using the forward exchange rates quoted in the market at the balance sheet date.

The carrying amount net of the provision for the impairment of receivables and payables are considered to approximate their fair values, given the short-term nature of trade receivables and payables. For reporting purposes, the fair value of financial liabilities is estimated by discounting future cash flows at the current market interest rates available to the Company on similar financial instruments.

4. Accounting estimates and judgements

The Company's accounting estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) **Revenue recognition**

The Company uses the percentage of completion method when recognising revenue relating to the turnkey projects it develops. Using this method requires that costs relating to work performed at each balance sheet date be estimated as a proportion of the total costs to be incurred on each project, and this percentage is used to recognise revenue relating to these projects at each balance sheet date.

b) **Useful lives of property, plant and equipment**

The Company's management determines estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the planned lifecycle of the products manufactured by the Company, for which it uses highly technological machinery. These estimated useful lives could change significantly as a result of technical innovations and competitor activity in response to future industry evolution. Management increases depreciation charges where useful lives of assets are shorter than previously estimated, and writes off technically obsolete or non-strategic assets that have been abandoned or sold.

c) **Fair value of financial instruments**

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. Company Management uses judgment to select a variety of methods and assumptions, which are fundamentally based on market conditions existing at each balance sheet date.

d) **Deferred income**

The Company has obtained several government grants to finance its investments. Given the different characteristics of each of the subsidies and grants received by the Company, Management uses its judgment to calculate the amounts to be recognized as deferred income in those cases where the grants relate to interests-free loans. In these situations, Management determines the implicit interest relating to these loans by using an effective market-related interest rate to calculate the fair value of the loans. The difference between the nominal value and the fair value of the loans is considered to be deferred income that will be recognized in the income statement in accordance with the recognition of the asset or expense being financed by the loans. Where the interest-free loan relates to an asset, the deferred income will be taken to the income statement over the useful life of the asset concerned. Where the interest-free loan relates to an operating expense, the deferred income is taken to the income statement when the expense is incurred. Management evaluates compliance with all conditions established for obtaining government grants and considers that such conditions have been met or will be met without any requirement for the Company to reimburse all or part of the assistance granted.

e) Warranties

In line with normal practice in the industry, the Company offers warranties to its customers for a certain number of years relating to the sale of modules, as well as relating to the construction of turnkey projects. Management uses its judgment to calculate the provisions recorded for any possible warranty claims. Bearing in mind the fact that the Company was only recently incorporated and the limited number of warranty claims to date in the market, Management has fundamentally based its calculations for warranty provisions on the previous experience of competitors and on the percentage of errors occurring during testing of manufactured panels for effectiveness (Note 25).

f) Estimation of risk

The future success of the Company depends largely on its capacity to construct new plant and production lines on the basis of cost efficiency and in accordance with the timetable forecast in its business plan. The increase in production capacity is subject the risks and uncertainties inherent in any business project.

To efficiently manage the expansion in its activities, the Company is in the process of improving its operating and financial systems and its procedures and controls, in addition to increasing it manufacturing capacity and the flow of finished goods, improving the efficiency of its production lines (including the new production lines for the manufacture of solar cells and wafers) and appropriately expanding, training and managing a rapidly increasing workforce.

Historical information relating to Solaria is limited, given that the Company was incorporated towards the end of 2002. As a result of the rapid growth in the solar energy sector, the Company has experienced an above average growth rate from the date of its incorporation, and its business is currently in a phase of accelerated expansion. The Company is significantly increasing its production facilities, with the aim of augmenting its production of photovoltaic modules and thermal solar panels, as well as commencing the production of solar cells and wafers for utilization in the manufacture of photovoltaic modules. Some of these facilities have not yet been constructed, or are in the process of being constructed. The Management of the Company is of the opinion that its business and future outlook should be considered in the light of the risks, costs and challenges that the Company faces as a new company looking to develop and manufacture new products in a rapidly growing market.

5. Transition to IFRS-EU

5.1. IFRS-EU transition basis

5.1.1 Application of IFRS 1

The financial statements of the Company at 31 December 2006 are the first financial statements prepared in accordance with IFRS-EU, and therefore the Company has applied IFRS 1 *First-Time Adoption of International Financial Reporting Standards* in their preparation.

The date of transition to IFRS-EU for Solaria Energía y Medio Ambiente, S.L. is 1 January 2004. The Company prepared its opening balance sheet in accordance with IFRS-EU at that date.

The Company's annual accounts relating to the 2006, 2005 and 2004 financial years were prepared in accordance with the Spanish General Accounting Plan. The accounting policies disclosed in those annual accounts are considered to be previous generally accepted accounting principles, as defined by IFRS 1, in the preparation of the opening balance sheet at 1 January 2004.

In preparing these first financial statements in accordance with IFRS 1, the Company has applied all mandatory exceptions. None of the optional exemptions included in IFRS 1 have been applied in the transition to IFRS-EU.

5.1.2 Exceptions to retrospective application applied by the Company

a) Derecognition of financial assets and liabilities

The Company has applied the derecognition requirements established by IAS 39 *Financial Instruments: Recognition and Measurement* on a prospective basis, for transactions that took place on or after 1 January 2004.

b) Hedge accounting

There were no derivatives or hedging transactions in existence at the date of transition to IFRS-EU.

c) Estimates

Estimates made under IFRS-EU at the transition date are consistent with the estimates made at the same date under previously applied local accounting standards. There is no evidence that estimates made previously were erroneous.

d) Assets held for sale and discontinued operations

The Company did not have any assets that qualified for classification as held for sale during the periods for which information is presented. It was not necessary to make any adjustments in this regard.

5.2. Reconciliation between IFRS-EU and Spanish accounting principles

The following reconciliations quantify the impact of the transition to IFRS-EU. The reconciliations include details of the effect of the transition relating to:

- Equity at 1 January 2004, 31 December 2004, 2005 and 2006.
- Profit for the years ended 31 December 2004, 2005 and 2006.

Effect of the transition on equity:

	Note	Equity 01.01.04	Equity 31.12.04	Equity 31.12.05	Euros Equity 31.12.06
Local accounting principles		127,527	325,905	824,188	6,328,712
Start-up costs	i)	(1,050)	-	-	-
Inventories	ii)	(43,661)	-	-	-
Interest-free loans	iii)	-	-	-	216,303
Hedging instruments	iv)	-	-	-	(18,634)
Tax effect of IFRS-EU adjustments		13,413	-	-	(59,434)
Equity in accordance with IFRS-EU		96,229	325,905	824,188	6,466,947

Effect of the transition on profit for the year:

	Note	Profit 31.12.04	Profit 31.12.05	Euros Profit 31.12.06
Local accounting principles		48,348	23,003	5,504,524
Start-up costs	i)	1,050	-	-
Inventories	ii)	43,661	-	-
Interest-free loans	iii)	-	-	216,303
Hedging instruments	iv)	-	-	(18,634)
Tax effect of IFRS-EU adjustments		(13,413)	-	(59,434)
Profit in accordance with IFRS-EU		79,646	23,003	5,642,759

Explanation of the effect of the transition to IFRS-EU:

Set out below is an explanation of the adjustments to equity and profit for the year on transition to IFRS-EU:

i) Start-up costs

IFRS-EU do not allow formation, start-up and share capital issue expenses to be capitalized, whereas under Spanish accounting principles, these costs are capitalized and amortized over a maximum of five years. Start-up and formation expenses under IFRS-EU are recognized as an expense during the year in which they are incurred, whereas share capital issue expenses are deducted directly against equity. At the date of transition to IFRS-EU, both these items have been eliminated against reserves.

Given that, under Spanish accounting principles, start-up costs were fully amortized in the 2004 financial year, profit for the 2004 year under IFRS-EU has been increased in order to reflect the reversal of this expense.

ii) Inventories

At the date of transition to IFRS-EU, 1 January 2004, it was considered that inventories on hand did not comply with the recognition criteria established by IAS 2 *Inventories* and therefore this amount was written off against reserves, as a result of an adjustment to profit for the 2003 financial year. Under Spanish accounting principles, these inventories were written off as an extraordinary expense in the 2004 financial year. As a result, in the reconciliation of profit for the 2004 year between local accounting principles and IFRS-EU, a reversal of the expense relating to the write-off of inventories was recorded.

iii) Interest-free loans

Under IFRS-EU, the implicit interest effect relating to interest-free loans obtained by the Company is recorded as deferred income when the loans will be used to finance the acquisition of an asset, or as a reduction of the expenses associated with an investment project when used to finance those expenses, with such amounts being recognized in the income statement in accordance with the depreciation pattern of the financed asset, or when the expenses subsidized by means of the loans are incurred. Under Spanish accounting principles, the implicit interest effect relating to on interest-free loans is considered to be a subsidy for interest expenses received by the Company and is recorded, at the same amount, simultaneously under Deferred income (for the subsidy) and Deferred expense (loan interest). These amounts are recognized in the income statement over the term of the loan in accordance with the effective interest method.

Based on the different criteria for recognition in the income statement mentioned above, under IFRS-EU, profit for the 2006 financial year was increased to reflect the reduction in operating expenses owing to the subsidization of such costs incurred in 2006.

iv) Hedging instruments

During 2006, the Company entered into two hedging instruments, one to cover the risk of fluctuations in interest rates relating to certain loans and the other being a forward exchange contract. These derivatives do not comply with the requirements of IFRS-EU to be classified as hedging transactions for accounting purposes, and therefore changes in their fair values have been accounted for in the income statement. Under Spanish accounting principles, hedging derivatives are accounted for on an accrual basis, recording profits in the income statement at the date of settlement, while losses are recorded as they are incurred.

At 31 December 2006, the net effect of accounting for these hedging instruments under IFRS-EU caused profit for the year to decrease, based on the fair value of these instruments at year end.

v) Tax effect of the adjustments

All of the adjustments arising from the transition to IFRS-EU mentioned in points i) to iv) above have been recorded taking into account their corresponding tax effect.

vi) Reclassifications

In the transition to IFRS-EU, certain reclassifications were made between balance sheet and income statement line items. The reclassifications are reflected in the balance sheet and income statement under IFRS-EU, but they do not have any effect on equity or profits for the year.

6. Segment reporting

a) Primary reporting format: business segments

At 31 December 2006, Company was organized into three main business segments:

(i) Segment 1: Photovoltaic:

- Production of photovoltaic modules for sale to third parties and for use in turnkey projects.

(ii) Segment 2: Thermal:

- Design, production and installation of thermal solar modules in buildings.

(iii) Segment 3: Projects:

- Promotion and sale of photovoltaic plants by means of turnkey projects, which incorporate the construction and installation of modules and include the operating launch of the plants.

