# SOLARIA ENERGÍA Y MEDIO AMBIENTE, S.A.

Auditor's Report, Annual Accounts and Director's Report as at December 31, 2008

PRICEWATERHOUSECOOPERS

Paseo de la Castellana, 43
28046 Madrid
Tel. +34 902 021 111
Fax +34 913 083 566

## AUDIT REPORT ON THE ANNUAL ACCOUNTS

To the shareholders of Solaria Energía y Medio Ambiente, S.A.

We have audited the annual accounts of Solaria Energía y Medio Ambiente, S.A. consisting of the balance sheet at 31 December 2008, the income statement, the statement of changes in equity, the cash flow statement and the notes to the annual accounts for the year then ended, the preparation of which is the responsibility of the company's Directors. Our responsibility is to express an opinion on the 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 accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

The accompanying annual accounts for 2008 are the first that the Directors of Solaria Energía y Medio Ambiente, S.A. have drawn up under the General Chart of Accounts approved by Royal Decree 1514/2007. In this respect, in accordance with Transitional Provision 1, section 1, of that Chart of Accounts, these annual accounts are considered initial annual accounts and therefore do not include comparative figures. Note 2.3 to the annual accounts "Issues deriving from the transition to new accounting standards" contains the balance sheet and income statement included in the annual accounts approved for 2007 which were prepared under the General Chart of Accounts in effect in that year together with an explanation of the main differences between the accounting criteria applied in the previous year and those applied in the current year and the quantification of the impact resulting from this change in accounting standards on equity at the transition date, 1 January 2008. Our opinion refers solely to the accounts for 2008. On 22 February 2008 we issued our audit report on the annual accounts for 2007, prepared under generally accepted accounting principles and standards laid down by Spanish legislation in effect that year, in which we expressed an unqualified opinion.

As mentioned in Note 34 to the accompanying annual accounts, on 21 January 2009 Solaria Energía y Medio Ambiente, S.A. executed in a public deed the purchase and sale of the solar energy park located in Alhama (Murcia). The contract was signed with the Fotowatio Group and covered the sale of shareholdings in the subsidiary named Alhama Solar, S.L. and the construction of the solar energy plant at the same location. A maintenance contract for the plant with term of five years was also concluded. The operation amounted to approximately €45 million, which was collected in full on the above date.

In our opinion, the accompanying annual accounts for 2008 present fairly, in all material respects, the financial position of Solaria Energía y Medio Ambiente, S.A. at 31 December 2008 and the results of its operations, changes in equity and cash flows for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with applicable accounting principles generally accepted in Spain.

The accompanying Directors' Report for 2008 contains the information that the Company's Directors consider relevant to the Company's position, the development of its business and other matters and does not form an integral part of the annual accounts. We have verified that the financial information contained in the aforementioned Directors' Report coincides with that of the annual accounts for 2008. Our work as auditors is limited to checking the Directors' 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.

Original signed by Iñaki Goiriena Basualdu
Audit Partner

31 March 2009

PricewaterhouseCoopers Auditores, S. L. - R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3
Inscrita en el R.O.A.C. con el número 50242 - CIF: B-79031290

Solaria

CONTENTS OF THE ANNUAL ACCOUNTS FOR SOLARIA ENERGÍA Y MEDIOAMBIENTE, S.A.


| Note | | Page |
|---|---|---|
| | Balance sheet | 3 and 4 |
| | Income statement | 5 |
| | Statement of recognized income and expense. | 6 |
| | Statement of total changes in equity | 7 |
| | Cash flow statement | 8 |
| | Presentation of the financial statements | |
| 1 | General information | 9 |
| 2 | Basis of presentation | 10 |
| 3 | Accounting policies | |
| | 3.1 Intangible assets | 16 |
| | 3.2 Property, plant and equipment | 17 |
| | 3.3 Interest costs | 18 |
| | 3.4 Impairment losses on non-financial assets | 18 |
| | 3.5 Leases | 19 |
| | 3.6 Financial assets | 19 |
| | 3.7 Derivative financial instruments and hedges | 22 |
| | 3.8. Inventories | 24 |
| | 3.9 Cash and cash equivalents | 24 |
| | 3.10 Equity | 24 |
| | 3.11 Subsidies | 24 |
| | 3.12 Trade and other payables | 26 |
| | 3.13. Bank borrowings | 26 |
| | 3.14. Provisions | 26 |
| | 3.15 Employee benefits | 27 |
| | 3.16 Corporate income tax | 27 |
| | 3.17 Revenue recognition | 28 |
| | 3.18 Dividend distribution | 29 |
| | 3.19 Environment | 30 |
| | 3.20 Foreign currency transactions | 30 |
| | 3.21 Related-party transactions | 30 |
| 4 | Financial risk management | |
| | 4.1. Financial risk factors | 31 |
| | 4.2 Equity management and debt levels | 34 |
| | 4.3 Estimation of fair value | 35 |
| 5 | Intangible assets | 36 |
| 6 | Property, plant and equipment | 36 |
| 7 | Analysis of financial instruments | 39 |
| 8 | Shareholdings in Group, multigroup and associated companies | 41 |
| 9 | Loans to related companies | 42 |
| 10 | Derivative financial instruments | 43 |
| 11 | Inventories | 45 |
| 12 | Trade and other receivables | 45 |
| 13 | Cash and other cash equivalents | 46 |
| 14 | Capital and share premium | 46 |
| 15 | Reserves and Profit and loss account brought forward | 48 |
| 16 | Profit for the year | 49 |
| 17 | Measurement adjustments | 49 |
| 18 | Capital grants received | 50 |
| 19 | Bank borrowings | 52 |
| 20 | Trade and other payables | 60 |
| 21 | Deferred income tax | 61 |
| 22 | Income and expense | 63 |

| Note | | Page |
|---|---|---|
| 23 | Cash flows from operating activities | 66 |
| 24 | Cash flows from investment activities | 66 |
| 25 | Cash flows from financing activities | 67 |
| 26 | Contingencies | 67 |
| 27 | Commitments | 67 |
| 28 | Board of Directors and Senior Executive compensation | 68 |
| 29 | Other transactions with related parties | 69 |
| 30 | Environmental information | 69 |
| 31 | Auditors' fees | 69 |
| 32 | Other information | 70 |
| 33 | Segment information | 73 |
| 34 | Subsequent events | 75 |

SOLARIA ENERGÍA Y MEDIOAMBIENTE, S.A.
BALANCE SHEET AT 31 DECEMBER 2008 (Expressed in thousand euros)

| ASSETS | Note | At 31 December 2.008 |
|---|---|---|
| NON-CURRENT ASSETS | | 94,228 |
| Intangible assets | 5 | 6 |
| Property, plant and equipment | 6 | 70,066 |
| Long-term investments in group and associated companies | 8 | 12,922 |
| Equity instruments | | 12,922 |
| Long-term financial investments | 7 | 34 |
| Other financial assets | | 34 |
| Deferred tax assets | 21 | 11,200 |
| CURRENT ASSETS | | 305,506 |
| Inventories | 11 | 156,895 |
| Trade and other receivables | | 138,506 |
| Trade receivables for sales and services rendered | 12 | 27,371 |
| Trade receivables, Group and associated companies | 9 | 77,825 |
| Other debtors | 12 | 761 |
| Loans to employees | 12 | 2 |
| Taxes and social security refundable | 21 | 32,547 |
| Short-term financial investments | 7 | 55 |
| Other financial assets | | 55 |
| Cash and other cash equivalents | 13 | 10,050 |
| TOTAL ASSETS | | 399,734 |

Solaria

SOLARIA ENERGÍA Y MEDIOAMBIENTE, S.A.
BALANCE SHEET AT 31 DECEMBER 2008 (Expressed in thousand euros)

| EQUITY AND LIABILITIES | Note | At 31 December 2.008 |
|---|---|---|
| EQUITY | | 237,418 |
| Equity | | 237,927 |
| Capital | 14 | 1,011 |
| Share premium | 14 | 221,939 |
| Reserves | 15 | 41,171 |
| Legal and statutory | | 5,311 |
| Other reserves | | 35,860 |
| Profit for the year | 16 | (17,654) |
| Treasury shares | 14 | (8,540) |
| Measurement adjustments | 17 | (509) |
| Hedging operations | | (509) |
| NON-CURRENT LIABILITIES | | 35,474 |
| Long-term receivables | | 34,481 |
| Bank borrowings | 19 | 13,017 |
| Finance leases | 19 | 16,357 |
| Other financial liabilities | 18 | 5,107 |
| Deferred tax liabilities | 21 | 993 |
| CURRENT LIABILITIES | | 126,842 |
| Short-term borrowings | | 72,484 |
| Bank borrowings | 19 | 62,251 |
| Interest on bank borrowings | 19 | 1,113 |
| Finance leases | 19 | 340 |
| Derivative financial instruments | 10 | 1,957 |
| Other financial liabilities | | 6,823 |
| Trade and other payables | 20 | 54,331 |
| Trade payables | | 14,280 |
| Fixed asset suppliers | | 3,959 |
| Other creditors | | 27,461 |
| Accrued wages and salaries | | 321 |
| Other payables to public entities | | 509 |
| Advance payments from customers | 21 | 7,800 |
| Other current liabilities | | 1 |
| Short-term accrual accounts | | 27 |
| TOTAL LIABILITIES | | 399,734 |

Solaria

SOLARIA ENERGÍA Y MEDIOAMBIENTE, S.A.
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008 (Expressed in thousand euros)

| | Note | At 31 December 2.008 |
|---|---|---|
| CONTINUED OPERATIONS | | |
| Net revenues | 22 | 119,118 |
| Sales | | 118,881 |
| Services rendered | | 237 |
| Changes in inventories of finished products and work in progress | | 126,941 |
| Supplies | | (218,172) |
| Consumption of goods purchased for resale | 22 | (200,290) |
| Subcontracted work | | (17,886) |
| Impairment of goods to be resold, raw materials and other materials | | 4 |
| Other operating revenue | | 7 |
| Other income | | 7 |
| Personnel costs | 22 | (15,930) |
| Wages, salaries and similar remuneration | | (12,892) |
| Staff welfare expenses | | (3,038) |
| Other operating costs | | (31,566) |
| External services | 22 | (6,988) |
| Taxes | | (902) |
| Losses, impairments and changes in provisions for trade operations | 9 | (23,676) |
| Fixed asset depreciation | 5-6 | (1,729) |
| Attribution of subsidies for non-financial assets and other | 18 | 80 |
| OPERATING RESULTS | | (21,251) |
| Financial income | | 5,394 |
| Financial expense | | (5,464) |
| Change in the fair value of financial instruments | | (243) |
| Exchange differences | | (3,657) |
| FINANCIAL INCOME/EXPENSE | 22 | (3,970) |
| RESULT BEFORE INCOME TAX | | (25,221) |
| Corporate income tax | 21 | 7,567 |
| PROFIT/LOSS FOR THE YEAR | | (17,654) |

Solaria

SOLARIA ENERGÍA Y MEDIOAMBIENTE, S.A.
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE (Expressed in thousand euros)

| | Note | At 31 December 2.008 |
|---|---|---|
| A) Result recognized in the income statement | | (17,654) |
| For cash-flow hedges | 17 | 6,518 |
| Tax effect | 17 | (1,955) |
| B) Total revenues and expenses directly attributed to equity | | 4,563 |
| C) Result recognized in the income statement | | - |
| TOTAL RECOGNIZED INCOME AND EXPENSE | | (13,091) |

SOLARIA ENERGÍA Y MEDIOAMBIENTE, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

B) STATEMENT OF TOTAL CHANGES IN EQUITY (Expressed in thousand euros)

| | Equity | Share premium account | Legal reserve | Voluntary reserves | Treasury shares | Profit and loss brought forward | Profit for the year | Other equity instruments | Measurement adjustments | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| CLOSING BALANCE 2007 | 1,011 | 221,939 | 561 | 2,581 | | | 47,498 | | | 273,590 |
| Adjustment for transition to new accounting standards | | | | (7,503) | | | | | (5,072) | (12,575) |
| ADJUSTED OPENING BALANCE 2008 | 1,011 | 221,939 | 561 | (4,922) | | | 47,498 | | (5,072) | 261,015 |
| Total recognized income and expense | | | | | | | (17,654) | | 4,563 | (13,091) |
| Operations with shareholders or owners | | | 4,750 | 40,782 | (8,540) | | (47,498) | | | (10,506) |
| - Distribution of results | | | 4,750 | 42,748 | | | (47,498) | | | |
| - Trading in treasury shares (net) | | | | (1,966) | (8,540) | | | | | |
| Other changes in equity | | | | | | | | | | |
| CLOSING BALANCE 2008 | 1,011 | 221,939 | 5,311 | 35,860 | (8,540) | | (17,654) | | (509) | 237,418 |

SOLARIA ENERGÍA Y MEDIOAMBIENTE, S.A.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008 (Expressed in thousand euros)

| | Notes | Year ended at 31 December 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| | 23 | |
| Profit/(loss) before taxes | | (25,221) |
| Adjustments to profit/loss | | 29,454 |
| Changes in working capital | | (99,245) |
| Other cash flows from operating activities | | (26,210) |
| Cash flows from operating activities | | (121,222) |
| CASH FLOWS FROM INVESTING ACTIVITIES | 24 | |
| Amounts paid on investments | | (29,303) |
| Amounts collected from divestments | | 508 |
| Cash flows from investment activities | | (28,795) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| | 25 | |
| Collections and payments equity instruments | | (10,506) |
| Collections and payments financial liability instruments | | 17,410 |
| Cash flows from financing activities | | 6,904 |
| EFFECT OF FLUCTUATIONS IN EXCHANGE RATES | | 0 |
| NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS | | (143,113) |
| Cash and cash equivalents at beginning of the year | | 153,163 |
| Cash and cash equivalents at end of the year | | 10,050 |

SOLARIA ENERGÍA Y MEDIOAMBIENTE, S.A.

PRESENTATION OF THE FINANCIAL STATEMENTS FOR 2008
(Thousand euros)

## 1. General information

Solaria Energía y Medio Ambiente, S.A. (hereinafter SOLARIA or the Company) was incorporated on 27 November 2002.

Its corporate purpose principally consists of:

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

On 28 April 2008, SOLARIA moved its registered address to Madrid, C/ Velázquez, 47.

SOLARIA began the expansion of its activities in 2005 by building a plant to produce photovoltaic and thermal modules 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, the time as from which SOLARIA commenced production 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 plants through agreements covering the construction, installation and launch of photovoltaic solar plants. SOLARIA 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, SOLARIA started to design, produce and install thermal solar modules in buildings.

During the first quarter of 2007 SOLARIA began to construct a plant to produce photovoltaic cells and the first production line began operation during the final quarter of 2008.

In 2008 Solaria started to promote and develop photovoltaic solar plants for subsequent sale to third parties.

Continuing with its growth plans, on 28 march 2008 SOLARIA signed a real estate finance lease with Banco Popular covering the purchase of land and installations located in Fuenmayor (La Rioja) for the manufacture of photovoltaic modules. The adaptation of the new factory and the associated production lines ended in mid-2008, and modules began to be produced in August 2008.

