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

Auditor's Report, Annual Accounts and Director´s Report as at December 31, 2006

PRICEWATERHOUSECOOPERS

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A free translation of the report on the annual accounts originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails

AUDITOR'S REPORT ON THE ANNUAL ACCOUNTS

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

We have audited the annual accounts of Solaria Energía y Medio Ambiente, S.A., consisting of the balance sheet as at 31 December 2006, the income statement and the related notes to the annual accounts for the year 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 annual accounts 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 annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

In accordance with Spanish Corporate Law, the Sole Administrator has presented, for comparative purposes only, for each item of the balance sheet, the income statement and statement of source and application of funds, the corresponding amounts for the previous year as well as the amounts for 2006. Our opinion refers exclusively to the annual accounts for 2006. On May 21, 2007, we issued our audit report on the 2005 abridged annual accounts, in which we expressed an unqualified opinion.

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 annual accounts for the year 2006 present fairly, in all material respects, the financial position of Solaria Energía y Medio Ambiente, S.A. as at December 31, 2006 and the results of its operations and its source and application of funds for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with generally accepted accounting principles in Spain, applied on a basis consistent with that of the preceding year.

The accompanying Directors' Report for 2006 contains the information that the Sole Administrator considers relevant to the company's position, the evolution of its business and of other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Report coincides with that of the annual accounts for 2006. Our work as auditors is limited to checking the Director's Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the company's accounting records.

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 SHEET AT 31 DECEMBER 2006 AND 2005

(In Euros)

ASSETS	31.12.06	31.12.05	LIABILITIES	31.12.06	31.12.05
FIXED ASSETS			**EQUITY**		
Intangible fixed assets	**125,368**	**98,092**	Share capital	777,600	777,600
Software	15,740	-	Reserves	46,588	23,585
Assets capitalized under finance leases	113,283	109,166	Profit for the year	5,504,524	23,003
Accumulated amortization	(3,655)	(11,074)		**6,328,712**	**824,188**
Tangible fixed assets	**7,106,173**	**2,118,271**			
Land and buildings	1,212,794	982,463	**DEFERRED INCOME**		
Machinery	1,014,012	1,005,592	Government grants related to assets	4,796,286	287,715
Plant and equipment	294,943	187,890	Other deferred income	388,799	388,061
Data-processing equipment	22,809	1,295		**5,185,085**	**675,776**
Fixtures and fittings	51,324	-	**NON-CURRENT**		
Vehicles	48,751	33,233	**LIABILITIES**		
Tangible fixed assets in course of construction	4,743,228	-	Borrowings with financial institutions	9,011,189	1,720,311
Accumulated depreciation	(281,688)	(92,202)	Finance leases	99,891	68,974
Investments	**20,270**	**587,332**		**9,111,080**	**1,789,285**
Loans to group companies	-	587,332			
Deposits	2,270	-			
Other loans	18,000	-			
Total fixed assets	**7,251,811**	**2,803,695**			
DEFERRED EXPENSES	**354,725**	**335,813**			
CURRENT ASSETS			**CURRENT LIABILITIES**		
Inventories	**17,655,387**	**125,280**	**Borrowings with financial institutions**	**7,628,493**	**421,317**
Raw materials and other supplies	12,923,886	125,280	Loans and other liabilities	7,603,538	392,901
Finished goods	4,731,501	-	Finance leases	24,955	28,416
Debtors	**9,609,399**	**291,457**	**Trade creditors**	**3,519,952**	**1,110,977**
Trade debtors for sales and services rendered	1,902,263	15,031	**Advance payments from customers**	**2,565,348**	-
Sundry debtors	64,405	3,457	**Other creditors**	**5,360,441**	**37,838**
Taxes refundable	2,519,393	272,969	Taxes payable	2,934,443	37,838
Government grants receivable	4,546,364	-	Fixed asset suppliers	2,424,826	-
Amounts owing by group companies	591,194	-	Accrued salaries payable	1,172	-
Provisions	(14,220)	-			
Current investments	**600,000**	**36,026**			
Fixed income securities	600,000	18,000			
Other short-term loans	-	18,026			
Cash and cash equivalents	**4,227,789**	**1,267,110**			
Total current assets	**32,092,575**	**1,719,873**	**Total current liabilities**	**19,074,234**	**1,570,132**
TOTAL ASSETS	**39,699,111**	**4,859,381**	**TOTAL LIABILITIES**	**39,699,111**	**4,859,381**

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SOLARIA ENERGÍA Y MEDIO AMBIENTE, S.L.

INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

(In Euros)

DEBIT	Year 2006	Year 2005	CREDIT	Year 2006	Year 2005
EXPENSES:			**INCOME:**		
Raw materials and supplies	9.182.816	53.686	**Net revenue**	19,146,563	698,866
Consumption of raw materials and other consumables	7.849.453	51.293	Sales	19,146.563	-
Other external expenses	1,333,363	2,393	Services rendered	-	698,866
Personnel costs	710,970	269,884	**Other operating income**	3,907	-
Wages, salaries and similar remuneration	573,282	259,196	Government grants related to income	3,907	-
Staff welfare expenses	137,688	10,688			
Depreciation and amortization expense	209,662	96,966			
Changes in impairment provisions against current assets	14,220	-			
Other operating expenses	622,132	249,121			
External services	594,430	242,721			
Taxes and duties	27,702	6,400			
OPERATING PROFIT	8,410,670	29,209	**OPERATING LOSS**	-	-
			Income from negotiable securities and		
Financial expenses	234,839	25,169	**loan assets**	2,144	-
Other financial expenses	51,079	-	From non-group companies	2,144	-
Losses arising from exchange differences	518	7,860	**Other interest and similar income**	159,597	27,119
			From group companies	82,001	22,991
			From financial institutions	77,596	4,128
			Gains on financial investments	51,877	-
			Gains arising from exchange differences	51,877	-
NET FINANCIAL INCOME	-	-	**NET FINANCIAL EXPENSE**	72,818	5,910
PROFIT ON ORDINARY ACTIVITIES	8,337,852	23,299	**LOSS ON ORDINARY ACTIVITIES**	-	-
			Government grants related to assets		
Loss on disposal of fixed assets	11,528	-	**recognized in income during the year**	89,199	9,543
Extraordinary expenses	3,120	-	**Extraordinary income**	2,334	19
NET EXTRAORDINARY PROFITS	76,885	9,562	**NET EXTRAORDINARY LOSSES**	-	-
PROFIT BEFORE TAXES	8,414,737	32,861	**LOSS BEFORE TAXES**	-	-
Corporate income tax expense	2,910,213	9,858			
PROFIT FOR THE YEAR	5,504,524	23,003	**LOSS FOR THE YEAR**	-	-

NOTES TO THE ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006
(Expressed in Euros)

1. Activity

Solaria Energía y Medio Ambiente, S.L. (hereinafter the Company) was incorporated on 27 November 2002. Its corporate objectives are as follows:

- Installation and repair of solar, thermal, photovoltaic, wind and any other type of renewable energy plants.
- 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.

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.

2. Basis of presentation

The annual accounts have been prepared based on the Company's accounting records and are presented in compliance with current Spanish Company Law and the Spanish General Accounting Plan, so as to provide a true and fair view of the Company's equity, its financial position and the results of its operations.

The figures contained in the balance sheet, income statement and in these notes to the annual accounts are stated in euros, unless otherwise indicated.

3. Accounting policies

a) Intangible fixed assets

Intangible fixed assets are recorded at the cost of acquisition or production cost.

Assets acquired under finance leases are recorded as intangible fixed assets when the terms of the lease imply that the assets should be capitalized. They are depreciated over their estimated useful lives on a straight-line basis at the same rates as those set for similar tangible fixed assets. Interest expenses relating to the transaction are recorded as Deferred expenses and recognized in the income statement over the term of the lease using financial criteria.

Software is amortized on a straight-line basis over 3 years.

b) Tangible fixed assets

Tangible fixed assets are recorded at acquisition or production cost. These assets are depreciated on a straight-line basis over their estimated useful lives as follows:

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

The costs of renewing, extending or improving these assets are capitalized only when they increase the capacity or productivity of the asset or extend its useful life. Where appropriate, the net book value of replaced assets is derecognized.

Repair and maintenance costs are expensed in the year in which they are incurred.

c) Investments

Equities that are not officially listed on a stock market are stated at acquisition cost less, where appropriate, any provisions necessary to reflect devaluations based on market prices.

d) Inventories

Inventories of raw materials are stated at their weighted average acquisition cost.

Inventories of finished goods are stated at production cost, which includes the cost of raw materials utilized and direct and indirect manufacturing costs.

In those circumstances in which the net realizable value of inventories is less than the weighted average cost of raw materials or the production cost of finished goods, the inventories are written down to net realizable value.

e) Trade and non-trade debtors and creditors

Debtors and creditors, whether resulting from the Company's operating activities or not, are recognized at their nominal value and classified as current or non-current in accordance with whether or not they fall due within one financial year. Any implicit interest included in the nominal or redemption value that falls due in more than one year is recorded as deferred income and recognized in income in accordance with the effective interest method.

The relevant provisions for impairment are made to cover the risk of bad debts.

Loan accounts are recognized based on at the amount of credit drawn down.

f) Transactions and balances denominated in foreign currency

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

Exchange differences that arise as a result of the year end valuation of debtors and creditors denominated in foreign currency are recorded as follows:

- Gains arising from exchange differences are recognized as deferred income and are recognized in the income statement in the year in which they are realized.

- Losses arising from exchange differences are immediately recognized in the income statement.

g) Corporate income tax

The income tax expense for the year is calculated based on profit before taxes as stated in the annual accounts, adjusted for any permanent differences arising from differences between accounting and tax criteria, bearing in mind any tax credits or deductions that are deemed applicable. Deferred tax assets and liabilities arising from timing differences in the recognition of income and expenses for accounting and tax purposes are recorded in the balance sheet until the underlying timing differences reverse.