(iv) Other:

- In prior years (2004 and 2005) the Company had only one segment that related to the supply and installation of solar energy plants and therefore financial information has not been differentiated by segment for those years. During 2006, the Company's activity consisted solely of the development of the operations relating to the three segments mentioned above. It should be noted that the inventories on hand in 2005 relate to the purchase of photovoltaic cells which make up the raw materials for the manufacture of photovoltaic solar panels, an activity that commenced during the third quarter of 2006, as explained previously.

Segment results for the year ended 31 December 2006 were as follows:

	Euros			
	Photovoltaic	Thermal	Projects	Company
Total external sales	10,041,071	-	9,105,492	19,146,563
Inter-segment sales	4,745,000	-	(4,745,000)	-
Segment revenue	14,786,071	-	4,360,492	19,146,563
Other operating income	23,161	24,324	6,256	53,741
Segment expense	(9,447,856)	(92,782)	(953,664)	(10,494,302)
Segment result	5,361,376	(68,458)	3,413,084	8,706,002
Finance income				223,440
Finance costs				(317,036)
Profit before income tax				8,612,406
Income tax expense				(2,969,647)
Profit for the year				5,642,759

Segment results for the year ended 31 December 2005 were as follows:

	Euros				
	Photovoltaic	Thermal	Projects	Other	Company
Total external sales	-	-	-	698,866	698,866
Inter-segment sales	-	-	-	-	-
Segment revenue	-	-	-	698,866	698,866
Other operating income				9,562	9,562
Segment expense				(669,657)	(669,657)
Segment result	-	-	-	38,771	38,771
Finance income					27,119
Finance costs					(33,029)
Profit before income tax					32,861
Income tax expense					(9,858)
Profit for the year					23,003

Segment results for the year ended 31 December 2004 were as follows:

	Euros				
	Photovoltaic	Thermal	Projects	Other	Company
Total external sales	-	-	-	408,864	408,864
Inter-segment sales	-	-	-	-	-
Segment revenue	-	-	-	408,864	408,864
Other operating income				5,694	5,694
Segment expense				(299,186)	(299,186)
Segment result	-	-	-	115,372	115,372
Finance income					3,637
Finance costs					(5,229)
Profit before income tax					113,780
Income tax expense					(34,134)
Profit for the year					79,646

Revenue consists of:

	Euros		
	2006	2005	2004
Sales of goods	19,146,563	-	-
Revenue from services rendered	-	698,866	408,864
	19,146,563	698,866	408,864

Other segment items included in the 2006 income statement were as follows:

	Euros			
	Photovoltaic	Thermal	Projects	Company
Depreciation of property, plant and equipment (Note 7)	190,839	15,187	-	206,026
Amortization of intangible assets (Note 8)	1,963	1,673	-	3,636

Other segment items included in the 2005 income statement were as follows:

	Euros				
	Photovoltaic	Thermal	Projects	Other	Company
Depreciation of property, plant and equipment (Note 7)	-	-	-	96,966	96,966
Amortization of intangible assets (Note 8)	-	-	-	-	-

Other segment items included in the 2004 income statement were as follows:

	Euros				
	Photovoltaic	Thermal	Projects	Other	Company
Depreciation of property, plant and equipment (Note 7)	-	-	-	6,016	6,016
Amortization of intangible assets (Note 8)	-	-	-	-	-

Segment assets consist of property, plant and equipment, intangible assets, inventories, trade and other receivables, and loans to related parties. Segment liabilities consist of trade and other payables.

Segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended were as follows:

	Euros			
	Photovoltaic	Thermal	Projects	Company
Segment assets	28.341.824	6.287.561	4.063.629	38.693.014
Unallocated assets:				
- Available-for-sale and other financial assets				620.270
- Deferred tax assets				9.180
- Derivative financial instruments				11.966
- Current income tax assets				31.102
Total assets				39.365.532
Segment liabilities	3.239.723	-	5.323.611	8.563.334
Unallocated liabilities:				
- Borrowings with financial institutions				16.385.294
- Deferred income				4.968.336
- Deferred tax liabilities				165.859
- Current income tax liabilities				2.785.162
- Derivative financial instruments				30.600
Total liabilities				32.898.585
Capital expenditure relating to property, plant and equipment (Note 7)	3.427.368	1.900.675	-	5.328.043
Capital expenditure relating to intangible assets (Note 8)	8.500	-	7.240	15.740

Segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended were as follows:

	Euros				
	Photovoltaic	Thermal	Projects	Other	Company
Segment assets	-	-	-	4.471.231*	4.471.231
Unallocated assets:					
- Available-for-sale and other financial assets					36.026
- Current income tax assets					16.311
Total assets					4.523.568
Segment liabilities	-	-	-	1.148.815	1.148.815
Unallocated liabilities:					
- Borrowings with financial institutions					1.874.789
- Deferred income					675.776
Total liabilities					3.699.380
Capital expenditure relating to property, plant and equipment (Note 7)	-	-	-	2.022.687	2.022.687

* Inventories on hand in 2005 amounting to 125,280 euros relate to the purchase of photovoltaic cells which make up the raw materials for the manufacture of photovoltaic solar panels, an activity that commenced during the third quarter of 2006.

Segment assets and liabilities at 31 December 2004 and capital expenditure for the year then ended were as follows:

	Euros				
	Photovoltaic	Thermal	Projects	Other	Company
Segment assets	-	-	-	615.653	615.653
Unallocated assets:					
- Available-for-sale and other financial assets					496.668
Total assets					1.112.321
Segment liabilities	-	-	-	72.688	72.688
Unallocated liabilities:					
- Borrowings with financial institutions					545.893
- Deferred income					152.549
- Current income tax liabilities					15.286
Total liabilities					786.416
Capital expenditure relating to property, plant and equipment (Note 7)	-	-	-	263.113	263.113

b) Secondary reporting format: geographical segments

The Company has not presented financial information by geographical segment,since the Company only carries out operations in Spain. The various regions in Spain in which the Company operates are not exposed to different risks and rates of return, since those regions are affected by the same economic and political conditions.

7. Property, plant and equipment

Amounts and movements in the items included under this heading during the 2004, 2005 and 2006 financial years were as follows:

Euros

	Balance at 01.01.04	Additions	Balance at 31.12.04	Additions	Transfers	Balance at 31.12.05	Additions	Disposals	Balance at 31.12.06
Cost									
Land	-	-	-	112,485	-	112,485	-	-	112,485
Buildings	-	-	-	869,978	-	869,978	230,331	-	1,100,309
Machinery	-	-	-	742,479	263,113	1,005,592	8,420	-	1,014,012
Plant and equipment	-	-	-	187,890	-	187,890	107,053	-	294,943
Data-processing equipment	606	-	606	689	-	1,295	21,514	-	22,809
Fixtures and fittings	-	-	-	-	-	-	51,324	-	51,324
Vehicles	33,233	-	33,233	109,166	-	142,399	166,173	(146,538)	162,034
Property, plant and equipment under construction	-	263,113	263,113	-	(263,113)	-	4,743,228	-	4,743,228
	33,839	263,113	296,952	2,022,687	-	2,319,639	5,328,043	(146,538)	7,501,144
Depreciation									
Buildings	-	-	-	8,482	-	8,482	28,664	-	37,146
Machinery	-	-	-	69,322	-	69,322	121,252	-	190,574
Plant and equipment	-	-	-	1,986	-	1,986	25,981	-	27,967
Data-processing equipment	32	167	199	252	-	451	3,223	-	3,674
Fixtures and fittings	-	-	-	-	-	-	2,646	-	2,646
Vehicles	262	5,849	6,111	16,924	-	23,035	24,260	(27,595)	19,700
	294	6,016	6,310	96,966	-	103,276	206,026	(27,595)	281,707
	33,545		290,642			2,216,363			7,219,437

The line item Land includes 71,194 euros relating to the fair value of a plot of land obtained by the Company from the Municipality of Puertollano in a swap agreement dated 21 December 2005. In terms of this agreement, the Company acquires the land on which it will install a 1 MW solar plant. In exchange, the Company will make payments to the municipality over a period of 25 years, equal to income obtained from 5W of capacity generated by the plant over that period. The fair value of the land was calculated by discounting this future income to its present value, using a market-related interest rate. A liability with the Municipality of Puertollano has been recorded for the fair value of the land under Trade and other payables, and this amount is updated periodically to reflect the unwinding of the discount. No profit was recognized on initial recognition of this transaction, given that the present value of the future income referred to above is equal to the fair value of the plot of land. At 31 December 2006, construction of this solar plant had not yet commenced.

The line item Land also includes a plot of land in La Nava II industrial estate with a cost of 41,291 euros, purchased from the municipality of Puertollano at a price of 1 euro per square metre, arising from the Agreement entered into between the Company and Fundescop, and in application of the Municipal Regulation for investment incentives and creation of employment in Puertollano. According to this agreement, the Company has committed to and is obliged to realize certain constructions and installations of plant and equipment necessary for the installation of a factory dedicated to the manufacture of photovoltaic and thermal solar panels, with the creation of 80 employment positions in the factory, within a period of 24 months from the date of signature of the sale and purchase agreement relating to the plot of land. There is no significant difference between the cost of the plot of land and its fair value.

"Property, plant and equipment under construction" includes the following:

- Construction of the new premises at the La Nava II industrial estate in Puertollano for the manufacture of thermal modules.
- Construction of the office building at the La Nava II industrial estate in Puertollano.
- Design of a thermal panel and the design and construction of a manufacturing and assembly line for thermal panel modules.
- Installation of machinery for the manufacture of photovoltaic cells.
- Solar simulator.
- Extension of the photovoltaic module production line.
- Extension of the photovoltaic line.
- Construction of a de-ionisation plant.
- Geothermal and engineering studies for the future construction of several additional warehouses.

Certain property, plant and equipment has been mortgaged as security for two loans from Caja Rural received by the Company (Note 16).
The amount capitalised under the heading "Buildings" at 31 December 2005 includes the construction of premises at the industrial estate La Nava II in Puertollano, where the Company is building its photovoltaic and thermal module production plant.

At 31 December 2005, "Machinery" mainly consists of the costs relating to the photovoltaic module production line.

Additions during the 2004 year relate to advance payments made to the supplier Spire Corporation, relating to the acquisition of the machinery necessary to construct the photovoltaic module assembly line.

The Company has taken out a number of insurance policies to cover risks relating to property, plant and equipment. The coverage provided by these policies is considered to be sufficient.