In order to finance the aforementioned investments, SOLARIA issued a Public Share Offering (PSO) that ended on 19 June 2007 as is described in Note 13.

All of SOLARIA's shares are listed on the four official stock markets in Spain and on the continuous market since 19 June 2007.

## 2. Basis of presentation

The annual accounts have been prepared in accordance with the General Accounting Plan approved by Royal Decree 1514/2007 (16 November) and all other applicable legislation.

As is described in Note 10, Solaria owns shares in subsidiaries. As a result, the Company is the Parent of a Group of companies in accordance with current legislation. The presentation of consolidated annual accounts is necessary in accordance with accounting principles generally accepted in Spain in order to present a true and fair view of the Groups financial situation and the results of its operations, changes in equity and the Group's cash flows.

At 31 March 2009 Directors have prepared the 2008 consolidated annual accounts for Solaria Energía S.A. and subsidiaries under International Financial Reporting Standards adopted by the European Union (IFRS-EU), which reflect a consolidated loss totaling €21,462k and consolidated equity totaling €233,881.

The figures stated in the annual accounts are expressed in thousand euros, unless stated otherwise.

### 2.1. True and fair view

The annual accounts have been prepared on the basis of the accounting records kept by SOLARIA and are presented in compliance with current accounting legislation so as to provide a true and fair view of SOLARIA's net worth, its financial situation and the results of its operations. The cash flow statements have been prepared to faithfully reflect the origin and use of monetary assets representing cash and other equivalent liquid assets held by SOLARIA.

These annual accounts, which have been drawn up by the Directors of the SOLARIA, will submitted for the approval of the General Meeting and no modifications are expected to be made.

2.2. Comparability

The annual accounts for 2008 are the first that have been prepared in accordance with the General Accounting Plan approved by Royal Decree 1514-2007 (16 November) and SOLARIA transitioned to the new accounting standards in accordance with the provisions of that Royal Decree.

SOLARIA has considered 1 January 2008 to be its transition date and, as a result, it will not present comparative figures in these annual accounts.

2.3. Issues deriving from the transition to new accounting standards

With respect to the obligation established under Article 35.6 of the Commercial Code and for the purposes deriving from the application of the principle of uniformity and the requirement of comparability, the annual accounts at 31 December 2008 are considered to be initial annual accounts. The Company has chosen to not include comparative information for 2007 adapted to the 2007 GAP which has therefore been applied for the first time in 2008.

For informational purposes the balance sheet at 31 December 2007 and the income statement for the year then ended are presented below and are the last annual accounts prepared in accordance with the preceding accounting legislation.

Solaria

| ASSETS | 31.12.07 | LIABILITIES | 31.12.07 |
|---|---|---|---|
| ASSETS | | EQUITY | |
| Start up Costs | 10,719 | | |
| Intangible assets | 272 | Share capital | 1,011 |
| Computer software | 27 | Share premium | 221,939 |
| Finance leases | 283 | Reserves | 3,142 |
| Amort/Deprec. | (38) | Profit for the year | 47,498 |
| Property, plant and equipment | 32,488 | | 273,590 |
| Land and buildings | 5,093 | | |
| Machinery | 6,967 | DEFERRED INCOME | |
| Plant | 1,088 | Capital grants | 4,762 |
| Computer processing equipment | 71 | Other deferred revenues | 425 |
| Furnishings | 425 | | 5,187 |
| Vehicles | 48 | | |
| Property, plant and equipment under construction | 19,669 | LONG-TERM PAYABLES | |
| Amort/Deprec. | (873) | | |
| Investments | 34 | Bank loans and overdrafts | 14,772 |
| Guarantees on deposit | 15 | Finance leases | 214 |
| Other loans | 19 | | 14,986 |
| Total fixed assets | 43,513 | | |
| DEFERRED EXPENSES | 421 | | |
| CURRENT ASSETS | | SHORT-TERM PAYABLES | |
| Inventories | 34,786 | Bank loans and overdrafts | 43,931 |
| Raw materials and other supplies | | Loans and other liabilities | 43,868 |
| Raw materials and consumables | 27,535 | Finance leases | 63 |
| Finished products | 7,251 | Trade creditors | 35,438 |
| Debtors | 178,021 | Advance payments from customers | 8,367 |
| Trade receivables for sales and services rendered | 142,497 | Other creditors | 29,219 |
| Other debtors | 41 | Taxes and social security refundable | 22,000 |
| Taxes and social security refundable | 325 | Fixed asset suppliers | 7,075 |
| Subsidies receivable | 4,546 | Accrued wages and salaries | 144 |
| Amounts owed to Group companies | 30,612 | | |
| Current asset investments | 40,743 | | |
| Fixed income securities | 40,000 | | |
| Short-term interest | 508 | | |
| Other short-term loans | 235 | | |
| Cash | 113,163 | | |
| Accruals and deferred income | 71 | | |
| Total current assets | 366,784 | Total current liabilities | 116,955 |
| TOTAL ASSETS | 410,718 | TOTAL LIABILITIES | 410,718 |

Solaria

| DEBIT | FY 2007 | CREDIT | FY 2007 |
|---|---|---|---|
| EXPENSES: | | INCOME: | |
| Raw materials and consumables | 103,480 | Net revenues | 186,208 |
| Consumption of raw materials and other supplies | | Sales | 186,194 |
| consumables | 99,918 | Services rendered | 14 |
| Other external expenses | 3,693 | Other operating revenue | 176 |
| Volume discounts | (131) | | |
| Personnel costs | 8,173 | Operating grants | 176 |
| Wages, salaries and similar remuneration | 6,592 | | |
| Staff welfare expenses | 1,558 | | |
| Other staff welfare expenses | 23 | | |
| Depreciation charge | 1,847 | | |
| Change in trade provisions | (14) | | |
| Other operating costs | 3,188 | | |
| External services | 3,137 | | |
| Taxes | 51 | | |
| OPERATING PROFIT | 69,710 | OPERATING LOSSES | - |
| | | Income from negotiable securities and | |
| Financial expense | 2,625 | fixed asset loans | - |
| Other financial expenses | 304 | From non-Group companies | - |
| Losses on exchange | 1,007 | Other interest and similar income | 4,207 |
| | | From group companies | - |
| | | From credit institutions | 4,207 |
| | | Yield from financial investments | 171 |
| | | Gains on exchange | 171 |
| FINANCIAL INCOME | 442 | FINANCIAL EXPENSE | - |
| PROFIT FROM ORDINARY ACTIVITIES | 70,152 | LOSS FROM ORDINARY ACTIVITIES | - |
| | | Capital grants released to income during | |
| Loss on disposal of fixed assets | 9 | the year | 115 |
| Extraordinary expense | 1 | Profit on disposal of fixed assets | 6 |
| EXTRAORDINARY PROFIT | 111 | EXTRAORDINARY LOSS | - |
| PROFIT BEFORE TAXES | 70,263 | LOSS BEFORE TAXES | - |
| Corporate income Tax | 22,765 | | |
| PROFIT FOR YEAR | 47,498 | LOSS FOR THE YEAR | - |

The reconciliation of equity at 1 January 2008 (date of transition to the New General Accounting Plan) prepared in accordance with the 1990 GAP and Equity at that same date prepared in accordance with the new accounting standards established by Royal Decree 1514/2007 is set out below:

| | Thousand euro |
|---|---|
| | 01.01.08 |
| Equity according to the 1990 GAP | 273,590 |
| - Derivative financial instruments | (7,246) |
| - Start up Costs | (10,719) |
| - Tax effect | 5,390 |
| Total net equity according to the 2007 GAP | 261,015 |

a) This relates to the measurement of derivative financial instruments at fair value, in accordance with the 2007 GAP.
b) This relates to the elimination o the balance under Share capital increase expenses that under the 2007 GAP must be recorded as reducing equity.
c) This relates to the tax effect of the above-mentioned adjustments.

2.4. Key aspects of the measurement and estimation of uncertainty

When preparing the annual accounts for SOLARIA, the Directors have made estimates that are based on past experience and other factors that are considered to be reasonable in accordance with current circumstances in which constitute the basis on which the carrying value of assets and liabilities may be established, as these values are not easily calculated using other sources. SOLARIA reviews its estimates on a continuous basis. Despite the fact that these estimates have been made based on the best information available at the year-end, it is possible that events may take place in the future which will require them to be changed in future years.

Key future issues, as well as other information relating to the estimation of uncertainty at the year-end, which is associated with a notable risk of significant changes in the value of assets or liabilities next year are as follows:

a) Revenue recognition

SOLARIA follows the degree-of-completion method when recording turnkey projects it develops. Using this method requires that services carried out at each balance sheet date be estimated as a proportion of the total costs to be incurred on each project, such that this percentage is used to recognize revenues at the closing date for each balance sheet covering this type of projects.

b) Fair value of derivatives or other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. SOLARIA uses judgments to select a variety of methods and to develop assumptions that are primarily based on the market conditions existing at each balance sheet date. SOLARIA has used discounted cash flow analysis for several financial assets available for sale that are not traded on active markets.

c) Useful lives of property, plant and equipment

SOLARIA'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 high technology. It could change significantly as a result of technical innovations and competitor actions in response to future industry cycles. Management will increase the depreciation charge where useful lives are shorter than previously estimated, and write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

d) Deferred income

SOLARIA has obtained several grants to finance its investments. Given the different characteristics of each of the subsidies and credits received by the Company, the Management uses its judgment to calculate their amounts in those cases in which the grants relate to interests-free loans. In these situations, Management calculates the implicit interest on these loans by using an effective market interest rate to obtain the fair value of the loans. The difference between the nominal value and the fair value of the loans is considered to be deferred revenues that will be taken to the income statement in accordance with the item being financed by the loans. If involving an asset, the amounts will be taken to the income statement over the useful life of the asset concerned and if involving an operating expense the amount is taken to the income statement at the time the expense is accrued. Management evaluates compliance with all of the conditions established for obtaining the above-mentioned grants and considers that they have been met or will be met without any problem that would require SOLARIA to return part or all of the assistance granted.

e) Warranties

As is habitual practice in the industry, SOLARIA offers warranties for a certain number of years to its customers for the sale of modules as well as the development of the turnkey projects. Company Management uses its judgment to calculate the amount of provisions recorded for any possible warranty claims. Bearing in mind the fact that the Company was recently incorporated and the absence of any warranty claims to date, in order to calculate the warrantee provisions Management has fundamentally based its decision on the longer experience of other competitors and on the percentage of errors that occur during the testing of manufactured module effectiveness (Note 32.b).

f) Estimate of uncertainty

The future success of SOLARIA depends largely on its capacity to build the new plants and production lines using an efficient cost structure and in accordance with the schedule established in its business plan. The expansion of production capacity is subject to the risks and uncertainties inherent to a business project.

To efficiently manage the expansion of its activities, SOLARIA is improving its operating and financial systems, procedures and controls, as well as increasing its manufacturing capacity and the flow of finished products by improving the efficiency of its production lines (including the new production line for solar cells) and extending, training and adequately managing human resources undergoing strong growth.

Historical information regarding SOLARIA is limited since SOLARIA was incorporated at the end of 2002. Driven by quick growth in the solar energy sector, it has undergone higher rates of growth since it was incorporated, which has continued to date.

SOLARIA is significantly increasing its production installations, in order to increase its production of photovoltaic modules and thermal solar panels, as well as to start producing solar cells for use in the manufacturing of photovoltaic modules. Some of these installations are still being constructed or are in testing stages.

As a result of the entry into force of Royal Decree 1578/2008 (26 September), which regulates compensation for electricity production using photovoltaic solar technology at installations built after the deadline established for compensation stipulated under Royal Decree 661/2007 (25 May), the photovoltaic solar energy sector has slowed in the final quarter of 2008, although a recovery of the investment in the sector is expected in coming years.

## 3. Accounting policies

### 3.1. Intangible assets

In tangible assets consist of software and these items are capitalized based on their acquisition cost and the cost of preparing to use the specific program concerned. They are recorded at their acquisition cost less accumulated amortization and any relevant accumulated impairment. Software is amortized on a straight-line basis over its useful life, which is estimated to be three years.

*Intangible assets with an indefinite useful life*

Intangible assets with an indefinite useful life are not amortized. Impairment tests are performed annually and these items are stated at cost less any accumulated impairment losses.

SOLARIA does not have any intangible assets with an indefinite useful life at the balance sheet date.

*Research and development costs*

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following requirements are met:

- It is technically possible to complete production of the intangible asset such that it will be available for use or for sale;
- Management has the intention of completing the intangible asset in question, for use or for sale.
- There is the capacity to use or sell the intangible assets;
- It is possible to demonstrate the manner in which the intangible asset will generate probable profits in the future;
- Adequate technical, financial or any other type of resources are available to complete development and to use or sell the intangible of asset; and
- It is possible to reliably value the payments attributable to the intangible asset during development.

Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Development costs with a finite useful life that have been capitalized are amortized from the commencement of commercial production of the product on a straight-line basis over the period of its expected benefit.

SOLARIA did not incur research and development expenses in 2008.

3.2. Property, plant and equipment

Property, plant and equipment mainly records the plant and machinery that are necessary to manufacture thermal and photovoltaic modules. Property, plant and equipment is stated at acquisition costs, less any depreciation and accumulated impairment losses. Historic cost includes the expenses directly attributable to the acquisition of the items concerned.

Subsequent costs are included as an increase in the value of the asset or are recognized as a separate asset only when it is likely that the future profit associated with the items will flow to SOLARIA and the cost of the item may be reliably determined.

The book value of the replaced components is eliminated from the accounting records. All other repair 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 assign their costs to residual values relating to their estimated useful lives, as follows:

| | Years |
|---|---|
| Buildings | 33 |
| Machinery | 8 |
| Plant | 8 - 10 |
| Computer processing equipment | 4 |
| Furnishings | 10 |
| Vehicles | 6 |

The asset's residual values and useful life are reviewed, and adjusted if appropriate, at each balance sheet date. When the carrying value of an asset is higher than its estimated recoverable value, the carrying value is immediately reduced accordingly.

The profit or loss on the sale of property, plant and equipment is calculated by comparing the income obtained on the sale against the book value of the assets concerned, and the difference is included in the income statement.

3.3. Interest costs

Financial expense directly attributed to the acquisition or construction of property, plant and equipment that requires more than one year to be prepared for use are stated at cost until they are in a state of operation.

3.4. Impairment losses on non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Assets subject to amortization/depreciation are subjected to in impairment tests provided that some event or a change in circumstances indicates that the book value may not be recoverable. An impairment loss is recorded when the asset's book value exceeds its recoverable value, which is understood to be the fair value of the asset less the higher of selling costs or value-in-use. For the purposes of assessing impairment, assets are grouped together at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill which have suffered an impairment loss are reviewed at each balance sheet date for reversal of the loss.

3.5. Leases

a) Finance leases

The determination of whether or not a contract contains a lease is based on the analysis of the nature of the agreement, which requires evaluation of whether or not compliance with the agreement falls to the use of a specific asset and whether or not the agreement confers the right to use that asset to SOLARIA.