The Company provides in full for all its deferred tax liabilities even though they may not be expected to reverse in the foreseeable future. Deferred tax assets are only recorded to the extent that it is reasonably certain that they will be realized within a maximum period of ten years, and beyond that period, only to the extent that there are compensating deferred tax liabilities.

Where the recovery of any unutilized tax losses is not considered to be certain, such tax losses are offset against taxable income in the year in which taxable profits arise. Unutilized tax losses are only recognized as a deferred tax asset if there is clear evidence that the Company will earn sufficient profits to ensure the recovery of the tax losses carried forward.

Deductible temporary differences are recognized as a deferred tax asset only if there are no doubts as to their recovery, and provided that this recovery will occur within the next 10 years.

h) Deferred income

Government grants related to assets

Government grants related to assets that do not have to be reimbursed are accounted for when they are officially granted and are recorded as deferred income. These government grants are recognized in the income statement over the period in which the related assets are depreciated.

Other deferred income

Subsidies relating to interest on loans obtained by the Company are recorded when officially granted and are recorded as deferred income. Such subsidies are recognized in the income statement over the term of the loan, in accordance with the effective interest method.

Interest-free loans received by the Company are accounted for in accordance with the requirements of Consultation No.3 of the Boletín Oficial del Instituto de Contabilidad y Auditoría de Cuentas (BOICAC) number 15, which indicates that interest expenses accrued each year should be quantified with reference to a market-related interest rate applicable to loans with similar terms to the interest-free loan. At the same time, income should be recognized arising from the government grant effectively conceded to subsidize the interest expense, in accordance with the conditions established in the loan agreement. The amount reflected in the balance sheet as Deferred expenses is the difference between the nominal amount of the loans and their present values, calculated by applying a market-related interest rate for similar loans, that is, the Euribor rate plus a spread. The other side of the entry, for the same amount, is recorded as Deferred income. Both the deferred expenses and the deferred income are recognized in the income statement over the term of the loan, in accordance with the effective interest method.

i) Provisions for risks and expenses

Potential future payments relating to probable obligations are accounted for by registering provisions for risks and expenses. Provisions are made when circumstances indicate the existence of an obligation, based on the estimated amount of the obligation.

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.

These provisions are accounted for based on the estimated value of future warranty claims arising from contracts concluded with customers referred to above, and are registered as an operating expense in the income statement.

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

j) Income and expenses

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.

For reasons of prudence, however, the Company only accounts for realized profits at the year end, while foreseeable risks and potential losses arising in the year or in prior years are recorded as soon as their existence is known.

To recognize income arising from contracts relating to 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.

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

k) Transactions with derivatives instruments

The Company's accounting policy is to make use of hedging instruments in order to significantly reduce or eliminate interest rate risk and exchange rate risk. Gains and losses relating to hedging transactions are recognized in the income statement on the same basis as the gains or losses arising from the underlying transaction whose risks are being covered, as follows:

- Losses are recognized as incurred.
- Gains are recognized when realized, on settlement date.

l) Environmental matters

Expenses arising from operations intended to protect and improve the environment are recorded as an expense in the year incurred. When these expenses relate to additions to tangible fixed assets intended to minimize the environmental impact of the asset and the protection and improvement of the environment, such expenses are capitalized as part of fixed assets.

4. Intangible fixed assets

Amounts and movements in the items included under this heading during the year are as follows:

				Euros
	Balance at 31.12.05	Additions	Transfers	Balance at 31.12.06
Cost				
Software	-	15,740	-	15,740
Assets capitalized under finance leases	109,166	150,655	(146,538)	113,283
	109,166	166,395	(146,538)	129,023
Amortization				
Software	-	3,636	-	3,636
Assets capitalized under finance leases	11,074	16,540	(27,595)	19
	11,074	20,176	(27,595)	3,655
	98,092			125,368

Additions to intangible fixed assets mainly relate to vehicles acquired under finance leases.

Lease liabilities are effectively secured, as the rights to the leased assets revert to the lessor in the event of default

Intangible fixed assets include assets capitalized under finance leases, as follows:

							Euros
				Installments paid		Installments outstanding at 31.12.06	
	Term of the lease	Investment	Purchase option value	2006	2005	Current	Non-current
Vehicles	48 monthly payments	37,985	838	33,063	7,439	-	-
Vehicles	48 monthly payments	40,148	874	34,946	7,863	-	-
Vehicles	48 monthly payments	31,033	668	29,380	2,670	-	-
Vehicles	48 monthly payments	36,631	739	39,342	-	-	-
Vehicles	60 monthly payments	49,928	934	934	-	11,208	44,845
Vehicles	60 monthly payments	61,275	1,146	1,146	-	13,747	55,046
		257,000	5,199	138,811	17,972	24,955	99,891