Vehicles include the following amounts where the Company is the lessee under finance leases:

	Euros		
	2006	2005	2004
Capitalized finance lease cost	113,283	109,166	-
Accumulated depreciation	(19)	(11,074)	-
	113,264	98,092	-

Lease liabilities are effectively secured as the rights to the vehicles revert to the lessor in the event of default (Note 16).

8. Intangible assets

Amounts and movements in the items included under this heading during the 2004, 2005 and 2006 financial years were as follows:

							Euros
	Balance at 01.01.04	Additions	Balance at 31.12.04	Additions	Balance at 31.12.05	Additions	Balance at 31.12.06
Cost							
Computer software	-	-	-	-	-	15,740	15,740
	-	-	-	-	-	15,740	15,740
Amortization							
Computer software	-	-	-	-	-	3,636	3,636
	-	-	-	-	-	3,636	3,636
	-		-		-		12,104

9. Available-for-sale and other financial assets

Amounts and movements in the items included under this heading during the 2004, 2005 and 2006 financial years were as follows:

Euros

	Balance at 01.01.04	Additions	Balance at 31.12.04	Transfers	Disposals	Balance at 31.12.05	Additions	Transfers	Disposals	Balance at 31.12.06
Non-current financial assets										
Available-for-sale financial assets:										
- Investment funds	-	18,000	18,000	(18,000)	-	-	-	18,000	-	18,000
- Investment in Brumale, S.L.	-	18,026	18,026	(18,026)	-	-	-	-	-	-
Sundry deposits	-	-	-	-	-	-	2,270	-	-	2,270
	-	36,026	36,026	(36,026)	-	-	2,270	18,000	-	20,270
Current financial assets										
Available-for-sale financial assets:										
- Investment funds	-	-	-	18,000	-	18,000	-	(18,000)	-	-
- Investment in Brumale, S.L.	-	-	-	18,026	-	18,026	-	-	(18,026)	-
Deposits with financial institutions	-	460,642	460,642	-	(460,642)	-	600,000	-	-	600,000
	-	460,642	460,642	36,026	(460,642)	36,026	600,000	(18,000)	(18,026)	600,000

Investment funds

At 31 December 2004, investments in Investment funds consisted of holdings in two indefinite-term investment funds. The investments were covered by a guarantee ensuring that the amount invested would be recovered if the market value of the funds held fell below the amount invested. This guarantee terminated on 31 December 2006. Therefore, the investment funds were classified as current assets at 31 December 2005.

During 2005, the investment in the fund Fonduero, amounting to 12,000 euros, was pledged to secure a 546,557 euro loan granted to the Company by Caja Duero (Note 16). In 2006, this investment was no longer pledged as a guarantee for the loan.

At 31 December 2006, investments in investment funds have been reclassified as non-current assets, given the renewal of the guarantees over the funds that the Company recorded as current assets at the end of the previous year. The renewed guarantees expire in 2009 and 2010.

Investment in Brumale, S.L.

The investment in Brumale, S.L. relates to an amount conceded to the company Brumale, S.L on 29 December 2004, which entitled the Company to receive shares representing 0.47% of the share capital of Brumale, S.L. on 29 December 2005. The investment was classified as an available-for-sale financial asset and has been recorded at cost, not at fair value, since the company Brumale, S.L. is not listed. As a result, there is insufficient information available regarding the business plans and financial outlook of the company to permit a reliable valuation to be performed using generally accepted valuation techniques.

On 19 December 2006, the Company sold its interest in Brumale, S.L. to a related party, Solaria DTL Corporación, S.L., for 20,170 euros. A profit on the transaction amounting to 2,144 euros was recognized in the income statement and recorded in the line item "Other income".

Sundry deposits

These deposits mainly relate to amounts paid to Union Fenosa for electricity connection and total 1,669 euros.

Deposits with financial institutions

At 31 December 2004, the Company had two fixed-term deposits on hand totaling 410,000 euros and 50,000 euros, respectively, which accrued interest at an average rate of 2.15%.

The 50,000 euro deposit was pledged to secure the loan totalling 412,496 euros (Note 16) granted to the Company by Caja Duero. During 2005, the abovementioned deposits matured, in April and August 2005, respectively.

At 31 December 2006, deposits with financial institutions consists of a short-term deposit of the Company's cash surpluses with Banco Gallego. This deposit accrued interest at a rate of 0.10% during the 2006 financial year.

10. Loans to related parties

The heading Loans to related parties can be broken down as follows:

	Euros		
	2006	2005	2004
Non-current loans			
Loans to related parties	-	561,711	38,920
Interest on loans to related parties	-	25,621	2,630
	-	587,332	41,550
Current loans			
Amounts owed by related parties	20,170	-	-
Loans to related parties	463,402	-	-
Interest on loans to related parties	107,622	-	-
	591,194	-	-

The line item "Amounts owed by related parties" consists of the outstanding balance due from Solaria DTL Corporation, S.L. relating to the sale of the 0.47% holding in Brumale, S.L. (Note 9).

The balance "Loans to related parties" relates to the capital drawn down by Instalaciones Díaz Tejeiro, S.L., a related company, in accordance with the current account agreement concluded between that company and Solaria Energía y Medio Ambiente, S.L. Capital drawn down accrues interest at a market-related rate, being the Euribor rate plus 0.5%, which will be settled when the agreement terminates, expected to occur in 2007. The Company's management intends to liquidate these balances with related parties prior to the date on which the IPO process mentioned in Note 1 is completed. For this reason, loans to related parties have been recorded as current assets in 2006.

The effective interest rates on loans to related parties were as follows:

	2006	2005	2004
Loans to related parties	4.10 %	3.17 %	2.85 %

11. Inventories

At the year ends under consideration, this heading can be broken down as follows:

	2006			2005		2004
	Total	Thermal	Photovoltaic	Total	Photovoltaic	Total
Raw materials	12,923,886	331,221	12,592,665	125,280	125,280	-
Finished goods	4,731,501	280,389	4,451,112	-	-	-
	17,655,387	611,610	17,043,777	125,280	125,280	-

Inventories of raw materials for the 2006 financial year consist of cells relating to the manufacture of photovoltaic modules. The production of thermal panels was initiated during the final quarter of the year, and at the end of the year, the Company was in full production.

Inventories for the 2005 financial year consist of photovoltaic cells that make up the raw materials for the manufacture of photovoltaic solar panels.

The amount of inventories recognized as an expense and included in the line item "Consumption of raw materials and other consumables" in the income statement totals 7,849,453 (*2005*: 51,293; *2004*: 116,845) euros.

During 2006, an accident occurred that resulted in the write-off of inventories totalling 41,335 (*2005*: 0; *2004*: 0) euros, included in the line item "Consumption of raw materials and other consumables". The inventories were completely destroyed and therefore were written off.

12. Trade and other receivables

At the year ends under consideration, this heading can be broken down as follows:

	Euros		
	2006	2005	2004
Trade receivables	1,902,263	15,031	194,746
Sundry debtors	64,405	3,457	-
Government grants receivable	4,546,364	-	28,801
Taxes refundable (Note 19)	2,488,291	256,658	-
Impairment of trade receivables	(14,220)	-	-
	8,987,103	275,146	223,547

The balance relating to "Government grants receivable" at 31 December 2006 consists of a subsidy for the acquisition of property, plant and equipment granted by the Ministry of Industry (Note 15), which had not yet been received in cash at year end.

The balance relating to "Government grants receivable" at 31 December 2004 consists of a grant to subsidize interest on loan repayments to Caja Duero (Note 16) conceded by the Energy Savings and Diversification Institute (Instituto para la Diversificación y Ahorro de Energía (IDAE)), which had not yet been received in cash at year end.

Details of "Trade receivables" are as follows:

	Euros		
	2006	2005	2004
Trade receivables for invoices yet to be issued	1.205.640	-	-
Receivables for retentions on contracts	504.900	-	-
Sundry trade receivables	191,723	15,031	194,746
	1,902,263	15,031	194,746

The amount recorded under "Trade receivables for invoices yet to be issued" relates in full to work carried out on photovoltaic projects, in respect of which revenue is recognized on a percentage of completion basis, as described in Note 2.21.

The heading "Receivables for retentions on contracts" consists of 5% of the total amounts invoiced to customers relating to photovoltaic installation projects, receivable on final delivery of the projects.

At 31 December 2006, the line item "Sundry trade receivables" mainly relates to debtors outstanding in connection with solar installation projects.

At 31 December 2005 and 2004, the line item "Sundry trade receivables" relates to installations for customers performed on behalf of the related company, Instalaciones Díaz Tejeiro, S.L.

The Company recognized an expense totalling 14,220 (*2005*: 0; *2004*: 0) euros relating to the impairment of receivables during the year ended 31 December 2006. This expense was included in the line item "Impairment of trade receivables" in the income statement.

The carrying amounts of trade and other receivables approximate their fair values.

13. Cash and cash equivalents

At the year ends under consideration, this heading can be broken down as follows:

	Euros		
	2006	2005	2004
Cash at bank and on hand	4,227,789	1,267,110	59,914

The Company's bank accounts do not accrue any interest income.

14. Equity

Amounts and movements in the items included under this heading during the 2004, 2005 and 2006 financial years were as follows:

	Balance at 01.01.04	Issues of share capital	Distribution of profit 2003	Profit for the year 2004	Balance at 31.12.04	Issues of share capital	Distribution of profit 2004	Profit for the year 2005	Balance at 31.12.05
Share capital	92,300	150,030	-	-	242,330	535,270	-	-	777,600
Legal reserve	-	-	393	-	393	-	7,965	-	8,358
Voluntary reserves	-	-	3,536	-	3,536	(59,990)	71,681	-	15,227
Profit/ (loss) for the year	3,929	-	(3,929)	79,646	79,646	-	(79,646)	23,003	23,003
	96,229	150,030	-	79,646	325,905	475,280	-	23,003	824,188

	Balance at 31.12.05	Distribution of profit 2005	Profit for the year 2006	Balance at 31.12.06
Share capital	777,600	-	-	777,600
Legal reserve	8,358	2,300	-	10,658
Voluntary reserves	15,227	20,703	-	35,930
Profit/ (loss) for the year	23,003	(23,003)	5,642,759	5,642,759
	824,188	-	5,642,759	6,466,947

Share capital

Share capital consists of 77,760 (*2005*: 77.760; *2004*: 24.233) fully paid-up shares with a par value of 10 euros each.