SOLARIA leases several vehicles and installations and land at the photovoltaic module plant in Fuenmayor (La Rioja) which was acquired in March 2008. The leases for property, plant and equipment, when SOLARIA substantially holds all risks and benefits deriving from ownership, are classified as finance leases. Finance leases are capitalized at the start of the lease period at the lower of the fair value of the leased property or the present value of the minimum payments due on the lease.

Each lease installment is distributed among liabilities and financial charges in order to obtain a constant interest rate applicable to the outstanding balance payable. The relevant lease obligations, net of financial charges, are included under Bank loans. The interest portion of the financial expense is charged to the income statement during the lease period such that a constant periodic interest rate is obtained with respect to the outstanding liability in each financial year. Assets acquired under finance leases are depreciated over their useful lives. Their useful life is the same as that for vehicles and non-leased premises, given that there are purchase options for these assets.

Therefore, there is reasonable certainty that SOLARIA will obtain ownership of the vehicles, installations and the land within the term of the lease.

b) Operating leases

Leases under which the lessor maintains a significant portion of the risks and benefits of ownership of the assets covered by the contract are classified as operating leases. The payments for operating leases are charged to the income statement on a straight-line basis over the term of the lease.

3.6. Financial assets

SOLARIA classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and accounts receivable, investments that are to be held to maturity, investments in group, multi-group and associated companies and available- for- sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management classifies its investments at the time of initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are investments held for trading. A financial asset is classified under this category if it was acquired mainly for the purpose of being sold in the short-term. Derivatives are also classified as acquired for trading unless they are designated as hedging instruments. Assets under this category are classified as current assets.

b) Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for assets maturing in more than 12 months of the balance sheet date that 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. A provision for impairment of trade receivables is established when there is objective evidence that SOLARIA will not be able to collect all amounts due according to the original terms of the receivables. The existence of significant financial difficulties on the part of the debtor, the probability that the debtor will enter into bankruptcy or financial reorganization and the default or delay in payments are considered to indicate that the receivable is impaired. 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 book value of the asset is reduced to the extent that the provision account is applied and the loss is recognized in the income statement under "impairment of short-term receivables". When a receivable cannot be collected it is written off against the provision for receivables. The subsequent recovery of amounts previously written off is recognized as an asset under "impairment of short-term receivables". Short-term Accounts Receivable, without any established interest rate, are stated at the amount of the original invoice when the effect of discounting is not significant.

c) Held-to-maturity financial assets

Investments held to maturity are non-derivative financial assets with fixed payments, or payments that may be determined, and established maturity dates for which SOLARIA's Management has the intention and the capacity to hold until maturity. If SOLARIA were to sell a significant amount of financial assets held to maturity, the complete category would be classified as available for sale. The held-to-maturity financial assets are included under non-current assets, except for those that mature within 12 months as from the balance sheet date, in which case they are classified as current assets.

d) Investments in the equity of group, multigroup and associated companies

This heading includes investments in the equity of companies over which control is held, over which joint control is held through a statutory or contractual agreement, or over which significant influence is held.

These items are stated at cost less any accumulated amount relating to impairment corrections. However, when there is an investment prior to being classified as a group, multigroup or associated company the carrying value before being so classified is considered to be a part of the investment cost. The prior measurement adjustments that are directly recorded under equity are maintained there until written off.

If there is objective evidence that the carrying value cannot be recovered all measurement adjustments that are necessary with respect to the difference between the carrying value and the recoverable amount are made, which is understood to be the higher of the fair value less selling costs and the present value of the cash flows deriving from the investment. Unless better evidence of the recoverable amount from investments is available, the estimate of the impairment of this type of assets will take into consideration the equity of the investee company as adjusted by any tacit capital gains existing at the measurement date. The measurement adjustment and, if appropriate, its reversal, is recorded in the income statement in which this operation takes place.

e) Available-for-sale financial assets

Available-four-sale financial assets include assets designated 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 the investment within 12 months of the balance sheet date.

*Carrying of financial assets*

Acquisitions and disposals of all financial assets are recognized at the trading date, i.e., on the date SOLARIA undertakes to acquire or sell the asset. Investments are recognized initially at fair value plus the transaction costs for all financial assets not carried at fair value through profit or loss Financial assets stated at fair value through profit and loss are initially recognized at their fair value and the 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 financial assets held to maturity are subsequently carried at their amortized cost in accordance with the effective interest rate method.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category 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 under equity. When the securities classified as available-for-sale are disposed of, or suffer impairment, the accumulated adjustments to fair value recognized under equity are included in the income statement.

The fair values of quoted investments are based on current purchase prices. Financial assets available for sale relating to unlisted securities are measured at cost, when there is insufficient financial information regarding the business plans and the financial perspectives that would allow for a solid measurement analysis using generally accepted techniques to determine the fair value of the asset, and no significant transactions have involved these assets.

At the balance sheet date, SOLARIA assesses whether there is objective evidence of impairment losses with respect to a financial asset or group of financial assets. For equity instruments classified as available for sale, in order to determine whether there are impairment losses, it will be necessary to examine whether there is a significant or protracted decline in the fair value of the securities to below cost. 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 in that financial asset previously recognized in results 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.

Investments are written off when the rights to receive cash flows from them have expired or have been transferred and SOLARIA has transferred substantially all the risks and benefits deriving from ownership.

3.7. Derivative financial instruments and hedging

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing 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. SOLARIA designates certain derivatives as:

(i) Fair value hedges of recognized liabilities (fair value hedge); or
(ii) Hedging o a specific risk associated with a recognized liability or a highly likely expected transaction (cash flow hedges).

SOLARIA documents at the inception of the transaction the relationship existing between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. SOLARIA also documents its evaluation from the start, and continuously thereafter, as to whether the derivatives being used in the hedging transactions are highly effective to offset changes in fair value or in cash flows from hedged items.

The total fair value of hedge derivatives is classified as an a non-current asset or liability if the residual term of the hedged item exceeds 12 months and as a current asset or liability if the residual term of the hedged item is less than 12 months. Traded derivatives are classified as a current asset or liability.

The fair values of derivative instruments used for hedging purposes are reflected in Note 10. Movements in the restatement reserve under equity are stated under Note 17.

a) Fair value hedge

Changes in the fair value 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 carrying the hedge, the book adjustment for a hedged item which is carried using the effective interest rate method is recognized through profit and loss during the period until maturity.

SOLARIA carries no fair value hedge transaction 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.

Accumulated equity amounts are taken to the income statement in the periods in which the hedged item affects results. The loss or gain relating to the effective portion of interest rate swaps that cover borrowings subject to a variable rate are recognized in the income statement under "financial expense". However, when the forecast transaction that is hedged 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 hedge instrument expires, is sold, or when it no longer meets the requirements or carrying the hedge, any accumulated gain or loss in equity up until that moment remains in equity and is recognized as a gain or loss when the planned transaction is finally recognized in the income statement. When the planned transaction is no longer expected to arise, the accumulated equity gain or loss is immediately transferred to the income statement.

SOLARIA records cash flow hedges at the balance sheet date (Note 10).

c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement. Increases in the fair value of interest rate and exchange rate derivatives are included under the heading "Financial Income" in the income statement. Decreases in the fair value of interest rate and exchange rate derivatives are included under the heading "Financial Expense" in the income statement.

SOLARIA has recorded transactions that do not qualify as derivative hedges at the balance sheet date (Note 10).

3.8. Inventories

Fundamentally include materials and finished products relating to photovoltaic solar and thermal modules, as well as the investment made by SOLARIA in photovoltaic solar plants that were not sold at the end of the year.

Inventories are measured at the lower of cost and net realizable value. The cost of raw materials is calculated using the average weighted acquisition cost. The cost of finished products (photovoltaic solar and thermal modules and photovoltaic solar plants) includes design costs, raw materials, direct labor, other direct costs and general manufacturing overhead (based on normal operational capacity), as well as interest expense, provided that the production period is over one year. The net realizable value is the estimated selling price in the ordinary course of business, less applicable variable costs of sales.

If a photovoltaic solar plant available for sale has been in operation for more than one year and there is no sales contract in place with third parties or similar agreements, it is classified as an asset.

3.9. Cash and cash equivalents

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

3.10. Equity

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.

When SOLARIA shares are acquired (treasury stock), the consideration paid, including any incremental cost directly attributable to that acquisition (net of corporate income tax) is deducted from the equity attributable to the shareholders of SOLARIA until written off, issued again or sold. When the shares are sold or are subsequently issued again, any amount received, net of any incremental cost of the transaction that is directly attributable and the corresponding corporate income tax effects, are included in equity attributable to the shareholders of SOLARIA.

3.11. Subsidies

Subsidies that must be repaid are recorded under liabilities until the conditions to consider them non-repayable are met whereas non-repayable subsidies are recorded as income directly attributed to equity and are recognized as income systematically and in proportion to the expenses deriving from the subsidy. Non-repayable subsidies received from shareholders are recorded directly in equity.

For these purposes, a subsidy is considered to be non-repayable when there is an individual agreement regarding the granting of the subsidy and all of the conditions established for that grant have been met and there are no reasonable doubts that the amount will be collected.

Monetary subsidies are stated at the fair value of the amount granted and non-monetary subsidies are stated at the fair value of the asset received, both values refer to the moment of recognition.

*Capital grants*

Non-repayable subsidies relating to the acquisition of property, plant and equipment, are recorded as income in the year in proportion to the depreciation/amortization of the assets concerned or, if appropriate, when the assets are sold, restated due to impairment losses or written off from the balance sheet.

*Interest subsidies*

Interest subsidies for loans granted are recorded as income directly under equity and are recognized as income based on the term of the loan, in accordance with financial criteria.

The attribution of capital grants and other deferred revenues is recognized under the heading "Attribution of subsidies for non-financial assets and other" in the income statement. They are not offset against the depreciation of the subsidized asset or against subsidized expenses.

*Interest free loans granted by official bodies*

The loans received by SOLARIA that do not accrue interest are recorded at their restated value (calculated using an effective market interest rate), and the difference generated at the initial moment between the nominal amount of the loan and its restated value is attributed as follows:

a) When the financing is to be used to acquire an asset, the above-mentioned difference is recorded as deferred income and taken directly to equity and the result for the year is attributed over the depreciation period for the financed assets.

b) In the event that the purpose of the assistance is to finance an expense associated with an investment project, the difference between the nominal amount of the loan and the restated value is recorded as income directly under equity and it is taken to the income statement as a reduction in the amount of this expense, as the subsidized expense is incurred. In those cases in which the subsidized expense has not yet accrued, this difference is carried as income directly attributed to equity and is taken to the income statement as a reduction of the relevant expense when it accrues.

*Non-monetary grants*

When SOLARIA receives a non-monetary grant, for example, the right to purchase an asset from a government body at a price lower than its fair value, subject to compliance with certain conditions, SOLARIA adopts the alternative of recognizing the asset at a symbolic amount which would be its acquisition cost.

3.12. Trade and other payables

Creditors and other payables are initially carried at their fair value and subsequently they are valued at the amortized cost using the effective interest rate method. Short-term payables with no established interest rate are stated at original invoice amount when the effect of the discount is not significant.

3.13. Bank borrowings

Borrowings are initially carried at fair value net of transaction costs. Borrowings are subsequently measured at amortized cost. Any differences between the funds obtained (net of necessary costs)

and their repayment value are recognized as a financial expense over the life of the debt applying the effective interest method.

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

3.14. Provisions

SOLARIA recognizes provisions when (i) it has a present legal or implicit obligation as a result of past events, (ii) it is likely that resources will have to be applied to settle the obligation and (iii) the amount may be reliably estimated.

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

Contingent liabilities are considered to be potential liabilities deriving from past events, the existence of which are subject to the occurrence of one or more future events that lie outside the control of the SOLARIA. These contingent liabilities are not recorded in the accounts but are described in the notes presenting the financial statements Note 26).

*Provisions for warranties*

SOLARIA grants customers warranties for the turnkey contracts covering photovoltaic plants, operating and maintenance contracts and contracts covering the sale of photovoltaic modules (Note 32.b)

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

These provisions are recorded at the estimated value of future claims deriving from previous contracts and charged against operating expenses.

3.15. Employee benefits

a) Pension and similar obligations

SOLARIA has no pension or similar obligations with its employees or management.

b) Severance indemnities

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. SOLARIA recognizes 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 provide severance indemnities as a result of an offer made to encourage voluntary redundancy. Benefits that will not be paid within 12 months of the balance sheet date are discounted to their present value.

3.16. Corporate income tax

Corporate income tax expense is the amount accruing in this respect during the year and includes both current tax expense (income) and deferred taxes.

Both current and deferred tax expense is recorded in the income statement. However, equity records the tax effect relating to items that are recorded directly under equity.

Current tax assets and liabilities are stated at the amounts that are expected to be paid to or recovered from the tax authorities in accordance with current legislation or legislation that has been approved but not yet published at the year-end.

Corporate income tax expense for the year is calculated based on pre-tax results stated in the annual accounts, increased or decreased by any differences between accounting and tax criteria, bearing in mind any tax credits or deductions that are deemed applicable.

Deferred income tax is calculated, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the annual accounts. However, if the deferred taxes arise from the initial recognition of a liability or an asset on a transaction other than a business combination that at the time of the transaction has no effect on the tax gain or loss, they are not accounted for. Deferred income tax is 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 tax assets are recognized insofar as future tax profits will probably arise against which to offset the temporary differences, as well as tax-loss carry forwards yet to be offset.

3.17. Revenue recognition

Income and expense are recorded on an accruals basis, i.e. in the period in which the income or expense deriving from the goods or services in question is earned or incurred rather than the period in which the cash is actually received or disbursed.

a) Recognition of sales

Sales include the fair value of consideration received or to be received on the sale of goods and services during the course of SOLARIA's ordinary business. Sales are presented net of value added tax, returns, and price reductions and discounts.

SOLARIA recognizes income when the amounts may be reliably determined, it is likely that future profits will flow to the company and the specific conditions for each of the company's activities are met, as is described below. Revenues from the sale of assets are recognized and carried in the income statement when the Company has transferred all substantial risks and benefits deriving from the ownership of the assets concerned to the buyer. It is deemed that sales amounts cannot be reliably determined until all contingencies relating to the sale have been resolved. The Company bases its estimates on historic results, bearing in mind the type of customer, the type of transaction and the specific terms of each agreement.

The sale of photovoltaic solar plants, whose assets are classified as inventories (Note 3.8) are recorded under the heading "Revenues" and at the same time inventories are eliminated by charging the heading "Change in inventories of finished products" in the income statement. In this case, the sales of electricity generated by the plants are considered to be "incidental income" and are recorded on an accruals basis under the heading "Other revenues" in the income statement.