5. Tangible fixed assets

Amounts and movements in the items included under this heading during the year are as follows:

					Euros
	Balance at 31.12.05	Additions	Disposals	Transfers	Balance at 31.12.06
Cost					
Land	112,485	-	-	-	112,485
Buildings	869,978	230,331	-	-	1,100,309
Machinery	1,005,592	8,420	-	-	1,014,012
Plant and equipment	187,890	107,053	-	-	294,943
Data-processing equipment	1,295	21,514	-	-	22,809
Fixtures and fittings	-	51,324	-	-	51,324
Vehicles	33,233	15,518	(146,538)	146,538	48,751
Tangible fixed assets under construction	-	4,743,228	-	-	4,743,228
	2,210,473	5,177,388	(146,538)	146,538	7,387,861
Depreciation					
Buildings	8,482	28,664	-	-	37,146
Machinery	69,322	121,252	-	-	190,574
Plant and equipment	1,986	25,981	-	-	27,967
Data-processing equipment	451	3,223	-	-	3,674
Fixtures and fittings	-	2,646	-	-	2,646
Vehicles	11,961	7,720	(27,595)	27,595	19,681
	92,202	189,486	(27,595)	27,595	281,688
	2,118,271				7,106,173

The line item Land includes 71,194 euros relating to 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. 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.

Tangible fixed assets under construction include 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-ionization plant.
- Geothermal and engineering studies for the future construction of several additional warehouses.

Certain tangible fixed assets have been mortgaged as security for two loans from Caja Rural received by the Company (Note 13).

The Company has taken out a number of insurance policies to cover risks relating to tangible fixed assets. The coverage provided by these policies is considered to be sufficient.

6. Investments

Amounts and movements in the items included under this heading during the year are as follows:

				Euros
	Balance at 31.12.05	Additions	Transfers	Balance at 31.12.06
Loans to group companies	561,711	-	(561,711)	-
Interest on loans to group companies	25,621	-	(25,621)	-
Investment funds	-	18,000	-	18,000
Deposits	-	2,270	-	2,270
	587,332	**20,270**	**(587,332)**	**20,270**

The balance of Loans to group companies relates to the capital drawn down by the group company Instalaciones Díaz Tejeiro, S.L, in accordance with the current account agreement concluded with Solaria Energía y Medio Ambiente, S.L. The 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. For this reason the amounts owing have been transferred to current assets, Amounts owing by group companies (Note 8).

Additions to investment funds have arisen as a result of the renewal of the guarantees over the funds that the Company recorded as current investments at the end of the previous year. The renewal of these guarantees means that they now expire in 2009 and 2010 respectively. The fund guarantees a yield that covers 100% of the investment made, provided that the market value of the funds is less than the investment made.

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

7. Inventories

At year end this heading can be broken down as follows:

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

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.

8. Debtors

At the year end this heading can be broken down as follows:

	Euros
Trade debtors for sales and services rendered	1,902,263
Amounts owing by group companies (Note 6)	591,194
Sundry debtors	64,405
Government grants receivable (Note 12)	4,546,364
Taxes refundable (Note 15)	2,519,393
Provisions for impairment of trade debtors	(14,220)
	9,609,399

Trade debtors can be broken down as follows:

	Euros
Trade debtors for invoices yet to be issued	1,205,640
Debtors for retentions on contracts	504,900
Sundry trade debtors	191,723
	1,902,263

The amount recorded under Trade debtors for invoices yet to be issued relates in full to work carried out on photovoltaic projects, in respect of which income is recognized on a percentage of completion basis, as described in Note 3 j).

The line item Debtors for retentions on contracts consists of 5% of the total amounts invoiced to customers relating to installations of photovoltaic projects, receivable on final delivery of the projects.

The line item Sundry trade debtors mainly relates to debtors outstanding in connection with solar installation projects.

The heading Amounts owed by group companies can be broken down as follows:

	Euros
Amounts owed by group companies	20,170
Loans to group companies	463,402
Interest on loans to group companies	107,622
	591,194

The line item Amounts owed by group companies 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.

The line item Loans to group companies relates to amounts drawn down by Instalaciones Díaz Tejeiro, S.L, (group company), arising from the line of credit obtained from Solaria Energía y Medio Ambiente, S.L. on 1 January 2004. The maximum amount available is 1 million euros. 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 settle these balances with group companies prior to the date on which the IPO process mentioned in Note 1 is completed.

9. Current investments

The amount recorded under current assets as fixed income securities 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. Deferred expenses

Amounts and movements in the items included under this heading during the year are as follows:

Euros

	Balance at 31.12.05	Additions	Recognized in income statement	Balance at 31.12.06
Interest expense relating to finance leases	5,012	16,353	7,723	13,642
Ministry of Industry loan (Note 13)	225,872	-	28,583	197,289
Ministry of Industry loan (Note 13)	104,929	-	13,279	91,650
CDTI (Note 13)	-	52,144	-	52,144
	335,813	**68,497**	**49,585**	**354,725**

11. Equity

Amounts and movements in the items included under this heading during the year are as follows:

Euros

	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
Profits and losses	23,003	(23,003)	5,504,524	5,504,524
	824,188	**-**	**5,504,524**	**6,328,712**

Share capital

Share capital consists of 77,760 fully paid-up shares with a par value of 10 euros each.