At 31 December, the distribution of share capital among shareholders was as follows:

	2006		2005		2004	
	Number of shares	% interest	Number of shares	% interest	Number of shares	% interest
Solaria DTL Corporación, S.L.	75,860	97.55	-	-	-	-
Enrique Díaz-Tejeiro Gutiérrez	380	0.488	15,172	19.51	4,727	19.51
Mª Dolores Larrañaga Horna	380	0.488	15,172	19.51	4,727	19.51
Enrique Díaz-Tejeiro Larrañaga	380	0.488	15,172	19.51	4,727	19.51
Arturo Díaz-Tejeiro Larrañaga	380	0.488	15,172	19.51	4,727	19.51
Miguel Díaz-Tejeiro Larrañaga	380	0.488	15,172	19.51	4,727	19.51
Other	-	-	1,900	2.45	598	2.45
	77,760	100	77,760	100	24,233	100

2006:
The shareholders held a General Meeting on 24 March 2006 and approved the transfer of shares representing 97.55% of the share capital of Solaria Energia y Medio Ambiente, S.L., owned by the Diaz-Tejeiro family, to a newly formed company, Solaria DTL Corporation, which is now the Company's majority shareholder.

Furthermore, at a General Meeting held on 21 November 2006, the shareholders approved the transfer to the other shareholders of shares representing 2.45% of the Company's share capital, belonging to a minority shareholder.

2005:
During 2005, the following issues of share capital took place:

In accordance with the Resolutions adopted at the Shareholders' Meeting held on 17 June 2005, the Company increased its share capital by 80,000 euros by issuing 8,000 shares with a par value of 10 euros each, payable at the time of subscription. The issue of the 8,000 shares was fully subscribed by existing shareholders in proportion to their existing shareholdings. All shares issued were paid for in cash.

In accordance with the Resolutions adopted at the Shareholders' Meeting held on 29 July 2005, the Company increased its share capital by 79,970 euros by issuing 7,997 shares with a par value of 10 euros each, payable at the time of subscription. The issue of the 7,997 shares was fully subscribed by existing shareholders in proportion to their existing shareholdings. Of the total number of shares issued, 1,998 shares were paid for in cash and the remaining 5,999 shares were issued by debiting reserves recorded in the balance sheet as at 30 March 2005, which was unanimously approved by the shareholders.

In accordance with the Resolutions adopted at the Shareholders' Meeting held on 14 September 2005, the Company increased its share capital by 140,220 euros by issuing 14,022 shares with a par value of 10 euros each, payable at the time of subscription. The issue of the 14,022 shares was fully subscribed by existing shareholders in proportion to their existing shareholdings. All shares issued were paid for in cash.

In accordance with the Resolutions adopted at the Shareholders' Meeting held on 15 November 2005, the Company increased its share capital by 235,080 euros by issuing 23,508 shares with a par value of 10 euros each, payable at the time of subscription. The issue of the 23,508 shares was fully subscribed by existing shareholders in proportion to their existing shareholdings. All shares issued were paid for in cash.

2004:
In accordance with the Resolutions adopted at the Extraordinary Shareholders' Meeting held on 19 August 2004, the Company increased its share capital by 90,000 euros by issuing 9,000 shares with a par value of 10 euros each, payable at the time of subscription. All shares issued were paid for in cash.

On 28 December 2004, in accordance with the Resolution adopted at the Extraordinary Shareholders' Meeting, the Company's share capital was increased by 60,030 euros by means of the issue of 6,003 shares with a par value of 10 euros each, fully subscribed and paid for by the shareholders.

Legal reserve

In accordance with the Spanish Companies Act, 10% of profits for the year must be transferred to the legal reserve each year until it represents at least 20% of share capital.

The legal reserve may be used to increase share capital, provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Except for the aforementioned purpose, until the legal reserve exceeds 20% of share capital, this reserve may only be used to set off losses, and only if other available reserves are insufficient for this purpose.

Voluntary reserves

Voluntary reserves consist of prior year profits not distributed by the Company. These reserves are available for distribution.

Profit for the year

The proposal to be presented to the General Meeting of Shareholders regarding the distribution profits for the 2006 year is as follows:

	Euros
Available for distribution	
Profit for the year	5,642,759
	5,642,759
Distribution	
Legal reserve	144,862
Voluntary reserves	3,087,897
Dividends (*)	2,410,000
	5,642,759

(*) These dividends relate to an interim dividend paid by the Company to its equity holders after the balance sheet date, but before the date of formulation of these financial statements.

15. Deferred income

Amounts and movements in the items included under this heading during the 2004, 2005 and 2006 financial years were as follows:

Euros

	Balance at 01.01.04	Additions	Recognized in income statement	Balance at 31.12.04	Additions	Recognized in income statement	Balance at 31.12.05	Additions	Recognized in income statement	Balance at 31.12.06
IDAE	-	28,801	-	28,801	-	(4,114)	24,687	-	(4,115)	20,572
IDAE	-	-	-	-	38,002	(5,429)	32,573	-	(5,429)	27,144
Ministry of Industry loan	-	-	-	-	144,558	-	144,558	-	(144,558)	-
Ministry of Industry loan	-	-	-	-	61,909	-	61,909	-	(61,909)	-
CDTI	-	-	-	-		-	-	52,144	(52,144)	-
Government grants related to income	-	28,801	-	28,801	244,469	(9,543)	263,727	52,144	(268,155)	47,716
IDAE	-	123,748	-	123,748	-	-	123,748	-	(18,117)	105,631
IDAE	-	-	-	-	163,967	-	163,967	-	(19,676)	144,291
Ministry of Industry	-	-	-	-	-	-	-	4,546,364	-	4,546,364
Ministry of Industry loan	-	-	-	-	81,314	-	81,314	-	-	81,314
Ministry of Industry loan	-	-	-	-	43,020	-	43,020	-	-	43,020
Government grants related to assets	-	123,748	-	123,748	288,301	-	412,049	4,546,364	(37,793)	4,920,620
	-	152,549	-	152,549	532,770	(9,543)	675,776	4,598,508	(305,948)	4,968,336

The recognition of deferred income in the income statement is included in the line item "Deferred income transferred to the income statement", except for the deferred income relating to the interest-free loans from the Ministry of Industry and CDTI, which have been offset against the subsidized expenses (Note 2.15, Note 20(c) and (d)).

The analysis of current and non-current deferred income is as follows:

	Euros		
	2006	2005	2004
Non-current deferred income:			
- Government grants related to income	38,173	47,717	24,687
- Government grants related to assets	4,871,619	374,256	123,748
	4,909,792	421,973	148,435
Current deferred income:			
- Government grants related to income	9,543	216,010	4,114
- Government grants related to assets	49,001	37,793	-
	58,544	253,803	4,114
Total deferred income	**4,968,336**	**675,776**	**152,549**

2006:
Grant related to assets from the Ministry of Industry

On 17 January 2006, the Ministry of Industry, Tourism and Commerce, through the Institute of Coal Mining Restructuring and Alternative Development of Mining Areas, informed the Company of the decision reached by the Project Evaluation Committee to grant the subsidy requested relating to the launch of a plant to manufacture thermal solar panels and photovoltaic cells. The investment considered eligible for the subsidy amounts to 22,731,822.50 euros and the subsidy granted amounts to 4,546,364.50 euros, which represents approximately 20% of the investment. This subsidy will be paid on completion of the project, that is, when the investment has been made, the amounts invested have been paid, the level of autofinancing has been justified, the number of jobs promised have been created and the relevant verification documents have been signed. However, since the project will be executed over a period of more than 12 months, with the commencement date considered to be the date on which the application for the grant was filed, progress payments may be requested when 25%, 50% and 75% of the investment has been made.

The granting of the subsidy is subject to the following conditions:

- The Company must execute at least 10% of the investment eligible for the subsidy before 31 December 2005.
- The deadline for making the total investment is 31 December 2007.
- Once the investment has been made, the plant must be maintained on the balance sheet for a minimum period of 5 years.
- At least 25% of the investment eligible for the subsidy must be financed by the Company, which must be proven when justifying the investment made.
- The subsidised project must maintain the employment positions existing at the time when the application was filed and, before 28 February 2008, must generate ninety additional jobs that must be maintained until 28 February 2011.

The Company will be obliged to provide a guarantee to the Institute at the Caja General de Depósitos for the amount of the subsidy granted plus interest from the date on which the verification documents are signed, until the date on which the employment condition mentioned above is complied with.

The breakdown of subsidies, assistance and government grants received by the Company is as follows:

Granting entity	Euros			Purpose	Date Granted
	2006	2005	2004		
IDAE (Note 16)	123,748	123,748	123,748	Accelarated repayment of loan	26.10.2004
IDAE (Note 16)	163,967	163,967	-	Accelarated repayment of loan	14.04.2005
Ministry of Industry (Note 12)	4,546,364	-	-	Financing of fixed assets	17.01.2006
IDAE (Note 16)	28,801	28,801	28,801	Assistance relating to loan interest payments	26.10.2004
IDAE (Note 16)	38,002	38,002	-	Assistance relating to loan interest payments	14.04.2005
Ministry of Industry Loan (Note 16)	225,872	225,872	-	Financing of assets and subsidy of operating expenses	05.10.2005
Ministry of Industry Loan (Note 16)	104,929	104,929	-	Financing of assets and subsidy of operating expenses	26.07.2005
CDTI (Note 16)	52,144	-	-	Financing of assets and subsidy of operating expenses	29.04.2006
	5,283,827	685,319	152,549		

16. Borrowings with financial institutions

At 31 December 2006, balances with banks and other financial institutions were as follows:

Entity	Original amount	Type of transaction	Maturity date	Effective interest rate	Current	Non-current	Euros Total
Caja Duero (i)	412,496	Loan	12-11-2011	4.27%	33,600	155,213	188,813
Caja Duero (ii)	546,557	Loan	14-04-2012	4.17%	44,400	224,771	269,171
CDTI	347,680	Loan	30-06-2013	4.55%	40,181	255,355	295,536
Ministry of Industry (i)	400,000	Loan	30-11-2015	4.45%	-	308,349	308,349
Ministry of Industry (ii)	861,053	Loan	15-12-2015	4.45%	-	663,764	663,764
Caja Rural (i)	1,500,000	Loan	10-06-2013	3.56%	214,284	1,178,564	1,392,848
Caja Rural (ii)	4,500,000	Loan	15-06-2016	3.82%	-	4,500,000	4,500,000
Caja Madrid	1,800,000	Loan	23-10-2011	4.175%	402,612	1,397,388	1,800,000
Accrued interest not paid					25,389	-	25,389
					760,466	8,683,404	9,443,870
Barclays Bank	51,063	Finance lease	29-12-2011	3.25%	11,208	38,921	50,129
Barclays Bank	62,668	Finance lease	29-12-2011	3.25%	13,747	47,775	61,522
					24,955	86,696	111,651
	Credit limit						
Caja Rural	2,000,000	Line of credit	25-05-2007	4.31%	720,592	-	720,592
Caja Rural	2,000,000	Line of credit	02-03-2007	4.61%	1,995,777	-	1,995,777
Banco Gallego	600,000	Line of credit	22-03-2007	5%	494,580	-	494,580
Caja Madrid	1,150,000	Line of credit	22-03-2007	4.625%	949,776	-	949,776
Caja Rural	150,000	High yield	-	-	44,670	-	44,670
Caja Rural	3,400,000	Importation facilities	-	4.928%	26,064	-	26,064
Banesto	3,000,000	Letter of credit	14-12-2007	-	2,580,741	-	2,580,741
Accrued interest not paid					17,573	-	17,573
					6,829,773	-	6,829,773
					7,615,194	8,770,100	16,385,294