In the case of a photovoltaic solar plants classified as an asset (Note 3.8", the revenue from sales of electricity is recorded on an accruals basis under the heading "Revenues" in the income statement.

b) Extent of completion

SOLARIA applies the extent of completion method for those firm sales agreements (construction, installation and launch of photovoltaic solar plants (turnkey projects)), that have the following characteristics:

a. Existence of a defined customer with a firm obligation, i.e. a commitment that binds both parties to comply with certain technical requirements, deadlines and other related specifications. This commitment obligates the customer to purchase if SOLARIA complies with the previously established conditions.

b. The amount of revenue may be measured reliably. In this case, contracts are for fixed prices and there are no abnormal risks involved with the project.
c. SOLARIA will likely receive the profits or financial yields deriving from the transaction. In any event, before concluding the agreement the solvency of the customer is analyzed in order to avoid reasonable doubts regarding future collections.
d. The extent of completion, at the end of each year, may be measured reliably.
e. The costs already incurred, as well as those yet to be incurred, may be reliably measured and may be compared with projected estimates.

When recognizing revenue deriving from these agreements SOLARIA uses the extent of completion method. This percentage is calculated based on total income established in the agreement and is determined as the ratio between the costs incurred to date and the total projected costs required to complete the project.

The difference between the amount of production and the amount invoiced to the date of the financial statements accounts is stated under Trade debtors for invoices yet to be issued, recorded under the heading "Trade and other receivables". In turn, the amounts invoiced in advance for various reasons (advance invoices to customers) are reflected on the liability side of the balance sheet under "Trade and other payables".

Where the results of a construction contract cannot be reliably estimated, contract revenues are only recognized up to the limit of contract costs incurred that are likely to be recovered. Where the results of a construction contract may 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 agreement cost will exceed the total revenues obtained, the expected loss is immediately recognized as an expense.

For those projects that do not meet all of the conditions necessary to recognize revenue in accordance with the extent of completion method SOLARIA recognizes revenue for these projects at the time that the assets are physically delivered.

c) Interest income

Interest income is recognized using the effective interest method.

3.18. Dividend distribution

Dividend distribution to shareholders is recognized as a liability in the financial statements in the year in which the dividends are approved by SOLARIA's shareholders.

3.19. Environment

Expenses deriving from business action taken to protect and improve the environment are recorded as an expense in the year incurred. When such expenses entail additions to property, plant and equipment the purpose of which is to minimize the environmental impact and protect and improve the environment, they are accounted for as an increase in the value of non-current assets.

3.20. Foreign currency transactions

a) Functional and presentation currency

SOLARIA's annual accounts are presented in euros, which is SOLARIA's functional and presentation currency.

b) Transactions and balances

Transactions in foreign currency are translated to the functional currency using the exchange rates in force at the transaction date. Foreign currency gains and losses resulting from the settlement of transactions and translation at the year- end exchange rates of monetary assets and liabilities denominated in foreign currency, are recognized in the income statement, unless they are deferred in equity as qualified cash flow hedges and qualified net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are compared against conversion differences resulting from the change in the securities' amortized cost and other changes in the carrying value of the security concerns. Exchange differences are recognized in the income statement for the year and other changes in the carrying value of recognized under equity.

Exchange differences in respect of non-monetary items such as equity instruments at fair value through profit or loss are presented as part of the fair value gain or loss. Translation differences in respect of non-monetary items such as equity instruments classed as available-for-sale financial assets are included in equity.

3.21 Related-party transactions

In general, transactions between group companies are recorded initially at their fair value. If appropriate, when the agreed price differs from the fair value the difference is recorded in accordance with the financial reality of the transaction. The subsequent valuation is applied in accordance with the provisions of the relevant rules.

Notwithstanding the above, in mergers, spin-offs and non-monetary contributions of a business the Company follows the following criteria:

a) In transactions between group companies involving the parent company or the parent of a sub-group and a direct or indirect subsidiary, the items constituting the acquired business are measured at their carrying value in the consolidated annual accounts for the group or sub-group after the transaction takes place.

b) In the case of transactions between other Group companies, the equity items making up the business are measured at their carrying value in the individual annual accounts before the transaction.
Any difference is taken to reserves.

## 4. Financial risk factors

### 4.1. Financial risk factors

SOLARIA's activities are exposed to several financial risks: market risk (including exchange rate risk, price risk and interest rate risk), credit risk and liquidity risk. The overall risk management program at SOLARIA focuses on the uncertainty of financial markets and attempts to minimize the potential adverse effects on its financial profitability. SOLARIA employs derivatives to hedge against exchange rate and interest rate risks.

Risk management is controlled by the Finance Department at SOLARIA. This Department identifies, evaluates and hedges against financial risk in collaboration with operating units at the Company.

a) Market risk

*i) Foreign exchange risk*

SOLARIA operates internationally and therefore is exposed to exchange rate risk on currency transactions, particularly the US dollar. The exchange rate risk derives from commercial transactions, fundamentally involving the purchase of machinery and raw materials abroad.

Financial management has established procedures that require the hedging of exchange rate risk in all transactions carried out by the Company in any currency other than the euro falling due in more than 30 days, provided that market conditions existing at the time of the transaction make this advisable.

The currency other than the euro with which SOLARIA currently operates is the US dollar. If at 31 December 2008 the euro had increased/decreased in value by 5% compared with the US dollar, with all other variables remaining the same, the effect on profits and equity would have been the following:

| | Thousand euro 2008 |
|---|---|
| Effect on pre-tax profits: | |
| +5% | - |
| -5% | - |
| | |
| Effect on pre-tax equity: | |
| +5% | (386) |
| -5% | 386 |

*ii) Price risk*

SOLARIA is exposed to market price risk affecting raw materials. Management handles this risk bearing in mind the market conditions in effect at the time the transaction takes place, by signing fixed price contracts.

*iii) Cash flow interest rate risk*

Since SOLARIA does not have significant remunerated assets, income and cash flows from its operational activities are very independent of the variances in market interest rates.

Interest rate risk affecting SOLARIA derives from long-term loans from credit institutions. Loans from credit institutions bearing interest at a variable rate expose SOLARIA to cash flow interest rate risk. SOLARIA's policy consists of using derivatives to hedge interest rate risk affecting loans indexed to a variable interest rate. All loans obtained by SOLARIA from credit institutions at a variable interest rate were denominated in euros.

SOLARIA manages cash flow interest rate risk using variable to fixed interest rate swaps. The economic effect of these interest rate swaps is the conversion of variable interest borrowings to fixed interest borrowings. Generally, SOLARIA obtains long-term borrowings at a variable interest rate and swaps for a fixed interest rate that is lower than would have been available if the company had obtained the borrowings directly at a fixed interest rate. Under the interest rate swaps, SOLARIA enters into a commitment with other parties to exchange, with certain regularity (generally quarterly), the difference between the fixed interest rates and the variable interest rates calculated based on the notional principal amounts contracted.

At 31 December 2008, and including the effect of contracted interest rate swaps, SOLARIA's debt structure is as follows:

| | Thousand euro |
|---|---|
| | 2008 |
| Fixed interest rate debt | 11,464 |
| Variable interest rate debt | 81,614 |
| Total | 93,078 |

The sensitivity of profits and equity to interest rates is as follows:

| | | Thousand euro | |
|---|---|---|---|
| | Increase/(decrease in the interest rate (in basis points) | Effect on pre-tax profits | Effect on pre-tax equity |
| 2008 | +10 | (10) | (21) |
| | -10 | 10 | 21 |

b) Credit risk

Credit risk derives from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as customers, including outstanding receivables and transaction commitments. Transactions are only carried out with financial institutions of recognized prestige and taking into account past experiences and other factors. In cases in which there is no independent credit rating of customers, the Finance Department evaluates the situation bearing in mind the financial position of the customer, past experience and other factors. SOLARIA does not have the policy of granting long-term loans to customers, except in exceptional cases.

At 31 December 2008 the trade receivables recorded by SOLARIA did not show any items in default.

The trade receivables and receivables from group and associated companies at 31 December 2008 show future maturities as follows:

| | 0 to 45 days | 45 to 90 days | 90 to 120 days | 120 to 180 days | More than 180 days | Total receivables |
|---|---|---|---|---|---|---|
| Trade receivables (Note 12) | 105,196 | - | - | - | - | 105,196 |

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Given the dynamic nature of the underlying businesses, the Finance Department at SOLARIA has the objective of maintaining financing flexibility through the availability of committed lines of credit.

Management monitors projections of the liquidity reserve recorded by AOLARIA based on expected cash flows.

4.2. Equity management and debt levels

SOLARIA's objectives with respect to equity management are to safeguard its capacity to continue as a going concern in order to obtain yields for shareholders and to maintain an optimal equity structure at reduced cost. SOLARIA's management monitors equity by applying the debt ratio. This ratio is calculated as equity divided by net debt. Net debt is calculated as all outside resources (including bank loans, creditors and other accounts payable, as shown in the balance sheet) less cash and cash equivalents. Equity consists of share capital plus reserves and undistributed results, as is reflected in the balance sheet.

SOLARIA's objective is to have adequate equity to obtain the financing necessary for expansion without compromising its solvency and maximizing yields that shareholders may obtain from their investments. The Company does not operate in sectors with specific capital requirements and it meets those established by general legislation (Spanish Companies Act) regarding minimum capital requirements.

The debt ratio at 31 December 2008 is as follows:

| | Thousand euro |
|---|---|
| | 2.008 |
| Long-term creditors (Note 19) | 29,374 |
| Short-term receivables (Note 19) | 63,704 |
| Derivative financial instruments (Note 10) | 1,957 |
| Borrowings | 95,035 |
| Less: Cash and cash equivalents (Note 13) | (10,050) |
| Net debt | 84,985 |
| Total equity | 237,418 |
| Debt ratio/Equity | 0.36 |

This year, due to the large investments made by SOLARIA in inventories of photovoltaic solar plants, the Company used cash and cash equivalents available last year for these investments, which gave rise to a change in the financial structure of SOLARIA.

4.3. Fair value estimation

The fair value of financial instruments traded in active markets (such as hedging instruments and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The market price used by SOLARIA for financial assets is the current buy price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions based on existing market conditions at each balance sheet date. Market prices for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate hedges is calculated as the present value of estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The book value less the provision for impairment of receivables and payables is assumed to approximate fair value, due to the nature of trade payables and receivables in the short-term. The fair value of financial liabilities for the purposes of presenting financial information is estimated by discounting future contractual cash flows at the current market interest rate available to SOLARIA for similar financial instruments.

## 5. Intangible assets

The breakdown of movements in items making up intangible assets is as follows:

| | | | Thousand euro |
|---|---|---|---|
| | Balance at 01.01.08 | Additions | Balance at 31.12.08 |
| Cost | | | |
| Computer software | 27 | 11 | 38 |
| | 27 | 11 | 38 |
| Amortization | | | |
| Computer software | (11) | (21) | (32) |
| | (11) | (21) | (32) |
| | 16 | | 6 |

At 31 December 2008, SOLARIA does not record any fully amortized intangible assets.

## 6. Property, plant and equipment

The breakdown of movements in items making up property, plant and equipment is as follows:

| | | | | | Thousand euro |
|---|---|---|---|---|---|
| | Balance at 01.01.08 | Additions | Disposals | Transfers | Balance at 31.12.08 |
| Cost | | | | | |
| Land and buildings | 5,093 | 17,510 | | | 22,603 |
| Machinery | 7,013 | 3,206 | (2) | 598 | 10,815 |
| Plant | 1,088 | 511 | | | 1,599 |
| Computer processing equipment | 71 | 53 | | | 124 |
| Furnishings | 50 | 66 | | | 116 |
| Vehicles | 286 | 1 | | | 287 |
| Other PPE | 374 | 7 | (3) | | 378 |
| Property, plant and equipment under construction | 19,669 | 17,775 | (181) | (598) | 36,665 |
| | 33,644 | 39,129 | (186) | 0 | 72,587 |
| Amortization | | | | | |
| Buildings | (70) | (383) | | | (453) |
| Machinery | (667) | (1,121) | 86 | | (1,702) |
| Plant | (75) | (132) | | | (207) |
| Computer processing equipment | (14) | (20) | | | (34) |
| Furnishings | (5) | (9) | | | (14) |
| Vehicles | (56) | (8) | | | (64) |
| Other PPE | (12) | (35) | | | (47) |
| | (899) | (1,708) | 86 | 0 | (2,521) |
| | 32,745 | | | | 70,066 |

The heading Land includes €72k relating to the fair value of a plot of land obtained by the Company from the municipality of Puertollano through the swap agreement dated 21 December 2005, under which the Company acquires the land on which it will install a 1 MW solar farm in exchange for the assignment of the income obtained from this farm to the municipality, equal to 5kW of installed capacity over 25 years. This value has been calculated by updating future income by applying a market interest rate. As consideration for the value of the land, SOLARIA has recorded a liability with the municipality of Puertollano in the same amount under the heading Trade and other payables which is updated regularly to reflect the financial effect. At the time this transaction is recorded no result was generated as the updated value of future income coincides with the fair value of the land. This solar plant was completed in 2008 and its delivery has yet to be formalized.

In addition, the heading Land recorded an amount of €41k that relates to the acquisition of a plot of land in the Industrial Estate La Nava II that SOLARIA acquired from the Municipality of Puertollano for the price of €1/m2, by virtue of the agreement concluded between SOLARIA and Fundescop and in application of the Municipal Incentive Regulations for investments that result in the creation of employment in Puertollano. According to that agreement, SOLARIA will carry out certain works and construct the installations necessary to build an industry dedicated to the manufacturing of thermal and photovoltaic solar panels and create 80 jobs within 24 months after the date on which the deed for the land was transferred. The difference between the acquisition cost of the land and its fair value is not significant.

Furthermore, there are several additions relating to the acquisition of land adjoining the factory totaling €895k which will be used to build solar plants.

The heading land and buildings includes €10,878k and €5,622k, respectively, relating to the value of the new reduction facility for photovoltaic modules located in Fuenmayor (La Rioja). This land was acquired under a finance lease from Banco Popular, through an agreement concluded on 28 March 2008.

Transfers and additions recorded under the heading Machinery relate to the extension and launch of various photovoltaic module production lines at those factories.

Tangible fixed assets under construction includes the following:

- Construction work for the new building for the cell manufacturing plant.
- Construction work for the building that will supply energy to then cell plant.
- Installation of machinery for the manufacture of photovoltaic cells.
- Construction of a de-ionization plant for the photovoltaic cell factory.
- Installation of machinery to expand the photovoltaic module plant.

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.

At 31 December 2008, SOLARIA does not record any fully depreciated property, plant and equipment.

a) Assets being acquired under finance leases

Vehicles, land and buildings in Fuenmayor, as well as production machinery, are property, plant and equipment that SOLARIA is acquiring under finance leases, the cost and accumulated depreciation of which is as follows:

| | Thousand euro |
|---|---|
| | 2008 |
| Capitalized finance lease cost | 16,783 |
| Accumulated depreciation | (317) |
| | 16,466 |

The vehicles themselves are the guarantee for the finance leases should the terms of the agreement fail to be met (Note 19).

b) Capitalized financial expense

The financial expense relating to property, plant and equipment acquired during the year and deriving from borrowings obtained to construct the factory and production lines etc. has been capitalized. These capitalized financial expenses totaled €360k and have been included under additions of property, plant and equipment under construction. In order to capitalize financial expenses that accrued before the launch of these assets, a capitalization rate of 5.47% has been used, which represents the average interest cost for the loans used by SOLARIA to finance these investments.