At 31 December 2006, the distribution of share capital among shareholders was as follows:

	Number of shares	% shareholding
Solaria DTL Corporación, S.L.	75,860	97.56
Enrique Díaz-Tejeiro Gutiérrez	380	0.488
Mª Dolores Larrañaga Horna	380	0.488
Enrique Díaz-Tejeiro Larrañaga	380	0.488
Arturo Díaz-Tejeiro Larrañaga	380	0.488
Miguel Díaz-Tejeiro Larrañaga	380	0.488
Total	**77,760**	**100**

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.

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

These reserves are available for distribution.

Profit for the year

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

	Euros
Available for distribution	
Profit for the year	5,504,524
	5,504,524
Distribution	
Legal reserve	144,862
Voluntary reserves	2,949,662
Dividends	2,410,000
	5,504,524

12. Deferred income

Amounts and movements in the items included under this heading during the year are as follows:

	Euros			
	Balance at 31.12.05	Additions	Recognized in income statement	Balance at 31.12.06
IDAE (Note 13)	123,748	-	18,117	105,631
IDAE (Note 13)	163,967	-	19,676	144,291
Ministry of Industry (Note 8)	-	4,546,364	-	4,546,364
IDAE (Note 13)	24,687	-	4,115	20,572
IDAE (Note 13)	32,573	-	5,429	27,144
Ministry of Industry loan (Notes 10 and 13)	225,872	-	28,583	197,289
Ministry of Industry loan (Notes 10 and 13)	104,929	-	13,279	91,650
CDTI (Notes 10 and 13)	-	52,144	-	52,144
	675,776	4,598,508	89,199	5,185,085

Subsidies, assistance and government grants received by the Company are as follows:

Grantor	Euros	Purpose	Date granted
IDAE (Note 13)	123,748	Accelerated repayment of loan	26.10.2004
IDAE (Note 13)	163,967	Accelerated repayment of loan	14.04.2005
Ministry of Industry (Note 8)	4,546,364	Financing of fixed assets	17.01.2006
IDAE (Note 13)	28,801	Assistance relating to loan interest payments	26.10.2004
IDAE (Note 13)	38,002	Assistance relating to loan interest payments	14.04.2005
Ministry of Industry loan (Notes 10 and 13)	225,872	Interest-free loan	05.10.2005
Ministry of Industry loan (Notes 10 and 13)	104,929	Interest-free loan	26.07.2005
CDTI (Notes 10 and 13)	52,144	Interest-free loan	29.04.2006
	5,283,827		

Grant related to fixed 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 4,546,365.50 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 of 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 subsidized 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.

13. Borrowings with financial institutions

Set out below is a breakdown of borrowings with banks and other financial institutions at the year end:

						Euros
Company	Original amount	Type of transaction	Maturity date	Current	Non-current	Total
Caja Duero (i)	412,496	Loan	12-11-2011	33,600	155,213	188,813
Caja Duero (ii)	546,557	Loan	14-04-2012	44,400	224,771	269,171
CDTI	347,680	Loan	30-06-2013	53,480	294,200	347,680
Ministry of Industry (i)	400,000	Loan	30-11-2015	-	400,000	400,000
Ministry of Industry (ii)	861,053	Loan	15-12-2015	-	861,053	861,053
Caja Rural (i)	1,500,000	Loan	10-06-2013	214,284	1,178,564	1,392,848
Caja Rural (ii)	4,500,000	Loan	15-06-2016	-	4,500,000	4,500,000
Caja Madrid	1,800,000	Loan	23-10-2011	402,612	1,397,388	1,800,000
Accrued interest not paid				25,389	-	25,389
				773,765	9,011,189	9,784,954
Barclays Bank	56,053	Finance lease	29-12-2011	11,208	44,845	56,053
Barclays Bank	68,792	Finance lease	29-12-2011	13,747	55,046	68,793
				24,955	99,891	124,846
	Credit limit					
Caja Rural	2,000,000	Line of credit	25-05-2007	720,592	-	720,592
Caja Rural	2,000,000	Line of credit	02-03-2007	1,995,777	-	1,995,777
Banco Gallego	600,000	Line of credit	22-03-2007	494,580	-	494,580
Caja Madrid	1,150,000	Line of credit	22-03-2007	949,776	-	1,149,776
Caja Rural	150,000	High yield	-	44,670	-	44,670
Caja Rural	3,400,000	Importation facilities	-		-	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	-	7,029,773
Total				7,628,493	9,111,080	16,739,573

The lines of credit accrue interest at rates that vary between Euribor plus 1.25% and Euribor plus 0.4%.