At 31 December 2005, balances with banks and other financial institutions were as follows:

Entity	Original amount	Type of transaction	Maturity date	Effective interest rate	Current	Non-current	Euros Total
Caja Duero (i)	412,496	Loan	12-11-2011	3.17%	33,600	189,377	222,977
Caja Duero (ii)	546,557	Loan	14-04-2012	2.76%	44,400	269,883	314,283
CDTI-Santander	260,760	Loan	30-09-2006	3.45%	258,803	-	258,803
Ministry of Industry (i)	400,000	Loan	30-11-2015	4.45%	-	295,071	295,071
Ministry of Industry (ii)	861,053	Loan	15-12-2015	4.45%	-	635,181	635,181
					336,803	1,389,512	1,726,315
Banco Gallego	37,985	Finance lease	27-04-2009	3.25%	9,919	21,461	31,380
Banco Gallego	40,148	Finance lease	27-04-2009	3.25%	10,484	22,682	33,166
Barclays	30,366	Finance lease	07-09-2009	2.67%	8,013	19,817	27,830
					28,416	63,960	92,376
	Credit limit						
Banco Gallego	150,000	Credit account		3.15%	56,098	-	56,098
					421,317	1,453,472	1,874,789

At 31 December 2004, balances with banks and other financial institutions were as follows:

Entity	Original amount	Type of transaction	Maturity date	Effective interest rate	Current	Non-current	Euros Total
Caja Duero	412,496	Loan	12-11-2011	3.246%	33,976	251,772	285,748
CDTI-Santander	260,760	Loan	30-09-2006	2.71%	-	258,803	258,803
Accrued interest not paid					1,342	-	1,342
					35,318	510,575	545,893

Caja Duero loan (i)

On 12 November 2004, a loan was obtained from Caja Duero within the scope of the Finance Agreement "Financing of Investments in Renewable Energies and Energy Efficiency" concluded between Caja Duero and the Official Credit Institute (ICO). This loan is the result of the collaboration between ICO and the Ministry of Science and Technology, through the Energy Savings and Diversification Institute ("Instituto para la Diversificación y Ahorro de Energía (IDAE)"). The original amount of the loan amounts to 412,496 euros. The interest rate applicable to this loan is 3.246% during the first six months and Euribor plus 1% thereafter.

When obtaining this loan, the Company committed to using the financing received exclusively to finance the investment project presented, "Instalación Térmica de A.C.S. Uso Industrial", and to maintain the financed investment on its balance sheet for at least five years from the date on which the agreement was concluded.

As a result of the financing facilities agreed between IDAE-ICO and financial institutions, IDAE granted the Company a subsidy to cover the initial repayment on the loan, amounting to 123,748 euros (Note 15). In addition, IDAE granted the Company a subsidy for the interest accruing on this loan, amounting to 28,801 euros (Note 15).

Caja Duero loan (ii)

On 14 April 2005, a loan was obtained from Caja Duero within the scope of the Finance Agreement "Financing of Investments in Renewable Energies and Energy Efficiency" concluded between Caja Duero and the Official Credit Institute (ICO). This loan is the result of the collaboration between ICO and the Ministry of Science and Technology, through the Energy Savings and Diversification Institute ("Instituto para la Diversificación y Ahorro de Energía (IDAE)"). The original amount of the loan amounts to 546,557 euros. The interest rate applicable to this loan is 3.245% during the first six months and Euribor plus 1% thereafter.

When obtaining this loan, the Company committed to using the financing received exclusively to finance the investment project presented, "Instalación de A.C.S. y Refrigeracion en Fabrica" and to maintain the financed investment on its balance sheet for at least five years from the date on which the agreement was concluded.

As a result of the financing facilities agreed between IDAE-ICO and financial institutions, IDAE granted the Company a subsidy to cover the initial repayment on the loan, amounting to 163,967 euros (Note 15). In addition, IDAE granted the Company a subsidy for the interest accruing on this loan, amounting to 38,002 euros (Note 15).

CDTI loan

On 29 September 2004, the Industrial Technological Development Centre ("Centro para el Desarrollo Tecnológico Industrial (CDTI)") informed the Company of its participation in the Technological Innovation project "Development of a Photovoltaic Panel Assembly Line", consisting of a repayable, interest-free loan that may be co-financed by FEDER Funds, amounting to 347,680 euros, based on the total investment accepted by CDTI, which amounts to 869,200 euros. This approval is subject to the following conditions:

- A share capital increase, or increase plus premium, totalling 347,680 euros and contributed by the shareholders in cash.

- Security for the CDTI loan or provision, at the discretion of CDTI, of sufficient guarantees for the loan.

According to the agreement established between CDTI and the Company, the latter opted to obtain a pre-financing line of credit relating to CDTI R&D 2004 projects from a financial institution in order to facilitate the financing of the Project under consideration, until the amount loaned by CDTI becomes available. This line of credit allows companies that have gained approval for CDTI R&D projects to choose between obtaining the amount granted through a traditional milestone completion certification system (partial payments) or in advance (lump sum) through a bank loan of up to 75% or 60% of the amount granted.

According to the Pre-financing Agreement (the Agreement) concluded between CDTI and Santander Central Hispano, on 30 November 2004, pre-financing relating to the CDTI R+D project was formalized, such that the Company obtained a loan amounting to 260,760 euros from Santander Central Hispano. On 30 September 2006, the Company repaid this line of credit and received the amount of the original subsidy from CDTI.

The subsidy granted by CDTI consists of an interest-free repayable loan amounting to 347,680 euros, falling due on 30 June 2013.

On 1 June 2006, the agreement concluded between CDTI and the Company was amended to replace the existing personal and several guarantee by means of thirteen bank guarantees totalling 347,680 euros (Note 25).

Ministry of Industry loan (i)

On 26 July 2005, the Ministry of Industry, Tourism and Commerce adopted a Resolution to grant the Company a reimbursable loan to finance the "Project to manufacture photovoltaic modules and cells". The total amount of the budgeted expenditure on the project amounts to 965,140 euros and covers all costs and investments necessary to launch the abovementioned project.

The grant consists of a 400,000 euro interest-free loan to be repaid over 10 years, with a 3 year grace period. This loan is subject to several conditions, including the obligation to make the required investments and incur the necessary costs between 1 January and 31 December in the year in which the loan is granted.

On 27 December 2005, the Company requested a 6 month extension for the execution of the project, and for payment and presentation of documentation (up to 30 June 2006). This request was made owing to the delay in the delivery and installation of some of the highly technical equipment related to the project. On 30 December 2005, the Director General of Industrial Development at the Ministry of Industry, Tourism and Commerce issued a Resolution extending the deadlines for making and justifying the investments, until 30 June and 31 July 2006, respectively.

The Company has deposited a guarantee amounting to 400,000 euros in favour of the Ministry of Industry (Note 25) to cover the guarantees required relating to the abovementioned reimbursable loan.

Ministry of Industry loan (ii)

On 5 October 2005, the Ministry of Industry, Tourism and Commerce adopted a Resolution to grant the Company a reimbursable loan to finance the "Project for developing a prototype of a thermal solar collector by means of concentration and the launch of a production line". The total amount of the budgeted expenditure on the project amounts to 1,148,070 euros and covers all costs and investments necessary to launch the abovementioned project.

The grant consists of an 861,052.50 euro interest-free loan to be repaid over 10 years, with a 3 year grace period. This loan is subject to several conditions, including the obligation to make the required investments and incur the necessary costs between 1 January and 31 December in the year in which the loan is granted.

On 27 December 2005, the Company requested a 6 month extension for the execution the project, and for payment and presentation of documentation (up to 30 June 2006). This request was made owing to the delay in the delivery and installation of some of the highly technical equipment related to the project. On 19 January 2006, the Director General of Industrial Development at the Ministry of Industry, Tourism and Commerce issued a Resolution extending the deadlines for making and justifying the investments, until 30 June and 31 July 2006, respectively.

The Company has deposited a guarantee amounting to 861,052.50 euros in favour of the Ministry of Industry (Note 25) to cover the guarantees required relating to the abovementioned reimbursable loan.

Caja Rural loan (i)

On 9 May 2006, the Company concluded a secondary loan agreement in the amount of 1,500,000 euros with Caja Rural de Ciudad Real, under the umbrella of the agreement concluded between ICO and Caja Rural, for the purpose of financing investments in new production assets for small and medium-sized companies. The Company's investment project amounts to 21,300,000 euros and the most important conditions that must be met by the beneficiary of this loan agreement are as follows:

- The amount financed by ICO funds may not exceed 70% of the investment project, where the beneficiary company has between 10 and 249 employees.
- The beneficiary must declare that it does not hold an interest in any company or group of companies that does not meet the conditions to be considered a small or medium-sized business, and may not be an investee company of any such company or group of companies, and must state that no financing from the ICO-PYME 2006 line of credit has been received in excess of 1.5 million euros.
- The beneficiary undertakes to ensure that the total "minimis" assistance will not exceed 100,000 euros over 3 years.

As guarantees for this loan, the Company has mortgaged one of its plots of land situated in Puertollano. The Company is obliged to maintain at least three loan payments in a bank account, amounting to 321,428 euros in total.

This loan accrues interest half-yearly at 3.605% from the commencement of the operation until 9 December 2006. From 10 December 2006 until maturity date, the rate applicable will be the 6-month Euribor rate plus a 0.5% spread.