Solaria

7. Analysis of financial instruments

The carrying value at the year-end of each of the categories of financial instruments established under the measurement and accounting policy category "Financial Instruments", except investments in the equity of group, multigroup and associated companies (Note 8), is as follows:

a) Financial assets

| | | | | Thousand euro |
|---|---|---|---|---|
| Long term | Equity instruments | Debt securities | Taxes and social security refundable | Derivative loans and other |
| Other financial assets | | | - | 34 |
| Deferred tax assets (Note 21) | | | 11,200 | - |
| | | | 11,200 | 34 |

| | | | | Thousand euro |
|---|---|---|---|---|
| Short term | Equity Instruments | Debt securities | Taxes and social security refundable | Derivative loans and other |
| Other financial assets | | | - | 55 |
| Trade and other receivables (Note 9,12 and 21) | | | 32,547 | 105,959 |
| | | | 32,547 | 106,014 |

Other long-term financial assets

The balance of this heading includes investment funds maturing in 2009 and 2010. The fund ensures a yield covering 100% of the investment made, provided that the market value of the funds is less than the investment.

Other short-term financial assets

These items basically relate to guarantees provided for projects being executed in 2008.

b) Financial liabilities:

| Long term | Bank borrowings | Debentures and other marketable securities | Taxes and social security refundable | Derivatives and other |
|---|---|---|---|---|
| | | | | Thousand euro |
| Borrowings and other financial liabilities | 29,374 | - | - | 5,107 |
| Deferred tax liabilities (Note 21) | - | - | 993 | - |
| | 29,374 | - | 993 | 5,107 |

| Short term | Bank borrowings | Debentures and other marketable securities | Taxes and social security refundable | Derivatives and other |
|---|---|---|---|---|
| | | | | Thousand euro |
| Borrowings and other payables (Notes 19 and 20) | 63,704 | - | 509 | 60,672 |
| Hedging derivatives (Note 10) | - | - | - | 1,957 |
| | 63,704 | - | 509 | 62,629 |

Solaria

## 8. Shareholdings in Group, multigroup and associated companies

At 31 December 2008 shareholdings in group companies are as follows:

Thousand euro

| | Direct or indirect stake % | Carrying value | | | | | |
|---|---|---|---|---|---|---|---|
| | | Cost | Accumulated impairment | Capital | Reserves | 2008 profit | Total |
| Técnicas Ambientales del Norte, S.A. | 100% | 303 | - | 5 | 3 | 33 | 41 |
| Planta Solar Puertollano 1, S.L. | 100% | 3 | - | 3 | - | 9 | 12 |
| Planta Solar Puertollano 2, S.L. | 100% | 3 | - | 3 | - | 10 | 13 |
| Planta Solar Puertollano 3, S.L. | 100% | 3 | - | 3 | - | 11 | 14 |
| Planta Solar Puertollano 4, S.L. | 100% | 3 | - | 3 | - | 2 | 5 |
| Planta Solar Puertollano 5, S.L. | 100% | 3 | - | 3 | - | - | 3 |
| Planta Solar Puertollano 6, S.L. | 100% | 3 | - | 3 | - | (1) | 2 |
| Planta Solar Puertollano 7, S.L. | 100% | 3 | - | 3 | - | - | 3 |
| Planta Solar Puertollano 8, S.L. | 100% | 3 | - | 3 | - | - | 3 |
| Planta Solar Puertollano 9, S.L. | 100% | 3 | - | 3 | - | - | 3 |
| Planta Solar Puertollano 10, S.L. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 1, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 2, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 3, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 4, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 5, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 6, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 7, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 8, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 9, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 10, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 11, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 12, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 13, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 14, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 15, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 16, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 17, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 18, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 19, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Planta FV 20, S.L.U. | 100% | 3 | - | 3 | - | - | 3 |
| Magacela Solar 1, S.L. | 100% | 4,850 | - | 3 | 1 | 528 | 532 |
| Globasol Villanueva 2, S.L. | 100% | 4,950 | - | 3 | 1 | 566 | 570 |
| Alboma Solar, S.L. | 100% | 2,729 | - | 3 | - | 343 | 346 |
| | | 12,922 | - | 104 | 5 | 1,501 | 1,610 |

This information refers to the individual annual accounts at 31 December 2008 (not subject to mandatory audit)

None of the Group companies in which SOLARIA holds an interest are listed on a stock exchange.

Solaria

Acquisitions that took place in 2008 were as follows:

1. On 2 April 2008, SOLARIA acquired the ten companies called Planta Solar Puertollano 1 through 10, S.L. from Solaria DTL Corporación, S.L., paying €3k for each company, which is the amount equivalent to their share capital.

2. On 27 May 2008 SOLARIA acquired 100% of the shares in the companies Globasol Villanueva 1, S.L, Magacela Solar 1, S.L. and Alhama Solar 1, S.L.

3. Subsequently, on 3 June 2008 SOLARIA acquired the company Tecnicas Ambientales del Norte, S.A., paying €303k for 100% of the company's shares.

In addition to these acquisitions, on 1 August 2008 SOLARIA incorporated, as the single shareholder, 20 limited liability companies called Planta FV 1 through 20, S.L.U, each with share capital totaling €3k.

All the above-mentioned companies engage in the production of electricity under the special system using photovoltaic solar plants.

9. Loans to related companies

The heading Loans to related companies breaks down as follows:

| | Thousand euro |
|---|---|
| | 2008 |
| Short-term loans | |
| Receivables from related companies | 100,501 |
| Provision for bad debts | (22,676) |
| | 77,825 |

The heading "Receivables from associated companies" at 31 December 2008 includes the amount yet to be collected from Solaria DTL Corporacion, S.L. and relates to the agreements concluded with SOLARIA for the engineering and construction of a photovoltaic solar energy plant on a turnkey basis and with installed capacity of 11 MWp. Furthermore, this heading also includes the outstanding receivable from Alhama Solar, S.L., Globasol Villanueva 1, S.L. and Magacela Solar 1, S.L. for invoices relating to part of the construction of photovoltaic solar plants.

The provision for insolvencies relates to the balance receivable from the subsidiary Planta Solar Puertollano 8, S.L., which in 2008 received the return of a customer's project that had been started by SOLARIA the preceding year.

10. Derivative financial instruments

The breakdown of hedge instrument assets and liabilities at the end of 2008 is as follows:

| | Euro | |
|---|---|---|
| | 2008 | |
| | Asset | Liability |
| Fair value of derivatives not used for book hedges | | |
| - Interest rate | - | (1,229) |
| | - | (1,229) |
| Fair value of derivatives used for book hedges | | |
| - Interest rate | - | (247) |
| - Exchange rate | - | (481) |
| | - | (728) |
| Total | - | (1,957) |

a) Interest rate hedge

In order to protect against fluctuations in the interest rate applicable to the loans obtained from Caja Rural totaling €1,500k and €4,500k euros, respectively (Note 19), the Company has obtained an interest rate hedge from Banco Cooperativo Español, the main characteristics of which are as follows:

Initial notional amount: €5,893k
Maturity date: 12 December 2011
Variable I payer: Banco Cooperativo Español
Variable I rate: 6-month euribor
Variable II payer: Solaria Energía y Medio Ambiente, S.A.
Variable II rate: 3.96%, in the event that the euribor goes to 5%, there is a 0.10% credit.

The maturity dates for the derivatives are as follows:

| Year | Thousand euros |
|---|---|
| 2009 | 536 |
| 2010 | 857 |
| 2011 | 4,071 |

Caja Rural de Ciudad Real granted a €300k guarantee to Banco Cooperativo Español in SOLARIA's favor to respond to the obligations that may derive from the interest rate swap credit concerning the above-mentioned interest (Note 32).

In order to protect against fluctuations in the interest rate applicable to the loan obtained from Caja Madrid totaling € 6,000k (Note 19), SOLARIA has obtained an interest rate hedge from Caja Madrid, the main characteristics of which are as follows:

Initial notional amount: €6,000k
Fixed rate payer: Solaria Energía y Medio Ambiente, S.A.
Fixed rate: 4.63%
Variable rate payer: Caja de Ahorros y Monte de Piedad de Madrid
Variable rate: 6-month euribor
The maturity dates for the derivatives are as follows:

| Year | Thousand euros |
|---|---|
| 2009 | 600 |
| 2010 | 5,400 |

b) Foreign exchange hedge

In order to hedge against currency exchange rate fluctuations involving the euro and the US dollar in certain production machinery acquisition transactions projected in 2009, SOLARIA has obtained a hedge from Barclays, structured through a currency option with a knock out of €1,110. The main characteristics of this transaction are:

Initial notional amount: $8 million
Strike price: 1.310
Maturity date: 10 June 2009.

c) Derivatives that do not qualify for hedge accounting

SOLARIA has obtained an interest rate swap from Banco Popular with the following characteristics:

Initial notional amount: €16,500k
Fixed rate payer: Solaria Energía y Medio Ambiente, S.A.
Fixed rate: 4.985%
Variable rate payer: Banco Popular
Variable rate: 12-month euribor

The maturity dates for the derivatives are as follows:

| Year | Thousand euro |
|---|---|
| 2010 | 503 |
| 2011 | 896 |
| 2012 | 942 |
| 2013 | 991 |
| 2014 | 13,168 |

This interest rate swap does not qualify for hedge accounting since it is not highly efficient at the start of the hedge and in subsequent years.

11. Inventories

| | Thousand euro 2008 | | | |
|---|---|---|---|---|
| | Solar farms | Photovoltaic | Thermal | Total |
| Raw materials and other supplies | - | 14,151 | 589 | 14,740 |
| Finished products | 131,698 | 1,769 | 724 | 134,191 |
| Advance payments from suppliers | - | 7,964 | - | 7,964 |
| | 131,698 | 23,884 | 1,313 | 156,895 |

Raw material inventories in 2008 fundamentally relate to cells, glass, aluminum and other materials needed to manufacture photovoltaic modules.

Inventories of finished products mainly relate to constructed solar plants that have not been sold at the end of the year.

SOLARIA has taken out a number of insurance policies to cover risks relating to inventories. The coverage provided by these policies is considered to be sufficient.

12. Trade and other receivables

At the year end this heading breaks down as follows:

| | Thousand euro 2.008 |
|---|---|
| Trade receivables for sales and services rendered | 27,371 |
| Trade receivables, Group and associated companies (Note 9) | 77,825 |
| Other debtors | 761 |
| Loans to employees | 2 |
| Public entities (Note 21) | 32,547 |
| | 138,506 |

The balance of "Other debtors" relates to a fixed asset subsidy granted by the Ministry of Industry (Note 18), which had yet to be collected at the end of the year.

Details of Trade receivables are as follows:

| | Thousand euros 2.008 |
|---|---|
| Trade receivables for invoices yet to be issued | 5,786 |
| Receivables for guarantees retained | 642 |
| Trade receivables for trade bills | 4,621 |

| | |
|---|---|
| Trade receivables | 16,322 |
| | 27,371 |

The amount recorded under "Trade receivables for invoices yet to be issued" relate in full to work carried out on photovoltaic farms, for which the revenue is recognized on a degree of completion basis, as is described in Note 3.17.

The heading "Receivables for guarantees retained" relates to 5% of the total work invoiced for photovoltaic farm installation projects, which SOLARIA will collect at the time the warranty period ends.

At 31 December 2008 the heading "Trade receivables" mainly relates to the balance yet to be collected for solar farm installation projects.

At 31 December 2008 the balance of "Trade receivables for trade bills" relate to trade bills sent to customers for sales of photovoltaic modules and turnkey projects.

The book value of Trade and other receivables is similar to their fair value.

13. Cash and other cash equivalents

The balance of this heading at the end of 2008 relates to freely available balances in petty cash and banks.

14. Capital and share premium

Equity

Equity consists of 101,146,667 fully subscribed and paid registered shares with a par value of €0.01 each.

At 31 December 2008 Equity was distributed as follows:

| | Number of shares | Percentage Interest |
|---|---|---|
| Solaria DTL Corporación, S.L. | 62,235,544 | 61.53 |
| Treasury shares | 1,417,163 | 1.45 |
| Continuous market | 37,440,960 | 37.02 |
| Total | 101,146,667 | 100 |

In accordance with the resolution adopted by shareholders at the General Meeting held on 24 May 2007, the Board of Directors was authorized to acquire up to 5% of the share capital of SOLARIA for consideration at one or several times and within a period not to exceed 18 months. The minimum price will be the par value of the shares and the maximum price will be 100% of the listed price on the Continuous Market at the time of acquisition.

All of the shares in SOLARIA are listed on the four official stock markets in Spain and on the continuous market.

There are no restrictions on the transfer of shares.

On 1 January 2007 the Universal Meeting of Solaria Energia y Medio Ambiente, S.L approved the transformation of the Parent Company into a Public Limited Liability company and the splitting of the number of shares outstanding by transforming each current share with a par value of €10 each into 1,000 new shares with a par value of €0.01 each, thereby increasing the number of shares outstanding from 77,760 to 77,760,000, without changing the equity figure for Solaria Energía y Medioambiente, S.L. The shares were attributed to shareholders existing at the time of the split who owned to the previous shares in the same proportion as those owned before the Resolution to transform the shares was adopted.

On 21 March 2007 Solaria Energía y Medioambiente, S.L filed an application with the Madrid Mercantile Registry to transform the Company from a private limited liability company to a public limited liability company, in accordance with the Resolution approved by the Universal Meeting held by Shareholders of Solaria Energía y Medio Ambiente, S.L. on 1 January 2007.

The Universal Meeting and the Board of Directors of Solaria Energía y Medioambiente, S.A., at the meetings held on 24 May 2007 adopted, among others, resolutions regarding the change in the Company's governing body, the appointment of Directors and the application for SOLARIA's shares to be listed on the stock market.

On 15 June 2007 shareholders adopted a resolution to make a public share offering prior to listing Solaria Energía y Medioambiente, S.A. shares on the Spanish stock markets. Is therefore increased Solaria Energia y Medioambiente, S.A. share capital through a public share offering by €234k and the issue of 23,386,667 ordinary registered shares of the same class as those already in existence and with a par value of €0.01 per share and a share premium to be determined while the minimum subscription level was established at €50k.

In addition, the above amount for the public share offering may be increased by the shares involved with the purchase option "green shoe" granted to the companies that concluded the Underwriting and Placement Agreement relating to the Offer, involving a maximum of 3,508,000 existing shares with a par value of €0.01 per share, for a total nominal amount of €35k.

In addition to the share capital increase dated 19 June 2007, for accounting purposes the share premium was established at €9.49 per share, which represents a total of €210,006k (net of the share capital increase costs totaling 11,933k).

On 21 June 2007 the company's underwriting the public share offer fully exercised the purchase option involving 3,508,000 shares in Solaria Energia y Medio Ambiente, S.A. granted by Solaria DTL Corporación, S.L. by virtue of the Underwriting and Placement Agreement concluded on 18 June 2007, at a price of €9.50 per share.