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 12). In addition, IDAE granted the Company a subsidy for the interest accruing on this loan, amounting to 28,801 euros (Note 12).

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 Saving 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 12). In addition, IDAE granted the Company a subsidy for the interest accruing on this loan, amounting to 38,002 euros (Note 12).

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 reimbursable 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 18).

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 18) to cover the guarantees required relating to the above mentioned 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 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 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 18) 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 do 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 a rate of 3.605% from the commencement of the operation until the 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 exceeding 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 19.

Caja Madrid loan

On 23 October 2006, the Company obtained a loan from Caja Madrid amounting to 1,8000,000 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.

Non-current liabilities fall due as follows:

	Euros
Maturing in	
2008	784,801
2009	1,286,379
2010	1,607,807
2011	1,404,420
Thereafter	4,027,673
Total	**9,111,080**

14. Current liabilities

At the year end, this heading can be broken down as follows:

	Euros
Borrowings with financial institutions (Note 13)	7,628,493
Trade creditors	3,519,952
Advance payments from customers (Note 3.j.)	2,565,348
Other non-trade creditors	2,425,998
Taxes payable (Note 15)	2,934,443
Total	**19,074,234**

15. Taxation

The reconciliation between profit for the year and taxable income is set out below:

	Euros
Profit before taxes	8,414,737
Timing differences	(324,151)
Taxable income	8,090,586
Gross tax payable	2,825,695
Current tax expense	2,938,907
Deductions	12,726
Withholdings and interim payments made	27,807
Amount payable	**2,785,162**

The current tax expense reflected above is calculated by applying the appropriate tax rate to adjusted profit before taxes, and was reduced by 12,726 euros due to applicable tax deductions.

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 its calculation of the deferred tax liability arising from the application of unrestricted depreciation mentioned above, which totaled 15,967 euros, and is included in the line item "Income tax expense" in the income statement.

The breakdown of deferred tax assets and liabilities recorded by the Company is as follows:

	Euros		
	Balance at 31.12.05	**Additions**	**Balance at 31.12.06**
Deferred tax liability arising from application of unrestricted depreciation	-	97,245	97,245
	-	97,245	97,245

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 annual accounts.

The breakdown of Taxes payable and refundable at the year end is as follows:

	Euros	
	Taxes refundable	**Taxes payable**
Employee tax withholdings	-	15,243
Social Security contributions	-	34,035
Corporate income tax for 2006	-	2,785,162
Corporate income tax for 2005	19,527	-
Corporate income tax for 2004	11,575	-
Deferred tax liability	-	97,245
Value Added Tax	2,488,291	-
Capital withholding taxes	-	2,758
	2,519,393	**2,934,443**

16. Income and expenses

a) Analysis of net revenue

The Company's net revenue arising from ordinary activities was generated in Spain.

The classification of net revenue by type of product sold is as follows:

	Euros
Photovoltaic modules	10,041,071
Solar installation construction projects	9,105,492
	19,146,563

b) Consumption of raw materials and other consumables

	Euros
Purchase of raw materials and other consumables	25.379.560
Difference between opening and closing inventories	(17.530.107)
	7.849.453

c) Transactions with group companies

	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**

d) Transactions carried out in foreign currency (US dollars) are set out below:

	Euros
Purchases of fixed assets	2,403,204
Raw materials and consumables	4,250,985

e) Other external expenses

	Euros
Management fee for administration services rendered	933,057
Solar installation certificates	300,348
Aluminium cutting costs	52,742
Project technical fees	12,150
Other expenses	35,066
Total	**1,333,363**

f) Other operating expenses

At the year end this heading breaks down as follows:

	Euros
Lease and rental expenses	31,435
Repairs and maintenance	23,966
Independent professional services	46,273
Transport costs	16,808
Bank charges	85,528
Insurance premiums	25,541
Advertising expenses	28,331
Supplies	51,781
Security expenses	121,714
Other expenses	163,053
Taxes and duties	27,702
Total	**622,132**

g) Personnel costs

The breakdown of the heading Personnel costs at the year end is as follows:

	Euros
Wages, salaries and similar remuneration	573,282
Social Security expenses	137,688
	710,970

The number of employees at the 2006 year end was as follows:

	Men	Women	Total
Engineers	6	1	7
Graduates	4	-	4
Factory workers	56	10	66
Total	**66**	**11**	77

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

17. 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 minimization of any environmental impact of its activities, and complies with current legislation in this respect. During the year 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.

18. Guarantees

a) Bank guarantees

The breakdown of bank guarantees provided by the Company that are in existence at the year end are as follows:

Beneficiary	Item	Euros
Municipality of Puertollano	Construction at La Nava II industrial estate	6,000
Municipality of Puertollano	Construction in Puertollano	6,000
Banco Cooperativo Español (Note 19)	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 13)	Repayable loan (1 guarantee)	26,800
CDTI (Note 13)	Repayable loan (12 guarantees – 26,740 euros)	320,880
Ministry of Industry (Note 13)	Repayable loan	400,000
Ministry of Industry (Note 13)	Repayable loan	861,052
Foreign commerce transactions	Foreign letter of credit (**)	1,768,200

(*) Relates to 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 13) relates to importation prepayments and 1,768,200 euros relates to a foreign letter of credit. This letter of credit refers 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 3,000,000 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 19).