Caja Rural (ii)

On 9 May 2006, the Company concluded a secondary loan agreement in the amount of 4,500,000 euros with Caja Rural de Ciudad Real, under the umbrella of the agreement concluded between ICO and Caja Rural, for the purpose of financing investments in new production assets for small and medium-sized companies. The Company's investment project amounts to 21,300,000 euros and the most important conditions that must be met by the beneficiary of this loan agreement are as follows:

- The amount financed by ICO funds may not exceed 70% of the investment project, where the beneficiary company has between 10 and 249 employees.
- The beneficiary must declare that it is not an investee (25% or more) of a company or group of companies that does not, as a whole, have total assets in excess of 43 million euros and has turnover of less than 50 million euros.
- The beneficiary undertakes to ensure that the total "minimis" assistance will not exceed 100,000 euros over 3 years.

As guarantees for this loan, the Company has mortgaged one of its plots of land situated in Puertollano. The Company is obliged to maintain at least three loan payments in a bank account, amounting to 964,285 euros in total.

This loan accrues interest half-yearly at a rate of 3.858% from the commencement of the operation until 14 December 2006. From 15 December 2006 until maturity date, the rate applicable will be the 6-month Euribor rate plus a 0.75% spread.

In order to cover fluctuations in the interest rates relating to the two Caja Rural loans mentioned above, the Company entered into an interest rate swap with Banco Cooperativo Español, the main characteristics of which are described in Note 18.

Caja Madrid loan

On 23 October 2006, the Company obtained a loan from Caja Madrid amounting to 1,800,000 euros.

This loan accrues interest half-yearly at a rate of 4.175% for the first 6 months. In subsequent periods up to the maturity date, 23 October 2011, the interest rate applicable will be the 3-month Euribor rate plus a 0.8% spread.

The maturity dates for borrowings outstanding with banks and other financial institutions are as follows:

	Euros		
Maturity	2006	2005	2004
Up to one year	7,615,194	421,317	35,318
Between 1 and 5 years	4,865,064	566,685	419,766
More than 5 years	3,905,036	886,787	90,809
	16,385,294	1,874,789	545,893

All borrowings with financial institutions are denominated in euros.

Borrowings with financial institutions accrue interest at market rates, all of which are indexed to the Euribor rate plus a spread. Therefore, the fair value of long-term borrowings approximates their carrying value. The carrying value of short-term borrowings approximates fair value.

In order to protect against fluctuations in the interest rate applicable to the 2 loans obtained from Caja Rural amounting to 1,500,000 and 4,500,000 euros, respectively, the Company has entered into an interest rate swap with Banco Cooperativo Español (Note 18).

The Company has the following undrawn borrowing facilities:

	Euros		
	2006	2005	2004
Variable rate:			
– Maturing in less than one year	3,719,600	93,902	-

The Company has obtained a a facility relating to the import of goods from Caja Rural de Ciudad Real totalling 3,400,000 euros, bearing interest at the Euribor rate plus 0.9%. An amount of 1,794,264 euros has been drawn down, of which 26,064 euros relates to importation prepayments and 1,768,200 relates to a foreign letter of credit (Note 25).

Finance leases

	Euros		
	2006	2005	2004
Finance lease liabilities, minimum lease payments:			
- Less than 1 year	24,955	28,416	-
- Between 1 and 5 years	99,890	68,972	-
	124,845	97,388	-
Future finance charges relating to finance Leases	(13,194)	(5,012)	-
Present value of finance lease liabilities	111,651	92,376	-
The present value of finance lease liabilities can be broken down as follows:			
- Less than 1 year	24,955	28,416	-
- Between 1 and 5 years	86,696	63,960	-

17. Trade and other payables

At the year ends under consideration, this heading can be broken down as follows:

	Euros		
	2006	2005	2004
Suppliers and trade creditors	3,519,952	1,110,977	64,140
Prepayments from customers (Note 2.21)	2,565,348	-	-
Taxes payable (Note 19)	52,036	37,838	8,548
Fixed asset suppliers	2,424,826	-	-
Other current liabilities	1,172	-	-
	8,563,334	1,148,815	72,688

The carrying amounts of trade and other payables approximate their fair values.

18. Derivative financial instruments

Derivative financial instrument assets and liabilities for the 2004, 2005 and 2006 financial years are as follows:

Euros

	2006		2005		2004	
	Asset	Liability	Asset	Liability	Asset	Liability
Derivative financial instruments that do not meet the criteria for hedge accounting:						
- Interest rate	-	30,600	-	-	-	-
- Exchange rate	11,966	-	-	-	-	-
	11,966	30,600	-	-	-	-

a) Interest rate swap

In order to cover fluctuations in the interest rates applicable to the loans obtained from Caja Rural amounting to 1,500,000 and 4,500,000 euros, respectively (Note 16), the Company entered into an interest rate swap with Banco Cooperativo Español, the main characteristics of which are as follows:

- Initial nominal amount: 5,892,857.14 euros (with half-yearly repayments)
- Transaction date: 29 August 2006
- Commencement date: 11 December 2006
- Maturity date: 12 December 2011

Variable payer I: Banco Cooperativo Español
Variable rate I: 6-month Euribor
Payment date: 10 June and 10 December until termination on 12 December 2011.

Variable payer II: Solaria Energía y Medio Ambiente, S.L.
Variable rate II: 3.96%, but in the event that Euribor reaches 5%, the interest rate will be Euribor – 0.10%.
Payment date: 10 June and 10 December until termination on 12 December 2011.

Caja Rural de Ciudad Real has granted a 300,000 euro guarantee to Banco Cooperativo Español in the Company's favour, relating to the obligations arising from this interest rate swap (Note 25).

b) **Foreign exchange contract**

In order to reduce the risk arising from fluctuations in the euro/ US dollar exchange rate in relation to the letter of credit issued to Spire Corporation for a sum of 3 million US dollars (Note 25), the Company has entered into a forward exchange contract with Caja Rural, the main characteristics of which are as follows:

- Transaction date: 7 December 2006
- Forward exchange rate: 1.3377 euro/ US dollar
- Maturity date: 20 June 2007

Derivative financial instruments entered into to hedge against interest and exchange rate fluctuations do not comply with the requirements established by IFRS-EU to be classified as hedging transactions for accounting purposes, and therefore they have been recorded by recognising the changes in their fair values in the income statement, as part of finance income or finance costs (Note 20). At 31 December 2006, the asset and liability arising from the valuation of derivative instruments have been recognised as part of current assets and liabilities, respectively, in the balance sheet.

19. Taxation

The calculation of the income tax expense for the 2004, 2005 and 2006 financial years is as follows:

	Euros		
	2006	2005	2004
Profit before income tax	8,612,406	32,861	113,780
Timing differences	(521,820)	-	(44,711)
Taxable income	8,090,586	32,861	69,069
Taxable income at applicable tax rate	2,825,695	9,858	20,721
Deductions	(12,726)	-	-
Current tax for the year	2,812,969	9,858	20,721
Withholdings and interim payments	(27,807)	(14,594)	(5,435)
Amount payable/ (refundable)	**2,785,162**	**(4,736)**	**15,286**

The breakdown of the income tax expense in the income statement is as follows:

	Euros		
	2006	2005	2004
Current tax for the year	2,812,969	9,858	20,721
Deferred tax charge for the year	182,552	-	13,413
Change in tax rate - deferred tax balances	(25,874)	-	-
Income tax expense	2,969,647	9,858	34,134

In compliance with the provisions established by Article 108 of the Corporate Income Tax Act, which establishes the requirements that must be met by a company to benefit from the tax incentives for small companies, and in application of Article 114 of the Act, current tax is calculated by applying a 30% rate to taxable income up to 90,151.81 euros and a 35% rate to remaining taxable income.

In accordance with the provisions of Article 109 of the Corporate Income Tax Act, the Company has elected to apply unrestricted depreciation relating to new fixed assets. These assets may be depreciated without restriction, provided that during the 24 months following the commencement of the tax period in which the assets are brought into use, the Company's average number of employees increases with respect to the average number of employees in the preceding 12 months. This increase must be maintained for an additional period of 24 months. The assets to which unrestricted depreciation has been applied amount to 324,151 euros and therefore a deferred tax liability of 97,245 euros has been recognized.

In accordance with Law 35/2006 (28 November) on Personal Income Tax and the partial amendment to the legislation regarding corporate income tax, non-resident income tax and wealth tax, the corporate income tax rate will be 32.5% for tax periods commencing on 1 January 2007, and 30% for tax periods commencing on 1 January 2008. The Company has applied the effect of the change in tax rates in the calculation of deferred taxes, which amounts to 25,874 euros and is included in the line item "Income tax expense" in the income statement.

The tax rate reconciliation is as follows:

	Euros		
	2006	2005	2004
Profit before income tax	8,612,406	32,861	113,780
Income tax expense at the applicable tax rate	3,009,834	9,858	34,134
Change in the tax rate	(25,874)		
Deductions	(12,726)	-	-
Other adjustments	(1,587)		
Income tax expense	2,969,647	9,858	34,134
Effective tax rate	**34.5%**	**30.0%**	**30.0%**

Deferred tax assets and liabilities are as follows:

	Euros		
	2006	2005	2004
Deferred tax liabilities	165,859	-	-
Deferred tax assets	9,180	-	-

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authorities.

Movements in deferred tax assets and liabilities during the years under consideration were as follows:

	Euros			
Deferred tax liabilities	**Unrestricted depreciation**	**Derivative financial instruments**	**Deferred income**	**Total**
At 1 January 2004	-	-	-	-
Debited/ (credited) to the income statement	-	-	-	-
At 31 December 2004	-	-	-	-
Debited/ (credited) to the income statement	-	-	-	-
At 31 December 2005	-	-	-	-
Debited/ (credited) to the income statement	97,245	3,590	65,024	165,859
At 31 December 2006	**97,245**	**3,590**	**65,024**	**165,859**

	Euros		
Deferred tax assets	**Derivative financial instruments**	**Inventories**	**Total**
At 1 January 2004	-	(13,413)	(13,413)
Debited/ (credited) to the income statement	-	13,413	13,413
At 31 December 2004	-	-	-
Debited/ (credited) to the income statement	-	-	-
At 31 December 2005	-	-	-
Debited/ (credited) to the income statement	(9,180)	-	(9,180)
At 31 December 2006	**(9,180)**	**-**	**(9,180)**

As a result of the different interpretations to which Spanish tax legislation lends itself, additional tax liabilities may arise in the event of tax inspections. The Sole Administrator considers, however, that any additional liabilities that may exist would not significantly affect these financial statements.