On 12 November 2007 the majority shareholder of SOLARIA reached an agreement with Banco Español de Crédito, Morgan Stanley and Piper Jaffray to carry out a private placement among qualified investors and involving a package of approximately 10,114,000 shares in Solaria Energía y Medio Ambiente, S.A., representing approximately 10% of that company's share capital. This process was completed on 13 November 2007 at a price of €19 per share.

As a result of the above, share capital was established at 1,011,004 to €67, represented by 101,146,667 shares with a par value of €0.01 each and fully subscribed and paid in.

In accordance with the resolution adopted by shareholders at the General Meeting held on 24 May 2007, the Board of Directors was authorized to acquire up to 5% of the share capital of SOLARIA for consideration at one or several times and within a period not to exceed 18 months. The minimum price will be the par value of the shares and the maximum price will be 100% of the listed price on the Continuous Market at the time of acquisition.

All of the shares in SOLARIA are listed on the four official stock markets in Spain and on the continuous market.

At the end of 2008, SOLARIA's shares were listed at a price of €1.91 (2007: €21.48).

Treasury shares

On 18 February 2008, and through the execution of the Resolutions adopted by the Extraordinary and Universal Meeting of SOLARIA held on 24 May 2007, P. Board of Directors unanimously adopted a Resolution to acquire treasury shares in SOLARIA, at one or more times, in accordance with the terms and conditions established by the General Meeting and up to a maximum amount of €15,000k. In this respect, on 19 February 2008 SOLARIA concluded a Liquidity Agreement with Banesto Bolsa, S.V., S.A. in accordance with National Market Commission Circular 3/2007 (19 December) regarding count includes the Agreements for the purposes of their acceptance as a market practice. This agreement was renewed on 12 June 2008.

At 31 December 2008, SOLARIA holds a total of 1,470,163 shares with a total value of €8,540k.

Share premium account

The share premium account arose as a result of the public share offering and is freely available.

15. Reserves and Profit and loss account brought forward

Legal reserve

In accordance with the Spanish Companies Act, 10% of profits 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 capital in an amount equal to the portion of the balance that exceeds 10% of capital after the increase. Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, the legal reserve may only be used to offset losses.

Solaria

Voluntary reserves

This item relates to prior year profits not distributed by SOLARIA. These reserves are fully available.

16. Profit for the year

The proposal to be presented to the General Meeting regarding the distribution of 2008 losses is as follows:

| | Thousand euro |
|---|---|
| | 2.008 |
| Available for distribution | |
| Loss for the year | (17,654) |
| Application | |
| to Losses brought forward | (17,654) |

During 2008 no interim dividends were distributed.

17. Measurement adjustments

Movements in this provision during 2008 were as follows:

| | Thousand euro |
|---|---|
| | 2.008 |
| | Cash flow hedges |
| Balance at 1 January 2008 | 5,072 |
| Increases | 716 |
| Decreases | (7,234) |
| Tax effect | 1,955 |
| Balance at 31 December 2008 | 509 |

Solaria

18. Capital grants received

The breakdown of non-repayable capital grants that appear in the balance sheet under the heading "Subsidies, donations and bequests received" is as follows:

| Granting entity | Thousand euros | Purpose | Date granted |
|---|---|---|---|
| IDAE (Note 19) | 124 | Early repayment of the Caja Duero loan (I) | 26.10.2004 |
| IDAE (Note 19) | 164 | Early repayment of the Caja Duero loan (II) | 14.04.2005 |
| Ministry of Industry | 4,546 | Financing of fixed assets | 17.01.2006 |
| IDAE (Note 19) | 29 | Interest rate credit for the Caja Duero loan (I) | 26.10.2004 |
| IDAE (Note 19) | 38 | Interest rate credit for the Caja Duero loan (II) | 14.04.2005 |
| Ministry of Industry Loan (Note 19) | 226 | Financing of assets and subsidy of operating expenses | 05.10.2005 |
| Ministry of Industry Loan (Note 19) | 91 | Financing of assets and subsidy of operating expenses | 26.07.2005 |
| CDTI (Note 19) | 52 | Financing of assets and subsidy of operating expenses | 29.04.2006 |
| Ministry of Industry Loan (Note 19) | 131 | Financing of personnel costs | 09.01.2007 |
| | 5,401 | | |

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

Thousand euro

| | Balance at 01.01.08 | Additions | Disposals | Taken to income statement | Balance at 31.12.08 |
|---|---|---|---|---|---|
| IDAE | 91 | - | - | (14) | 77 |
| IDAE | 125 | - | - | (20) | 105 |
| Ministry of Industry | 4,546 | - | - | - | 4,546 |
| IDAE | 16 | - | - | (4) | 12 |
| IDAE | 22 | - | - | (5) | 17 |
| Ministry of Industry loan | 167 | - | - | (16) | 151 |
| Ministry of Industry loan | 66 | - | - | (6) | 60 |
| CDTI | 39 | - | - | (6) | 33 |
| Ministry of Industry loan | 115 | - | - | (9) | 106 |
| | | - | - | | |
| | 5,187 | - | - | (80) | 5,107 |

Fixed-asset subsidy from the Ministry of Industry

On 17 January 2006, the Ministry of Industry, Tourism and Commerce, through the Coal Mining Restructuring and Alternative Development of Mining Area Institute, informed the Company of the decision reached by the Project Evaluation Committee to grant the subsidy requested for the launch of a plant to manufacture thermal solar modules and photovoltaic cells. The investment considered eligible for the subsidy totals €22,732k and the amount of the subsidy granted totals €4,546k euros, which represents approximately 20% of the investment. This subsidy will be paid at the completion of the project, which is understood to mean that the investment has been made, the payment of the amounts invested, the justification of the level of self-financing, the creation of the number of jobs promised and the signing of the relevant verification documents. However, since it involves a project that will be executed over more than 12 months, taking into consideration that it commences at the date the assistance application is filed, payments on account may be requested in the amount of 25%, 50% and 75% of the investment made.

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

- SOLARIA must execute at least 10% of the investment eligible for the subsidy before 31 December 2005.
- The deadline for making the entire investment: 31 December 2007.
- Once the investment is made it must be maintained for a minimum of 5 years.
- 25% of the investment eligible for the subsidy must be self-financed, which must be proven when justifying the investment made.
- The subsidized project must maintain the job posts existing at the time the application is filed and, afterwards and before 28 February 2008, must generate ninety jobs that must be maintained until 28 February 2011.

In 2007 SOLARIA obtained a guarantee for the Ministry of Industry, Tourism and Commerce totaling €4,500k (Note 32) to collect 85% of the total subsidy granted.

On 10 December 2007 SOLARIA requested the early payment of 85% of the total subsidy in accordance with section 19 of the Order dated 17 December 2001 (published in a Official State Gazette on 5 January 2002), which regulates the concession of assistance to business projects that

generate employment. On 17 January 2008 SOLARIA obtained an advance payment, which was collected on 7 February 2008, and the remaining 15% remained outstanding.

19. Bank borrowings

As at 31 December 2008 balances with group and financial institutions are as follows:

Thousand euro

| Entity | Short-term | Long-term | Total |
|---|---|---|---|
| Bank borrowings | 2,695 | 11,311 | 14,006 |
| Amounts payable to official bodies | 234 | 1,706 | 1,940 |
| Total finance lease liabilities | 340 | 16,357 | 16,697 |
| Importation facilities | 60,435 | - | 60,435 |
| TOTAL | 63,704 | 29,374 | 93,078 |

At 31 December 2008 these payables related mainly to the financing of renewable energy investments and energy efficiency, as well as the development of the manufacturing of all of Solaria's product lines and segments. As is reflected in above table, these amounts have been obtained from several credit institutions and public bodies These loans were granted in prior years and are characterized by the fact that they accrue zero interest.

SOLARIA has obtained several lines of financing for the importation of production materials, particularly photovoltaic cells. These facilities are negotiated with the aim of contributing to the financing of the Company's expansion of production due to the extension of production capacity during 2008.

Loans existing at 31 December 2008 accrue interest at an annual average rate (euribor plus a spread) ranging between 4.50% and 5.35%. Therefore, the fair value of long-term borrowings approximates the carrying value.

All the Company's borrowings are denominated in euros.

SOLARIA does not have any lines of credit not drawn down at the year-end.

The breakdown of the limits and maturity dates of loans from financial institutions is as follows:

| Entity | Original amount | Transaction | Maturity date | Short-term | Long-term | Thousand euro Total |
|---|---|---|---|---|---|---|
| Financial institution 1 | 412 | Loan | 12/11/2011 | 38 | 80 | 118 |
| Financial institution 2 | 547 | Loan | 14/04/2012 | 50 | 128 | 178 |
| Financial institution 3 | 1,500 | Loan | 10/06/2013 | 214 | 750 | 964 |
| Financial institution 4 | 4,500 | Loan | 15/06/2016 | 323 | 4,178 | 4,501 |
| Financial institution 5 | 1,800 | Loan | 23/10/2011 | 357 | 775 | 1,132 |
| Financial institution 6 | 6,000 | Loan | 20/05/2014 | 600 | 5,400 | 6,000 |
| Accrued interest not paid | | | | 1,113 | - | 1,113 |
| Banks | | | | 2,695 | 11,311 | 14,006 |
| Financial institution 7 | 348 | Loan | 30/06/2013 | 54 | 188 | 242 |
| Financial institution 8 | 500 | Loan | 30/09/2016 | 0 | 500 | 500 |
| Financial institution 9 | 400 | Loan | 30/11/2015 | 57 | 280 | 337 |
| Financial institution 10 | 861 | Loan | 15/12/2015 | 123 | 738 | 861 |
| Public bodies | | | | 234 | 1,706 | 1,940 |
| Financial institution 11 | 56 | Finance lease | 29/12/2011 | 10 | 21 | 31 |
| Financial institution 12 | 69 | Finance lease | 29/12/2011 | 12 | 26 | 38 |
| Financial institution 13 | 60 | Finance lease | 17/01/2012 | 10 | 23 | 33 |
| Financial institution 14 | 81 | Finance lease | 03/11/2012 | 14 | 44 | 58 |
| Financial institution 15 | 34 | Finance lease | 18/09/2012 | 5 | 17 | 22 |
| Financial institution 16 | 8 | Finance lease | 18/09/2012 | 2 | 6 | 8 |
| Financial institution 17 | 11 | Finance lease | 18/09/2012 | 2 | 5 | 7 |
| Financial institution 18 | 16,500 | Finance lease | 28/03/2023 | 285 | 16,215 | 16,500 |
| Finance leases | | | | 340 | 16,357 | 16,697 |

| Entity | Original amount | Transaction | Maturity date | Short-term | Long-term | Thousand euro Total |
|---|---|---|---|---|---|---|
| | Limit granted | | | | | |
| Financial institution 19 | 6,500 | Import facilities | 18/10/2094 | 3,209 | - | 3,209 |
| Financial institution 20 | 20,000 | Import facilities | 29/04/2009 | 6,249 | - | 6,249 |
| Financial institution 21 | 21,500 | Import facilities | - | 12,967 | - | 12,967 |
| Financial institution 22 | 8,000 | Import facilities | 25/04/2009 | 7,394 | - | 7,394 |
| Financial institution 23 | 30,000 | Floating facility | 06/11/2009 | 7,228 | - | 7,228 |
| Financial institution 24 | 20,000 | Import facilities | 14/03/2009 | 13,395 | - | 13,395 |
| Financial institution 25 | 10,000 | Import facilities | - | 9,678 | - | 9,678 |
| Financial institution 26 | 10,000 | Line of credit | 03/11/2009 | 215 | - | 215 |
| Financial institution 27 | 10,000 | Line of credit | 10/12/2009 | 40 | - | 40 |
| Financial institution 28 | 21,960 | Line of credit | 07/05/2018 | 0 | - | 0 |
| Financial institution 29 | 990 | Line of credit | 10/07/2018 | 0 | - | 0 |
| Financial institution 30 | 150 | High yield | - | 60 | - | 60 |
| Importation facilities | | | | 60,435 | 0 | 60,435 |

Financial institution 1

On 12 November 2004 a loan was obtained from the Entity in accordance with the financing agreement "Financing of investments in renewable energies and energy efficiency". This line 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 totals €412k.

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 maintain the financed investment on its books for at least five years as from the date the agreement was concluded.

As a result of the financing facilities agreed between IDEA-ICO and financial institutions, IDEA granted the Company assistance covering the initial repayment of the loan, totaling €123k (Note 18). In addition, the IDEA granted SOLARIA a credit for the interest accruing on this loan, totaling €29k (Note 18).

Financial institution 2

On 14 April 2005 a loan was obtained from the entity within the scope of the Finance Agreement "Financing of investments in Renewable Energies and Energy Efficiency" concluded between the entity and the Official Credit Institute (ICO). This line 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 totals €547k.

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 maintain the financed investment on its books for at least five years as from the date the agreement was concluded.

As a result of the financing facilities agreed between IDAE-ICO and financial institutions, IDAE granted the Company assistance covering the initial repayment of the loan, totaling € 164 (Note 18). In addition, the IDAE granted the Company a credit for the interest accruing on this loan, totaling € 38 (Note 18).

Financial institution 3

On 9 May 2006 SOLARIA concluded a secondary loan agreement in the amount of 1,500,000 euros with an entity in Ciudad Real, under the umbrella of the agreement concluded between ICO and the bank, for the purpose of financing investments in new production assets for small and medium sized companies. SOLARIA's investment project totals € 21,300k and the most important conditions that must be met by the final beneficiary of this subsidy agreement are as follows:

- The amount financed by ICO funds cannot exceed 70% of the investment if involving a company with between 10 and 249 employees.
- The final 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, or may not be an investee company of any such company or group of companies, and state that no financing from the ICO-PYME 2006 line has been received in excess of €1,500k.
- The final beneficiary undertakes to ensure that the total "minimis" assistance will not exceed €100k over 3 years.

As guarantees for this loan, SOLARIA agreed to a mortgage guarantee involving one of the plots of land located in Puertollano, once payment has been justified and it has entered into operations and will maintain in a bank account at least three loan payments, which total € 321k.

Financial institution 4

On 9 May 2006 SOLARIA concluded a secondary loan agreement in the amount of €4,500k euros with an entity in Ciudad Real, under the umbrella of the agreement concluded between ICO and the bank, for the purpose of financing investments in new production assets for small and medium sized companies. SOLARIA's investment project totals € 21,300k and the most important conditions that must be met by the final beneficiary of this subsidy agreement are as follows:

- The amount financed by ICO funds cannot exceed 70% of the investment if involving a company with between 10 and 249 employees.
- The final beneficiary must declare that it is not an investee company (25% or more) of any other company or group of companies that do not, as a whole, have a general balance sheet exceeding 43 million euros and turnover must be less than 50 million euros.
- The final beneficiary undertakes to ensure that the total "minimis" assistance will not exceed €100k over 3 years.

As guarantees for this loan, SOLARIA agreed to a mortgage guarantee involving one of the plots of land located in Puertollano, once payment has been justified and it has entered into operations and will maintain in a bank account at least three loan payments, which total € 964k.

In order to cover fluctuations in interest rates relating to the two loans mentioned above, the Company has obtained an interest rate hedge from Banco Cooperativo Español, the main characteristics of which are described in Note 10.