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:

a) 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%.

b) 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.

19. Financial instruments

a) Interest rate swap

In order to cover fluctuations in the interest rate applicable to the loans obtained from Caja Rural totalling 1,500,000 and 4,500,000 euros, respectively (Note 13), 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%, 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 18).

b) Foreign exchange contract

In order to reduce the risk arising from fluctuations in arising the euro/US Dollar exchange rate in relation to the letter of credit issued to Spire Corporation for a sum of 3,000,000 US dollars (Note 20), the Company has entered into a forward exchange contract with Caja Rural, with the following characteristics:

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

20. Other information

a) Remuneration paid to the Sole Administrator

The Company's Sole Administrator did not accrue or receive any remuneration during the 2006 financial year. The Company has not granted the Sole Administrator any advance payments, loans or pension commitments, retirement awards, life insurance or special indemnities.

b) Audit fees

The fees charged by the Company's auditor for audit services rendered amounted to 25,000 euros.

c) 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 for transforming the Company into a public limited liability company, as explained in Note 23.

For the purposes of complying with the provisions of Article 127 ter 4 of the Spanish Companies Act, these notes to the annual accounts 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 Díaz-Tejeiro Gutierrez	Solaria DTL Corporación, S.L	20%	Joint Administrator
	Instalaciones Díaz Tejeiro, S.L	50%	Joint Administrator
Enrique Díaz-Tejeiro Larrañaga	Solaria DTL Corporación, S.L	20%	Manager
Arturo Díaz-Tejeiro Larrañaga	Solaria DTL Corporación, S.L	20%	Manager
Miguel Díaz-Tejeiro Larrañaga	Solaria DTL Corporación, S.L	20%	Joint Administrator

d) Commitments

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

Tangible fixed assets.

- 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 tangible fixed assets (mainly relating to the photovoltaic cell production line) amounting to 11,475,165 US dollars.

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).

21. Transition to International Financial Reporting Standards

Article 107 of Law 62/2003 (30 December) on Tax, Administrative and Social Order Measures introduces a new provision (16) to Article 200 of the Spanish Companies Act, stipulating that companies that have issued securities listed on a regulated market in any Member State of the European Union and that, in accordance with current legislation, only publish separate annual accounts, must report on the potential effect of the application of International Financial Reporting Standards approved by the European Commission Regulations (IFRS-EU) on equity and profit for the year in the notes to the annual accounts. Given that, as mentioned in Note 1, the Company is involved in an initial public offering (IPO), the relevant reconciliations have been prepared in order to quantify the impact of the application of IFRS-EU.

Effect of the transition to IFRS-EU on equity:

	Euros Equity 31.12.06
Local accounting standards	**6,328,712**
Interest-free loans (i)	(18,634)
Hedging instruments (ii)	216,303
Tax effect of IFRS-EU adjustments (iii)	(59,434)
Equity under IFRS-EU	**6,466,947**

Effect of the application of IFRS-EU on 2006 profit for the year:

	Euros Profit 31.12.06
Local accounting standards	**5,504,524**
Interest-free loans (i)	216,303
Hedging instruments (ii)	(18,634)
Tax effect of IFRS adjustments (iii)	(59,434)
Profit for the year under IFRS-EU	**5,642,759**

(i) 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. However, under the Spanish General Accounting Plan, the implicit interest effect relating to 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.

At 31 December 2006, profit for the year was increased to reflect the reduction in operating expenses owing to the subsidization of such costs incurred in 2006, in accordance with the requirements of IFRS-EU.

(ii) Hedging instruments

Derivative instruments entered into by the Company to cover the risk of fluctuations in interest and exchange rates (Note 19) do not meet the requirements of IFRS-EU to be classified as hedging transactions for accounting purposes, and as a result, changes in their fair values are accounted for in the income statement. Under the Spanish General Accounting Plan, hedging instruments are accounted for on the accrual basis, with gains relating to hedging instruments being recognized in the income statement only on settlement, while losses are recognized in the income statement as they are incurred.

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

(iii) Tax effect of the adjustments

All of the adjustments arising from the application of IFRS-EU have been recorded taking into account their corresponding tax effect.

Exceptions to the retrospective application of IFRS-EU 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.