The breakdown of income taxes receivable and payable at the year ends under consideration is as follows:

	2006		2005		Euros 2004	
	Receivable	Payable	Receivable	Payable	Receivable	Payable
2006 income taxes	-	2,785,162	-	-	-	-
2005 income taxes	19,527	-	4,736	-	-	-
2004 income taxes	11,575	-	11,575	-	-	15,286
Current income tax assets and liabilities	31,102	2,785,162	16,311	-	-	15,286

Other taxes receivable and payable included under "Trade and other receivables" (Note 12) or "Trade and other payables" (Note 17):

	2006		2005		Euros 2004	
	Receivable	Payable	Receivable	Payable	Receivable	Payable
Value Added Tax	2,488,291	-	256,658	-	-	5,307
Employee tax withholdings	-	15,243	-	28,674	-	3,241
Social Security contributions	-	34,035	-	9,164	-	-
Capital withholding taxes	-	2,758	-	-	-	-
	2,488,291	52,036	256,658	37,838	-	8,548

20. Income and expenses

a) Consumption of raw materials and other consumables

	2006	2005	Euros 2004
Purchase of raw materials and other consumables	25,379,560	176,573	116,845
Difference between opening and closing inventories	(17,530,107)	(125,280)	-
	7,849,453	51,293	116,845

b) Other external expenses

	Euros		
	2006	2005	2004
Management fee for administration services rendered (Note 23(b))	933,057	-	-
Solar installation certificates	300,348	-	-
Aluminium cutting costs	52,742	-	-
Project technical fees	12,150	-	-
Other expenses	35,066	2,393	26,910
	1,333,363	2,393	26,910

c) Employee benefits expense

At the year ends under consideration, this line item can be broken down as follows:

	Euros		
	2006	2005	2004
Wages, salaries and similar remuneration	573,282	259,196	85,128
Severance payments	-	-	1,840
Social Security expenses	137,688	10,688	11,088
Other social welfare expenses	-	-	3,786
Offset of government grants related to income (Note 15)	(107,066)	-	-
	603,904	269,884	101,842

The Company's employees were made up as follows at the year ends under consideration:

	2006			2005			2004		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Engineers	6	1	7	6	-	6	2	-	2
Graduates	4	-	4	1	-	1	-	-	-
Factory workers	56	10	66	11	-	11	-	-	-
	66	11	77	18	-	18	2	-	2

The Company has no commitments for pensions or similar items with its personnel.

d) Operating expenses

At the year ends under consideration, this line item can be broken down as follows:

	Euros		
	2006	2005	2004
Lease and rental expenses	31,435	16,708	-
Repairs and maintenance	23,966	16,991	4,195
Independent professional services	46,273	63,914	3,870
Transport costs	16,808	51,332	-
Bank charges	85,528	11,578	-
Insurance premiums	25,541	5,753	4,065
Advertising expenses	28,331	31,078	18,898
Supplies	51,781	4,453	3,004
Security expenses	121,714	-	-
Other expenses	163,053	40,914	13,541
Offset of government grants related to income (Note 15)	(151,544)	-	-
	442,886	242,721	47,573

e) Net loss on disposal of non-current assets

	Euros		
	2006	2005	2004
Loss on disposal of non-current assets	(11,528)	-	-
Profit on disposal of non-current assets	1,982	-	-
	(9,546)	-	-

f) Finance income

	Euros		
	2006	2005	2004
Interest from banks and other financial institutions	77,596	4,128	1,007
Interest from related parties	82,001	22,991	2,630
	159,597	27,119	3,637
Changes in fair values of derivative financial instruments	11,966	-	-
Gains arising from exchange differences	51,877	-	-
	223,440	27,119	3,637

g) **Finance costs**

	Euros		
	2006	2005	2004
Interest expenses	285,918	25,169	5,229
Changes in fair values of derivative financial instruments	30,600	-	-
Losses arising from exchange differences	518	7,860	-
	317,036	33,029	5,229

21. Earnings per share

a) **Basic**

Basic earnings per share is calculated by dividing the profit attributable to the Company's equity holders by the weighted average number of ordinary shares outstanding during the year.

	2006	2005	2004
Profit attributable to the Company's equity holders (euros)	5,642,759	23,003	79,646
Weighted average number of ordinary shares outstanding during the year	77,760	42,510	18,566
Basic earnings per share (euros per share)	72.57	0.54	4.29

During the 2005 financial year, the Company carried out several issues of share capital (Note 14). All of the shares issued were paid for in cash, except for one issue of share capital debited against available reserves. On 29 July 2005, the Company increased its share capital by issuing 7,997 shares, of which 1,998 shares were paid for in cash and the remaining 5,999 shares were issued by debiting available reserves. The issue of shares debited against reserves gave rise to an increase in the number of ordinary shares outstanding, without increasing the Company's resources. Therefore, the issue of these shares has been treated as if the transaction took place at the beginning of the 2004 financial year, in accordance with the requirements of IAS 33 *Earnings per Share*.

b) **Diluted**

Diluted earnings per share is calculated by adjusting the profit attributable to the Company's equity holders and the weighted average number of ordinary shares outstanding, to reflect the conversion of all dilutive potential ordinary shares.

At 31 December 2006, 2005 and 2004 there were no instruments issued capable of conversion to potentially dilutive ordinary shares. Therefore, basic earnings per share is identical to diluted earnings per share.

22. Cash generated from operations

	Euros		
	2006	2005	2004
Profit before income tax	8,612,406	32,861	113,780
Adjustments for:			
- Amortization of intangible assets (Note 8)	3,636	-	-
- Depreciation of property, plant and equipment (Note 7)	206,026	96,966	6,016
- Deferred income transferred to the income statement	(47,337)	(9,543)	-
- Government grants related to income offset against expenses (Note 20(c) and (d))	(258,610)	-	-
- Profit on sale of Brumale, S.L. (Note 9)	(2,144)	-	-
- Write-off of inventories (Note 11)	41,335	-	-
- Net loss on disposal of non-current assets (Note 20(e))	9,546	-	-
- Impairment of trade receivables (Note 12)	14,220	-	-
- Finance income (Note 20(f))	(223,440)	(27,119)	(3,637)
- Finance costs (Note 20(g))	317,036	33,029	5,229
Changes in working capital:			
- Inventories (Note 11)	(17,571,442)	(125,280)	-
- Trade and other receivables (Note 12)	(4,179,813)	(80,399)	8,871
- Trade and other payables (Note 17)	7,414,519	1,076,127	(150,227)
Cash (utilized in)/ generated from operations	(5,664,062)	996,642	(19,968)

In the cash flow statement, proceeds from the sale of property, plant and equipment are calculated as follows:

	Euros		
	2006	2005	2004
Net book value of non-current assets (Note 7)	118,943	-	-
Loss on disposal of non-current assets (Note 20(e))	(9,546)	-	-
Proceeds from sale of property, plant and equipment	109,397	-	-

Non-cash transactions

Non-cash transactions mainly relate to the following:

- In 2005, share capital amounting to 59,990 euros was issued by debiting available reserves (Note 14).
- Vehicles were acquired under finance leases during the 2005 and 2006 financial years. The cost of these assets acquired amounted to 109,166 euros and 150,655 euros in 2005 and 2006, respectively.
- During the 2006 financial year, the Company sold its investment in Brumale, S.L. by means of a loan to a related party (Notes 9 and 10).
- At 31 December 2006, a government grant related to assets from the Ministry of Industry amounting to 4,546,364 euros had not yet been received in cash at year end (Notes 12 and 15).

23. Related party transactions

a) Parent company

The Company is controlled by Solaria DTL Corporación, S.L., which holds a 97.55% stake in the Company. In turn, the shares in Solaria DTL Corporación, S.L. are owned by the Díaz-Tejeiro Larrañaga family. Instalaciones Díaz Tejeiro, S.L. is a related company.

b) Related party transactions

	Euros	
	Expenses	Income
Solaria DTL Corporación, S.L.	933,057	-
Instalaciones Díaz Tejeiro, S.L.	1,068,908	82,001
	2,001,965	82,001

The expenses incurred by the Company with Solaria DTL Corporación, S.L. consist of management fees for administration services rendered. The expenses incurred with Instalaciones Díaz Tejeiro, S.L. relate to commercial transactions between the companies.

Income from Instalaciones Díaz Tejeiro, S.L. consists of interest income relating to a loan granted to the related party (Note 10, Note 20(f)).

c) Compensation paid to key management personnel and the Sole Administrator

The Company's Sole Administrator did not accrue or receive any remuneration during the 2006, 2005 and 2004 financial years, except for 114,162 euros received in 2005 as a salary. No advance payments, loans, pension commitments, retirement awards, life insurance or special indemnities have been granted to the Sole Administrator.

Salaries paid to key management personnel are as follows:

	Euros		
	2006	2005	2004
Salaries	1,030,541	240,023	55,144

During the first quarter of the 2006 financial year, key management personnel were employed by the Company, and their salaries amounted to 97,484 euros. From April 2006, management personnel were employed by the parent company, Solaria DTL Corporación, S.L. A management agreement was signed between the two companies relating to services rendered by key management personnel to the Company. In this regard, management fees amounting to 933,057 euros were incurred during the 2006 financial year relating to salary expenses of key management personnel (Note 23(b)).

The Company does not have any commitments relating to pensions or similar items with key management personnel. No advance payments, loans, retirement awards, life insurance or special indemnities have been granted.

d) Outstanding balances at year end arising from sales and purchases of goods and services

See Note 10 , "Loans to related parties"

In 2006, 2005 and 2004 it was not necessary to provide for any doubtful debts regarding loans granted to related parties.

e) Directors' shareholdings, positions and duties and activities

Although at the date of preparation of these annual financial statements the administrative body of the Company is a Sole Administrator (Mr Enrique Díaz-Tejeiro Gutierrez), during the first quarter of 2007, the necessary procedures were initiated to transform the Company into a public limited liability company, as explained in Note 27.

For the purposes of complying with the provisions of Article 127 ter 4 of the Spanish Companies Act, these notes to the annual financial statements include information relating to shareholdings and positions held by members of the Board of Directors of Solaria Energía y Medio Ambiente, S.L. in other companies with the same or similar activity as the activities carried out by the Company.

As reported to the Company, the relevant shareholdings held by members of the Board of Directors and senior management in other companies that have the same, similar or supplementary activity as the corporate objectives of the Company and the group of which it forms a part, are set out below, indicating the positions held or duties performed at those companies.