Financial institution 5

On 23 October 2006 the Company obtained a € 1,800k loan from the entity.

Financial institution 6

On 23 October 2006 the Company obtained a € 6,000k loan from the entity.

In order to cover fluctuations in interest rates relating to the loan from the entity, SOLARIA obtained an interest rate hedge from that financial institution, the main characteristics of which are described in Note 10.

Financial institution 7

On 29 October 2004, the entity informed the Company of its participation in the Technological Innovation project called "Development of a Photovoltaic Panel Assembly Line", consisting of a repayable, interest-free grant that may be co-financed by FEDER Funds, of up to € 348k, of the total investment accepted by CDTI, which totaled € 869k. This approval is subject to the following conditions:

- A share capital increase, or increase plus premium, totaling €348k and consisting of monetary contributions.
- Security for the entity's Loan or sufficient guarantees in the opinion of entity.

According to the agreement established between the entity and the Company, the latter opted to obtain the Bank prefinancing line for CDTI R&D+I projects in 2004 in order to facilitate the financing of the Project up until the time the amount loaned by the entity becomes available. This line allows companies that have gained approval for a CDTI R&D+I project 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.

The assistance granted by the entity consists of an interest-free repayable loan totaling €348k, falling due on 30 June 2013.

On 1 June 2006 the agreement concluded between the entity and SOLARIA was amended to replace the personal and several guarantee by thirteen bank guarantees totaling €348k (Note 32). At 31 December 2008 11 guarantees remain in force.

Financial institution 8

On 9 January 2007, the Entity informed the Company of its participation in the Technological Innovation project called "Development of a Photovoltaic Panel Assembly Line", consisting of a repayable, interest-free loan of up to €500k, based on the total budget accepted by the entity totaling €1,071k. This approval was conditioned to the investments and expenses, or expense commitment, that would be made or incurred between 1 January and 31 December in the year the assistance is granted.

The assistance granted by the entity consists of an interest-free repayable loan totaling €500k, falling due on 30 September 2016.

Financial institution 9

On 26 July 2005 the entity adopted a Resolution to grant SOLARIA repayable assistance to finance the project to manufacture photovoltaic modules and cells. The total amount of the financed budget is €965k and covers all costs and investments necessary to launch the above-mentioned project.

The assistance consists of a €400k interest-free loan to be repaid over 10 years, with a 3-year grace period. This assistance is subject to several conditions, among which is the obligation to make the investments and incur the costs between 1 January and 31 December in order for the assistance to be granted.

On 27 December 2005 the Company requested a 6-month extension to the project, payment and presentation of documentation (up to 30 June 2006). The reason for which this request was made is the delay in the delivery and installation of some of the high-tech equipment involved with the project. On 30 December 2005 the Director General for Industrial Development at the entity issued a Resolution extending the deadlines for making and justifying the investments until 30 June and 31 July 2006, respectively.

SOLARIA has deposited a guarantee for € 400k euros in favor of the entity (Note 32) to cover the guarantees required for the above-mentioned repayable loan.

Financial institution 10

On 5 October 2005, the entity adopted a Resolution to grant SOLARIA repayable assistance to finance the project for developing a prototype concentration thermal solar collector and the launch of a production line. The total amount of the financed budget is €1,148k and covers all costs and investments necessary to launch the above-mentioned project.

The assistance consists of a €861k interest-free loan to be repaid over 10 years, with a 3-year grace period. This assistance is subject to several conditions, among which is the obligation to make the investments and incur the costs between 1 January and 31 December in order for the assistance to be granted.

On 27 December 2005 the Company requested a 6-month extension to the project, payment and presentation of documentation (up to 30 June 2006). The reason for which this request was made is the delay in the delivery and installation of some of the high-tech equipment involved with the project. On 19 January 2006 the Director General for Industrial Development at the entity issued a Resolution extending the deadlines for making and justifying the investments until 30 June and 31 July 2006, respectively.

SOLARIA has deposited a guarantee for €861k euros in favor of the entity (Note 32) to cover the guarantees required for the above-mentioned repayable loan.

The maturity dates for amounts owed to credit institutions are distributed as follows:

| | Thousand euro |
|---|---|
| Maturity date | 2008 |
| Up to 1 year | 63,703 |
| Between 1 and 5 years | 8,481 |
| More than 5 years | 20,893 |
| | 93,077 |

Contractual future undiscounted cash flows relating to outside borrowings obtained by SOLARIA at 31 December 2008 are set out in the accompanying table:

| | | | | | | | Thousand euro |
|---|---|---|---|---|---|---|---|
| | 2.009 | 2.010 | 2.011 | 2.012 | 2.013 | Subsequent years | TOTAL |
| Bank loans and overdrafts (Note 19) | 63,364 | 2,825 | 2,822 | 2,371 | 2,246 | 2,753 | 76,381 |
| Finance leases | 1,159 | 1,724 | 1,701 | 1,669 | 1,720 | 15,443 | 23,416 |
| Interest on bank loans and overdrafts | 3,028 | 1,377 | 1,189 | 1,006 | 840 | 3,175 | 10,615 |
| Derivatives | 74 | 472 | 350 | 234 | 175 | 141 | 1,446 |
| | 67,625 | 6,398 | 6,062 | 5,280 | 4,981 | 21,512 | 111,858 |

Finance leases

The main finance lease recorded by SOLARIA at 31 December 2008 relates to a lease concluded with Banco Popular on 28 March 2008 for the amount of €16,500k for the factory located in Fuenmayor and the associated land. The lease has a term of 15 years.

The interest rate accruing on this lease is 1-year euribor plus a spread, although it has a floor of 4%. Given that at the date the lease was concluded the interest rate of reference was higher than the floor stipulated in the lease, there is no need to separate the embedded derivative at that date.

The total amount of the gross obligation deriving from the finance lease – minimum payments for the lease at 31 December 2008:

| | Thousand euro |
|---|---|
| | 2008 |
| Up to 1 year | 1,159 |
| Between 1 and 5 years | 6,818 |
| More than 5 years | 15,439 |
| Future financial charges for finance leases | (6,719) |
| Present value of finance lease liabilities | 16,697 |
| The present value of finance lease liabilities is as follows: | |
| Short-term | 340 |
| Long-term | 16,357 |
| | 16,697 |

20. Trade and other payables

At the year end this heading breaks down as follows:

| | Thousand euro |
|---|---|
| | 2.008 |
| Trade payables | 14,280 |
| Fixed asset suppliers | 3,959 |
| Other creditors | 27,461 |
| Accrued wages and salaries | 321 |
| Other payables to public entities | 509 |
| Other current liabilities | 1 |
| Advance payments from customers | 7,800 |
| | 54,331 |

The book value of trade and other payables is similar to their fair value.

The balances included under the heading Trade and other payables at 31 December 2008 fall due in between 90 and 120 days. In the case of purchases of photovoltaic cells, the payments take place in between 1 and 60 days.

Solaria

## 21. Deferred income tax

The calculation of corporate income tax expense for 2008 is as follows:

| | Income statement | | Income and expense attributed directly to equity | | Thousand euros 2008 |
|---|---|---|---|---|---|
| | Increases | Decreases | Increases | Decreases | TOTAL |
| Profit before income tax | | | | | (25,221) |
| Permanent differences | - | - | - | - | - |
| Timing differences: | | | | | |
| - arising during the year | 22,996 | (986) | | (10,719) | 11,291 |
| - arising in prior years | - | - | | | - |
| Offset of tax-loss carryforwards | - | - | - | - | - |
| Taxable income | | | | | (13,930) |

Corporate income tax expense consists of:

| | Thousand euro 2.008 |
|---|---|
| Current income tax | - |
| Deferred tax liability | (7,567) |
| | (7,567) |

The reconciliation of the tax rate is as follows:

| | Thousand euro | |
|---|---|---|
| | 2008 | % |
| Loss before taxes | (25,221) | |
| Theoretical tax | n/a | - |
| Accrued corporate income tax | (7,567) | 30.00 |

In accordance with the provisions of Article 109 of the Corporate Income Tax Act, in 2007 the Company availed itself of unrestricted depreciation for new fixed assets, which may be depreciated without restriction provided that during the twenty-four months following the start of the tax period in which the assets enter into operation the average total number of employees at the Company increases with respect to the average payroll in the preceding 12 months and this increase must be maintained from an additional period of twenty-four months. The amount for items for which unrestricted depreciation is applied totals €3,329k, giving rise to the relevant deferred tax.

By virtue of Law 35/2006 (28 November), on Personal Income Tax and the partial amendment of the laws governing corporate income tax, non-resident income tax and wealth tax, in tax periods commencing as from 1 January 2007 the corporate income tax rate is 32.5% and 30% in tax periods started as from 1 January 2008.

Movements in deferred tax assets and liabilities are as follows:

| | | | | | | Thousand euro |
|---|---|---|---|---|---|---|
| | Balance at 31.12.07 1990 GAP | Adjustments for transition to 2007 GAP | Balance at 01.01.08 | Additions | Reversals | Balance at 31.12.08 |
| Deferred tax assets | | | | | | |
| Derivative interest rate financial instruments | 296 | - | 296 | - | (296) | - |
| Derivative interest rate financial instruments – hedge accounting | - | 7 | 7 | 67 | - | 74 |
| Derivative exchange rate financial instruments – hedge accounting | - | 2,171 | 2,171 | 144 | (2,171) | 144 |
| Capital increase expenses | - | 3,216 | 3,216 | - | (3,216) | - |
| Trade provisions | - | - | - | 6,803 | - | 6,803 |
| Tax credit for 2008 losses | - | - | - | 4,179 | - | 4,179 |
| | 296 | 5,394 | 5,690 | 11,193 | (5,683) | 11,200 |
| Deferred tax liabilities | | | | | | |
| Unrestricted depreciation | (1,089) | - | (1,089) | - | 96 | (993) |
| Derivative interest rate financial instruments – hedge accounting | - | (4) | (4) | - | 4 | - |
| | (1,089) | (4) | (1,093) | - | 100 | (993) |

Deferred tax assets and liabilities are only offset if there is a legally enforceable right to set off current and deferred tax assets and liabilities relating to the same tax authorities.

At 31 December 2008 all of the tax returns filed by SOLARIA for the periods that have not become statute-barred are open to inspection.

As a result, among other things, of the different interpretations to which Spanish tax legislation lends itself, additional tax assessments may be raised in the event of a tax inspection. The Directors consider, however, that any additional assessments that might be made would not significantly affect these accounts.

The balances included under "Other balances with public entities" (Notes 12 and 20) are as follows:

| | Thousand euro 2.008 | |
|---|---|---|
| | Receivable | Payable |
| VAT | 24,666 | - |
| Personal income tax withholdings | - | 202 |
| Social Security contributions | - | 307 |
| Capital withholdings | 7,881 | - |
| | 32,547 | 509 |

## 22.Income and expense

### a) Transactions denominated in foreign currency

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

| | Thousand euros 2008 |
|---|---|
| Purchases | (127,523) |
| Services received | - |
| | (127,523) |
| Sales | 171 |
| Services rendered | - |
| | 171 |

### b) Net sales

| Line | Thousand euro 2.008 |
|---|---|
| Photovoltaic | 77,551 |
| Thermal | 42 |
| Turnkey projects | 40,325 |
| Other revenues | 963 |
| Rendering of services | 237 |
| | 119,118 |

c) Consumption of raw and other consumable materials:

| Consumption of raw and other consumable materials: | Thousand euro 2008 |
|---|---|
| Consumption of raw and other consumable materials: | 187,494 |
| Change in inventories of raw materials | 12,796 |
| | 200,290 |

d) Operating subsidies taken to the income statement

During the year SOLARIA recognized subsidies totaling €80k received from various organizations, as is stated in Note 18.

e) Personnel costs

The breakdown of the personnel cost heading at the end of these years is as follows:

| | Thousand euro 2008 |
|---|---|
| Wages, salaries and similar remuneration | 12,892 |
| Staff welfare expenses | 3,038 |
| | 15,930 |

The line "Wages, salaries and similar compensation" includes severance payments totaling €34k.

The average number of employees during the year is as follows:

| | 2008 | | |
|---|---|---|---|
| | Men | Women | Total |
| Engineers | 18 | 4 | 22 |
| University graduates | 26 | 20 | 46 |
| Factory staff | 299 | 168 | 467 |
| | 343 | 192 | 535 |

The average number of employees during the year is as follows:

| | 2008 | | |
|---|---|---|---|
| | Men | Women | Total |
| Engineers | 19 | 3 | 22 |
| University graduates | 16 | 12 | 28 |
| Factory staff | 319 | 184 | 503 |
| | 354 | 199 | 553 |

The Company records no commitments for pensions or similar items for personnel.

f) External service expense

At the year end this heading breaks down as follows:

| | Thousand euro |
|---|---|
| | 2,008 |
| Rent and royalties | 498 |
| Repairs and maintenance | 341 |
| Independent professional services | 1,759 |
| Transport | 5 |
| Bank services | 1,211 |
| Insurance premiums | 511 |
| Advertising | 1,038 |
| Supplies | 450 |
| Security | 1,170 |
| Other | 5 |
| | 6,988 |

g) Financial income

| | Thousand euro |
|---|---|
| | 2008 |
| Interest income- banks | 5,394 |
| Changes in fair value – derivative financial instruments | 986 |
| Gains on exchange | 3,864 |
| | 10,244 |

h) Financial expense

| | Thousand euro 2008 |
|---|---|
| Interest cost | 5,464 |
| Changes in fair value – derivative financial instruments | 1,229 |
| Losses on exchange | 7,521 |
| | 14,214 |

## 23. Cash flows from operating activities

| | Miles de Euros 2008 |
|---|---|
| Profit/(loss) before taxes | (25,221) |
| Adjustments: | |
| - Fixed asset depreciation | 1,728 |
| - Change in provisions | 23,676 |
| - Attribution of subsidies | 80 |
| - Financial income | (6,623) |
| - Financial expense | 6,693 |
| - Gains/(losses) on exchange | 3,657 |
| - Change in fair value of financial instruments | 243 |
| | 29,455 |
| Changes in working capital: | |
| - Inventories | (122,109) |
| - Trade and other receivables | 39,537 |
| - Trade and other payables | (16,673) |
| | (99,245) |
| Cash flows from operating activities: | |
| - Payment of interest | (11,887) |
| - Collection of interest | 8,272 |
| Corporate income tax expense | (22,595) |
| | (26,210) |
| Cash flows from operating activities | (121,222) |

## 24. Cash flows from investment activities

| | Miles de Euros 2008 |
|---|---|
| Payments for investments: | |
| - Group and associated companies | (6,608) |
| - Intangible assets | (11) |
| - Property, plant and equipment | (22,629) |
| - Other financial assets | (55) |
| | (29,303) |
| Amounts received from divestments: | |
| - Other financial assets | 508 |
| | 508 |
| Cash flows from investment activities | (28,795) |

## 25. Cash flows from financing activities

| | Miles de Euros |
|---|---|
| | 2008 |
| Payments made and received for equity instruments: | |
| - Acquisition of equity instruments | (10,546) |
| Subsidies, donations and gifts received | 3,806 |
| Payments made and received for financial liability instruments: | |
| - Issue: | |
| - Bank borrowings | 14,339 |
| - Return and repayment of: | |
| - Bank borrowings | (735) |
| | 6,904 |
| Payment of dividends and compensation for other equity instruments: | |
| - Dividends | |
| - Compensation for other equity instruments | - |
| Cash flows from financing activities | 6,904 |

## 26. Contingencies

At the date these annual accounts were prepared there is no litigation or arbitration that SOLARIA considers will lead to a significant outlay of resources and therefore there are no provisions recorded in this respect.