22. Statement of source and application of funds

	Euros			Euros	
APPLICATION OF FUNDS	**2006**	**2005**	**SOURCE OF FUNDS**	**2006**	**2005**
Acquisition of fixed assets:			Funds generated from operations	5,686,100	112,277
Intangible fixed assets	166,395	109,166			
Tangible fixed assets	5,177,388	1,913,521	Issues of share capital	-	475,280
Investments	20,270	545,782			
			Government grants related to assets	4,598,508	532,770
Increase in deferred expenses	68,497	337,664			
			Interest on long-term borrowings with financial institutions	7,321,795	1,278,710
			Transfer of investments to current assets	587,332	18,000
			Fixed asset disposals	107,415	-
TOTAL APPLICATIONS	**5,432,550**	**2,906,133**	**TOTAL SOURCES OF FUNDS**	**18,301,150**	**2,417,037**
Surplus of source over application of funds (increase in working capital)	**12,868,600**		**Surplus of application over source of funds (decrease in working capital)**		**489,096**
TOTAL	**18,301,150**	**2,906,133**	**TOTAL**	**18,301,150**	**2,906,133**

	Euros	
	2006	**2005**
Inventories	17,530,107	125,280
Debtors	9,317,942	68,108
Creditors	(17,504,102)	(1,447,038)
Current investments	563,974	(442,642)
Cash and cash equivalents	3,160,679	1,207,196
CHANGE IN WORKING CAPITAL INCREASE/ (DECREASE)	**12,868,600**	**(489,096)**

The reconciliation between profit for the year and funds generated from operations is as follows:

	Euros	
	2006	2005
Profit for the year	5,504,524	23,003
Depreciation and amortization expense	209,662	96,966
Government grants related to assets recognized in income	(89,199)	(9,543)
Deferred expenses recognized in income	49,585	1,851
Loss on disposal of intangible fixed assets	11,528	-
Total	**5,686,100**	**112,277**

23. 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 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 in General Meeting 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 accounts.

SOLARIA ENERGÍA Y MEDIO AMBIENTE, S.L DIRECTORS' REPORT FOR THE 2006 FINANCIAL YEAR.

Evolution of the Company in 2006

Profit for the year amounted to 5,504,524 euros, a significant increase in comparison with the previous financial year (23,003 euros), which was brought about the launch of the manufacture of photovoltaic solar panels.

Net revenue for the year amounted to 19,146,563 euros, and relates to sales of photovoltaic modules and revenue arising from turnkey constructions projects.

Funds generated from operations amounted to 5,686,100 euros. These funds partially financed the investment plan relating to the construction of two factory buildings, an office building and the two separate production lines for the manufacture of thermal solar panels and photovoltaic solar modules, that is, the continuation of the planned investments in the "Solaria Industrial Complex" on the industrial estate La Nava II in Puertollano

Share capital is made up of 77,760 shares with a nominal value of 10 euros each, completely paid-up and all having the same voting and economic rights. Equity amounted to 6,328,712 euros al 31 December 2006.

Management of financial risk

The Management of the Company manages and mitigates financial risk by means of the utilization of financing when investing in machinery and fixed assets, which increases the production capacity of the production lines and as a result, increases revenue generated by the financed investments. The management of the financing of the Company gives rise to an increase in the operating capacity of the Company.

Price risk of raw materials.

Management manages and mitigates the price risk of raw materials by means of contracts with suppliers, which enable the Company to renegotiate prices on quarterly basis.

Interest rate risk

The objective of the management of interest rate risk is to ensure that the Company does not incur unacceptable losses arising from the fluctuation in interest rates, and to optimize the management of interest rates.

To mitigate the risk of volatility in the interest rates relating to certain loans, the Management of the Company fixes these interest rates by means of hedging instruments.

Exchange rate risk

Exchange rate risk arises mainly with respect to agreements for the purchase of machinery and raw materials, especially silicon cells and silicon wafers.

To mitigate the risk of volatility in exchange rates against the euro, Management fixes the exchange rate for those transactions that have a maturity of more than 30 days, provided this is advisable in view of market conditions.

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.

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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 in General Meeting on 15 January 2007.

Future Outlook

The Company's objective is to expand its production lines during the 2007 year, until it has eight production lines for the manufacture of photovoltaic solar modules and two production lines for the manufacture of thermal solar panels. The Company also expects to launch its first production line for the manufacture of photovoltaic solar cells during the last quarter of the 2007 financial year.

Technological Innovation Activities

The technological innovation activities carried out by the Company during 2006 were concentrated in the development of a thermal solar panel, and in the improvement of the efficiency of the production of photovoltaic solar panels. The Company also worked on the development of the future production line for the manufacture of photovoltaic solar cells.

Treasury shares

At the 2006 financial year end, the Company did not have any treasury shares on hand.

Solaria

Solaria Energía y Medio Ambiente, S.L.

PREPARATION OF THE ANNUAL ACCOUNTS FOR 2006

On 29 March 2007, the Sole Administrator of the company Solaria Energía y Medio Ambiente, S.L. formulated the annual accounts and the Directors' Report for the financial year ended 31 December 2006. The annual accounts consist of the preceding documents, in compliance with the requirements established by Article 171 of the Spanish Companies Act and Article 37 of the Code of Commerce.

SIGNATORIES: **SIGNATURE**

Sole Administrator
Name