Name of Director	Company name	% shareholding	Position or duty
Enrique Diaz-Tejeiro Gutierrez	Solaria DTL Corporación, S.L	20%	Joint Administrator
	Instalaciones Díaz Tejeiro, S.L	50%	Joint Administrator
Enrique Diaz-Tejeiro Larrañaga	Solaria DTL Corporación, S.L	20%	Manager
Arturo Díaz-Tejeiro Larrañaga	Solaria DTL Corporación, S.L	20%	Manager
Miguel Diaz-Tejeiro Larrañaga	Solaria DTL Corporación, S.L	20%	Joint Administrator

24. Other information

a) Transactions carried out in foreign currency

Transactions carried out in foreign currency (US dollars) are as follows:

	Euros		
	2006	2005	2004
Purchases of fixed assets	2,403,204	544,609	263,113
Raw materials and consumables	4,250,985	-	-

b) Audit fees

The fees charged by the Company's auditor for audit services rendered amounted to 25,000 (*2005*: 16,000; *2004*: 14,000) euros. The fees charged by the Company's auditor for other services rendered amounted to 120,000 (*2005*: 0; *2004*: 0) euros.

c) Environmental matters

The Company takes into account environmental protection laws when carrying out its operations. The Company considers that it substantially complies with these laws and maintains procedures designed to encourage and guarantee compliance with such legislation.

The Company has adopted all appropriate measures with respect to the protection and improvement of the environment and the minimisation of any environmental impact of its activities, and complies with current legislation in this respect. During the 2006, 2005 and 2004 financial years, the Company did not make any investments of an environmental nature, and did not incur any expenses relating to the protection and improvement of the environment. Therefore, it was not considered necessary to make any provision for environmental risks or expenses, since there are no contingencies relating to the protection and improvement of the environment or any environmental liabilities.

25. Guarantees

a) Bank guarantees

The breakdown of bank guarantees provided by the Company in existence at the year ends under consideration are as follows:

				Euros
Beneficiary	Item	2006	2005	2004
Municipality of Puertollano	Construction at La Nava II industrial estate	6,000	-	-
Municipality of Puertollano	Construction in Puertollano	6,000	-	-
Banco Cooperativo Español (Note 18)	Interest rate swap	300,000	-	-
Instituto de Crédito Oficial	Counter guarantee for guarantees granted to CDTI	347,680	-	-
Ministry of Industry	Loan obligations (*)	500,000	-	-
CDTI (Note 15)	Repayable loan (1 guarantee)	26,800	-	-
CDTI (Note 15)	Repayable loan (12 guarantees – 26,740 euros)	320,880	-	-
Ministry of Industry (Note 15)	Repayable loan	400,000	400,000	-
Ministry of Industry (Note 15)	Repayable loan	861,052	861,052	-
Foreign commercial transactions	Foreign letter of credit (**)	1,768,200	-	-

(*) Relates to a loan totalling 500,000 euros that has yet to be granted at the year end by the Ministry of Industry relating to the Project "Manufacture of photovoltaic modules and cells".

(**) The Company has obtained a facility relating to the import of goods from Caja Rural de Ciudad Real totalling 3,400,000 euros, bearing interest at the Euribor rate plus 0.9%. An amount of 1,794,264 euros has been drawn down, of which 26,064 euros (Note 16) relates to importation prepayments and 1,768,200 euros relates to a foreign letter of credit. This letter of credit relates to an irrevocable agreement signed between the Company and Spire Corporation for the acquisition of certain fixed assets relating to the Company's cell production line. This agreement amounts to 3 million US dollars and matures on 20 June 2007. To cover fluctuations in the euro/US dollar exchange rate, the Company has entered into a forward exchange contract (Note 18).

b) Warranties

i) Warranties relating to turnkey contracts

The Company guarantees the rectification of defects and faults arising from the construction of photovoltaic plants, provided they are directly attributable to the work performed by the Company. The warranty exists for a period of three years from the date of final delivery of the photovoltaic plant.

The warranties assumed by the Company with respect to the products and materials supplied in the construction of the plants are covered and limited by the warranties granted by the manufacturers of the materials concerned.

At the year end, it was not necessary to make a provision for warranties relating to turnkey contracts, as all such projects are currently under construction and have not yet been delivered to customers.

ii) Operating and maintenance contract warranties

During the 2006 financial year, the Company concluded 23 operating and maintenance contracts relating to turnkey projects with clients. As the constructor of the plants and the party rendering operating and maintenance services, the Company guarantees an output of 90% of the estimated production capacity of the photovoltaic plants during the period in which the operating and maintenance agreement is in existence (5 years).

Every five years, the electricity generated by the photovoltaic plant will be measured, and if this commitment has not been met, the Company will be liable to reimburse the owner for income not generated by the plant up to the level of guaranteed output of 90%.

At the year end, it was not necessary to make a provision for warranties relating to operating and maintenance contracts, since Company has not incurred any obligations to date with respect to the contracts in existence.

iii) Warranties relating to the sale of modules

The Company provides all customers with a standard warranty certificate for photovoltaic modules that includes a guarantee relating to defective materials or manufacturing defects, and a capacity guarantee.

During the first three years, the Company guarantees that its modules will be free from defective materials or manufacturing defects that affect their normal operation under proper usage, installation and maintenance conditions. Where this is not the case, the Company is obliged to replace or repair the defective module.

From the date of sale of the module, the Company guarantees a minimum output based on the technical specifications of the agreement, and will deliver modules equivalent to any lost capacity, which will be repaired or replaced as follows:

Years elapsed since date of sale	Guaranteed output
Up to 25 years	80%
Up to 10 years	90%

During the first quarter of 2007, the Company concluded a significant agreement relating the sale of modules, in respect of which it offers certain warranties that differ from the standard guarantees mentioned above, as follows:

i) Capacity warranty

From the date of sale of the modules, the Company guarantees a minimum output based on the technical specifications of the agreement, and will deliver modules equivalent to any lost capacity, which will be repaired or replaced as follows:

Years elapsed since date of sale	Guaranteed output
Up to 2 years	100%
Up to 12 years	90%
Up to 25 years	80%

In addition, by means of photoflash certificates from the manufacturer, the Company guarantees that the peak capacity of each module is equal to the contracted capacity, with a maximum allowable variance of +/- 3%.

ii) Warranty relating to materials

The Company provides a three-year warranty as from the date on which modules are delivered to the customer, guaranteeing that they are free of any defective materials or manufacturing defects that would affect their normal operation.

If any of the modules are found to have a manufacturing defect, the Company is obliged to repair or replace the module within a certain period, or reimburse the customer for an amount equivalent to the market price in euros of the affected modules. Furthermore, the Company is obliged to maintain inventories of modules equivalent to 5 Kw during the three-year warranty period.

At the year end, it was not necessary to make a provision relating to these warranties, since Company has not incurred any obligations to date with respect to the sale of modules.

26. Other information

The Company has entered into the following commitments at the end of the 2006 financial year:

Property, plant and equipment

- On 15 December 2006, the Company concluded a contract with Spire Corporation to acquire 2 assemblers and 2 packagers with a total cost of 1,299,835 US dollars.

- Acquisitions of property, plant and equipment (mainly relating to the photovoltaic cell production line) amounting to 11,475,165 US dollars.

- On 12 April 2007, an agreement was signed with the Foundation for the Development of Puertollano (la Fundación para el Desarrollo de Puertollano(FUNDESCOP)), in terms of which FUNDESCOP is obliged to provide the professional technical assistance required by the Company relating to the construction of a factory for the manufacture of silicone wafers and cells in Puertollano, which will give rise to the creation of 120 jobs. As a result of this agreement and in line with the Municipal Regulation for investment incentives and creation of employment in Puertollano, as well as the coincidental disposal of certain land (with offers to purchase open to public tender) by the Puertollano Municipality, Solaria will be able to rely on the support of FUNDESCOP (by means of the issue of a favourable report) relating to the acquisition of this industrial land, with a total surface area of 62,722 m2 owned by the Municipality, situated on the Industrial Estate "La Nava III", at a price of 5 euros/m2. This benefit is obtainable on compliance with the following requirements:
  - The construction of industrial plant with an estimated surface area of 30,000 m2;
  - The creation of 120 jobs.

Raw materials

- Contract with Spire Corporation in terms of which the latter is obliged to supply the Company with 4.5 million silicon wafers, with a capacity of approximately 11.25 MW. The Company is not obligated to purchase these silicon wafers. This agreement will be in existence for three years.

- In addition, Spire Corporation is obliged to supply 3.75 MW of wafers in accordance with the contract for the acquisition of machinery to be used in the production of cells.

- On 2 March 2007, the Company signed an agreement with E-Ton relating to the supply of photovoltaic cells, with an initial duration of up to 31 December 2007. This agreement is automatically renewable on a year-by-year basis until 31 December 2008, 31 December 2009 and 31 December 2010.

Customers

- Commitments with customers to execute solar installation projects totalling 3.6 million euros.
- Contracts for the sale of photovoltaic modules amounting to 137.3 million euros.
- On 14 March 2007, the Ministry of Industry and Technology of Castilla La Mancha informed the Company of its appointment as Key Manager for the connection of Photovoltaic and Thermosolar projects to the electricity network in La Paloma (Ciudad Real).

27. Events after the balance sheet date

On 1 January 2007, the shareholders of Solaria Energía y Medio Ambiente, S.L. in general meeting approved the transformation of the status of the Company into a public limited liability company, as well as a share split of the issued share capital, by means of the exchange of 1,000 new shares with a par value of 0.01 euros each for every previously issued share with a par value of 10 euros each, thereby increasing the number of issued shares from 77,760 shares to 77,760,000 shares, but with no effect on the amount of share capital issued by the Company. The shares are owned by the same shareholders in the same proportion as their previous holdings before the adoption of the agreement to transform the status of the Company.

On 21 March 2007, the Company filed an application with the Madrid Mercantile Registry to transform its status from a private limited liability company to a public limited liability company, in accordance with a Resolution approved by a General Meeting of the Company's shareholders held on 1 January 2007.

On 26 March 2007, the Mercantile Registrar appointed an independent expert to issue the Company with the required non-monetary equity report. This report will be furnished within one month as from the date of acceptance of the appointment.

During February 2007, the Company paid a dividend out of the profits for the 2006 year amounting to 2,410,000 euros. This distribution was approved by the Sole Administrator on 15 January 2007.

The Company's Management is not aware of any other significant events after the balance sheet date which would affect these annual financial statements.

Solaria Energía y Medio Ambiente, S.L.

FORMULATION OF THE ANNUAL FINANCIAL STATEMENTS

On 14 May 2007, the Sole Administrator of the company Solaria Energía y Medio Ambiente, S.L. formulated the annual financial statements under International Financial Reporting Standards adopted by the European Union (IFRS-EU) for the financial years ended 31 December 2006, 2005 and 2004. The annual financial statements consist of the attached preceding documents.

SIGNATORIES: **SIGNATURE**

Sole Administrator
Name