## 27. Commitments

The Company has signed the following commitments at the end of 2008:

a) Property, plant and equipment

- On 31 January 2008 the Company concluded a turnkey contract with Centrotherm Photovoltaics AG to acquire automatic photovoltaic cell manufacturing equipment. This machinery consists of three production lines with a joint annual capacity of 75MW. In 2008 part of this machinery was installed and at 31 December 2008 an estimated investment of €24,400k remained to be installed. With this investment, SOLARIA will have an annual cell production capacity at the Puertollano plant totaling 100MW in 2009.

- On 9 September 2008 SOLARIA concluded a new agreement with Spire Corporation to acquire 9 lines of production machinery for photovoltaic modules, to be installed at the new factory in Fuenmayor (La Rioja).

b) Turnkey projects and promotion of photovoltaic solar plants

Within the new regulatory environment, Solaria is negotiating the acquisition of companies that have the necessary licenses and authorizations to execute photovoltaic projects. At the date of these annual accounts the negotiations for the acquisition of 10MW are at an advanced state.

c) Operating leases

At 31 December 2008 SOLARIA has leased several premises from Solaria DTL under a market condition contract that can be renewed each year.

The total minimum future payments for irrevocable operating leases total approximately €190k.

d) Customers

As another part of the expansion strategy, Solaria is in the process of concluding agreements abroad relating to the development of photovoltaic projects and the sale of photovoltaic modules. All of the processes in progress cover approximately 40MW.

28. Board of Directors and Senior Executive compensation

The Directors of SOLARIA have accrued €2,782k in wages and salaries in 2008. In addition, Directors'compensation for attending Board meetings in 2008 totaled €490k. No advance payments, loans, pension commitments, retirement awards, life insurance or special indemnities have been granted.

The Company records no commitments for pensions or similar items for executive personnel at SOLARIA. No advance payments, loans, retirement awards, life insurance or special indemnities have been granted.

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 posts held by members of the Board of Directors of Solaria Energía y Medio Ambiente, S.A. in other companies with the same or supplementary activity as that carried out by the Company.

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 Company or Group's corporate purpose, which have been reported to the Company, are set out below indicating the positions or duties exercised at these companies.

| Name of the Director | Name of the company | % Interest | Office or duty |
|---|---|---|---|
| Enrique Díaz-Tejeiro Gutiérrez | Solaria DTL Corporación, S.L | 20% | Joint and Several Administrator |
| | Instalaciones Díaz Tejeiro, S.L | 50% | Joint and Several Administrator |
| Enrique Díaz-Tejeiro Larrañaga | Solaria DTL Corporación, S.L | 20% | General legal representative |
| Arturo Díaz-Tejeiro Larrañaga | Solaria DTL Corporación, S.L | 20% | General legal representative |
| Miguel Díaz-Tejeiro Larrañaga | Solaria DTL Corporación, S.L | 20% | Joint and Several Administrator |
| Iñigo Sagardoy Simón | - | | |
| Manuel Azpilicueta Ferrer | - | | |

None of the members of the Board of Directors holds any shareholding in companies that have the same, similar or complementary corporate purpose as SOLARIA or its group.

29. Other transactions with related parties

During the year SOLARIA carried out the following transactions with Solaria DTL Corporacion, S.L.

- Sales and acquisitions of current and non-current assets. In 2007 the Company concluded an agreement with Solaria DTL Corporacion, S.L. covering the construction of an 11MW photovoltaic plant. In 2008 €36,494k was recorded as revenues deriving from the execution of this plant.

- Services rendered and received. The Company's offices located at Velazquez 47 are owned by the Group company Solaria DTL. Solaria concluded an operating lease in this respect with this company in 2008. The rent expense in 2008 totaled €190k.

All transactions with associated parties were carried out under market conditions.

30. Environmental information

SOLARIA bears environmental protection laws in mind when carrying out its operations. The Company believes it substantially complies with such laws and it maintains procedures designed to encourage and guarantee compliance with them.

SOLARIA has adopted all appropriate measures with respect to the protection and improvement of the environment and the minimization of any environmental impact and complies with current legislation in this respect. During the year SOLARIA did not make any investments of an environmental nature and did not incur any expenses relating to the protection and improvement of the environment and did not consider it 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.

31. Auditors' fees

The fees charged by the audit for services rendered total €95k euros. The fees charged by auditors for other services relating to the audit totaled €3k.

## 32. Other information

### a) Bank guarantees

The breakdown of the bank guarantees provided by SOLARIA that are in force at the end of 2008 are as follows:

| Beneficiary | Item | Thousand euros 2008 |
|---|---|---|
| Ministry of Industry (Note 15) | Repayable loan | 400 |
| Ministry of Industry (Note 15) | Repayable loan | 861 |
| Ministry of Industry (Note 15) | Subsidy | 4,500 |
| Energy and Mining Policy office | Authorization for 20MW installation | 800 |
| Energy and Mining Policy office | Authorization for 20MW installation | 800 |
| Energy and Mining Policy office | Authorization for 150MW installation | 4,400 |
| Energy and Mining Policy office | Authorization for 150MW installation | 1,771 |
| Ministry of Industry (Note 15) | Subsidy | 4,500 |
| Banco Cooperativo Español (Note 18) | Interest credit – interest rate hedge | 300 |
| CDTI (Note 15) | Repayable assistance (10 guarantees – 26,740 euros) | 267 |
| CDTI (Note 15) | Repayable assistance (1 guarantee) | 27 |
| Municipality of Puertollano | Construction in Puertollano | 6 |
| Regional Office of the Valladolid Industrial, Tourism and Commerce Service | Execution and launch of a 8.3MW photovoltaic plant | 4,150 |
| Regional Office of the Valladolid Industrial, Tourism and Commerce Service | Execution and launch of a 5MW photovoltaic plant | 2,500 |
| Iberdrola Distribución Eléctrica SAU | Increase in capacity at the Logroño ST | 520 |
| Iberdrola Distribución Eléctrica SAU | Increase in capacity at the Logroño ST | 3,118 |
| Endesa Congeneración y Renovables | Order compliance obligations | 196 |
| Energy and Mining Policy office | Administrative authorization for a 1MW plant | 500 |
| La Veneciana Crisa Norte | Payment non-compliance | 1,500 |
| Business World SRL | Foreign investment project | 30 |
| Globasol Inversiones SL | Payment commitment | 2,469 |
| Globasol Inversiones SL | Payment commitment | 3,241 |
| Globasol Inversiones SL | Payment commitment | 1,655 |
| La Veneciana Crisa Norte | Payment non-compliance | 1,500 |
| La Rioja regional government | 7 MW Photovoltaic plant | 3,500 |
| Real Madrid CF | Contract payment compliance | 1,420 |
| Iberglobasol | Payment guarantee | 1,716 |
| Finance and Tax office at the Murcia regional government | Distribution network access bond | 5,000 |

The Company has received a surety in the amount of € 723,457 from a construction company to secure a contract for the construction of two industrial buildings to produce photovoltaic cells.

b) Warranties

i) Warranties for turnkey contracts

The Company warrantles defects and problems relating to the execution and completion of the construction of photovoltaic plants, provided that they are directly attributable to the Company. The warranty covers three years after the date of final delivery of the photovoltaic plant.

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

ii) Operating and maintenance contract warranties

In 2006 the Company concluded 23 operating and maintenance contracts for turnkey projects and, as the builder of the plants and the party rendering operating and maintenance services, the Company warranties output at 90% of the estimated production of the photovoltaic plants during the period the operating and maintenance agreement is in force (5 years).

Every five years the electricity generated by the photovoltaic plant will be measured, and if the commitment has not been met the Company will pay for the amount not generated up to the guaranteed 90% output level.

iii) Warranties covering the sale of modules

The Company offers all customers a standard warranty certificate for the photovoltaic modules that warrantles material or manufacturing defects and a capacity guarantee.

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

As from the date the module is sold, the Company guarantees a minimum output based on the technical specifications of the agreement and will deliver modules for the equivalent of the lost capacity and will repair or replace the units as follows:

| Years elapsed since the supply date | Guaranteed output capacity |
|---|---|
| Up to 25 years | 80% |
| Up to 10 years | 90% |

During the first quarter of 2007, the Company concluded a significant module sales agreement for which it offers certain guarantees that are different than the standard mentioned above, as follows:

a)Capacity warranty

As from the date the module is supplied, the Company guarantees a minimum output based on the technical specifications of the agreement and will deliver modules for the equivalent of the lost capacity and will repair or replace the units as follows:

| Years elapsed since the supply date | Guaranteed output capacity |
|---|---|
| Up to 2 years | 100% |
| Up to 12 years | 90% |
| Up to 25 years | 80% |

In addition, SOLARIA warranties, through photoflash certificates issued by SOLARIA, that the peak capacity of each module is equal to be contracted amount with a maximum authorized variance of +/- 3%.

b) Warranty of materials

The Company provides a three-year warranty as from the dates the modules are delivered to the customer, guaranteeing that they are free of any material or manufacturing defects that impede normal operations.

If any of the modules have a manufacturing defect, the Company must repair it or replace it within a certain period, or pay the customer an amount in euros equivalent to the market price of the affected modules. Furthermore, the Company will maintain modules in its inventory equivalent to 5 kW during the three-year warranty period.

At the end of the year SOLARIA did not recognize any provision whatsoever for the above-mentioned warranties due to the fact that no claims have been made and there are no indications of any possible claims. Furthermore, based on available past information, the likelihood of such claims is extremely low.

However, the Directors of SOLARIA consider that the effect of any possible claims, should any be made, would not significantly affect these annual accounts.

Solaria

33. Segment Information

a) Primary basis for segment reporting: business segments

At 31 December 2008 SOLARIA is organized into 5 main business segments:

(i) Segment 1: Photovoltaic

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

(ii) Segment 2: Thermal

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

(iii) Segment 3: Cells

- Production of photovoltaic cells for sale to third parties and internal use for the manufacturing of photovoltaic modules.

(iv) Segment 4: Projects

- Promotion and sale of photovoltaic plants through turnkey projects, from the construction and installation of modules up to the operating launch of the plants.

(v) Segment 5: Other

The results for each segment for the year ended 31 December 2008 are as follows:

| | | | | | | Thousand euro |
|---|---|---|---|---|---|---|
| | Photovoltaic | Thermal | Cells | Projects | Other | Company |
| External sales by the segment | 77,788 | 42 | 963 | 40,325 | - | 119,118 |
| Inter-segment sales | 32,212 | - | - | (32,212) | - | - |
| Sales | 110,000 | 42 | 963 | 8,113 | - | 119,118 |
| Other operating revenue | 87 | - | - | - | - | 87 |
| Change in inventories of finished products | - | - | - | 126,941 | - | 126,941 |
| Segment expenses | (98,877) | (38) | (865) | (121,301) | - | (221,081) |
| Expenses not assigned to segments | | | | | (9,845) | (9,845) |
| Changes in inventories | (12,795) | - | - | - | - | (12,795) |
| Provisions | - | - | - | (23,676) | - | (23,676) |
| Segment results | (1,585) | 4 | 98 | (9,923) | (9,845) | (21,251) |
| Exchange differences | (3,657) | - | - | - | - | (3,657) |
| Financial income | | | | | | 5,394 |
| Change in the fair value of financial instruments | | | | | | (243) |
| Financial expense | | | | | | (5,464) |
| Profit before income tax | | | | | | (25,221) |
| Corporate income tax | | | | | | 7,567 |
| Profit for the year | | | | | | (17,654) |

Sales consist of:

| | Thousand euro |
|---|---|
| | 2008 |
| Sales | 118,881 |
| Rendering of services | 237 |
| | 119,118 |

Other segment items included in the 2008 income statement are as follows:

| | | | | | | Thousand euro |
|---|---|---|---|---|---|---|
| | Cells | Photovoltaic | Thermal | Projects | Other | Company |
| Depreciation of property, plant and equipment (Note 6) | - | 1,379 | 227 | - | 123 | 1,729 |

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

b) Secondary basis for segment reporting: Geographical segments

It is not necessary to prepare a secondary information presentation format by segment since the Company only carries out transactions in Spain. There are therefore no different yields or risks within Spain since the various regions in which the Company is active present the same economic and political conditions.

34. Subsequent events

The following significant events took place after the year end:

- On 21 January 2009 the Company executed a public document covering the acquisition of the photovoltaic solar farm located in Alhama (Murcia). The agreement was concluded with the Fotowatio Group and covered the sale of shares in the subsidiary called Alhama Solar, S.L and the construction of the solar plant at that location. In addition, it included a 5-year plant maintenance agreement. The transaction totaled approximately €45 million, which was collected in full at that date.

- On 18 February 2009 the Liquidity Agreement concluded on 18 February 2008 was canceled in accordance with the provisions of CNMV Circular 3/2007 (19 December). On 19 February 2009, in accordance with the provisions of CNMV Circular 3/2007 (19 December), a liquidity agreement was concluded between SOLARIA and Mercados y Gestión de Valores, S.V., S.A, whereby the conditions under which the financial institution will operate on behalf of Solaria Energía y Medio Ambiente, S.A., acquiring or selling Solaria's treasury stock in order to favor the liquidity and regularity of its listed price within the limits established in this respect by Shareholders at the General Meeting held on 30 June 2008. In this respect, SOLARIA has deposited 1,470,000 shares and €4,458k in cash with the financial institution.

There have been no other significant events that have an affect on these annual accounts after the closing date.

Solaria Energía y Medio Ambiente, S.A.

PREPARATION OF THE ANNUAL ACCOUNTS FOR 2008

On 31 March 2009, the Board of Directors of Solaria Energía y Medio Ambiente, S.A. prepares the annual accounts for the year ended 31 December 2008, and the Directors' Report for 2008, which are formed by the accompanying documents in compliance with the provisions of Article 171 of the Spanish Companies Act and Article 37 of the Commercial Code.

| SIGNATORIES | SIGNATURE |
|---|---|
| Mr. Enrique Díaz-Tejeiro Gutierrez<br>Chairman | |
| Mr. Manuel Azpilicueta Ferrer<br>Director | |
| Mr. Iñigo Sagardoy Simón<br>Director | |
| Mr. Enrique Díaz-Tejeiro Larrañaga<br>Director | |
| Mr. José Arturo Díaz-Tejeiro Larrañaga<br>Director | |
| Mr. Miguel Díaz-Tejeiro Larrañaga<br>Director | |
| Mr. Manuel de Vicente-Tutor Rodríguez<br>Non-voting Secretary | |